Lazard Ltd
Form 10-Q
October 28, 2014
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2014**

**OR**

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

**For the transition period from ___________ to ___________**

**001-32492**

**(Commission File Number)**

# LAZARD LTD

**(Exact name of registrant as specified in its charter)**

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

**Clarendon House**

**2 Church Street**

**Hamilton HM11, Bermuda**

**(Address of principal executive offices)**

**Registrant s telephone number: (441) 295-1422**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company ¨ |

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

As of October 20, 2014, there were 129,766,091 shares of the Registrant s Class A common stock outstanding (including 7,602,792 shares held by subsidiaries).

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*When we use the terms Lazard , we , us , our and the Company , we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ( Lazard Group ), that is the current holding company for our businesses. Lazard Ltd has no material operating assets other than indirect ownership as of September 30, 2014 of all of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements (Unaudited)

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**SEPTEMBER 30, 2014 AND DECEMBER 31, 2013**

**(UNAUDITED)**

**(dollars in thousands, except for per share data)**

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 820,584 | $ 841,482 |
| Deposits with banks and short-term investments | 240,728 | 244,879 |
| Cash deposited with clearing organizations and other segregated cash | 44,710 | 62,046 |
| Receivables (net of allowance for doubtful accounts of $29,859 and $28,777 at September 30, 2014 and December 31, 2013, respectively): | | |
| Fees | 429,477 | 452,535 |
| Customers and other | 77,908 | 52,220 |
| Related parties | 530 | 7,920 |
| | 507,915 | 512,675 |
| Investments | 549,922 | 478,105 |
| Property (net of accumulated amortization and depreciation of $257,512 and $253,930 at September 30, 2014 and December 31, 2013, respectively) | 227,359 | 248,796 |
| Goodwill and other intangible assets (net of accumulated amortization of $51,325 and $45,379 at September 30, 2014 and December 31, 2013, respectively) | 356,254 | 363,877 |
| Other assets | 295,418 | 259,277 |
| Total Assets | $ 3,042,890 | $ 3,011,137 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**SEPTEMBER 30, 2014 AND DECEMBER 31, 2013**

**(UNAUDITED)**

**(dollars in thousands, except for per share data)**

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Liabilities: | | |
| Deposits and other customer payables | $ 278,334 | $ 275,434 |
| Accrued compensation and benefits | 517,640 | 523,063 |
| Senior debt | 1,048,350 | 1,048,350 |
| Capital lease obligations | 12,889 | 15,834 |
| Related party payables | 11,952 | 5,031 |
| Other liabilities | 536,065 | 513,427 |
| Total Liabilities | 2,405,230 | 2,381,139 |
| Commitments and contingencies | | |
| **STOCKHOLDERS EQUITY** | | |
| Preferred stock, par value $.01 per share; 15,000,000 shares authorized: | | |
| Series A - 7,921 shares issued and outstanding at September 30, 2014 and December 31, 2013 | | |
| Series B - no shares issued and outstanding | | |
| Common stock: | | |
| Class A, par value $.01 per share (500,000,000 shares authorized; 129,766,091 and 129,056,081 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively, including shares held by subsidiaries as indicated below) | 1,298 | 1,291 |
| Class B, par value $.01 per share (1 share authorized, issued and outstanding at December 31, 2013) | | |
| Additional paid-in-capital | 657,279 | 737,899 |
| Retained earnings | 333,294 | 203,236 |
| Accumulated other comprehensive loss, net of tax | (152,184) | (133,004) |
| | 839,687 | 809,422 |
| Class A common stock held by subsidiaries, at cost (7,602,792 and 8,317,065 shares at September 30, 2014 and December 31, 2013, respectively) | (267,117) | (249,213) |
| Total Lazard Ltd Stockholders Equity | 572,570 | 560,209 |
| Noncontrolling interests | 65,090 | 69,789 |
| Total Stockholders Equity | 637,660 | 629,998 |
| Total Liabilities and Stockholders Equity | $ 3,042,890 | $ 3,011,137 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

**(UNAUDITED)**

**(dollars in thousands, except for per share data)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **REVENUE** | | | | |
| Investment banking and other advisory fees | $290,604 | $232,006 | $843,186 | $660,351 |
| Asset management fees | 276,940 | 241,478 | 805,848 | 707,536 |
| Interest income | 1,243 | 1,347 | 3,815 | 3,823 |
| Other | 12,936 | 25,692 | 60,832 | 61,587 |
| Total revenue | 581,723 | 500,523 | 1,713,681 | 1,433,297 |
| Interest expense | 15,512 | 20,169 | 47,174 | 60,635 |
| Net revenue | 566,211 | 480,354 | 1,666,507 | 1,372,662 |
| **OPERATING EXPENSES** | | | | |
| Compensation and benefits | 338,612 | 301,809 | 1,006,101 | 910,679 |
| Occupancy and equipment | 29,400 | 27,393 | 86,079 | 96,435 |
| Marketing and business development | 19,127 | 17,077 | 59,254 | 60,646 |
| Technology and information services | 23,025 | 22,217 | 68,466 | 65,331 |
| Professional services | 11,184 | 12,904 | 32,895 | 32,223 |
| Fund administration and outsourced services | 17,034 | 14,475 | 48,490 | 43,328 |
| Amortization of intangible assets related to acquisitions | 4,020 | 877 | 5,946 | 2,758 |
| Provision (benefit) pursuant to tax receivable agreement | (176) | | 9,064 | |
| Other | 10,273 | 2,484 | 30,340 | 17,609 |
| Total operating expenses | 452,499 | 399,236 | 1,346,635 | 1,229,009 |
| **OPERATING INCOME** | 113,712 | 81,118 | 319,872 | 143,653 |
| Provision for income taxes | 23,792 | 18,370 | 58,614 | 31,335 |
| **NET INCOME** | 89,920 | 62,748 | 261,258 | 112,318 |
| **LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS** | 1,061 | 2,466 | 6,365 | 5,323 |
| **NET INCOME ATTRIBUTABLE TO LAZARD LTD** | $88,859 | $60,282 | $254,893 | $106,995 |
| **ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:** | | | | |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | | |
| Basic | 122,206,914 | 122,199,954 | 122,366,632 | 120,556,047 |
| Diluted | 133,566,684 | 134,242,144 | 133,722,776 | 133,174,000 |
| **NET INCOME PER SHARE OF COMMON STOCK:** | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | $0.73 | $0.49 | $2.08 | $0.89 |
| Diluted | $0.67 | $0.45 | $1.91 | $0.81 |
| **DIVIDENDS DECLARED PER SHARE OF COMMON STOCK** | $0.30 | $0.25 | $0.90 | $0.50 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

**(UNAUDITED)**

**(dollars in thousands)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **NET INCOME** | $ 89,920 | $ 62,748 | $ 261,258 | $ 112,318 |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:** | | | | |
| Currency translation adjustments | (29,100) | 12,157 | (18,640) | (18,610) |
| Amortization of interest rate hedge | | 264 | | 791 |
| Employee benefit plans: | | | | |
| Actuarial gain (loss) (net of tax (expense) benefit of $(1,731) and $(25) for the three months ended September 30, 2014 and 2013, respectively, and $1,919 and $1,686 for the nine months ended September 30, 2014 and 2013, respectively) | 3,251 | 50 | (3,695) | (2,669) |
| Adjustment for items reclassified to earnings (net of tax expense of $528 and $404 for the three months ended September 30, 2014 and 2013, respectively, and $1,391 and $1,206 for the nine months ended September 30, 2014 and 2013, respectively) | 1,145 | 1,223 | 3,714 | 3,653 |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX** | (24,704) | 13,694 | (18,621) | (16,835) |
| **COMPREHENSIVE INCOME** | 65,216 | 76,442 | 242,637 | 95,483 |
| **LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS** | 1,061 | 2,523 | 6,365 | 5,201 |
| **COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD** | $ 64,155 | $ 73,919 | $ 236,272 | $ 90,282 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013**

**(UNAUDITED)**

**(dollars in thousands)**

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 261,258 | $ 112,318 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization of property | 26,332 | 25,465 |
| Amortization of deferred expenses, share-based incentive compensation and interest rate hedge | 227,896 | 239,357 |
| Amortization of intangible assets related to acquisitions | 5,946 | 2,758 |
| (Increase) decrease in operating assets: | | |
| Deposits with banks and short-term investments | (18,626) | 25,558 |
| Cash deposited with clearing organizations and other segregated cash | 15,630 | 6,291 |
| Receivables-net | (12,982) | (55,516) |
| Investments | (78,820) | (54,520) |
| Other assets | (103,778) | (81,898) |
| Increase (decrease) in operating liabilities: | | |
| Deposits and other payables | 34,730 | 14,158 |
| Accrued compensation and benefits and other liabilities | 57,836 | (66,104) |
| Net cash provided by operating activities | 415,422 | 167,867 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Additions to property | (14,161) | (54,344) |
| Disposals of property | 1,023 | 5,843 |
| Net cash used in investing activities | (13,138) | (48,501) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from: | | |
| Contributions from noncontrolling interests | 1,102 | 805 |
| Excess tax benefits from share-based incentive compensation | 1,508 | 2,211 |
| Payments for: | | |
| Capital lease obligations | (1,738) | (2,092) |
| Distributions to noncontrolling interests | (9,182) | (10,228) |
| Purchase of Class A common stock | (192,657) | (77,934) |
| Class A common stock dividends | (109,592) | (60,931) |
| Settlement of vested share-based incentive compensation | (83,783) | (125,546) |
| Other financing activities | (1,754) | (165) |
| Net cash used in financing activities | (396,096) | (273,880) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | (27,086) | (7,309) |

| | | |
|---|---|---|
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (20,898) | (161,823) |
| **CASH AND CASH EQUIVALENTS January 1** | 841,482 | 850,190 |
| **CASH AND CASH EQUIVALENTS September 30** | $ 820,584 | $ 688,367 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013**

**(UNAUDITED)**

**(dollars in thousands)**

| | Series A Preferred Stock | | Common Stock | | | | Accumulated Other Comprehensive Income (Loss), | Class A Common Stock Held By Subsidiaries | | Total Lazard Ltd | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | $ | Shares(*) | $ | Additional Paid-In-Capital | Retained Earnings | Net of Tax | Shares | $ | Stockholders Equity | Noncontrolling Interests | Stockholders Equity |
| **Balance January 1, 2013** | **7,921** | **$** | **128,216,424** | **$ 1,282** | **$ 846,050** | **$ 182,647** | **$ (110,541)** | **12,802,938** | **$ (349,782)** | **$ 569,656** | **$ 81,884** | **$ 651,540** |
| Comprehensive income (loss): | | | | | | | | | | | | |
| Net income | | | | | | 106,995 | | | | 106,995 | 5,323 | 112,318 |
| Other comprehensive loss - net of tax | | | | | | | (16,713) | | | (16,713) | (122) | (16,835) |
| Business acquisitions and related equity transactions: | | | | | | | | | | | | |
| Class A common stock issuable (including related amortization) | | | | | 829 | | | | | 829 | 5 | 834 |
| Delivery of Class A common stock (including dividend-equivalents) | | | | | (4,994) | (179) | | (170,988) | 5,173 | | | |
| Amortization of share-based incentive compensation | | | | | 182,338 | | | | | 182,338 | 1,003 | 183,341 |
| Dividend-equivalents | | | | | 8,440 | (8,604) | | | | (164) | (1) | (165) |
| Class A common stock dividends | | | | | | (60,931) | | | | (60,931) | | (60,931) |
| Purchase of Class A common stock | | | | | | | | 2,201,657 | (77,934) | (77,934) | | (77,934) |
| Delivery of Class A common stock in connection with shared-based incentive compensation and related tax benefit of $862 | | | | | (342,898) | (609) | | (7,519,848) | 218,819 | (124,688) | 4 | (124,684) |
| Class A common stock issued in exchange for Lazard Group common membership interests | | | 839,658 | 8 | (8) | | | | | | | |
| Distributions to noncontrolling interests, net | | | | | | | | | | | (9,423) | (9,423) |
| Adjustments related to noncontrolling interests | | | | | 3,984 | | (598) | | | 3,386 | (4,386) | (1,000) |
| | **7,921** | | **129,056,082** | **$ 1,290** | **$ 693,741** | **$ 219,319** | **$ (127,852)** | **7,313,759** | **$ (203,724)** | **$ 582,774** | **$ 74,287** | **$ 657,061** |

| | | |
|---|---|---|
| **Balance 2013** | **September 30,** | **$** |

(*) Includes 128,216,423 and 129,056,081 shares of the Company s Class A common stock issued at January 1, 2013 and September 30, 2013, respectively, and 1 share of the Company s Class B common stock issued at each such date.

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014**

**(UNAUDITED)**

**(dollars in thousands)**

| | Series A Preferred Stock | | Common Stock | | | | Accumulated Other Comprehensive Income (Loss), Net of Tax | Class A Common Stock Held By Subsidiaries | | Total Lazard Ltd | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | $ | Shares(*) | $ | Additional Paid-In-Capital | Retained Earnings | | Shares | $ | Stockholders Equity | Noncontrolling Interests | Stockholders Equity |
| **Balance January 1, 2014** | **7,921** | **$** | **129,056,082** | **$ 1,291** | **$ 737,899** | **$ 203,236** | **$ (133,004)** | **8,317,065** | **$ (249,213)** | **$ 560,209** | **$ 69,789** | **$ 629,998** |
| Comprehensive income (loss): | | | | | | | | | | | | |
| Net income | | | | | | 254,893 | | | | 254,893 | 6,365 | 261,258 |
| Other comprehensive loss - net of tax | | | | | | | (18,621) | | | (18,621) | | (18,621) |
| Business acquisitions and related equity transactions: | | | | | | | | | | | | |
| Class A common stock issuable (including related amortization) | | | | | 387 | | | | | 387 | | 387 |
| Amortization of share-based incentive compensation | | | | | 159,095 | | | | | 159,095 | | 159,095 |
| Dividend-equivalents | | | | | 13,489 | (15,243) | | | | (1,754) | | (1,754) |
| Class A common stock dividends | | | | | | (109,592) | | | | (109,592) | | (109,592) |
| Purchase of Class A common stock | | | | | | | | 4,114,206 | (192,657) | (192,657) | | (192,657) |
| Delivery of Class A common stock in connection with shared-based incentive compensation and related tax benefit of $1,409 | | | | | (257,127) | | | (4,828,479) | 174,753 | (82,374) | | (82,374) |
| Class A common stock issued in exchange for Lazard Group common membership interests | | | 710,009 | 7 | (7) | | | | | | | |
| Distributions to noncontrolling interests, net | | | | | | | | | | | (8,080) | (8,080) |
| Adjustments related to noncontrolling interests | | | | | 3,543 | | (559) | | | 2,984 | (2,984) | |
| **Balance September 30, 2014** | **7,921** | **$** | **129,766,091** | **$ 1,298** | **$ 657,279** | **$ 333,294** | **$ (152,184)** | **7,602,792** | **$ (267,117)** | **$ 572,570** | **$ 65,090** | **$ 637,660** |

(*) Includes 129,056,081 and 129,766,091 shares of the Company s Class A common stock issued at January 1, 2014 and September 30, 2014, respectively, and 1 share of the Company s Class B common stock issued at January 1, 2014.

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

***1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES***

***Organization***

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

Lazard Ltd indirectly held 100% and approximately 99.5% of all outstanding Lazard Group common membership interests as of September 30, 2014 and December 31, 2013, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group, which is governed by an Operating Agreement dated as of May 10, 2005, as amended (the Operating Agreement ). LAZ-MD Holdings LLC ( LAZ-MD Holdings ), an entity formerly owned by Lazard Group s current and former managing directors, held approximately 0.5% of the outstanding Lazard Group common membership interests as of December 31, 2013. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd s Class B common stock (the Class B common stock ), which provided LAZ-MD Holdings with approximately 0.6% of the voting power, but no economic rights, in the Company as of December 31, 2013. In May 2014, the remaining outstanding Lazard Group common membership interests held by LAZ-MD Holdings were exchanged for shares of the Company s Class A common stock, par value $0.01 per share ( Class A common stock ), and the sole issued and outstanding share of the Company s Class B common stock was automatically converted into one share of the Company s Class A common stock pursuant to the provisions of the Company s bye-laws, resulting in only one outstanding class of common stock (the Final Exchange of LAZ-MD Interests ). Following the Final Exchange of LAZ-MD Interests, Lazard Group became a wholly-owned indirect subsidiary of Lazard Ltd.

Our sole operating asset is our indirect ownership of the common membership interests of Lazard Group and our managing member interest of Lazard Group, whose principal operating activities are included in two business segments:

- Financial Advisory, which offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of financial advisory services regarding mergers and acquisitions ( M&A ) and other strategic matters, restructurings, capital structure, capital raising and various other financial matters, and

- Asset Management, which offers a broad range of global investment solutions and investment management services in equity and fixed income strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labor funds, financial intermediaries and private clients.

In addition, we record selected other activities in our Corporate segment, including management of cash, investments and outstanding indebtedness, as well as certain commercial banking activities of Lazard Group s Paris-based subsidiary Lazard Frères Banque SA ( LFB ).

LFB is a registered bank regulated by the Autorité de Contrôle Prudentiel et de Résolution ( ACPR ). It is engaged primarily in commercial and private banking services for clients and funds managed by Lazard Frères Gestion SAS ( LFG ) and other clients, investment banking activities, including participation in underwritten offerings of securities in France, and asset-liability management.

**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

***Significant Accounting Policies***

***Basis of Presentation*** The accompanying condensed consolidated financial statements of Lazard Ltd have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC ) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ( U.S. GAAP ) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd s Annual Report on Form 10-K for the year ended December 31, 2013 (the Form 10-K ). The accompanying December 31, 2013 unaudited condensed consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented.

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

The consolidated results of operations for the three month and nine month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for any future interim or annual period.

The condensed consolidated financial statements include Lazard Ltd, Lazard Group and Lazard Group s principal operating subsidiaries: Lazard Frères & Co. LLC ( LFNY ), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM ); the French limited liability companies Compagnie Financière Lazard Frères SAS ( CFLF ) along with its subsidiaries, LFB and LFG, and Maison Lazard SAS and its subsidiaries; and Lazard & Co., Limited ( LCL ), through Lazard & Co., Holdings Limited ( LCH ), an English private limited company, together with their jointly owned affiliates and subsidiaries.

The Company s policy is to consolidate entities in which it has a controlling financial interest. The Company consolidates (i) a voting interest entity ( VOE ) where the Company either holds a majority of the voting interest in such entity or is the general partner in such entity and the third-party investors do not have the right to replace the general partner and (ii) a variable interest entity ( VIE ) where the Company absorbs a majority of the expected losses, expected residual returns, or both, of such entity. When the Company does not have a controlling interest in an entity, but exerts significant influence over such entity s operating and financial decisions, the Company applies the equity method of accounting in which it records in earnings its share of earnings or losses of the entity. Intercompany transactions and balances have been eliminated.

***Deposits with Banks and Short-Term Investments*** Represents LFB s short-term deposits, including with the Banque de France and amounts placed by LFB in short-term, highly liquid securities, such as French government securities, with original maturities of 90 days or less when purchased. The level of these deposits and investments may be driven by the level of LFB customer and bank-related interest-bearing time and demand deposits (which can fluctuate significantly on a daily basis) and by changes in asset allocation. The carrying value of deposits with banks and short-term investments approximates fair value due to their short-term maturities. Under the fair value hierarchy, such amounts would be categorized within Level 1 if carried at fair value.

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

For a detailed discussion about the Company s significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements in our Form 10-K.

### 2. *RECENT ACCOUNTING DEVELOPMENTS*

*Presentation of Unrecognized Tax Benefits* In July 2013, the Financial Accounting Standards Board (the FASB ) issued guidance on the presentation of unrecognized tax benefits when net operating losses or tax credit carryforwards exist. The guidance requires that the unrecognized tax benefit, or a portion of such unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except in certain situations, as defined in the guidance. The new presentation requirements are effective prospectively for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted. The Company elected to adopt this guidance in the fourth quarter of 2013, the impact of which did not have a material impact on the Company s consolidated financial statements.

*Revenue from Contracts with Customers* In May 2014, the FASB issued comprehensive new revenue recognition guidance. The guidance requires a company to recognize revenue when it transfers promised services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those services and requires enhanced disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance is effective for annual and interim periods beginning after December 15, 2016 and early adoption is not permitted. The new guidance can be applied either retrospectively to each prior reporting period presented, or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the new guidance.

### 3. *RECEIVABLES*

The Company s receivables represent receivables from fees, customers and other and related parties.

Receivables are stated net of an estimated allowance for doubtful accounts, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. Activity in the allowance for doubtful accounts for the three month and nine month periods ended September 30, 2014 and 2013 was as follows:

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Beginning Balance | $ 29,943 | $ 24,593 | $ 28,777 | $ 23,017 |
| Bad debt expense, net of recoveries | 2,064 | (198) | 9,567 | 1,644 |
| Charge-offs, foreign currency translation and other adjustments | (2,148) | 1,765 | (8,485) | 1,499 |
| Ending Balance | $ 29,859 | $ 26,160 | $ 29,859 | $ 26,160 |

At September 30, 2014 and December 31, 2013, the Company had receivables past due or deemed uncollectible of $35,086 and $39,341, respectively.

Of the Company s fee receivables at September 30, 2014 and December 31, 2013, $81,531 and $69,464, respectively, represented interest-bearing financing receivables. Based upon our historical loss experience, the

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credit quality of the counterparties, and the lack of past due or uncollectible amounts, there was no allowance for doubtful accounts required at those dates related to such receivables.

The aggregate carrying amount of our non-interest bearing receivables of $426,384 and $443,211 at September 30, 2014 and December 31, 2013, respectively, approximates fair value.

***4. INVESTMENTS***

The Company s investments and securities sold, not yet purchased, consist of the following at September 30, 2014 and December 31, 2013:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Interest-bearing deposits | $ 24,785 | $ 516 |
| Debt | 7,185 | 8,013 |
| Equities | 63,275 | 59,394 |
| Funds: | | |
| Alternative investments (a) | 36,184 | 37,030 |
| Debt (a) | 81,099 | 58,769 |
| Equity (a) | 211,772 | 190,702 |
| Private equity | 117,104 | 114,193 |
| | 446,159 | 400,694 |
| Equity method | 8,518 | 9,488 |
| Total investments | 549,922 | 478,105 |
| Less: | | |
| Interest-bearing deposits | 24,785 | 516 |
| Equity method | 8,518 | 9,488 |
| Investments, at fair value | $ 516,619 | $ 468,101 |
| Securities sold, not yet purchased, at fair value (included in other liabilities ) | $ 8,630 | $ 4,045 |

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of $8,566, $43,779 and $166,541, respectively, at September 30, 2014 and $7,099, $31,515 and $130,481, respectively, at December 31, 2013, held in order to satisfy the Company s liability upon vesting of previously granted Lazard Fund Interests ( LFI ) and other similar deferred compensation arrangements. LFI represent grants by the Company to eligible employees of actual or notional interests in a number of Lazard-managed funds (see Notes 6 and 12 of Notes to Condensed Consolidated Financial Statements).

Interest-bearing deposits mature within one year and are carried at cost that approximates fair value due to their short-term maturities.

Debt securities primarily consist of seed investments invested in debt securities held within separately managed accounts related to our Asset Management business.

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

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

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

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

Private equity investments include those owned by Lazard and those consolidated but not owned by Lazard. Private equity investments owned by Lazard are primarily comprised of investments in private equity funds. Such investments primarily include (i) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies, (ii) Corporate Partners II Limited ( CP II ), a fund targeting significant noncontrolling-stake investments in established private companies, (iii) Edgewater Growth Capital Partners III, L.P. ( EGCP III ), a fund primarily making equity and buyout investments in middle market companies and (iv) Lazard Australia Corporate Opportunities Fund ( COF2 ), a Lazard-managed Australian fund targeting Australian mid-market investments.

Private equity investments consolidated but not owned by Lazard relate to the economic interests that are owned by the management team and other investors in the Edgewater Funds ( Edgewater ) which totaled $6,732 and $9,787 at September 30, 2014 and December 31, 2013, respectively (see Note 10 of Notes to Condensed Consolidated Financial Statements).

During the three month and nine month periods ended September 30, 2014 and 2013, the Company reported in revenue-other on its condensed consolidated statements of operations gross unrealized investment gains and losses pertaining to trading securities as follows:

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Gross unrealized investment gains | $ | $ 10,925 | $ 5,526 | $ 12,044 |
| Gross unrealized investment losses | $ 13,897 | $ | $ 5,601 | $ 3,907 |

***5. FAIR VALUE MEASUREMENTS***

Lazard categorizes its investments and certain other assets and liabilities recorded at fair value into a three-level fair value hierarchy as follows:

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

*Level 2.* Assets and liabilities whose values are based on (i) quoted prices for similar assets or liabilities in an active market, or quoted prices for identical or similar assets or liabilities in non-active markets, (ii) assets valued based on net asset value ( NAV ) or its equivalent redeemable at the measurement date or within the near term without redemption restrictions, or (iii) inputs other than quoted prices that are directly observable or derived principally from, or corroborated by, market data.

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*Level 3.* Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability. Items included in Level 3 include securities or other financial assets whose trading volume and level of activity have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis, as well as assets valued based on NAV or its equivalent, but not redeemable within the near term as a result of redemption restrictions.

The Company s investments in debt securities are classified as Level 1 when their respective fair values are based on unadjusted quoted prices in active markets and are classified as Level 2 when their fair values are primarily based on prices as provided by external pricing services.

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

The fair value of investments in alternative investment funds is classified as Level 2 and is valued at NAV or its equivalent, which is primarily determined based on information provided by external fund administrators. Such investments are redeemable within the near term.

The fair value of investments in debt funds is classified as Level 1 when the fair values are primarily based on the publicly reported closing price for the fund, and classified as Level 2 when the fair values are primarily based on NAV or its equivalent and are redeemable within the near term.

The fair value of investments in equity funds is classified as Level 1 or 2 as follows: publicly traded asset management funds are classified as Level 1 and are valued based on the reported closing price for the fund; and investments in asset management funds redeemable in the near term are classified as Level 2 and are valued at NAV or its equivalent, which is primarily determined based on information provided by external fund administrators.

The fair value of investments in private equity funds is classified as Level 3, and is primarily based on NAV or its equivalent. Such investments are not redeemable within the near term.

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 settlement date; the fair value of total return swaps is based on the change in fair values of the related underlying equity security, financial instrument or index and a specified notional holding; the fair value of interest rate swaps is based on the interest rate yield curve; and the fair value of derivative liabilities related to LFI and other similar deferred compensation arrangements is based on the value of the underlying investments, adjusted for forfeitures. See Note 6 of Notes to Condensed Consolidated Financial Statements.

Where reported information regarding an investment is based on data received from external fund administrators or pricing services, the Company reviews such information and classifies the investment at the relevant level within the fair value hierarchy.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The following tables present the classification of investments and certain other assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 within the fair value hierarchy:

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Investments: | | | | |
| Debt | $ 1,141 | $ 6,044 | $ | $ 7,185 |
| Equities | 61,941 | | 1,334 | 63,275 |
| Funds: | | | | |
| Alternative investments | | 36,184 | | 36,184 |
| Debt | 81,095 | 4 | | 81,099 |
| Equity | 211,729 | 43 | | 211,772 |
| Private equity | | | 117,104 | 117,104 |
| Derivatives | | 8,625 | | 8,625 |
| Total | $ 355,906 | $ 50,900 | $ 118,438 | $ 525,244 |
| **Liabilities:** | | | | |
| Securities sold, not yet purchased | $ 8,630 | $ | $ | $ 8,630 |
| Derivatives | | 209,941 | | 209,941 |
| Total | $ 8,630 | $ 209,941 | $ | $ 218,571 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Investments: | | | | |
| Debt | $ 1,681 | $ 6,332 | $ | $ 8,013 |
| Equities | 58,054 | | 1,340 | 59,394 |
| Funds: | | | | |
| Alternative investments | | 37,030 | | 37,030 |
| Debt | 58,765 | 4 | | 58,769 |
| Equity | 190,660 | 42 | | 190,702 |
| Private equity | | | 114,193 | 114,193 |
| Derivatives | | 682 | | 682 |
| Total | $ 309,160 | $ 44,090 | $ 115,533 | $ 468,783 |

| | | | | |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| Securities sold, not yet purchased | $ 4,045 | $ | $ | $ 4,045 |
| Derivatives | | 164,001 | | 164,001 |
| Total | $ 4,045 | $ 164,001 | $ | $ 168,046 |

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The following tables provide a summary of changes in fair value of the Company s Level 3 assets for the three month and nine month periods ended September 30, 2014 and 2013:

| | Three Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: | | | | | | |
| Equities | $ 1,370 | $ | $ | $ | $ (36) | $ 1,334 |
| Private equity funds | 116,895 | 2,500 | 7,498 | (5,769) | (4,020) | 117,104 |
| Total Level 3 Assets | $ 118,265 | $ 2,500 | $ 7,498 | $ (5,769) | $ (4,056) | $ 118,438 |

| | Nine Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: | | | | | | |
| Equities | $ 1,340 | $ 14 | $ | $ | $ (20) | $ 1,334 |
| Private equity funds | 114,193 | 9,336 | 8,709 | (10,854) | (4,280) | 117,104 |
| Total Level 3 Assets | $ 115,533 | $ 9,350 | $ 8,709 | $ (10,854) | $ (4,300) | $ 118,438 |

| | Three Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Equities | $ 637 | $ 2 | $ 650 | $ | $ 34 | $ 1,323 |
| Alternative investment funds | 11 | (11) | | | | |
| Private equity funds | 112,833 | 5,174 | 2,907 | (6,848) | 1,502 | 115,568 |
| Total Level 3 Assets | $ 113,481 | $ 5,165 | $ 3,557 | $ (6,848) | $ 1,536 | $ 116,891 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

| | Nine Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: | | | | | | |
| Equities | $ 190 | $ 8 | $ 1,095 | $ | $ 30 | $ 1,323 |
| Alternative investment funds | 3,457 | 117 | | (3,574) | | |
| Equity funds | 10 | | | (10) | | |
| Private equity funds | 112,444 | 8,912 | 6,166 | (12,716) | 762 | 115,568 |
| Total Level 3 Assets | $ 116,101 | $ 9,037 | $ 7,261 | $ (16,300) | $ 792 | $ 116,891 |

(a) Earnings for the three month and nine month periods ended September 30, 2014 and the three month and nine month periods ended September 30, 2013 include net unrealized gains of $810, $6,346, $2,680 and $6,007, respectively.

There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy during the three month and nine month periods ended September 30, 2014 and 2013.

***Fair Value of Certain Investments Based on NAV*** The Company s Level 2 and Level 3 investments at September 30, 2014 and December 31, 2013 include certain investments that are valued using NAV or its equivalent as a practical expedient in determining fair value. Information with respect thereto was as follows:

| | September 30, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Estimated Liquidation Period of Investments Not Redeemable | | | Investments Redeemable | |
| | Fair value | Unfunded Commitments | % of Fair Value Not Redeemable | % Next 5 Years | % 5-10 Years | % Thereafter | Redemption Frequency | Redemption Notice Period |
| Alternative investment funds: | | | | | | | | |
| Hedge funds | $ 32,344 | $ | NA | NA | NA | NA | (a) | <30-60 days |
| Funds of funds | 480 | | NA | NA | NA | NA | (b) | <30-90 days |
| Other | 3,360 | | NA | NA | NA | NA | (c) | <30-60 days |
| Debt funds | 4 | | NA | NA | NA | NA | (d) | 30 days |
| Equity funds | 43 | | NA | NA | NA | NA | (e) | 30-90 days |
| Private equity funds: | | | | | | | | |
| Equity growth | 76,164 | 19,137(f) | 100% | 11% | 61% | 28% | NA | NA |
| Mezzanine debt | 40,940 | | 100% | % | % | 100% | NA | NA |

| | | |
|---|---|---|
| Total | $ 153,335 | $ 19,137 |

(a) weekly (17%), monthly (64%) and quarterly (19%)
(b) monthly (98%) and quarterly (2%)
(c) daily (11%), weekly (5%) and monthly (84%)
(d) daily (100%)
(e) daily (14%), monthly (58%) and quarterly (28%)
(f) Unfunded commitments to private equity investments consolidated but not owned by Lazard of $7,518 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders.

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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **December 31, 2013** | | | | | | | |
| | | | | **Estimated Liquidation Period of Investments Not Redeemable** | | | **Investments Redeemable** | |
| | **Fair value** | **Unfunded Commitments** | **% of Fair Value Not Redeemable** | **% Next 5 Years** | **% 5-10 Years** | **% Thereafter** | **Redemption Frequency** | **Redemption Notice Period** |
| Alternative investment funds: | | | | | | | | |
| Hedge funds | $ 31,837 | $ | NA | NA | NA | NA | (a) | <30-90 days |
| Funds of funds | 475 | | NA | NA | NA | NA | (b) | <30-90 days |
| Other | 4,718 | | NA | NA | NA | NA | (c) | <30-60 days |
| Debt funds | 4 | | NA | NA | NA | NA | (d) | 30 days |
| Equity funds | 42 | | NA | NA | NA | NA | (e) | 30-90 days |
| Private equity funds: | | | | | | | | |
| Equity growth | 70,054 | 27,135(f) | 100% | 17% | 60% | 23% | NA | NA |
| Mezzanine debt | 44,139 | | 100% | % | % | 100% | NA | NA |
| Total | $ 151,269 | $ 27,135 | | | | | | |

(a) weekly (17%), monthly (65%) and quarterly (18%)
(b) monthly (95%) and quarterly (5%)
(c) daily (7%), weekly (1%) and monthly (92%)
(d) daily (100%)
(e) daily (13%), monthly (58%) and quarterly (29%)
(f) Unfunded commitments to private equity investments consolidated but not owned by Lazard of $10,613 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders.

See Note 4 of Notes to Condensed Consolidated Financial Statements for discussion of significant investment strategies for investments with value based on NAV.

***Investment Capital Funding Commitments*** At September 30, 2014, the Company s maximum unfunded commitments for capital contributions to investment funds arose from (i) commitments to CP II, which amounted to $1,644 for potential follow-on investments and/or for fund expenses through the earlier of February 25, 2017 or the liquidation of the fund, (ii) commitments to EGCP III, which amounted to $12,688, through the earlier of October 12, 2016 (*i.e.*, the end of the investment period) for investments and/or expenses (with a portion of the undrawn amount of such commitments as of that date remaining committed until October 12, 2023 in respect of follow-on investments and/or fund expenses) or the liquidation of the fund and (iii) commitments to COF2, which amounted to $4,805, through the earlier of November 11, 2016 (*i.e.*, the end of the investment period) for investments and/or fund expenses (with a portion of the undrawn amount of such commitments as of that date remaining committed until November 11, 2019 in respect of follow-on investments and/or fund expenses) or the liquidation of the fund.

## *6. DERIVATIVES*

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, total return swap contracts on various equity and debt indices and other derivative contracts to economically hedge exposures to fluctuations in currency exchange rates, interest rates and equity and debt prices. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of

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set-off exists under a master netting agreement enforceable by law. The Company s derivative instruments are recorded at their fair value, and are included in other assets and other liabilities on the consolidated statements of financial condition. Gains and losses on the Company s derivative instruments not designated as hedging instruments are included in interest income and interest expense , respectively, or revenue-other , depending on the nature of the underlying item, on the consolidated statements of operations.

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

The tables below present the fair values of the Company s derivative instruments reported within other assets and other liabilities and the fair values of the Company s derivative liabilities relating to its obligations pertaining to LFI and other similar deferred compensation arrangements (see Note 12 of Notes to Condensed Consolidated Financial Statements) on the accompanying condensed consolidated statements of financial condition as of September 30, 2014 and December 31, 2013:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Derivative Assets:** | | |
| Forward foreign currency exchange rate contracts | $ 4,464 | $ 250 |
| Total return swaps and other (a) | 4,161 | 432 |
| | $ 8,625 | $ 682 |
| **Derivative Liabilities:** | | |
| Forward foreign currency exchange rate contracts | $ 20 | $ 1,579 |
| LFI and other similar deferred compensation arrangements | 209,921 | 162,422 |
| | $ 209,941 | $ 164,001 |

(a) For total return swaps, amounts represent the netting of gross derivative assets and liabilities of $4,220 and $59 as of September 30, 2014, respectively, and $2,019 and $1,587 as of December 31, 2013, respectively, for contracts with the same counterparty under legally enforceable master netting agreements. Such amounts are recorded net in other assets , with receivables for net cash collateral under such contracts of $10,434 and $11,384 as of September 30, 2014 and December 31, 2013, respectively.

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Net gains (losses) with respect to derivative instruments (predominantly reflected in revenue-other ) and the Company s derivative liabilities relating to its obligations pertaining to LFI and other similar deferred compensation arrangements (included in compensation and benefits expense) as reflected on the accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2014 and 2013, were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Forward foreign currency exchange rate contracts | $ 15,355 | $ (5,310) | $ 14,380 | $ (1,705) |
| LFI and other similar deferred compensation arrangements | 5,528 | (7,519) | (6,004) | (7,767) |
| Total return swaps and other | 2,835 | (6,520) | (5,436) | (6,872) |
| Total | $ 23,718 | $ (19,349) | $ 2,940 | $ (16,344) |

***7. PROPERTY***

At September 30, 2014 and December 31, 2013, property consists of the following:

| | Estimated Depreciable Life in Years | September 30, 2014 | December 31, 2013 |
|---|---|---|---|
| Buildings | 33 | $ 158,551 | $ 173,772 |
| Leasehold improvements | 3-20 | 169,814 | 175,600 |
| Furniture and equipment | 3-10 | 151,270 | 149,598 |
| Construction in progress | | 5,236 | 3,756 |
| Total | | 484,871 | 502,726 |
| Less - Accumulated depreciation and amortization | | 257,512 | 253,930 |
| Property | | $ 227,359 | $ 248,796 |

***8. GOODWILL AND OTHER INTANGIBLE ASSETS***

The components of goodwill and other intangible assets at September 30, 2014 and December 31, 2013 are presented below:

| | September 30, | December 31, |
|---|---|---|

| | 2014 | 2013 |
|---|---|---|
| Goodwill | $ 343,776 | $ 345,453 |
| Other intangible assets (net of accumulated amortization) | 12,478 | 18,424 |
| | $ 356,254 | $ 363,877 |

At September 30, 2014 and December 31, 2013, goodwill of $279,235 and $280,912, respectively, was attributable to the Company s Financial Advisory segment and, at each such respective date, $64,541 of goodwill was attributable to the Company s Asset Management segment.

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Changes in the carrying amount of goodwill for the nine month periods ended September 30, 2014 and 2013 are as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Balance, January 1 | $ 345,453 | $ 364,328 |
| Business acquisitions | 3,232 | 1,601 |
| Foreign currency translation adjustments | (4,909) | (15,310) |
| Balance, September 30 | $ 343,776 | $ 350,619 |

The gross cost and accumulated amortization of other intangible assets as of September 30, 2014 and December 31, 2013, by major intangible asset category, are as follows:

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Gross Cost | Accumulated Amortization | Net Carrying Amount | Gross Cost | Accumulated Amortization | Net Carrying Amount |
| Performance fees | $ 30,740 | $ 21,116 | $ 9,624 | $ 30,740 | $ 17,173 | $ 13,567 |
| Management fees, customer relationships and non-compete agreements | 33,063 | 30,209 | 2,854 | 33,063 | 28,206 | 4,857 |
| | $ 63,803 | $ 51,325 | $ 12,478 | $ 63,803 | $ 45,379 | $ 18,424 |

Amortization expense of intangible assets for the three month and nine month periods ended September 30, 2014 was $4,020 and $5,946, respectively, and for the three month and nine month periods ended September 30, 2013 was $877 and $2,758, respectively. Estimated future amortization expense is as follows:

| Year Ending December 31, | Amortization Expense (a) |
|---|---|
| 2014 (October 1 through December 31) | $ 864 |
| 2015 | 6,433 |
| 2016 | 5,181 |
| Total amortization expense | $ 12,478 |

(a) Approximately 46% of intangible asset amortization is attributable to a noncontrolling interest.

***9. SENIOR DEBT***

Senior debt is comprised of the following as of September 30, 2014 and December 31, 2013:

| | Initial Principal Amount | Maturity Date | Annual Interest Rate | Outstanding As of September 30, 2014 | Outstanding As of December 31, 2013 |
|---|---|---|---|---|---|
| Lazard Group 6.85% Senior Notes | 600,000 | 6/15/17 | 6.85% | $ 548,350 | $ 548,350 |
| Lazard Group 4.25% Senior Notes | 500,000 | 11/14/20 | 4.25% | 500,000 | 500,000 |
| Lazard Group Credit Facility | 150,000 | 9/25/15 | 0.78% | | |
| Total | | | | $ 1,048,350 | $ 1,048,350 |

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In November 2013, and in connection with Lazard Group s redemption of $528,500 aggregate principal amount of its then outstanding 7.125% senior notes maturing on May 15, 2015 (the 2015 Notes ), Lazard Group issued $500,000 aggregate principal amount of 4.25% senior notes maturing on November 14, 2020 (the 2020 Notes ). Interest on the 2020 Notes is payable semi-annually on May 14 and November 14 of each year.

On September 25, 2012, Lazard Group entered into a $150,000, three-year senior revolving credit facility with a group of lenders (the Credit Facility ), which expires in September 2015. The Credit Facility replaced a similar revolving credit facility which was terminated as a condition to effectiveness of the Credit Facility. Interest rates under the Credit Facility vary and are based on either a Federal Funds rate or a Eurodollar rate, in each case plus an

applicable margin. As of September 30, 2014, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 0.78%. At September 30, 2014 and December 31, 2013, no amounts were outstanding under the Credit Facility.

The Credit Facility contains customary terms and conditions, including certain financial covenants. In addition, the Credit Facility, the indenture and the supplemental indentures relating to Lazard Group s senior notes contain certain covenants, events of default and other customary provisions, including a customary make-whole provision in the event of early redemption, where applicable. As of September 30, 2014, the Company was in compliance with such provisions. All of the Company s senior debt obligations are unsecured.

As of September 30, 2014, the Company had approximately $262,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately $44,000 (at September 30, 2014 exchange rates) and Edgewater of $64,000. In the second quarter of 2014, $20,000 of Edgewater s available lines of credit was drawn down by the general partner of EGCP III to provide a loan to EGCP III to finance a certain fund investment. The loan to EGCP III was repaid in the third quarter of 2014 from a capital call made by EGCP III to its investors. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

The Company s senior debt at September 30, 2014 and December 31, 2013 is carried at historical amounts. At those dates, the fair value of such senior debt was approximately $1,141,000 and $1,117,000, respectively, and exceeded the aggregate carrying value by approximately $93,000 and $69,000, respectively. The fair value of the Company s senior debt is based on market quotations. The Company s senior debt would be categorized within Level 2 of the hierarchy of fair value measurements if carried at fair value.

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***10. COMMITMENTS AND CONTINGENCIES***

***Leases*** The Company has various leases and other contractual commitments arising in the ordinary course of business. At September 30, 2014, minimum rental commitments under non-cancelable operating leases, net of sublease income, are approximately as follows:

| **Year Ending December 31,** | |
|---|---|
| 2014 (October 1 through December 31) | $ 21,159 |
| 2015 | 77,287 |
| 2016 | 75,672 |
| 2017 | 70,321 |
| 2018 | 64,894 |
| Thereafter | 646,775 |
| Total minimum lease payments | 956,108 |
| Sublease proceeds (a) | 82,162 |
| Net lease payments | $ 873,946 |

(a) Committed sublease income was reduced by approximately $79,600 in the third quarter of 2014 pursuant to arrangements we entered into with LFCM Holdings LLC ( LFCM Holdings ). See Note 17 of Notes to Condensed Consolidated Financial Statements.

***Guarantees*** In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At September 30, 2014, LFB had $4,851 of such indemnifications and held $4,357 of collateral/counter-guarantees to secure these commitments. The Company believes the likelihood of loss with respect to these indemnities is remote. Accordingly, no liability is recorded in the condensed consolidated statement of financial condition.

***Certain Business Transactions*** On July 15, 2009, the Company established a private equity business with Edgewater. Edgewater manages funds primarily focused on buy-out and growth equity investments in middle market companies. The acquisition was structured as a purchase by Lazard Group of interests in a holding company that in turn owns interests in the general partner and management company entities of the current Edgewater private equity funds (the Edgewater Acquisition ). Following the Edgewater Acquisition, Edgewater s leadership team retained a substantial economic interest in such entities.

The aggregate fair value of the consideration recognized by the Company at the acquisition date was $61,624. Such consideration consisted of (i) a one-time cash payment, (ii) 1,142,857 shares of Class A common stock (the Initial Shares ) and (iii) up to 1,142,857 additional shares of Class A common stock (the Earnout Shares ) that are subject to earnout criteria and payable over time. The Initial Shares are subject to forfeiture provisions that lapse only upon the achievement of certain performance thresholds and transfer restrictions during the four year period ending December 2014. The Earnout Shares will be issued only if certain performance thresholds are met. As of September 30, 2014 and December 31, 2013, 913,722 shares are issuable on a contingent basis, and 1,371,992 shares have been earned because applicable performance thresholds have been satisfied. As of September 30, 2014 and December 31, 2013, 1,041,436 and 1,029,006, respectively, of the earned shares have been settled.

***Contingent Consideration Relating To Other Business Acquisitions*** For a business acquired in 2012, at December 31, 2012, 170,988 shares of Class A common stock (including dividend equivalent shares) were issuable on a

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non-contingent basis. Such shares were delivered in the first quarter of 2013. The Company is obligated to issue a maximum of 202,650 additional shares of Class A common stock if certain performance thresholds are achieved by December 31, 2014.

***Other Commitments*** In the normal course of business, LFB enters into commitments to extend credit, predominately at variable interest rates. These commitments have varying expiration dates, are fully collateralized and generally contain requirements for the counterparty to maintain a minimum collateral level. These commitments may not represent future cash requirements as they may expire without being drawn upon. At September 30, 2014, these commitments were not material.

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

The Company has various other contractual commitments arising in the ordinary course of business. In addition, from time to time, each of LFB and LFNY (See Note 17 of Notes to Condensed Consolidated Financial Statements) may enter into underwriting commitments in which it will participate as an underwriter. At September 30, 2014, LFB and LFNY had no such underwriting commitments.

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

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

### *11. STOCKHOLDERS EQUITY*

***Lazard Group Distributions*** As previously described, Lazard Group s common membership interests are held by subsidiaries of Lazard Ltd and, until May 2014, also were held by LAZ-MD Holdings. Pursuant to provisions of the Operating Agreement, Lazard Group distributions in respect of its common membership interests are allocated to the holders of such interests on a pro rata basis. Such distributions represent amounts necessary to fund (i) any dividends Lazard Ltd may declare on its Class A common stock and (ii) tax distributions in respect of income taxes that Lazard Ltd s subsidiaries incur and, until May 2014, that the members of LAZ-MD Holdings incurred, as a result of holding Lazard Group common membership interests.

During the nine month periods ended September 30, 2014 and 2013, Lazard Group distributed the following amounts to LAZ-MD Holdings and the subsidiaries of Lazard Ltd (none of which related to tax distributions):

| | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|
| LAZ-MD Holdings | $ 213 | $ 565 |

| | | |
|---|---|---|
| Subsidiaries of Lazard Ltd | 109,592 | 60,931 |
| | $ 109,805 | $ 61,496 |

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

***Exchanges of Lazard Group Common Membership Interests*** During the nine month periods ended September 30, 2014 and 2013, Lazard Ltd issued 710,009 and 839,658 shares of Class A common stock, respectively, in connection with the exchanges of a like number of Lazard Group common membership interests (received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests) (see Note 1 of Notes to Condensed Consolidated Financial Statements for a discussion of the Final Exchange of LAZ-MD Interests).

See Noncontrolling Interests below for additional information regarding Lazard Ltd s and LAZ-MD Holdings ownership interests in Lazard Group.

***Share Repurchase Program*** During the nine month period ended September 30, 2014 and for the years ended December 31, 2013, 2012 and 2011, the Board of Directors of Lazard Ltd authorized the repurchase of Class A common stock and Lazard Group common membership interests as set forth in the table below.

| Date | Share Repurchase Authorization | Expiration |
|---|---|---|
| February, 2011 | $ 250,000 | December 31, 2012 |
| October, 2011 | $ 125,000 | December 31, 2013 |
| April, 2012 | $ 125,000 | December 31, 2013 |
| October, 2012 | $ 200,000 | December 31, 2014 |
| October, 2013 | $ 100,000 | December 31, 2015 |
| April, 2014 | $ 200,000 | December 31, 2015 |

The Company expects that the share repurchase program will primarily be used to offset a portion of the shares that have been or will be issued under the Lazard Ltd 2005 Equity Incentive Plan (the 2005 Plan ) and the Lazard Ltd 2008 Incentive Compensation Plan (the 2008 Plan ). Pursuant to the share repurchase program, purchases have been made in the open market or through privately negotiated transactions. The rate at which the Company purchases shares in connection with the share repurchase program may vary from quarter to quarter due to a variety of factors. Purchases with respect to such program are set forth in the table below:

| | Number of Shares/Common Membership Interests Purchased | Average Price Per Share/Common Membership Interest |
|---|---|---|
| **Nine Months Ended September 30:** | | |
| 2013 | 2,201,657 | $ 35.40 |
| 2014 | 4,114,206 | $ 46.83 |

The shares purchased in the nine months ended September 30, 2014 included 1,000,000 shares purchased from Natixis S.A. on June 26, 2014 for $50,340 in connection with the sale by Natixis S.A. of its entire investment in the Company s Class A common stock. The purchase transaction closed on July 1, 2014. As of September 30, 2014, a total of $128,932 of share repurchase authorization remained available under the Company s share repurchase program, which will expire on December 31, 2015.

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During the nine month period ended September 30, 2014, the Company had in place trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, pursuant to which it effected stock repurchases in the open market.

***Preferred Stock*** Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value $0.01 per share, inclusive of its Series A and Series B preferred stock. Series A and Series B preferred shares were issued in connection with certain prior year business acquisitions and are each non-participating securities convertible into Class A common stock, and have no voting or dividend rights. As of both September 30, 2014 and December 31, 2013, 7,921 shares of Series A preferred stock were outstanding, and no shares of Series B preferred stock were outstanding. At September 30, 2014 and December 31, 2013, no shares of Series A preferred stock were convertible into shares of Class A common stock on a contingent or a non-contingent basis.

***Accumulated Other Comprehensive Income (Loss), Net of Tax ( AOCI )*** The tables below reflect changes in the balances of each component of AOCI during the nine month periods ended September 30, 2014 and 2013:

| | Currency Translation Adjustments | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Ltd AOCI |
|---|---|---|---|---|---|
| Balance, January 1, 2014 | $ 3,869 | $ (137,431) | $ (133,562) | $ (558) | $ (133,004) |
| Activity January 1 to September 30, 2014: | | | | | |
| Other comprehensive gain (loss) before reclassifications | (18,640) | (3,695) | (22,335) | 559 | (22,894) |
| Adjustments for items reclassified to earnings, net of tax | | 3,714 | 3,714 | | 3,714 |
| Net other comprehensive income (loss) | (18,640) | 19 | (18,621) | 559 | (19,180) |
| Balance, September 30, 2014 | $ (14,771) | $ (137,412) | $ (152,183) | $ 1 | $ (152,184) |

| | Currency Translation Adjustments | Interest Rate Hedge | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Ltd AOCI |
|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | $ 19,405 | $ (2,502) | $ (128,536) | $ (111,633) | $ (1,092) | $ (110,541) |
| Activity January 1 to September 30, 2013: | | | | | | |
| Other comprehensive gain (loss) before reclassifications | (18,610) | | (2,669) | (21,279) | 451 | (21,730) |
| Adjustments for items reclassified to earnings, net of tax | | 791 | 3,653 | 4,444 | 25 | 4,419 |
| Net other comprehensive income (loss) | (18,610) | 791 | 984 | (16,835) | 476 | (17,311) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Balance, September 30, 2013 | $ 795 | $ (1,711) | $ (127,552) | $ (128,468) | $ (616) | $ (127,852) |

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The table below reflects adjustments for items reclassified out of AOCI, by component, for the three month and nine month periods ended September 30, 2014 and 2013:

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Amortization of interest rate hedge (a) | $ | $ 264 | $ | $ 791 |
| Amortization relating to employee benefit plans (b) | 1,673 | 1,627 | 5,105 | 4,859 |
| Less related income taxes | 528 | 404 | 1,391 | 1,206 |
| Net of tax | 1,145 | 1,223 | 3,714 | 3,653 |
| Total reclassifications, net of tax | $ 1,145 | $ 1,487 | $ 3,714 | $ 4,444 |

(a) Included in interest expense on the condensed consolidated statements of operations.

(b) Included in the computation of net periodic benefit cost (see Note 13 of Notes to Condensed Consolidated Financial Statements). Such amount is included in compensation and benefits expense on the condensed consolidated statement of operations.

***Noncontrolling Interests*** Noncontrolling interests principally represent interests held in (i) Lazard Group by LAZ-MD Holdings until May 2014 and (ii) Edgewater s management vehicles that the Company is deemed to control, but does not own. Following the Final Exchange of LAZ-MD Interests, Lazard Group became a wholly-owned indirect subsidiary of Lazard Ltd.

The following table summarizes the ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings:

| As of September 30: | Lazard Ltd Common Membership Interests | Lazard Ltd % Ownership | LAZ-MD Holdings Common Membership Interests | LAZ-MD Holdings % Ownership | Total Lazard Group Common Membership Interests |
|---|---|---|---|---|---|
| 2013 | 129,056,081 | 99.5% | 710,009 | 0.5% | 129,766,090 |
| 2014 | 129,766,090 | 100% | | | 129,766,090 |

The change in Lazard Ltd s ownership in Lazard Group in the nine month periods ended September 30, 2014 and 2013 did not materially impact Lazard Ltd s stockholders equity.

The tables below summarize net income attributable to noncontrolling interests for the three month and nine month periods ended September 30, 2014 and 2013 and noncontrolling interests as of September 30, 2014 and December 31, 2013 in the Company s condensed consolidated financial statements:

| | Net Income (Loss) Attributable To Noncontrolling Interests | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Edgewater | $ 1,060 | $ 2,018 | $ 5,732 | $ 4,671 |
| LAZ-MD Holdings | | 365 | 631 | 862 |
| Other | 1 | 83 | 2 | (210) |
| Total | $ 1,061 | $ 2,466 | $ 6,365 | $ 5,323 |

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| | Noncontrolling Interests As Of | |
|---|---|---|
| | September 30, 2014 | December 31, 2013 |
| Edgewater | $ 64,360 | $ 66,641 |
| LAZ-MD Holdings | | 2,566 |
| Other | 730 | 582 |
| Total | $ 65,090 | $ 69,789 |

***Dividend Declared, October 2014*** On October 22, 2014, Lazard Ltd announced a quarterly dividend of $0.30 per share on its Class A common stock, payable on November 14, 2014, to stockholders of record on November 3, 2014.

***12. INCENTIVE PLANS***
***Share-Based Incentive Plan Awards***

A description of Lazard Ltd s 2005 Plan and 2008 Plan and activity with respect thereto during the three month and nine month periods ended September 30, 2014 and 2013, is presented below.

***Shares Available Under the 2005 Plan and 2008 Plan***

The 2005 Plan authorizes the issuance of up to 25,000,000 shares of Class A common stock pursuant to the grant or exercise of stock options, stock appreciation rights, restricted stock units ( RSUs ) and other equity-based awards. Each stock unit or similar award granted under the 2005 Plan represents a contingent right to receive one share of Class A common stock, at no cost to the recipient. The fair value of such awards is generally determined based on the closing market price of Class A common stock at the date of grant.

In addition to the shares available under the 2005 Plan, additional shares of Class A common stock are available under the 2008 Plan. The maximum number of shares available under the 2008 Plan is based on a formula that limits the aggregate number of shares that may, at any time, be subject to awards that are considered outstanding under the 2008 Plan to 30% of the then-outstanding shares of Class A common stock (treating, for this purpose, the then-outstanding exchangeable interests of LAZ-MD Holdings on a fully-exchanged basis as described in the 2008 Plan).

The following reflects the amortization expense recorded with respect to share-based incentive plans within compensation and benefits expense (with respect to RSUs, performance-based restricted stock units ( PRSUs ) and restricted stock awards) and professional services expense (with respect to deferred stock units ( DSUs )) within the Company s accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2014 and 2013:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Share-based incentive awards: | | | | |

| | | | | |
|---|---|---|---|---|
| RSUs (a) | $ 39,091 | $ 46,095 | $ 132,307 | $ 163,184 |
| PRSUs | 4,957 | 6,467 | 11,657 | 8,900 |
| Restricted Stock (b) | 2,637 | 2,627 | 13,493 | 9,712 |
| DSUs | 102 | 71 | 1,638 | 1,545 |
| Total | $ 46,787 | $ 55,260 | $ 159,095 | $ 183,341 |

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(a) Includes charges relating to the cost saving initiatives of $9,099 for the nine month period ended September 30, 2013 (see Note 14 of Notes to Condensed Consolidated Financial Statements).
(b) Includes charges relating to the cost saving initiatives of $247 for the nine month period ended September 30, 2013.

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

For purposes of calculating diluted net income per share, RSUs and restricted stock awards are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. PRSUs are included in the diluted weighted average shares of Class A common stock outstanding to the extent the performance conditions are met at the end of the reporting period, also using the treasury stock method.

The Company s incentive plans are described below.

***RSUs and DSUs***

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

RSUs generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any dividends paid on Class A common stock during such period. During the nine month periods ended September 30, 2014 and 2013, issuances of RSUs pertaining to such dividend participation rights and respective charges to retained earnings , net of estimated forfeitures (with corresponding credits to additional paid-in-capital ), consisted of the following:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Number of RSUs issued | 288,272 | 257,418 |
| Charges to retained earnings, net of estimated forfeitures | $ 13,489 | $ 8,440 |

Non-executive members of the Board of Directors ( Non-Executive Directors ) receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs, which resulted in 26,360 and 39,315 DSUs granted during the nine month periods ended September 30, 2014 and 2013, respectively. Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Directors Fee Deferral Unit Plan described below. DSUs are convertible into shares of Class A common stock at the time of cessation of service to the Board of Directors and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock

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outstanding using the treasury stock method. DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the nine month periods ended September 30, 2014 and 2013.

The Company s Directors Fee Deferral Unit Plan permits the Non-Executive Directors to elect to receive additional DSUs pursuant to the 2005 Plan in lieu of some or all of their cash fees. The number of DSUs that shall be granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date immediately preceding the date of the grant. During the nine month periods ended September 30, 2014 and 2013, 6,381 and 5,880 DSUs, respectively, had been granted pursuant to such Plan.

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

The following is a summary of activity relating to RSUs and DSUs during the nine month periods ended September 30, 2014 and 2013:

| | RSUs | | DSUs | |
|---|---|---|---|---|
| | Units | Weighted Average Grant Date Fair Value | Units | Weighted Average Grant Date Fair Value |
| Balance, January 1, 2014 | 16,630,009 | $ 34.51 | 251,434 | $ 32.02 |
| Granted (including 288,272 RSUs relating to dividend participation) | 3,733,113 | $ 42.75 | 32,741 | $ 50.04 |
| Forfeited | (210,458) | $ 33.45 | | |
| Vested | (6,529,801) | $ 37.86 | | |
| Balance, September 30, 2014 | 13,622,863 | $ 35.18 | 284,175 | $ 34.10 |
| Balance, January 1, 2013 | 21,481,131 | $ 33.92 | 204,496 | $ 31.47 |
| Granted (including 257,418 RSUs relating to dividend participation) | 4,868,963 | $ 36.92 | 45,195 | $ 34.18 |
| Forfeited | (239,117) | $ 34.63 | | |
| Vested | (9,363,792) | $ 34.78 | | |
| Balance, September 30, 2013 | 16,747,185 | $ 34.30 | 249,691 | $ 31.96 |

In connection with RSUs that vested during the nine month periods ended September 30, 2014 and 2013, the Company satisfied its minimum statutory tax withholding requirements in lieu of issuing 1,876,398 and 3,471,813 shares of Class A common stock in the respective nine month periods. Accordingly, 4,653,403 and 5,891,979 shares of Class A common stock held by the Company were delivered during the nine month periods ended September 30, 2014 and 2013, respectively.

During the fourth quarter of 2012, 958,213 RSUs were modified through forward purchase agreements into liability awards. Such liability awards were settled on March 1, 2013 for $28,612. During the nine month period ended September 30, 2013, compensation expense of $1,690 was recorded for such liability awards.

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As of September 30, 2014, estimated unrecognized RSU compensation expense was approximately $168,382, with such expense expected to be recognized over a weighted average period of approximately 1.1 years subsequent to September 30, 2014.

***Restricted Stock***

The following is a summary of activity related to shares of restricted Class A common stock associated with compensation arrangements during the nine month periods ended September 30, 2014 and 2013:

| | Restricted Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance, January 1, 2014 | 575,054 | $ 32.72 |
| Granted | 449,911 | $ 45.52 |
| Forfeited | (12,097) | $ 41.19 |
| Vested | (205,075) | $ 35.23 |
| Balance, September 30, 2014 | 807,793 | $ 39.08 |
| Balance, January 1, 2013 | 1,972,609 | $ 34.85 |
| Granted | 368,736 | $ 36.74 |
| Forfeited | (35,794) | $ 33.35 |
| Vested | (1,728,509) | $ 36.00 |
| Balance, September 30, 2013 | 577,042 | $ 32.72 |

In connection with shares of restricted Class A common stock that vested during the nine month periods ended September 30, 2014 and 2013, the Company satisfied its minimum statutory tax withholding requirements in lieu of delivering 29,999 and 18,631 shares of Class A common stock during the respective nine month periods. Accordingly, 175,076 and 1,709,878 shares of Class A common stock held by the Company were delivered during the nine month periods ended September 30, 2014 and 2013, respectively.

The restricted stock awards include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock during the period, which will vest concurrently with the underlying restricted stock award. At September 30, 2014, estimated unrecognized restricted stock expense was approximately $13,460, with such expense to be recognized over a weighted average period of approximately 1.4 years subsequent to September 30, 2014.

***PRSUs***

PRSUs are subject to both performance-based and service-based vesting conditions. The number of shares of Class A common stock that a recipient will receive upon vesting of a PRSU will be calculated by reference to certain performance metrics that relate to the Company s performance over a three-year period. The target number of shares of Class A common stock subject to each PRSU is one; however, based on the achievement of the performance criteria, the number of shares of Class A common stock that may be received in connection with each PRSU can range from zero to two times the target number (or, for PRSUs granted in 2013, three times the target number in the event of a substantial increase in fiscal year 2014 revenue (adjusted for certain items)). The PRSUs granted in 2014 will vest on a single date three years following the date of the grant and the PRSUs

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

granted in 2013 will vest 33% in March 2015 and 67% in March 2016, in each case provided the applicable service and performance conditions are satisfied. In addition, the performance metrics applicable to each PRSU will be evaluated on an annual basis at the end of each fiscal year during the performance period and, if the Company has achieved a threshold level of performance with respect to the fiscal year, 25% of the target number of shares of Class A common stock subject to each PRSU will no longer be at risk of forfeiture based on the achievement of performance criteria. PRSUs include dividend participation rights that provide that during vesting periods the target number of PRSUs receive dividend equivalents at the same rate that dividends are paid on Class A common stock during such period. These dividend equivalents are credited as RSUs that are not subject to the performance-based vesting criteria but are otherwise subject to the same restrictions as the underlying PRSUs to which they relate.

The following is a summary of activity relating to PRSUs during the nine month periods ended September 30, 2014 and 2013 at the target level:

| | PRSUs | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance, January 1, 2014 | 448,128 | $ 36.11 |
| Granted | 360,783 | $ 44.46 |
| Balance, September 30, 2014 | 808,911 | $ 39.83 |
| Balance, January 1, 2013 | | |
| Granted | 448,128 | $ 36.11 |
| Balance, September 30, 2013 | 448,128 | $ 36.11 |

Compensation expense recognized for PRSU awards is determined by multiplying the number of shares of Class A common stock underlying such awards that, based on the Company s estimate, are considered probable of vesting, by the grant date fair value. As of September 30, 2014, the total estimated unrecognized compensation expense was approximately $23,850, and the Company expects to amortize such expense over a weighted-average period of approximately 1.6 years subsequent to September 30, 2014.

***LFI and Other Similar Deferred Compensation Arrangements***

Commencing in February 2011, the Company granted LFI to eligible employees. In connection with the LFI and other similar deferred compensation arrangements, which generally require future service as a condition for vesting, the Company recorded a prepaid compensation asset and a corresponding compensation liability on the grant date based upon the fair value of the award. The prepaid asset is amortized on a straight-line basis over the applicable vesting periods or requisite service periods (which are generally similar to the comparable periods for RSUs), and is charged to compensation and benefits expense within the Company s consolidated statement of operations. LFI and similar deferred compensation arrangements that do not require future service are expensed immediately. The related compensation liability is accounted for at fair value as a derivative liability, which contemplates the impact of estimated forfeitures, and is adjusted for changes in fair value primarily related to changes in value of the underlying investments.

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

The following is a summary of activity relating to LFI and other similar deferred compensation arrangements during the nine month periods ended September 30, 2014 and 2013:

| | Prepaid Compensation Asset | Compensation Liability |
|---|---|---|
| Balance, January 1, 2014 | $ 60,433 | $ 162,422 |
| Granted | 92,728 | 92,728 |
| Settled | | (54,293) |
| Forfeited | (1,320) | (1,908) |
| Amortization | (57,287) | |
| Change in fair value related to: | | |
| Increase in fair value of underlying investments | | 6,004 |
| Adjustment for estimated forfeitures | | 6,527 |
| Other | (551) | (1,559) |
| Balance, September 30, 2014 | $ 94,003 | $ 209,921 |

| | Prepaid Compensation Asset | Compensation Liability |
|---|---|---|
| Balance, January 1, 2013 | $ 47,445 | $ 97,593 |
| Granted | 72,217 | 72,217 |
| Settled | | (22,903) |
| Forfeited | (765) | (985) |
| Amortization | (44,195) | |
| Change in fair value related to: | | |
| Increase in fair value of underlying investments | | 7,767 |
| Adjustment for estimated forfeitures | | 3,175 |
| Other | (217) | (558) |
| Balance, September 30, 2013 | $ 74,485 | $ 156,306 |

The amortization of the prepaid compensation asset will generally be recognized over a weighted average period of approximately 1.7 years subsequent to September 30, 2014.

The following is a summary of the impact of LFI and other similar deferred compensation arrangements on compensation and benefits expense within the accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2014 and 2013:

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Amortization, net of forfeitures (a) | $ 21,310 | $ 15,049 | $ 63,226 | $ 47,150 |
| Change in the fair value of underlying investments | (5,528) | 7,519 | 6,004 | 7,767 |
| Total | $ 15,782 | $ 22,568 | $ 69,230 | $ 54,917 |

(a) Includes charges relating to the cost saving initiatives of $2,665 for the nine month period ended September 30, 2013 (see Note 14 of Notes to Condensed Consolidated Financial Statements).

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***13. EMPLOYEE BENEFIT PLANS***

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

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

On April 30, 2012, the Company and the Trustees of the U.K. pension plans concluded the December 31, 2010 triennial valuations of the plans. In connection with such valuations and a previously negotiated agreement with the Trustees, the Company and the Trustees agreed upon pension funding terms (the agreement ) pursuant to which the Company agreed to make plan contributions of 1 million British pounds during each year from 2012 through 2020 inclusive and to make annual contributions of 1 million British pounds into an account security arrangement during each year from 2014 through 2020 inclusive. It was further agreed that, to the extent that the value of the plans assets falls short of the funding target for June 1, 2020 that has been agreed upon with the Trustees, the assets from the account security arrangement would be released into the plans at that date. Additionally, the Company agreed to fund the expenses of administering the plans, including certain regulator levies and the cost of other professional advisors to the plans. The terms of the agreement are subject to adjustment based on the results of subsequent triennial valuations, the first of which is currently underway. The aggregate amount in the account security arrangement was approximately $18,200 and $16,900 at September 30, 2014 and December 31, 2013, respectively, and has been recorded in cash deposited with clearing organizations and other segregated cash on the accompanying condensed consolidated statements of financial condition. Income on the account security arrangement accretes to the Company and is recorded in interest income.

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The following table summarizes the components of net periodic benefit cost (credit) related to the Company s post-retirement plans for the three month and nine month periods ended September 30, 2014 and 2013:

| | Pension Plans | | Medical Plan | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | | |
| | 2014 | 2013 | 2014 | 2013 |
| **Components of Net Benefit Cost (Credit):** | | | | |
| Service cost | $ 267 | $ 315 | $ 7 | $ 12 |
| Interest cost | 7,636 | 6,744 | 49 | 46 |
| Expected return on plan assets | (8,253) | (6,701) | | |
| Amortization of: | | | | |
| Prior service cost | 708 | 708 | | |
| Net actuarial loss (gain) | 1,096 | 919 | (131) | |
| Net benefit cost (credit) | $ 1,454 | $ 1,985 | $ (75) | $ 58 |

| | Pension Plans | | Medical Plan | |
|---|---|---|---|---|
| | Nine Months Ended September 30, | | | |
| | 2014 | 2013 | 2014 | 2013 |
| **Components of Net Benefit Cost (Credit):** | | | | |
| Service cost | $ 718 | $ 938 | $ 24 | $ 39 |
| Interest cost | 22,807 | 20,193 | 146 | 137 |
| Expected return on plan assets | (24,560) | (20,090) | | |
| Amortization of: | | | | |
| Prior service cost | 2,176 | 2,114 | | |
| Net actuarial loss (gain) | 3,325 | 2,745 | (396) | |
| Net benefit cost (credit) | $ 4,466 | $ 5,900 | $ (226) | $ 176 |

### *14. COST SAVING INITIATIVES*

In October 2012, the Company announced cost saving initiatives (the Cost Saving Initiatives ) relating to the Company s operations. These initiatives include streamlining our corporate structure and consolidating support functions; realigning our investments into areas with potential for the greatest long-term return; the settlement of certain contractual obligations; reducing occupancy costs; and creating greater flexibility to retain and attract the best people and invest in new growth areas.

Expenses associated with the implementation of the Cost Saving Initiatives were completed during the second quarter of 2013. The Company incurred these expenses, by segment, as reflected in the tables below:

| | Financial Advisory | Asset Management | Corporate | Total |
|---|---|---|---|---|
| **Nine Month Period Ended September 30, 2013:** | | | | |
| Compensation and benefits | $ 45,746 | $ 236 | $ 5,417 | $ 51,399 |
| Other | 2,033 | (1) | 11,272 | 13,304 |
| Total | $ 47,779 | $ 235 | $ 16,689 | $ 64,703 |

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| | Financial Advisory | Asset Management | Corporate | Total |
|---|---|---|---|---|
| **Cumulative October 2012 Through September 30, 2013:** | | | | |
| Compensation and benefits | $ 121,879 | $ 12,292 | $ 17,215 | $ 151,386 |
| Other | 3,432 | 732 | 11,729 | 15,893 |
| Total | $ 125,311 | $ 13,024 | $ 28,944 | $ 167,279 |

Activity related to the obligations pursuant to the Cost Saving Initiatives during the nine month period ended September 30, 2014 was as follows:

| | Accrued Compensation and Benefits | Other Liabilities | Total |
|---|---|---|---|
| Balance, January 1, 2014 | $ 11,860 | $ 5,356 | $ 17,216 |
| Less: | | | |
| Settlements | (9,815) | (150) | (9,965) |
| Balance, September 30, 2014 | $ 2,045 | $ 5,206 | $ 7,251 |

***15. INCOME TAXES***

As a result of its indirect investment in Lazard Group, Lazard Ltd, through certain of its subsidiaries, is subject to U.S. federal income taxes on a portion of Lazard Group s operating income. Although a portion of Lazard Group s income is subject to U.S. federal income taxes, Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income from its U.S. operations is generally not subject to U.S. federal income taxes because such income is attributable to its partners. In addition, Lazard Group is subject to New York City Unincorporated Business Tax ( UBT ), which is attributable to Lazard Group s operations apportioned to New York City. UBT is incremental to the U.S. federal statutory tax rate. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes.

The Company recorded income tax provisions of $23,792 and $58,614 for the three month and nine month periods ended September 30, 2014, respectively, and $18,370 and $31,335 for the three month and nine month periods ended September 30, 2013, respectively, representing effective tax rates of 20.9%, 18.3%, 22.6% and 21.8%, respectively. The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates reflected above principally relates to (i) Lazard Group primarily operating as a limited liability company in the U.S., (ii) taxes payable to foreign jurisdictions that are not offset against U.S. income taxes, (iii) foreign source income (loss) not subject to U.S. income taxes (including interest on intercompany financings), (iv) change in the U.S. federal valuation allowance affecting the provision for income taxes, (v) Lazard Group s income from U.S. operations attributable to noncontrolling interests, and (vi) U.S. state and local taxes (primarily UBT), which are incremental to the U.S. federal statutory tax rate.

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

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***Tax Receivable Agreement***

The redemption of partnership interests that were held by former and current managing directors of the Company (including the Company s executive officers) in connection with the Company s separation and recapitalization that occurred in May 2005, and the subsequent exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock, have resulted in increases in the tax basis of the tangible and/or intangible assets of Lazard Group. The tax receivable agreement dated as of May 10, 2005 with LFCM Holdings requires the Company to pay LFCM Holdings 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of these increases in tax basis. The Company records provisions for payments under the tax receivable agreement to the extent they are probable and estimable. For the three month and nine month periods ended September 30, 2014, the Company recorded a provision (benefit) pursuant to tax receivable agreement on the condensed consolidated statements of operations of $(176) and $9,064, respectively (no provision was required for the three month and nine month periods ended September 30, 2013), with the liability related thereto included within related party payables on the condensed consolidated statement of financial condition (see Note 17 of Notes to Condensed Consolidated Financial Statements).

## *16. NET INCOME PER SHARE OF CLASS A COMMON STOCK*

The Company s basic and diluted net income per share calculations for the three month and nine month periods ended September 30, 2014 and 2013 are computed as described below.

***Basic Net Income Per Share***

*Numerator* utilizes net income attributable to Lazard Ltd for the respective periods, plus applicable adjustments to such net income associated with the inclusion of shares of Class A common stock issuable on a non-contingent basis.

*Denominator* utilizes the weighted average number of shares of Class A common stock outstanding for the respective periods, plus applicable adjustments to such shares associated with shares of Class A common stock issuable on a non-contingent basis.

***Diluted Net Income Per Share***

*Numerator* utilizes net income attributable to Lazard Ltd for the respective periods as in the basic net income per share calculation described above, plus, to the extent applicable and dilutive, (i) changes in net income attributable to noncontrolling interests resulting from assumed Class A common stock issuances in connection with share-based incentive compensation and, on an as-if-exchanged basis, amounts applicable to LAZ-MD Holdings exchangeable interests and (ii) income tax related to (i) above.

*Denominator* utilizes the weighted average number of shares of Class A common stock outstanding for the respective periods as in the basic net income per share calculation described above, plus, to the extent dilutive, the incremental number of shares of Class A common stock required to settle share-based incentive compensation and LAZ-MD Holdings exchangeable interests, using the treasury stock method or the as-if-exchanged basis, as applicable.

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The calculations of the Company s basic and diluted net income per share and weighted average shares outstanding for the three month and nine month periods ended September 30, 2014 and 2013 are presented below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income attributable to Lazard Ltd | $88,859 | $60,282 | $254,893 | $106,995 |
| Add (deduct) - adjustment associated with Class A common stock issuable on a non-contingent basis | | | | |
| Net income attributable to Lazard Ltd - basic | 88,859 | 60,282 | 254,893 | 106,995 |
| Add - dilutive effect, as applicable, of: | | | | |
| Adjustments to income relating to interest expense and changes in net income attributable to noncontrolling interests resulting from assumed Class A common stock issuances in connection with share-based incentive compensation and exchangeable interests, net of tax | (3) | 316 | 604 | 787 |
| Net income attributable to Lazard Ltd - diluted | $88,856 | $60,598 | $255,497 | $107,782 |
| Weighted average number of shares of Class A common stock outstanding | 121,800,294 | 121,441,956 | 121,954,428 | 119,797,545 |
| Add - adjustment for shares of Class A common stock issuable on a non-contingent basis | 406,620 | 757,998 | 412,204 | 758,502 |
| Weighted average number of shares of Class A common stock outstanding - basic | 122,206,914 | 122,199,954 | 122,366,632 | 120,556,047 |
| Add - dilutive effect, as applicable, of: | | | | |
| Weighted average number of incremental shares of Class A common stock issuable from share-based incentive compensation and exchangeable interests | 11,359,770 | 12,042,190 | 11,356,144 | 12,617,953 |
| Weighted average number of shares of Class A common stock outstanding - diluted | 133,566,684 | 134,242,144 | 133,722,776 | 133,174,000 |
| Net income attributable to Lazard Ltd per share of Class A common stock: | | | | |
| Basic | $0.73 | $0.49 | $2.08 | $0.89 |
| Diluted | $0.67 | $0.45 | $1.91 | $0.81 |

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***17. RELATED PARTIES***

Amounts receivable from, and payable to, related parties are set forth below:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Receivables** | | |
| LFCM Holdings | $ 139 | $ 7,794 |
| Other | 391 | 126 |
| Total | $ 530 | $ 7,920 |
| **Payables** | | |
| LFCM Holdings | $ 11,754 | $ 4,300 |
| Other | 198 | 731 |
| Total | $ 11,952 | $ 5,031 |

**LFCM Holdings**

LFCM Holdings owned and operated the capital markets business and fund management activities, as well as other specified non-operating assets and liabilities, that were transferred to it by Lazard Group (referred to as the separated businesses ) in May 2005 and is owned by former and current managing directors of the Company (including the Company s executive officers). In addition to the master separation agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings (the master separation agreement ), which effected the separation and recapitalization that occurred in May 2005, LFCM Holdings entered into certain agreements that addressed various business matters associated with the separation, including agreements related to administrative and support services (the administrative services agreement ). In addition, LFCM Holdings and Lazard Group entered into a business alliance agreement (the business alliance agreement ) and a license agreement (the license agreement ). Certain of these agreements are described in more detail in the Company s Form 10-K.

In the third quarter of 2014, the Company entered into arrangements with LFCM Holdings and certain of its subsidiaries ( LFCM ) pursuant to which, among other things, the Company has acquired certain assets from LFCM relating to its convertible securities business, the business alliance provided for in the business alliance agreement has been terminated, and LFCM has relinquished certain license rights previously granted under the license agreement. In addition, LFCM surrendered certain leasehold interests, including leasehold improvements, to the Company, and was relieved of obligations to pay related sublease rent. See Note 10 of Notes to Condensed Consolidated Financial Statements. The Company does not believe that any of these arrangements will have a material effect on its consolidated financial position or results of operations.

The acquired assets will facilitate the execution of exchange offers and other transactions related to financial advice provided by the Company s convertible securities practice group. In addition, the Company may act as an underwriter in public offerings and other distributions of securities from time to time, primarily relating to its Financial Advisory business.

For the three month and nine month periods ended September 30, 2014, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $220 and $812, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $54 and $795, respectively. For the three month and nine month periods ended September 30, 2013,

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amounts recorded by Lazard Group relating to the administrative services agreement amounted to $534 and $1,466, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $1,633 and $1,163, respectively. Amounts relating to the administrative services agreement are reported as reductions to operating expenses. Net referral fees for underwriting transactions under the business alliance agreement are reported in revenue-other. Net referral fees for private placement, M&A and restructuring transactions under the business alliance agreement are reported in advisory fee revenue.

Receivables from LFCM Holdings and its subsidiaries as of September 30, 2014 and December 31, 2013 include $139 and $3,112, respectively, related to administrative and support services and other receivables which include sublease income and reimbursement of expenses incurred on behalf of LFCM Holdings, and, at December 31, 2013, $4,682 related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at September 30, 2014 and December 31, 2013 include $1,427 and $3,051, respectively, relating to referral fees for Financial Advisory and other transactions, and, at September 30, 2014 and December 31, 2013, $10,327 and $1,249, respectively, related to obligations pursuant to the tax receivable agreement (see Note 15 of Notes to Condensed Consolidated Financial Statements).

**Other**

Other payables at December 31, 2013 primarily relate to referral fees for M&A and restructuring transactions with MBA Lazard Holdings S.A. and its affiliates, an Argentina-based group in which the Company has a 50% ownership interest.

**LAZ-MD Holdings**

Lazard Group provides certain administrative and support services to LAZ-MD Holdings through the administrative services agreement. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group s cost allocation methodology and, for the three month and nine month periods ended September 30, 2014, such charges amounted to $250 and $750, respectively. For the three month and nine month periods ending September 30, 2013, such charges amounted to $250 and $750, respectively.

***18. REGULATORY AUTHORITIES***

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage (6 $^{2}/_{3}$%) of total aggregate indebtedness recorded in LFNY s Financial and Operational Combined Uniform Single ( FOCUS ) report filed with the Financial Industry Regulatory Authority ( FINRA ), or $100, whichever is greater. At September 30, 2014, LFNY s regulatory net capital was $180,909, which exceeded the minimum requirement by $178,043.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries ) are regulated by the Financial Conduct Authority. At September 30, 2014, the aggregate regulatory net capital of the U.K. Subsidiaries was $91,003, which exceeded the minimum requirement by $72,842.

CFLF, under which asset management and commercial banking activities are carried out in France, is subject to regulation by the ACPR for its banking activities conducted through its subsidiary, LFB. The

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investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), also are subject to regulation and supervision by the Autorité des Marchés Financiers. At September 30, 2014, the consolidated regulatory net capital of CFLF was $139,613, which exceeded the minimum requirement set for regulatory capital levels by $102,948. In addition, pursuant to the consolidated supervision rules in the European Union, LFB, in particular, as a French credit institution, is required to be supervised by a regulatory body, either in the U.S. or in the European Union. During the third quarter of 2013, the Company and the ACPR agreed on terms for the consolidated supervision of LFB and certain other non-financial advisory European subsidiaries of the Company (referred to herein, on a combined basis, as the combined European regulated group ) under such rules. Under this new supervision, the combined European regulated group is required to comply with periodic financial, regulatory net capital and other reporting obligations. Additionally, the combined European regulated group, together with our European financial advisory entities, is required to perform an annual risk assessment and provide certain other information on a periodic basis, including financial reports and information relating to financial performance, balance sheet data and capital structure (which is similar to the information that the Company had already been providing informally). This new supervision under, and provision of information to, the ACPR became effective December 31, 2013.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At September 30, 2014, for those subsidiaries with regulatory capital requirements, their aggregate net capital was $100,054, which exceeded the minimum required capital by $72,757.

At September 30, 2014, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

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

***19. SEGMENT INFORMATION***

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

The Company s segment information for the three month and nine month periods ended September 30, 2014 and 2013 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.

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

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

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

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | | 2014 | 2013(a) | 2014 | 2013(a) |
| **Financial Advisory** | Net Revenue | $ 291,089 | $ 233,842 | $ 847,354 | $ 665,611 |
| | Operating Expenses | 255,230 | 218,015 | 754,449 | 674,689 |
| | Operating Income (Loss) | $ 35,859 | $ 15,827 | $ 92,905 | $ (9,078) |
| **Asset Management** | Net Revenue | $ 291,967 | $ 252,094 | $ 848,695 | $ 741,618 |
| | Operating Expenses | 191,501 | 168,895 | 552,499 | 511,526 |
| | Operating Income | $ 100,466 | $ 83,199 | $ 296,196 | $ 230,092 |
| **Corporate** | Net Revenue (Expense) | $ (16,845) | $ (5,582) | $ (29,542) | $ (34,567) |
| | Operating Expenses | 5,768 | 12,326 | 39,687 | 42,794 |
| | Operating Loss | $ (22,613) | $ (17,908) | $ (69,229) | $ (77,361) |
| **Total** | Net Revenue | $ 566,211 | $ 480,354 | $ 1,666,507 | $ 1,372,662 |
| | Operating Expenses | 452,499 | 399,236 | 1,346,635 | 1,229,009 |
| | Operating Income | $ 113,712 | $ 81,118 | $ 319,872 | $ 143,653 |

(a) See Note 14 of Notes to Condensed Consolidated Financial Statements for information regarding the Cost Saving Initiatives, and the impact on each of the Company s business segments during the nine month period ended September 30, 2013.

| | As Of September 30, 2014 | As Of December 31, 2013 |
|---|---|---|
| **Total Assets** | | |
| Financial Advisory | $ 706,251 | $ 714,708 |
| Asset Management | 585,693 | 612,018 |
| Corporate | 1,750,946 | 1,684,411 |
| Total | $ 3,042,890 | $ 3,011,137 |

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

*The following discussion should be read in conjunction with Lazard Ltd s condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (the Form 10-Q ), as well as Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) included in our Annual Report on Form 10-K for the year ended December 31, 2013 (the Form 10-K ). All references to 2014 , 2013 , third quarter , first nine months or the period refer to, as the context requires, the three month and nine month periods ended September 30, 2014 and September 30, 2013.*

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

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

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

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

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

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

business financial goals, including the ratio of awarded compensation and benefits expense to operating revenue,

business ability to deploy surplus cash through dividends, share repurchases and debt repurchases,

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business ability to offset stockholder dilution through share repurchases,

business possible or assumed future results of operations and operating cash flows,

business strategies and investment policies,

business financing plans and the availability of short-term borrowing,

business competitive position,

future acquisitions, including the consideration to be paid and the timing of consummation,

potential growth opportunities available to our businesses,

recruitment and retention of our managing directors and employees,

potential levels of compensation expense and non-compensation expense,

business potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,

likelihood of success and impact of litigation,

expected tax rates, including effective tax rates,

changes in interest and tax rates,

expectations with respect to the economy, the securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other macroeconomic and industry trends,

effects of competition on our business, and

impact of future legislation and regulation on our business.

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

**Business Summary**

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

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

We operate in cyclical businesses across multiple geographies, industries and asset classes. In recent years, we have expanded our geographic reach, bolstered our industry expertise and continued to build in growth areas.

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Companies, government bodies and investors seek independent advice with a geographic perspective, deep understanding of capital structure, informed research and knowledge of global economic conditions. We believe that our business model as an independent advisor will continue to create opportunities for us to attract new clients and key personnel.

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

- Financial Advisory, which offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of financial advisory services regarding M&A and other strategic matters, restructurings, capital structure, capital raising and various other financial matters, and

- Asset Management, which offers a broad range of global investment solutions and investment management services in equity and fixed income strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labor funds, financial intermediaries and private clients.

In addition, we record selected other activities in our Corporate segment, including management of cash, investments and outstanding indebtedness, as well as certain commercial banking activities of Lazard Group s Paris-based subsidiary, Lazard Frères Banque SA ( LFB ).

LFB is a registered bank regulated by the Autorité de Contrôle Prudentiel et de Résolution ( ACPR ). It is engaged primarily in commercial and private banking services for clients and funds managed by Lazard Frères Gestion SAS ( LFG ) and for other clients, investment banking activities, including participation in underwritten offerings of securities in France, and asset-liability management.

Our consolidated net revenue was derived from the following segments:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Financial Advisory | 51% | 49% | 51% | 48% |
| Asset Management | 52 | 52 | 51 | 54 |
| Corporate | (3) | (1) | (2) | (2) |
| Total | 100% | 100% | 100% | 100% |

We also invest our own capital from time to time, generally alongside capital of qualified institutional and individual investors in alternative investments or private equity investments, and, since 2005, we have engaged in a number of alternative investments and private equity activities, including investments through (i) the Edgewater Funds ( Edgewater ), our Chicago-based private equity firm (see Note 10 of Notes to Condensed Consolidated Financial Statements), (ii) Lazard Australia Corporate Opportunities Fund 2 ( COF2 ), a Lazard-managed Australian fund targeting Australasian mid-market investments, (iii) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small-to mid-cap European companies and (iv) a fund targeting significant noncontrolling-stake investments in established private companies. We also make investments to seed our Asset Management strategies. We may explore and discuss opportunities to expand the scope of our alternative investment and private equity activities in Europe, the U.S. and elsewhere. These opportunities could include internal growth of new funds and direct investments by us, partnerships or strategic relationships, investments with third parties or acquisitions of existing funds or management companies.

In July 2014, the Company and Natixis S.A. entered an arrangement that would allow them, on a non-exclusive and optional basis, to place and underwrite securities on the French equity capital markets under the common brand Lazard-Natixis. The arrangement may be terminated by either party at any time.

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In the third quarter of 2014, we entered into arrangements with LFCM Holdings LLC and certain of its subsidiaries ( LFCM Holdings ) pursuant to which, among other things, (i) we have acquired certain assets from LFCM Holdings relating to its convertible securities business, (ii) the business alliance provided for in the Business Alliance Agreement, dated as of May 10, 2005, between the Company and LFCM Holdings, has been terminated, and (iii) LFCM Holdings has relinquished certain license rights previously granted under the License Agreement, dated as of May 10, 2005, between the Company and LFCM Holdings. In addition, LFCM Holdings surrendered certain leasehold interests, including leasehold improvements, to the Company, and was relieved of obligations to pay related sublease rent. See Note 10 of Notes to Condensed Consolidated Financial Statements. We do not believe that any of these arrangements will have a material effect on our consolidated financial position or results of operations.

The acquired assets will facilitate the execution of exchange offers and other transactions related to financial advice provided by our convertible securities practice group. In addition, we may act as an underwriter in public offerings and other distributions of securities from time to time, primarily relating to our Financial Advisory business.

**Business Environment and Outlook**

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

Overall, equity market indices for developed and emerging markets at September 30, 2014 increased as compared to such indices at September 30, 2013, despite some market volatility in the third quarter ended September 30, 2014. In the global M&A markets during the first nine months of 2014, the number and value of all completed M&A transactions decreased as compared to the same period in the prior year. However, with respect to the subset of such transactions involving values greater than $500 million, both the number and value increased as compared to the prior period. During the same time, the number and value of all announced M&A transactions, including the subset of such transactions involving values greater than $500 million, increased, reflecting an active global M&A environment. During the first nine months of 2014, global restructuring activity remained low, consistent with the last several years.

Entering the fourth quarter of 2014, interest rates remain low and corporate cash balances remain high. The U.S. economy continues to be resilient. Europe s recovery continues to be uneven. Some volatility has returned to the capital markets but the underpinnings of a gradual U.S. led global economic recovery appear to remain in place. Although market volatility may continue, we are cautiously optimistic about the environment for both of our businesses.

We intend to leverage our existing infrastructure to capitalize on global macroeconomic recovery, positive momentum in the M&A cycle, and strength in the global equity markets. We expect to generate revenue growth by remaining adequately staffed to capitalize on macroeconomic recovery and deploying our intellectual capital to generate new revenue streams.

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

*Financial Advisory* In the short to intermediate term, we expect that the U.S. macroeconomic environment will likely be the strongest of the developed economies. Certain legal decisions in the U.S. reinforce the importance of independent advice, and the global scale and breadth of our Financial

Advisory business allows us to advise on large, complex cross-border transactions across a variety of industries. Conditions for our Financial Advisory business in Europe also appear to be improving. We continue to develop our range of advisory capabilities, in particular in Europe, with our Sovereign Advisory, Restructuring and Capital Advisory businesses. In addition, we believe our businesses throughout the emerging markets, Japan and Australia position us for growth in these markets, while enhancing our relationships with, and the services that we can provide to, clients in developed economies.

***Asset Management*** Generally, we have seen increased investor demand across regions and investment platforms. In the short to intermediate term, we expect most of our growth will come from defined benefit and defined contribution plans in the developed economies because of their sheer scope and size. Over the longer term, we expect an increasing share of our AUM to come from the developing economies in Asia, Latin America and the Middle East, as their retirement systems evolve and individual wealth is increasingly deployed in the financial markets. Our global footprint is already well established in the developed economies and we expect our business in the developing economies will continue to expand. Given our globally diversified platform and our ability to provide investment solutions for a global mix of clients, we believe we are positioned to benefit from growth that may occur in the asset management industry. We recently extended the global footprint of our Asset Management business by opening new offices in Zurich, Singapore, Dubai and Dublin. We are continually developing and seeding new investment strategies that extend our existing platforms. Recent examples of growth initiatives include the following investment strategies: Emerging Markets Debt, Core Emerging Markets Equity, Emerging Markets Small Cap Equity, Real Estate, Managed Volatility Strategies, Middle East North African Equities and Asian Equities.

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

Overall, we continue to focus on the development of our business, including the generation of stable revenue growth, earnings growth and shareholder returns, the prudent management of our costs and expenses, the efficient use of our assets and the return of capital to our shareholders.

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

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*Financial Advisory*

As reflected in the following table, which sets forth global M&A industry statistics, the value and number of all completed transactions decreased, while the value and number of completed transactions with values greater than $500 million increased, in the first nine months of 2014 as compared to the 2013 period. With respect to announced M&A transactions, the value and number of all transactions, including transactions with values greater than $500 million, increased in the first nine months of 2014 as compared to the 2013 period.

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % Incr / (Decr) | 2014 | 2013 | % Incr / (Decr) |
| | | | ($ in billions) | | | |
| **Completed M&A Transactions:** | | | | | | |
| All deals: | | | | | | |
| Value | $ 635 | $ 609 | 4% | $ 1,943 | $ 1,954 | (1)% |
| Number | 9,060 | 9,483 | (4)% | 27,738 | 28,454 | (3)% |
| Deals Greater than $500 million: | | | | | | |
| Value | $ 454 | $ 407 | 12% | $ 1,390 | $ 1,371 | 1% |
| Number | 249 | 236 | 6% | 719 | 689 | 4% |
| **Announced M&A Transactions:** | | | | | | |
| All deals: | | | | | | |
| Value | $ 960 | $ 803 | 20% | $ 2,807 | $ 2,092 | 34% |
| Number | 10,002 | 9,666 | 3% | 29,874 | 28,509 | 5% |
| Deals Greater than $500 million: | | | | | | |
| Value | $ 737 | $ 588 | 25% | $ 2,160 | $ 1,492 | 45% |
| Number | 313 | 288 | 9% | 863 | 745 | 16% |

Source: Dealogic as of October 6, 2014.

Global restructuring activity during the first nine months of 2014, as measured by the number of corporate defaults, decreased as compared to the 2013 period, and the aggregate value of debt defaults remained low, consistent with the last several years. The number of defaulting issuers decreased to 43 in the first nine months of 2014, according to Moody s Investors Service, Inc., as compared to 51 in the 2013 period. In the U.S., the number of corporate defaults decreased 11% in the first nine months of 2014 as compared to the 2013 period, while the value of such defaults increased 157% due to one large default during the 2014 period.

*Asset Management*

The percentage change in major equity market indices at September 30, 2014, as compared to such indices at June 30, 2014, December 31, 2013, and at September 30, 2013, is shown in the table below.

| | Percentage Changes September 30, 2014 vs. | | |
|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | September 30, 2013 |
| MSCI World Index | (3)% | 2% | 10% |
| Euro Stoxx | % | 4% | 12% |
| MSCI Emerging Market | (4)% | % | 2% |
| S&P 500 | 1% | 7% | 17% |

The fees that we receive for providing investment management and advisory services are primarily driven by the level of AUM and the nature of the AUM product mix. Accordingly, market movements, foreign currency volatility and changes in our AUM product mix will impact the level of revenues we receive from our Asset

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Management business when comparing periodic results. A substantial portion of our AUM is invested in equities. Movements in AUM during the period generally reflect the changes in equity market indices. Our AUM at September 30, 2014 increased 6% versus AUM at December 31, 2013, due to market appreciation and net inflows, partially offset by adverse foreign exchange movements. Average AUM in the first nine months of 2014 increased 15% as compared to average AUM in the first nine months of 2013.

**Cost Saving Initiatives**

In October 2012, we announced cost saving initiatives which, at that time, were expected to result in approximately $125 million in annual savings from our compensation and non-compensation cost base. We currently expect total annual savings related to the cost saving initiatives to be approximately $160 million, partially offset by investment in our business.

Approximately $120 million of the expected annual savings relate to compensation expense associated with our headcount, and approximately $40 million to non-compensation expense. We expect the full impact of all the savings to be reflected in our 2014 results.

Expenses associated with implementation of the cost saving initiatives were completed in the second quarter of 2013 and were reflected in our financial results. These implementation expenses were approximately: $38 million in the second quarter of 2013; $26 million in the first quarter of 2013; and $103 million in the fourth quarter of 2012, for a total of approximately $167 million.

The cost saving initiatives are intended to improve our profitability with minimal impact on revenue growth. The initiatives include: streamlining our corporate structure and consolidating support functions; realigning our investments into areas with potential for the greatest long-term return; the settlement of certain contractual obligations; reducing occupancy costs; and creating greater flexibility to retain and attract the best people and invest in new growth areas.

See Note 14 of Notes to Condensed Consolidated Financial Statements.

**Financial Statement Overview**

***Net Revenue***

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

Lazard s Asset Management segment principally includes LAM, LFG and Edgewater. Asset Management net revenue is derived from fees for investment management and advisory services provided to clients. As noted above, the main driver of Asset Management net revenue is the level and product mix of AUM, which is generally influenced by the performance of the global equity markets and, to a lesser extent, fixed income markets as well as Lazard s investment performance, which impacts its ability to successfully attract and retain assets. As a result, fluctuations (including timing thereof) in financial markets and client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. Asset Management fees are generally based on the level of AUM measured daily, monthly or quarterly, and an increase or reduction in AUM, due to market price fluctuations, currency fluctuations, changes in product mix, or net client asset flows will result in a corresponding increase or decrease in management fees. The majority of our investment advisory contracts are generally terminable at any time or on notice of 30 days or less. Institutional and individual clients, and firms with which we have strategic alliances, can terminate their relationship with us, reduce the aggregate amount of AUM or shift their funds to other types of accounts with different rate structures for a number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In addition, as Lazard s AUM includes significant amounts of assets that are denominated in currencies other than U.S. Dollars, changes in the value of the U.S. Dollar relative to foreign currencies will impact the value of Lazard s AUM. Fees vary with the type of assets managed and the vehicle in which they are managed, with higher fees earned on equity assets and alternative investment funds, such as hedge funds and private equity funds, and lower fees earned on fixed income and cash management products.

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

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

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

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

Although Corporate segment net revenue during the first nine months of 2014 represented (2)% of Lazard s net revenue, total assets in the Corporate segment represented 58% of Lazard s consolidated total assets as of September 30, 2014, which are attributable to investments in government bonds and money market funds, debt and equity securities, interests in alternative investment, debt, equity and private equity funds, cash and assets associated with LFB.

***Operating Expenses***

The majority of Lazard s operating expenses relate to compensation and benefits for managing directors and employees. Our compensation and benefits expense includes (i) salaries and benefits, (ii) amortization of the relevant portion of previously granted deferred incentive compensation awards, including (a) share-based incentive compensation under the Lazard Ltd 2005 Equity Incentive Plan (the 2005 Plan ) and the Lazard Ltd 2008

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Incentive Compensation Plan (the 2008 Plan ) and (b) LFI and other similar deferred compensation arrangements (see Note 12 of Notes to Condensed Consolidated Financial Statements), (iii) a provision for discretionary or guaranteed cash bonuses and profit pools and (iv) when applicable, severance payments. Compensation expense in any given period is dependent on many factors, including general economic and market conditions, our actual and forecasted operating and financial performance, staffing levels, competitive pay conditions and the nature of revenues earned, as well as the mix between current and deferred compensation.

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

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

We deduct amortization expense recorded for generally accepted accounting principles in the United States of America ( U.S. GAAP ) purposes in each fiscal year associated with the vesting of deferred incentive compensation awards,

We add (i) the grant date fair value of the deferred incentive compensation awards granted applicable to the relevant year-end compensation process (*i.e.* the grant date fair value of deferred incentive awards granted in 2014, 2013 and 2012 related to the 2013, 2012 and 2011 year-end compensation processes, respectively) and (ii) investments in people (*i.e.* sign-on bonuses) and other special deferred incentive awards granted throughout the applicable year, with such amounts in (i) and (ii) reduced by an estimate of future forfeitures of such awards, and

We adjust for year-end foreign exchange fluctuations.

Compensation and benefits expense is the largest component of our operating expenses. Our goal is for awarded compensation and benefits expense to rise at a slower rate than operating revenue growth, and if operating revenue declines, awarded compensation and benefits expense should also decline. In addition, we seek to maintain discipline with respect to the rate at which we award deferred compensation. Based on a similar level and mix of revenues from our business as in 2012 and a gradual improvement in the macroeconomic environment, we believe that over the cycle we can attain a ratio of awarded compensation and benefits expense to operating revenue in the mid-to-high-50s percentage range, which compares to 58.3% for the year ended December 31, 2013. While we have implemented initiatives, including the cost saving initiatives announced in October 2012 (see Cost Saving Initiatives above and Note 14 of Notes to Condensed Consolidated Financial Statements), that we believe will assist us in attaining a ratio within this range, there can be no guarantee that such a ratio will be attained or that our policies or initiatives will not change in the future. We may benefit from pressure on compensation costs within the financial services industry in future periods; however, increased competition for senior professionals, changes in the macroeconomic environment or the financial markets generally, lower operating revenue resulting from, for example, a decrease in M&A activity, our share of the M&A market, AUM levels and/or changes in the mix of revenues from our businesses or various other factors could prevent us from attaining this goal.

Our operating expenses also include non-compensation expense, which includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and other expenses, and, in the 2013 period, the relevant portion of the expense relating to the implementation of the cost saving initiatives. For all periods, the amortization of intangible assets related to acquisitions pertains primarily to the acquisition of Edgewater.

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

***Provision for Income Taxes***

As a result of its indirect investment in Lazard Group, Lazard Ltd, through certain of its subsidiaries, is subject to U.S. federal income taxes on a portion of Lazard Group s operating income. Although a portion of Lazard Group s income is subject to U.S. federal income taxes, Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income from its U.S. operations is generally not subject to U.S. federal income taxes because such income is attributable to its partners. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes. Income taxes shown on Lazard s consolidated statements of operations are principally related to foreign taxes from non-U.S. entities and to New York City Unincorporated Business Tax ( UBT ) attributable to Lazard Group s operations apportioned to New York City (see Note 15 of Notes to Condensed Consolidated Financial Statements for additional information).

***Noncontrolling Interests***

Noncontrolling interests primarily consist of amounts related to Edgewater s management vehicles that the Company is deemed to control but not own and, through May 2014, the amount attributable to LAZ-MD Holdings ownership interest in the net income of Lazard Group. See Note 11 of Notes to Condensed Consolidated Financial Statements for information regarding the Company s noncontrolling interests. In May 2014, the remaining Lazard Group common membership interests held by LAZ-MD Holdings were exchanged for shares of the Company s Class A common stock. Following the exchange, Lazard Group became a wholly-owned indirect subsidiary of Lazard Ltd, and the sole issued and outstanding share of the Company s Class B common stock was automatically converted into one share of the Company s Class A common stock pursuant to the provisions of the Company s bye-laws, resulting in only one outstanding class of common stock.

**Consolidated Results of Operations**

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

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

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($ in thousands) | | | |
| ***Net Revenue*** | $ 566,211 | $ 480,354 | $ 1,666,507 | $ 1,372,662 |
| ***Operating Expenses:*** | | | | |
| Compensation and benefits | 338,612 | 301,809 | 1,006,101 | 910,679 |
| Non-compensation | 110,043 | 96,550 | 325,524 | 315,572 |
| Amortization of intangible assets related to acquisitions | 4,020 | 877 | 5,946 | 2,758 |
| Provision (benefit) pursuant to tax receivable agreement | (176) | | 9,064 | |
| Total operating expenses | 452,499 | 399,236 | 1,346,635 | 1,229,009 |
| ***Operating Income*** | 113,712 | 81,118 | 319,872 | 143,653 |
| Provision for income taxes | 23,792 | 18,370 | 58,614 | 31,335 |
| ***Net Income*** | 89,920 | 62,748 | 261,258 | 112,318 |
| ***Less Net Income Attributable to Noncontrolling Interests*** | 1,061 | 2,466 | 6,365 | 5,323 |
| ***Net Income Attributable to Lazard Ltd*** | $ 88,859 | $ 60,282 | $ 254,893 | $ 106,995 |
| ***Operating Income, as a % of net revenue*** | 20.1% | 16.9% | 19.2% | 10.5% |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($ in thousands) | | | |
| ***Operating Revenue:*** | | | | |
| Net revenue | $ 566,211 | $ 480,354 | $ 1,666,507 | $ 1,372,662 |
| Adjustments: | | | | |
| Interest expense (a) | 15,447 | 19,895 | 46,722 | 59,680 |
| Revenue related to noncontrolling interests (b) | (4,032) | (3,994) | (12,810) | (10,774) |
| (Gains) losses on investments pertaining to LFI (c) | 5,528 | (7,519) | (6,004) | (7,767) |
| Operating revenue | $ 583,154 | $ 488,736 | $ 1,694,415 | $ 1,413,801 |

(a) Interest expense (excluding interest expense incurred by LFB) is added back in determining operating revenue because such expense relates to corporate financing activities and is not considered to be a cost directly related to the revenue of our business.

(b) Revenue related to the consolidation of noncontrolling interests is excluded from operating revenue because the Company has no economic interest in such amount.

(c) Represents changes in the fair value of investments held in connection with LFI and other similar deferred compensation arrangements for which a corresponding equal amount is excluded from compensation and benefits expense.

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| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| ***Adjusted Compensation and Benefits Expense:*** | | | | |
| Total compensation and benefits expense | $ 338,612 | $ 301,809 | $ 1,006,101 | $ 910,679 |
| Adjustments: | | | | |
| Noncontrolling interests (a) | (1,094) | (1,112) | (3,340) | (3,296) |
| (Charges) credits pertaining to LFI (b) | 5,528 | (7,519) | (6,004) | (7,767) |
| Cost saving initiatives (c) | | | | (51,399) |
| Adjusted compensation and benefits expense | $ 343,046 | $ 293,178 | $ 996,757 | $ 848,217 |
| Adjusted compensation and benefits expense, as a % of operating revenue | 58.8% | 60.0% | 58.8% | 60.0% |

(a) Expenses related to the consolidation of noncontrolling interests are excluded because Lazard has no economic interest in such amounts.
(b) Represents changes in the fair value of the compensation liability recorded in connection with LFI and other similar deferred compensation arrangements for which a corresponding equal amount is excluded from operating revenue.
(c) Represents expenses related to the cost saving initiatives for (i) severance costs and benefit payments; (ii) the acceleration of unrecognized amortization expense of deferred incentive compensation previously granted to individuals terminated and (iii) the settlement of certain contractual obligations.

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| ***Adjusted Non-Compensation Expense:*** | | | | |
| Total non-compensation expense | $ 110,043 | $ 96,550 | $ 325,524 | $ 315,572 |
| Adjustments: | | | | |
| Noncontrolling interests (a) | (570) | (487) | (1,571) | (1,626) |
| Cost saving initiatives (b) | | | | (13,304) |
| Adjusted non-compensation expense | $ 109,473 | $ 96,063 | $ 323,953 | $ 300,642 |
| Adjusted non-compensation expense, as a % of operating revenue | 18.8% | 19.7% | 19.1% | 21.3% |

(a) Expenses related to the consolidation of noncontrolling interests are excluded because the Company has no economic interest in such amounts.
(b) Represents expenses related to the cost saving initiatives for occupancy cost reduction and other non-compensation related costs.

| | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| | ($ in thousands) | | | |
| ***Earnings From Operations:*** | | | | |
| Operating revenue | $ 583,154 | $ 488,736 | $ 1,694,415 | $ 1,413,801 |
| Deduct: | | | | |
| Adjusted compensation and benefits expense | (343,046) | (293,178) | (996,757) | (848,217) |
| Adjusted non-compensation expense | (109,473) | (96,063) | (323,953) | (300,642) |

| | | | | |
|---|---|---|---|---|
| Earnings from operations | $ 130,635 | $ 99,495 | $ 373,705 | $ 264,942 |
| Earnings from operations, as a % of operating revenue | 22.4% | 20.3% | 22.1% | 18.7% |

Headcount information is set forth below:

| | September 30, 2014 | As Of December 31, 2013(a) | September 30, 2013 |
|---|---|---|---|
| **Headcount:** | | | |
| Managing Directors: | | | |
| Financial Advisory | 140 | 132 | 136 |
| Asset Management | 82 | 72 | 73 |
| Corporate | 16 | 15 | 15 |
| Total Managing Directors | 238 | 219 | 224 |
| Other Employees: | | | |
| Business segment professionals | 1,154 | 1,082 | 1,086 |
| All other professionals and support staff | 1,130 | 1,102 | 1,095 |
| Total | 2,522 | 2,403 | 2,405 |

(a) The headcount reductions relating to the cost saving initiatives were substantially complete as of December 31, 2013. Such reductions have been partially offset by additional investments and managing director promotions.

**Operating Results**

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

***Three Months Ended September 30, 2014 versus September 30, 2013***

The Company reported net income attributable to Lazard Ltd of $89 million, as compared to net income of $60 million in the 2013 period.

Net revenue increased $86 million, or 18%, with operating revenue increasing $94 million, or 19%, as compared to the 2013 period. Fee revenue from investment banking and other advisory activities increased $59 million, or 25%, primarily due to increases in M&A and Other Advisory fees. The increase in M&A and Other Advisory fee revenue was primarily due to an increase in the number of, and average transaction fee with respect to, completed transactions involving fees greater than $1 million as compared to the 2013 period. Asset management fees, including incentive fees, increased $35 million, or 15%, principally reflecting a $31 billion, or 18%, increase in average AUM as compared to the 2013 period. In the aggregate, interest income, other revenue and interest expense reflected a decrease in net revenue of $8 million as compared to the 2013 period. Such decrease was primarily due to investment losses recorded in connection with LFI, partially offset by a decrease in interest expense as a result of the refinancing of the Company s 7.125% senior notes due 2015 (the 2015 Notes ) (see Note 9 of Notes to Condensed Consolidated Financial Statements for additional information).

Compensation and benefits expense increased $37 million, or 12%, as compared to the 2013 period, primarily driven by an increase in accrued discretionary compensation associated with higher operating revenue.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between interim periods, as described above) was $343 million, an increase of $50 million, or 17%, as compared to $293 million in the 2013 period, primarily driven by higher operating revenue. The ratio of adjusted compensation and benefits expense to operating revenue was 58.8% for the 2014

period, which is consistent with the 2013 full year adjusted compensation ratio, as compared to 60.0% for the 2013 period. The full year 2014 adjusted compensation ratio could be lower, depending on, among other factors, actual full year performance and the compensation environment at the end of the year. As described above, when analyzing compensation and benefits expense on an interim basis, we believe that adjusted compensation and benefits expense provides the most meaningful basis for comparison of compensation and benefits expense between present, historical and future interim periods.

Non-compensation expense increased $13 million, or 14%, as compared to the 2013 period, reflecting increased activity levels and investment in our businesses. The ratio of adjusted non-compensation expense to operating revenue was 18.8%, as compared to 19.7% in the 2013 period.

Amortization of intangible assets increased $3 million as compared to the 2013 period.

Operating income increased $33 million, as compared to the 2013 period. Operating income, as a percentage of net revenue, was 20.1%, as compared to 16.9% in the 2013 period.

Earnings from operations increased $31 million, or 31%, as compared to the 2013 period, and, as a percentage of operating revenue, was 22.4%, as compared to 20.3% in the 2013 period.

The provision for income taxes reflects an effective tax rate of 20.9%, as compared to 22.6% for the 2013 period. The decrease in the effective tax rate is primarily reflective of the change in the geographic mix of earnings (see Note 15 of Notes to Condensed Consolidated Financial Statements for additional information).

Net income attributable to noncontrolling interests decreased $1 million as compared to the 2013 period.

***Nine Months Ended September 30, 2014 versus September 30, 2013***

The Company reported net income attributable to Lazard Ltd of $255 million, as compared to net income of $107 million in the 2013 period.

Net revenue increased $294 million, or 21%, with operating revenue increasing $281 million, or 20%, as compared to the 2013 period. Fee revenue from investment banking and other advisory activities increased $183 million, or 28%, primarily due to increases in M&A and Other Advisory fees. The increase in M&A and Other Advisory fee revenue was primarily due to an increase in the number of, and average transaction fee with respect to, completed transactions involving fees greater than $1 million as compared to the 2013 period. Asset management fees, including incentive fees, increased $98 million, or 14%, principally reflecting a $26 billion, or 15%, increase in average AUM as compared to the 2013 period. In the aggregate, interest income, other revenue and interest expense reflected an increase in net revenue of $13 million as compared to the 2013 period. Such increase was primarily due to a decrease in interest expense as a result of the refinancing of the 2015 Notes (see Note 9 of Notes to Condensed Consolidated Financial Statements for additional information).

Compensation and benefits expense increased $95 million, or 10%, as compared to the 2013 period (which included a $51 million charge related to the cost saving initiatives), primarily driven by an increase in accrued discretionary compensation associated with higher operating revenue.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between interim periods, as described above), was $997 million, an increase of $149 million, or 18%, as compared to $848 million in the 2013 period, primarily driven by higher operating revenue. The ratio of adjusted compensation and benefits expense to operating revenue was 58.8% for the 2014 period, which is consistent with the 2013 full year adjusted compensation ratio, as compared to 60.0% for the 2013 period. The full year 2014 adjusted compensation ratio could be lower, depending on, among other factors, actual full year performance and the compensation environment at the end of the year. As described above,

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when analyzing compensation and benefits expense on an interim basis, we believe that adjusted compensation and benefits expense provides the most meaningful basis for comparison of compensation and benefits expense between present, historical and future interim periods.

Non-compensation expense increased $10 million, or 3%, as compared to the 2013 period (which included a charge of $13 million related to the cost saving initiatives). When excluding such charge, as well as non-compensation costs relating to noncontrolling interests, adjusted non-compensation expense increased $23 million, or 8%, as compared to the 2013 period, primarily reflecting increased business activity and investment in our businesses. The ratio of adjusted non-compensation expense to operating revenue was 19.1%, as compared to 21.3% in the 2013 period.

Amortization of intangible assets increased $3 million as compared to the 2013 period.

Based on the expected utilization of certain deferred tax assets that are subject to the tax receivable agreement, the provision pursuant to the tax receivable agreement in the 2014 period was $9 million. No such provision was required in the 2013 period (see Note 15 of Notes to Condensed Consolidated Financial Statements for additional information).

Operating income increased $176 million as compared to the 2013 period (including the charges relating to the cost saving initiatives of $64 million). Operating income, as a percentage of net revenue, was 19.2%, as compared to 10.5% in the 2013 period.

Earnings from operations increased $109 million, or 41%, as compared to the 2013 period, and, as a percentage of operating revenue, was 22.1%, as compared to 18.7% in the 2013 period.

The provision for income taxes reflects an effective tax rate of 18.3% as compared to 21.8% for the 2013 period. The decrease in the effective tax rate is primarily reflective of the change in the geographic mix of earnings (see Note 15 of Notes to Condensed Consolidated Financial Statements for additional information).

Net income attributable to noncontrolling interests increased $1 million as compared to the 2013 period.

**Business Segments**

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

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**Financial Advisory**

The following tables summarize the reported operating results attributable to the Financial Advisory segment:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($ in thousands) | | | |
| M&A and Other Advisory | $ 241,213 | $ 176,449 | $ 713,670 | $ 515,693 |
| Capital Raising | 17,842 | 15,220 | 50,632 | 51,489 |
| Total Strategic Advisory | 259,055 | 191,669 | 764,302 | 567,182 |
| Restructuring | 32,034 | 42,173 | 83,052 | 98,429 |
| Net Revenue | 291,089 | 233,842 | 847,354 | 665,611 |
| Operating Expenses(a) | 255,230 | 218,015 | 754,449 | 674,689 |
| Operating Income (Loss) | $ 35,859 | $ 15,827 | $ 92,905 | $ (9,078) |
| Operating income (loss), as a % of net revenue | 12.3% | 6.8% | 11.0% | (1.4)% |

(a) In 2013, includes $47,779 for the nine month period associated with the implementation of the cost saving initiatives.

Net revenue trends in Financial Advisory for M&A and Other Advisory and Restructuring are generally correlated to the level of completed industry-wide M&A transactions and restructuring transactions occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, our results can diverge from industry-wide activity where there are material variances from the level of industry-wide M&A activity in a particular market where Lazard has significant market share, or regarding the relative number of our advisory engagements with respect to larger-sized transactions, and where we are involved in non-public or sovereign advisory assignments. For example, in the first nine months of 2014, the industry statistics for global M&A transactions described above reflect a 1% decrease in the value, and a 3% decrease in the number, of all completed transactions as compared to the 2013 period. For M&A deals with values greater than $500 million, the value and number of completed transactions increased 1% and 4%, respectively, as compared to the 2013 period. Our M&A and Other Advisory revenue, however, which includes Sovereign and Capital Structure Advisory revenue, increased 38% as compared to the 2013 period.

Certain Lazard fee and transaction statistics are set forth below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Lazard Statistics:** | | | | |
| Number of clients with fees greater than $1 million: | | | | |
| Total Financial Advisory | 62 | 57 | 203 | 167 |
| M&A and Other Advisory | 50 | 44 | 161 | 126 |
| Percentage of total Financial Advisory net revenue from top 10 clients | 34% | 35% | 18% | 21% |
| Number of M&A transactions completed with values greater than $500 million (a) | 11 | 10 | 33 | 32 |

(a) Source: Dealogic as of October 6, 2014.

The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms and is based on the Lazard offices that generate Financial Advisory net revenue, which are located in the U.S.,

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Europe (primarily in the U.K., France, Italy, Spain and Germany) and the rest of the world (primarily in Australia) and therefore may not be reflective of the geography in which the clients are located.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| United States | 54% | 53% | 55% | 59% |
| Europe | 40 | 40 | 38 | 36 |
| Rest of World | 6 | 7 | 7 | 5 |
| Total | 100% | 100% | 100% | 100% |

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

***Financial Advisory Results of Operations***

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

***Three Months Ended September 30, 2014 versus September 30, 2013***

Total Strategic Advisory net revenue, representing fees from our M&A and Other Advisory and Capital Raising businesses, increased $67 million, or 35%, and Restructuring revenue decreased $10 million, or 24%, as compared to the 2013 period.

M&A and Other Advisory revenue increased $65 million, or 37%, along with an increase in Capital Raising revenue of $3 million, or 17%, as compared to the 2013 period. The increase in M&A and Other Advisory revenue was primarily due to an increase in the number of, and average transaction fee with respect to, completed transactions involving fees greater than $1 million as compared to the 2013 period. Our major clients, which in the aggregate represented a significant portion of our M&A and Other Advisory revenue for the 2014 period, included Ardian, Emerald Performance Materials, Google, Holiday Retirement, L Oreal, Reynolds American, UNS Energy, Vidara Therapeutics and The Voting Trust of IMTT Holdings.

Restructuring revenue is derived from various activities including bankruptcy assignments, global debt and financing restructurings, distressed asset sales and advice on complex on- and off-balance sheet assignments, the timing of which may not correspond to industry announced defaults. The decrease in Restructuring revenue in the 2014 period was generally in line with the continued industry-wide low level of corporate restructuring activity. Our major clients, which in the aggregate represented a significant portion of our restructuring revenue for the 2014 period, included Vivarte, USEC, M*Modal and Overseas Shipholding Group.

Operating expenses increased $37 million, or 17%, as compared to the 2013 period, primarily due to an increase in compensation and benefits expense.

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Financial Advisory operating income was $36 million, an increase of $20 million as compared to operating income of $16 million in the 2013 period and, as a percentage of net revenue, was 12.3%, as compared to 6.8% in the 2013 period.

***Nine Months Ended September 30, 2014 versus September 30, 2013***

Total Strategic Advisory net revenue, representing fees from our M&A and Other Advisory and Capital Raising businesses, increased $197 million, or 35%, and Restructuring revenue decreased $15 million, or 16%, as compared to the 2013 period.

M&A and Other Advisory revenue increased $198 million, or 38%, while Capital Raising revenue decreased by $1 million, or 2%, as compared to the 2013 period. The increase in M&A and Other Advisory revenue was primarily due to an increase in the number of, and average transaction fee with respect to, completed transactions involving fees greater than $1 million as compared to the 2013 period. The decrease in Restructuring revenue in the 2014 period was generally in line with the continued industry-wide low level of corporate restructuring activity.

Operating expenses increased $80 million, or 12%, as compared to the 2013 period (which included a $48 million charge related to the cost saving initiatives). Excluding such charge, operating expenses increased $128 million, or 20%, primarily due to an increase in compensation and benefits expense related to an increase in accrued discretionary compensation associated with increased operating revenue.

Financial Advisory operating income was $93 million, an increase of $102 million as compared to operating loss of $9 million (including the impact of the $48 million charge related to the cost saving initiatives) in the 2013 period and, as a percentage of net revenue, was 11.0%, as compared to (1.4)% in the 2013 period.

**Asset Management**

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

| | As of | |
|---|---|---|
| | **September 30, 2014** | **December 31, 2013** |
| | **($ in millions)** | |
| **AUM by Asset Class:** | | |
| **Equity:** | | |
| Emerging Markets | $ 51,257 | $ 47,450 |
| Global | 34,932 | 35,521 |
| Local | 30,848 | 31,232 |
| Multi-Regional | 44,264 | 39,859 |
| Total Equity | 161,301 | 154,062 |
| **Fixed Income:** | | |
| Emerging Markets | 13,966 | 9,048 |
| Global | 3,708 | 3,164 |
| Local | 3,435 | 3,507 |
| Multi-Regional | 9,570 | 11,155 |
| Total Fixed Income | 30,679 | 26,874 |
| **Alternative Investments** | 4,372 | 4,690 |
| **Private Equity** | 1,107 | 1,151 |
| **Cash Management** | 130 | 147 |
| Total AUM | $ 197,589 | $ 186,924 |

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Total AUM at September 30, 2014 was $198 billion, which reflected (i) a decrease of $7 billion, or 3%, as compared to total AUM of $205 billion at June 30, 2014, due to market depreciation and adverse foreign exchange movements, partially offset by net inflows, and (ii) an increase of $11 billion, or 6%, as compared to total AUM of $187 billion at December 31, 2013, due to market appreciation and net inflows, partially offset by adverse foreign exchange movements. Average AUM for the three month and nine month periods ended September 30, 2014 was 18% and 15%, respectively, higher than the corresponding periods in 2013.

As of September 30, 2014, approximately 90% of our AUM was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors, and approximately 10% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and individuals, and was substantially unchanged from the corresponding percentages at December 31, 2013.

As of September 30, 2014, AUM with foreign currency exposure represented approximately 75% of our total AUM, as compared to 76% at December 31, 2013. AUM with foreign currency exposure generally declines in value with the strengthening of the U.S. Dollar and increases in value as the U.S. Dollar weakens, with all other factors held constant.

The following is a summary of changes in AUM by asset class for the three month and nine month periods ended September 30, 2014 and 2013:

| | Three Months Ended September 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AUM Beginning Balance | Inflows | Outflows | Net Flows | Market Value Appreciation/ (Depreciation) | Foreign Exchange Appreciation/ (Depreciation) | AUM Ending Balance |
| | ($ in millions) | | | | | | |
| Equity | $ 167,374 | $ 8,028 | $ (6,424) | $ 1,604 | $ (1,286) | $ (6,391) | $ 161,301 |
| Fixed Income | 31,264 | 2,252 | (1,106) | 1,146 | 91 | (1,822) | 30,679 |
| Other | 5,887 | 245 | (394) | (149) | (21) | (108) | 5,609 |
| Total | $ 204,525 | $ 10,525 | $ (7,924) | $ 2,601 | $ (1,216) | $ (8,321) | $ 197,589 |

| | Nine Months Ended September 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AUM Beginning Balance | Inflows | Outflows | Net Flows | Market Value Appreciation/ (Depreciation) | Foreign Exchange Appreciation/ (Depreciation) | AUM Ending Balance |
| | ($ in millions) | | | | | | |
| Equity | $ 154,062 | $ 22,398 | $ (18,604) | $ 3,794 | $ 8,267 | $ (4,822) | $ 161,301 |
| Fixed Income | 26,874 | 7,321 | (2,698) | 4,623 | 1,009 | (1,827) | 30,679 |
| Other | 5,988 | 1,024 | (1,283) | (259) | 33 | (153) | 5,609 |
| Total | $ 186,924 | $ 30,743 | $ (22,585) | $ 8,158 | $ 9,309 | $ (6,802) | $ 197,589 |

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

| | Three Months Ended September 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AUM Beginning Balance | Inflows | Outflows | Net Flows | Market Value Appreciation/ (Depreciation) | Foreign Exchange Appreciation/ (Depreciation) | AUM Ending Balance |
| | ($ in millions) | | | | | | |
| Equity | $ 134,341 | $ 6,319 | $ (5,458) | $ 861 | $ 9,060 | $ 1,837 | $ 146,099 |
| Fixed Income | 22,956 | 2,027 | (980) | 1,047 | 6 | 522 | 24,531 |
| Other | 5,992 | 216 | (405) | (189) | 35 | (13) | 5,825 |
| Total | $ 163,289 | $ 8,562 | $ (6,843) | $ 1,719 | $ 9,101 | $ 2,346 | $ 176,455 |

| | Nine Months Ended September 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | AUM Beginning Balance | Inflows | Outflows | Net Flows | Market Value Appreciation/ (Depreciation) | Foreign Exchange Appreciation/ (Depreciation) | AUM Ending Balance |
| | ($ in millions) | | | | | | |
| Equity | $ 138,171 | $ 20,383 | $ (25,557) | $ (5,174) | $ 16,706 | $ (3,604) | $ 146,099 |
| Fixed Income | 22,718 | 4,878 | (2,798) | 2,080 | (396) | 129 | 24,531 |
| Other | 6,171 | 657 | (966) | (309) | 131 | (168) | 5,825 |
| Total | $ 167,060 | $ 25,918 | $ (29,321) | $ (3,403) | $ 16,441 | $ (3,643) | $ 176,455 |

As of October 24, 2014, AUM was $196.2 billion, a $1.4 billion decrease since September 30, 2014, with such decrease primarily due to market depreciation of $2.2 billion, partially offset by foreign exchange appreciation of $0.4 billion and net inflows of $0.4 billion.

Average AUM for the three month and nine month periods ended September 30, 2014 and 2013 for each significant asset class is set forth below. Average AUM generally represents the average of the monthly ending AUM balances for the period.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($ in millions) | | | |
| **Average AUM by Asset Class:** | | | | |
| Equity | $ 165,760 | $ 142,174 | $ 160,341 | $ 141,549 |
| Fixed Income | 31,365 | 23,548 | 29,662 | 22,706 |
| Alternative Investments | 4,468 | 4,494 | 4,542 | 4,557 |
| Private Equity | 1,113 | 1,174 | 1,132 | 1,242 |
| Cash Management | 136 | 107 | 138 | 108 |
| Total Average AUM | $ 202,842 | $ 171,497 | $ 195,815 | $ 170,162 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($ in thousands) | | | |
| Revenue: | | | | |
| Management Fees | $ 262,992 | $ 228,272 | $ 760,022 | $ 665,964 |
| Incentive Fees | 11,801 | 10,061 | 37,953 | 34,704 |
| Other Income | 17,174 | 13,761 | 50,720 | 40,950 |
| Net Revenue | 291,967 | 252,094 | 848,695 | 741,618 |
| Operating Expenses(a) | 191,501 | 168,895 | 552,499 | 511,526 |
| Operating Income | $ 100,466 | $ 83,199 | $ 296,196 | $ 230,092 |
| Operating income, as a % of net revenue | 34.4% | 33.0% | 34.9% | 31.0% |

(a) In 2013, includes $235 for the nine month period associated with the implementation of the cost saving initiatives.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| United States | 66% | 65% | 62% | 62% |
| Europe | 27 | 26 | 29 | 27 |
| Rest of World | 7 | 9 | 9 | 11 |
| Total | 100% | 100% | 100% | 100% |

***Asset Management Results of Operations***

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

***Three Months Ended September 30, 2014 versus September 30, 2013***

Asset Management net revenue increased $40 million, or 16%, as compared to the 2013 period. Management fees increased $35 million, or 15%, as compared to the 2013 period, reflecting a $31 billion, or 18%, increase in average AUM. Incentive fees increased $2 million, or 17%, as compared to the 2013 period. Other revenue increased $3 million, or 25%, as compared to the 2013 period, primarily due to increases in transaction fees related to our private equity business.

Operating expenses increased $23 million, or 13%, as compared to the 2013 period, primarily due to an increase in compensation and benefits expense related to salary and benefits generally associated with new hires, and other expenses related to increased business activity and AUM.

Asset Management operating income was $100 million, an increase of $17 million, or 21%, as compared to operating income of $83 million in the 2013 period and, as a percentage of net revenue, was 34.4%, as compared to 33.0% in the 2013 period.

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***Nine Months Ended September 30, 2014 versus September 30, 2013***

Asset Management net revenue increased $107 million, or 14%, as compared to the 2013 period. Management fees increased $94 million, or 14%, as compared to the 2013 period, reflecting a $26 billion, or 15%, increase in average AUM. Incentive fees increased $3 million, or 9%, as compared to the 2013 period, primarily due to fees related to traditional investment products. Other revenue increased $10 million, or 24%, as compared to the 2013 period, primarily due to higher transaction-based commission revenue as a result of increased market activity and custody fees and transaction fees related to our private equity business.

Operating expenses increased $41 million, or 8%, as compared to the 2013 period, primarily due to increases in compensation and benefits expense related to salary and benefits generally associated with new hires, and other expenses related to increased business activity and AUM.

Asset Management operating income was $296 million, an increase of $66 million, or 29%, as compared to operating income of $230 million (including the impact of the $0.2 million charge related to the cost saving initiatives) in the 2013 period and, as a percentage of net revenue, was 34.9%, as compared to 31.0% in the 2013 period.

**Corporate**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | ($ in thousands) | | | |
| Interest Income | $ 1,051 | $ 732 | $ 3,033 | $ 2,375 |
| Interest Expense | (15,510) | (20,169) | (47,170) | (60,630) |
| Net Interest (Expense) | (14,459) | (19,437) | (44,137) | (58,255) |
| Other Revenue | (2,386) | 13,855 | 14,595 | 23,688 |
| Net Revenue (Expense) | (16,845) | (5,582) | (29,542) | (34,567) |
| Operating Expenses (a) | 5,768 | 12,326 | 39,687 | 42,794 |
| Operating Loss | $ (22,613) | $ (17,908) | $ (69,229) | $ (77,361) |

(a) In 2013, includes $16,689 for the nine month period associated with the implementation of the cost saving initiatives.

***Corporate Results of Operations***

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

***Three Months Ended September 30, 2014 versus September 30, 2013***

Net interest expense decreased $5 million, or 26%, as compared to the 2013 period, primarily due to the refinancing of the 2015 Notes.

Other revenue decreased $16 million as compared to the 2013 period, primarily due to investment losses recorded in connection with LFI.

Operating expenses decreased $7 million, or 53%, as compared to the 2013 period. The decrease was primarily due to decreased compensation and benefits expense recorded in connection with LFI.

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***Nine Months Ended September 30, 2014 versus September 30, 2013***

Net interest expense decreased $14 million, or 24%, as compared to the 2013 period, primarily due to the refinancing of the 2015 Notes.

Other revenue decreased $9 million, or 38%, as compared to the 2013 period, primarily due to lower investment gains recorded in connection with LFI and other investments.

Operating expenses decreased $3 million, or 7%, as compared to the 2013 period (which included charges of $16 million associated with the cost saving initiatives). Excluding the impact of such charges, operating expenses increased $14 million compared to the 2013 period. The increase was primarily related to a $9 million provision pursuant to the tax receivable agreement. Such provision was required in the 2014 period, but not in the corresponding 2013 period.

**Cash Flows**

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

The Company makes cash payments for, or in respect of, a significant portion of its incentive compensation during the first three months of each calendar year with respect to the prior year s results. In addition, during 2014 and 2013, the Company made cash payments, including severance payments, associated with the cost saving initiatives (see Cost Saving Initiatives above and Note 14 of Notes to Condensed Consolidated Financial Statements).

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**Summary of Cash Flows:**

| | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| | ($ in millions) | |
| **Cash Provided By (Used In):** | | |
| Operating activities: | | |
| Net income | $ 261.3 | $ 112.3 |
| Noncash charges (a) | 260.1 | 267.7 |
| Other operating activities (b) | (106.0) | (212.1) |
| Net cash provided by operating activities | 415.4 | 167.9 |
| Investing activities | (13.1) | (48.5) |
| Financing activities (c) | (396.1) | (273.9) |
| Effect of exchange rate changes | (27.1) | (7.3) |
| **Net Decrease in Cash and Cash Equivalents** | (20.9) | (161.8) |
| **Cash and Cash Equivalents:** | | |
| **Beginning of Period** | 841.5 | 850.2 |
| **End of Period** | $ 820.6 | $ 688.4 |

(a) Consists of the following:

| | | |
|---|---|---|
| Depreciation and amortization of property | $ 26.3 | $ 25.5 |
| Amortization of deferred expenses, stock units and interest rate hedge | 227.9 | 239.4 |
| Amortization of intangible assets related to acquisitions | 5.9 | 2.8 |
| Total | $ 260.1 | $ 267.7 |

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

(c) Consists primarily of purchases of shares of Class A common stock, tax withholdings related to the settlement of vested restricted stock units ( RSUs ), Class A common stock dividends and distributions to noncontrolling interest holders.

**Liquidity and Capital Resources**

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

***Operating Activities***

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

Liquidity is significantly impacted by cash payments for, or in respect of, incentive compensation, a significant portion of which are made during the first three months of the year. As a consequence, cash on hand generally declines in the beginning of the year and gradually builds over the remainder of the year. We also pay certain tax advances during the year on behalf of our managing directors, which serve to reduce their respective incentive compensation payments. We expect this seasonal pattern of cash flow to continue. During 2013, liquidity was also impacted by cash payments, including severance payments, associated with the cost saving initiatives (see Cost Saving Initiatives above and Note 14 of Notes to Condensed Consolidated Financial Statements).

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

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures, dividend payments, purchases of shares of Class A common stock and Lazard Group common membership interests and matters relating to liquidity and to compliance with regulatory net capital requirements. At September 30, 2014, Lazard had approximately $821 million of cash, with such amount including approximately $359 million held at Lazard s operations outside the U.S. Since Lazard provides for U.S. income taxes on substantially all of its unrepatriated foreign earnings, no material amount of additional U.S. income taxes would be recognized upon receipt of dividends or distributions of such earnings from its foreign operations.

We maintain lines of credit in excess of anticipated liquidity requirements. As of September 30, 2014, Lazard had approximately $262 million in unused lines of credit available to it, including a $150 million, three-year, senior revolving credit facility with a group of lenders that expires in September 2015 (the Credit Facility ) (see Financing Activities below) and unused lines of credit available to LFB of approximately $44 million (at September 30, 2014 exchange rates) and Edgewater of $64 million. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

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

***Financing Activities***

The table below sets forth our corporate indebtedness as of September 30, 2014 and December 31, 2013. The agreements with respect to this indebtedness are discussed in more detail in our condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Form 10-K.

| | | As of | | |
|---|---|---|---|---|
| | Maturity Date | September 30, 2014 | December 31, 2013 | Increase (Decrease) |
| | | ($ in millions) | | |
| Senior Debt: | | | | |
| 6.85% | 2017 | $ 548.4 | $ 548.4 | $ |
| 4.25% | 2020 | 500.0 | 500.0 | |
| Total Senior Debt | | $ 1,048.4 | $ 1,048.4 | $ |

During the fourth quarter of 2013, the Company completed a refinancing of the 2015 Notes by issuing a tender and redemption notice for the 2015 Notes and issuing $500 million of 4.25% senior notes maturing in 2020 (the 2020 Notes ).

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Lazard s annual cash flow generated from operations historically has been sufficient to enable it to meet its annual obligations. Lazard has not drawn on its Credit Facility and prior revolving credit facility since June 30, 2006. We believe that our cash flows from operating activities, along with the use of our credit lines as needed, should be sufficient for us to fund our current obligations for the next 12 months.

As long as the lenders commitments remain in effect, any loan pursuant to the Credit Facility remains outstanding and unpaid or any other amount is due to the lending bank group, the Credit Facility includes financial covenants that require that Lazard Group not permit (i) its Consolidated Leverage Ratio (as defined in the Credit Facility) for the 12-month period ending on the last day of any fiscal quarter to be greater than 4.00 to 1.00 or (ii) its Consolidated Interest Coverage Ratio (as defined in the Credit Facility) for the 12-month period ending on the last day of any fiscal quarter to be less than 3.00 to 1.00. For the 12-month period ended September 30, 2014, Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 1.32 to 1.00 and its Consolidated Interest Coverage Ratio being 13.23 to 1.00. In any event, no amounts were outstanding under the Credit Facility as of September 30, 2014.

In addition, the Credit Facility, indenture and supplemental indentures relating to Lazard Group s senior notes contain certain other covenants (none of which relate to financial condition), events of default and other customary provisions. At September 30, 2014, the Company was in compliance with all of these provisions. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources, which may cause us to be subject to additional restrictions or covenants.

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

***Stockholders Equity***

At September 30, 2014, total stockholders equity was $638 million, as compared to $630 million at December 31, 2013, including $573 million and $560 million attributable to Lazard Ltd on the respective dates. The net activity in stockholders equity during the nine month period ended September 30, 2014 is reflected in the table below (in millions of dollars):

| | |
|---|---|
| Stockholders Equity January 1, 2014 | $ 630 |
| Increase (decrease) due to: | |
| Net income | 261 |
| Other comprehensive loss | (19) |
| Amortization of share-based incentive compensation | 159 |
| Purchase of Class A common stock | (193) |
| Settlement of share-based incentive compensation, net of related tax benefit of $1 (a) | (82) |
| Class A common stock dividends | (110) |
| Distributions to noncontrolling interests, net | (8) |
| Stockholders Equity September 30, 2014 | $ 638 |

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

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

| | Number of Shares/Common Membership Interests Purchased | Average Price Per Share/Common Membership Interest |
|---|---|---|
| **Nine Months Ended September 30:** | | |
| 2013 | 2,201,657 | $ 35.40 |
| 2014 | 4,114,206 | $ 46.83 |

The shares purchased in the nine months ended September 30, 2014 included 1,000,000 shares purchased from Natixis S.A. on June 26, 2014 for approximately $50 million in connection with the sale by Natixis S.A. of its entire investment in the Company s Class A common stock. The purchase transaction closed on July 1, 2014. As of September 30, 2014, a total of $129 million of share repurchase authorization remained available under the Company s share repurchase program, which will expire on December 31, 2015.

During the nine months ended September 30, 2014, the Company had in place trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934, pursuant to which it effected stock repurchases in the open market.

The Company plans to continue to deploy excess cash and may do so in a variety of ways, which may include repurchasing outstanding shares of Class A common stock, paying dividends to stockholders and repurchasing its outstanding debt.

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

**Regulatory Capital**

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure their general financial soundness and liquidity, which require, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, relationships with customers, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to and from affiliates. See Note 18 of Notes to Condensed Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France and other countries in which we operate. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see Item 1, Business Regulation included in our Form 10-K.

**Contractual Obligations**

The following table sets forth information relating to Lazard s contractual obligations as of September 30, 2014:

| | Contractual Obligations Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| | ($ in thousands) | | | | |
| Senior Debt (including interest) (a) | $ 1,299,161 | $ 58,812 | $ 665,974 | $ 42,500 | $ 531,875 |
| Operating Leases (exclusive of $82,162 of committed sublease income) (b) | 956,108 | 79,108 | 148,716 | 127,432 | 600,852 |
| Capital Leases (including interest) | 14,427 | 2,816 | 11,611 | | |
| Investment Capital Funding Commitments (c) | 19,137 | 19,137 | | | |
| Total (d) | $ 2,288,833 | $ 159,873 | $ 826,301 | $ 169,932 | $ 1,132,727 |

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

(b) Committed sublease income was reduced by approximately $79,600 in the third quarter of 2014 pursuant to arrangements we entered into with LFCM Holdings. See Notes 10 and 17 of Notes to Condensed Consolidated Financial Statements.

(c) Unfunded commitments to private equity investments consolidated but not owned by Lazard of $7,518 are excluded. Such commitments are required to be funded by capital contributions from noncontrolling interest holders. See Note 5 of Notes to Condensed Consolidated Financial Statements. These amounts are generally due on demand and therefore are presented in the less than 1 year category.

(d) The table above excludes contingent obligations, as well as any possible payments for uncertain tax positions and payments pursuant to the Company s tax receivable agreement, given the inability to estimate the possible amounts and timing of any such payments. See Notes 10, 12, 13 and 15 of Notes to Condensed Consolidated Financial Statements regarding information in connection with commitments, incentive plans, employee benefit plans and income taxes, respectively.

**Critical Accounting Policies and Estimates**

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

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

***Revenue Recognition***

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

- there is persuasive evidence of an arrangement with a client,

- the agreed-upon services have been provided, fees are fixed or determinable, and

collection is probable.

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

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

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

***Compensation Liabilities***

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

***Income Taxes***

As part of the process of preparing our consolidated financial statements, we estimate our income taxes for each of our tax-paying entities in each of their respective jurisdictions. In addition to estimating actual current tax liability for these jurisdictions, we also must account for the tax effects of differences between the financial reporting and tax reporting of items, such as deferred revenue, compensation and benefits expense, unrealized gains or losses on investments and depreciation and amortization, as well as intercompany transactions such as revenue sharing, dividends and interest expense. Differences that are temporary in nature result in deferred tax assets and liabilities. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities as discussed below, any valuation allowance recorded against our deferred tax assets and our unrecognized tax benefits.

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. The measurement of deferred tax assets and liabilities is based upon currently enacted tax rates in the applicable jurisdictions. At December 31, 2013, on a consolidated basis, we recorded gross deferred tax assets of approximately $1.40 billion.

Subsequent to the initial recognition of deferred tax assets, we also must continually assess the likelihood that such deferred tax assets will be realized. If we determine that we may not fully derive the benefit from a deferred tax asset, we consider whether it would be appropriate to apply a valuation allowance against the applicable deferred tax asset. In order to determine whether we apply a valuation allowance, we must assess whether it is more likely than not that such asset will be realized, taking into account all available information.

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The ultimate realization of a deferred tax asset for a particular entity depends, among other things, on the generation of taxable income by such entity in the applicable jurisdiction. Although we have been profitable on a consolidated basis for the three year periods ended December 31, 2013 and September 30, 2014, certain of our tax-paying entities have individually experienced minimal profits on a cumulative basis during such years and losses in 2012, primarily due to permanent differences between net income and taxable income at such entities. Considering the recent operating results of such entities and the other factors listed below, we recorded a valuation allowance of approximately $1.23 billion on our deferred tax assets as of December 31, 2013 and have not changed our assessment regarding the level of valuation allowance as of September 30, 2014.

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

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

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

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

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

As mentioned previously, certain of our tax-paying entities have individually experienced minimal profits on a cumulative basis over the past several years and losses in 2012. Taking into account all available information, we cannot determine that it is more likely than not that deferred tax assets will be realized. If the cumulative positive information outweighs the negative, including among other matters the achievement by the relevant tax-paying entities of sustainable levels of profitability, the evaluation of the realizability of the deferred tax assets could change and a significant amount of the valuation allowance could be released in whole or in part. This could occur at some point or points over the next few years, including as early as the end of 2014 or in 2015. If any significant valuation allowance reduction were to occur, we would likely have a significant tax benefit in the period in which such reduction occurs. Included in our deferred tax assets as of December 31, 2013 are approximately $652 million related to certain basis step-ups and approximately $257 million of net operating losses generated by the amortization of such step-up assets, all of which are subject to the tax receivable agreement. Under the tax receivable agreement, Lazard Group will retain 15% of the actual cash tax savings relating to such assets and will pay 85% of such savings to the owners of Lazard prior to the separation. As a result, in the event of a reduction of our valuation allowance, we also would recognize a liability relating to the portion expected to be payable under the tax receivable agreement. The creation of this liability could potentially offset a significant amount (but not all) of the income we would otherwise recognize upon a release of the valuation allowance.

If any valuation allowance reduction were to occur, for subsequent periods, our effective tax rate, with all other factors being held constant, would increase and could be significantly higher than our effective tax rate in the period immediately preceding the reduction in the valuation allowance. In such a situation, with all other factors being held constant, an increase in our effective tax rate as a result of a reduction in the valuation allowance would not impact the amount of cash income taxes we would pay to taxing authorities in those subsequent periods.

The Company records tax positions taken or expected to be taken in a tax return based upon 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. Such liabilities are evaluated periodically as new information becomes available and any changes in the amounts of such liabilities are recorded as adjustments to income tax expense. Liabilities for unrecognized tax benefits involve significant judgment and the ultimate resolution of such matters may be materially different from our estimates.

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

See Item 1A, Risk Factors and see Note 17 of Notes to Consolidated Financial Statements in our Form 10-K for additional information related to income taxes.

***Investments***

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

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

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

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Data relating to investments is set forth below:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| | ($ in thousands) | |
| Seed investments by asset class: | | |
| Equities (a) | $ 107,397 | $ 118,535 |
| Fixed income | 24,405 | 25,231 |
| Alternative investments | 27,608 | 29,920 |
| Total seed investments | 159,410 | 173,686 |
| Other investments owned: | | |
| Private equity (b) | 110,372 | 104,405 |
| Interest-bearing deposits | 24,785 | 516 |
| Fixed income and other | 21,219 | 11,128 |
| Total other investments owned | 156,376 | 116,049 |
| Subtotal | 315,786 | 289,735 |
| Add: | | |
| Equity method (c) | 8,518 | 9,488 |
| Private equity consolidated, not owned (d) | 6,732 | 9,787 |
| LFI (e) | 218,886 | 169,095 |
| Total investments | $ 549,922 | $ 478,105 |

(a) At September 30, 2014 and December 31, 2013, seed investments in directly owned equity securities were invested as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Percentage invested in: | | |
| Financials | 30% | 31% |
| Consumer | 29 | 29 |
| Industrial | 12 | 12 |
| Technology | 11 | 9 |
| Energy | 6 | 6 |
| Other | 12 | 13 |
| Total | 100% | 100% |

(b) Private equity investments include investments related to certain legacy businesses and co-investments in private equity funds managed by our Asset Management business. Co-investments owned were $26 million and $18 million as of September 30, 2014 and December 31, 2013, respectively.

(c) Represents investments accounted for under the equity method of accounting.

(d) Represents private equity investments that are consolidated but owned by noncontrolling interests, and therefore do not subject the Company to market or credit risk. The applicable noncontrolling interests are presented within stockholders equity on the condensed consolidated statements of financial condition.

(e) Composed of investments held in connection with LFI and other similar deferred compensation arrangements. The market risk associated with such investments is equally offset by the market risk associated with the derivative liability with respect to awards expected to vest. The Company is subject to market risk associated with any portion of such investments that employees may forfeit. See Risk Management *Risks Related to Derivatives* for risk management information relating to derivatives.

At September 30, 2014 and December 31, 2013, $118 million and $116 million, respectively, of our total investments at a fair value of $517 and $468 million, respectively, or 23% and 25%, respectively, were classified

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as Level 3 investments. Substantially all of our Level 3 investments at both dates are priced based on NAV. During each of the nine month periods ended September 30, 2014 and 2013, gains of approximately $9 million were recognized in revenue-other on the consolidated statement of operations pertaining to Level 3 investments. See Notes 4 and 5 of Notes to Condensed Consolidated Financial Statements for additional information regarding investments measured at fair value, including the levels of fair value within which such measurements of fair value fall.

As of September 30, 2014 and December 31, 2013, the Company held seed investments of approximately $159 million and $174 million, respectively. Seed investments held in entities in which the Company maintained a controlling interest were $36 million in six entities as of September 30, 2014, as compared to $58 million in nine entities as of December 31, 2013.

As of September 30, 2014 and December 31, 2013, the Company did not consolidate or deconsolidate any seed investment entities. As such, 100% of the recorded balance of seed investments as of September 30, 2014 and December 31, 2013 represented the Company s economic interest in the seed investments. See Consolidation of Variable Interest Entities below for more information on the Company s policy regarding the consolidation of seed investment entities.

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

***Assets Under Management***

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

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

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

***Goodwill***

In accordance with current accounting guidance, goodwill has an indefinite life and is tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. For years prior to 2011, Lazard made estimates and assumptions in order to determine the fair value of its assets and liabilities and to project future earnings using various valuation techniques. Commencing in 2011, as permitted under an amendment issued by the Financial Accounting Standards Board, the Company elected to perform 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. During the fourth quarter of 2013, the Company changed the date of its annual impairment testing from December 31 to November 1. See Note 8 of Notes to Condensed Consolidated Financial Statements for additional information regarding goodwill.

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*Consolidation of Variable Interest Entities*

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

Voting Interest Entities. VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity s activities. Lazard is required to consolidate a VOE if it either holds a majority of the voting interest in such entity or is the general partner in such entity and the third-party investors do not have the right to replace the general partner.

Variable Interest Entities. VIEs are entities that lack one or more of the characteristics of a VOE. If Lazard has a variable interest, or a combination of variable interests, in a VIE, it is required to analyze whether it needs to consolidate such VIE. Lazard is required to consolidate a VIE if, through our variable interests, we absorb a majority of the expected losses, expected residual returns, or both, of such entity.

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

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

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

**Risk Management**

*Investments*

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

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

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Equity Market Price Risk As of September 30, 2014 and December 31, 2013, the Company s exposure to equity market price risk in its investment portfolio, which primarily relates to investments in equity securities, equity funds and hedge funds, was approximately $124 million and $134 million, respectively. The Company hedges market exposure arising from a significant portion of our equity investment portfolios by entering into total return swaps. The Company estimates that a hypothetical 10% adverse change in market prices would result in a net decrease of approximately $1.4 million and $1.7 million in the carrying value of such investments as of September 30, 2014 and December 31, 2013, respectively, including the effect of the hedging transactions.

Interest Rate/Credit Spread Risk As of September 30, 2014 and December 31, 2013, the Company s exposure to interest rate and credit spread risk in its investment portfolio related to investments in debt securities or funds which invest primarily in debt securities was $54 million and $48 million, respectively. The Company hedges market exposure arising from a portion of our debt investment portfolios by entering into total return swaps. The Company estimates that a hypothetical 100 basis point adverse change in interest rates or credit spreads would result in a decrease of approximately $1.1 million and $0.9 million in the carrying value of such investments as of September 30, 2014 and December 31, 2013, respectively, including the effect of the hedging transactions.

Foreign Exchange Rate Risk As of September 30, 2014 and December 31, 2013, the Company s exposure to foreign exchange rate risk in its investment portfolio, which primarily relates to investments in foreign currency denominated equity and debt securities, was $71 million and $85 million, respectively. A significant portion of the Company s foreign currency exposure relating to our equity and debt investment portfolios is hedged through the aforementioned total return swaps. The Company estimates that a 10% adverse change in foreign exchange rates versus US dollars would result in a decrease of approximately $0.9 million and $1.4 million in the carrying value of such investments as of September 30, 2014 and December 31, 2013, respectively, including the effect of the hedging transactions.

Private Equity The Company invests in private equity primarily as a part of its co-investment activities and in connection with certain legacy businesses. As of September 30, 2014 and December 31, 2013, the Company s exposure to changes in the fair value of such investments was approximately $110 million and $104 million, respectively. The Company estimates that a hypothetical 10% adverse change in fair value would result in a decrease of approximately $11 million and $10.4 million in the carrying value of such investments as of September 30, 2014 and December 31, 2013, respectively.

***Risks Related to Receivables***

We maintain an allowance for doubtful accounts to provide coverage for probable losses from our receivables. We determine the adequacy of the allowance by estimating the probability of loss based on our analysis of the client s creditworthiness and specifically provide for exposures where we determine the receivables are impaired. At September 30, 2014, total receivables amounted to $508 million, net of an allowance for doubtful accounts of $30 million. As of that date, Financial Advisory and Asset Management fees, and customer and related party receivables comprised 85%, 15% and 0% of total receivables, respectively. At December 31, 2013, total receivables amounted to $513 million, net of an allowance for doubtful accounts of $29 million. As of that date, Financial Advisory and Asset Management fees, and customer and related party receivables comprised 88%, 10% and 2% of total receivables, respectively. At September 30, 2014 and December 31, 2013, the Company had receivables past due or deemed uncollectible of approximately $35 million and $39 million, respectively. See also Critical Accounting Policies and Estimates Revenue Recognition above and Note 3 of Notes to Condensed Consolidated Financial Statements for additional information regarding receivables.

LFB engages in lending activities, including commitments to extend credit. At September 30, 2014 and December 31, 2013, customer receivables included $32 million and $15 million of LFB loans, respectively. Such loans are closely monitored for counterparty creditworthiness to help minimize exposure. In addition, as of

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September 30, 2014, LFB s commitments to lend, which are fully collateralized and generally contain requirements for the counterparty to maintain a minimum collateral level, were not significant.

***Credit Concentrations***

To reduce the exposure to concentrations of credit, the Company monitors large exposures to individual counterparties. As of September 30, 2014, the Company s largest individual counterparty exposure was a Financial Advisory fee receivable of $12 million.

***Risks Related to Derivatives***

Lazard enters into interest rate swaps and forward foreign currency exchange contracts to hedge exposures to interest rates and currency exchange rates and uses total return swap contracts on various equity and debt indices to hedge a portion of its market exposure with respect to certain seed investments related to our Asset Management business. Derivative contracts are recorded at fair value. Derivative assets amounted to $9 million and $1 million at September 30, 2014 and December 31, 2013, respectively, and derivative liabilities, excluding the derivative liability arising from the Company s obligation pertaining to LFI and other similar deferred compensation arrangements, amounted to $20 thousand and $2 million at such respective dates.

The Company also records derivative liabilities relating to its obligations pertaining to LFI and other similar deferred compensation arrangements, the fair value of which is based on the value of the underlying investments, adjusted for estimated forfeitures. Changes in the fair value of the derivative liabilities are equally offset by the changes in the fair value of investments which are expected to be delivered upon settlement of LFI. Derivative liabilities relating to LFI amounted to $210 million and $162 million at September 30, 2014 and December 31, 2013, respectively.

In addition, LFB enters into interest rate swaps, forward foreign currency exchange contracts and other derivative contracts to hedge exposures to interest rate and currency fluctuations on open positions that arise primarily from client activity. Such foreign currency and interest rate positions are subject to strict internal limits and, based on account balances as of September 30, 2014, we do not believe that the impact of potential significant movements in either the currency or interest rate markets on LFB s positions would materially affect the Company s annual operating income.

**Risks Related to Cash and Cash Equivalents and Corporate Indebtedness**

A significant portion of the Company s indebtedness has fixed interest rates, while its cash and cash equivalents generally have market interest rates. Based on account balances as of September 30, 2014, Lazard estimates that its annual operating income relating to cash and cash equivalents and corporate indebtedness would increase by approximately $8 million in the event interest rates were to increase by 1% and decrease by approximately $2 million if rates were to decrease by 1%.

As of September 30, 2014, the Company s cash and cash equivalents totaled approximately $821 million. Substantially all of the Company s cash and cash equivalents were invested in highly liquid institutional money market funds (a significant majority of which were invested solely in U.S. Government or agency money market funds), in short-term interest earning accounts at a number of leading banks throughout the world, and in short-term certificates of deposit from such banks. Cash and cash equivalents are constantly monitored. On a regular basis, management reviews its investment profile as well as the credit profile of its list of depositor banks in order to adjust any deposit or investment thresholds as necessary.

**Operational Risk**

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

**Recent Accounting Developments**

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**
**Risk Management**

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

**Item 4. Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act ) as of the end of the period covered by this quarterly report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There were no material changes from the risk factors previously disclosed in the Company s Annual Report on Form 10-K.

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

None.

**Issuer Repurchases of Equity Securities**

The following table sets forth information regarding Lazard s purchases of its Class A common stock on a monthly basis during the third quarter of 2014. Share repurchases are recorded on a trade date basis.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| **July 1 July 31, 2014** | | | | |
| Share Repurchase Program (1) | | $ | | $ 128.9 million |
| Employee Transactions (2) | | $ | | $ |
| **August 1 August 31, 2014** | | | | |
| Share Repurchase Program (1) | | $ | | $ 128.9 million |
| Employee Transactions (2) | | $ | | $ |
| **September 1 September 30, 2014** | | | | |
| Share Repurchase Program (1) | | $ | | $ 128.9 million |
| Employee Transactions (2) | 22,982 | $ 54.66 | | $ |
| **Total** | | | | |
| Share Repurchase Program (1) | | $ | | $ 128.9 million |
| Employee Transactions (2) | 22,982 | $ 54.66 | | $ |

(1) As disclosed in more detail in Note 11 of Notes to Condensed Consolidated Financial Statements, in October 2011, April 2012, October 2012, October 2013 and April 2014, the Board of Directors authorized, on a cumulative basis, the repurchase of up to an additional $125 million, $125 million, $200 million, $100 million and $200 million, respectively, in aggregate cost of Lazard Ltd Class A common stock

and Lazard Group common membership interests through December 31, 2013, December 31, 2013, December 31, 2014, December 31, 2015 and December 31, 2015, respectively. The share repurchase program is used primarily to offset a portion of the shares to be issued under the 2005 Plan and the 2008 Plan. Purchases under the share repurchase program may be made in the open market or through privately negotiated transactions. The rate at which the Company purchases shares in connection with the share repurchase program may vary from quarter to quarter due to a variety of factors. Amounts shown in this line item include repurchases of Class A common stock and exclude the shares of Class A common stock withheld by the Company to meet the minimum statutory tax withholding requirements as described below.

(2) Under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of RSUs, performance-based restricted stock units and delivery of shares of restricted Class A common stock, shares of Class A common stock may be withheld by the Company to meet the minimum statutory tax withholding requirements. During the three month period ended September 30, 2014, the Company satisfied such obligations in lieu of issuing 22,982 shares of Class A common stock upon the vesting of 148,721 RSUs.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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## PART IV

**Item 6. Exhibits**

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| 2.1 | Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 2.2 | Amendment No. 1, dated as of November 6, 2006, to the Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006). |
| 2.3 | Second Amendment, dated as of May 7, 2008, to the Master Separation Agreement, dated as of May 10, 2005, as amended, by and among Lazard Ltd, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 9, 2008). |
| 2.4 | Class B-1 and Class C Members Transaction Agreement (incorporated by reference to Exhibit 2.2 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1 filed on December 17, 2004). |
| 3.1 | Certificate of Incorporation and Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005). |
| 3.2 | Certificate of Incorporation in Change of Name of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005). |
| 3.3 | Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.3 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 3.4 | First Amendment to Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.4 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008). |
| 3.5 | Second Amendment to the Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.5 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010). |
| 4.1 | Form of Specimen Certificate for Class A common stock (incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005). |
| 4.2 | Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to Lazard Group LLC s Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005). |
| 4.3 | First Supplemental Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.2 to Lazard Group LLC s Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005). |
| 4.4 | Fourth Supplemental Indenture, dated as of June 21, 2007, between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007). |

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| 4.5 | Fifth Supplemental Indenture, dated as of November 14, 2013, between Lazard Group LLC and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on November 14, 2013). |
| 4.6 | Form of Senior Note (included in Exhibits 4.3, 4.4 and 4.5). |
| 10.1 | Amended and Restated Stockholders Agreement, dated as of November 6, 2006, by and among LAZ-MD Holdings LLC, the Registrant and certain members of LAZ-MD Holdings LLC (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006). |
| 10.2 | First Amendment, dated as of May 7, 2008, to the Amended and Restated Stockholders Agreement dated as of November 6, 2006, between LAZ-MD Holdings LLC and Lazard Ltd (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008). |
| 10.3 | Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.4 | Amendment No. 1 to the Operating Agreement of Lazard Group LLC, dated as of December 19, 2005 (incorporated by reference to Exhibit 3.01 to Lazard Group LLC s Current Report on Form 8-K (File No. 333-126751) filed on December 19, 2005). |
| 10.5 | Amendment No. 2, dated as of May 9, 2008, to the Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 8, 2008). |
| 10.6 | Amendment No. 3, dated as of April 27, 2010, to the Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010). |
| 10.7 | Tax Receivable Agreement, dated as of May 10, 2005, by and among Ltd Sub A, Ltd Sub B and LFCM Holdings LLC (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.8 | Employee Benefits Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.9 | Insurance Matters Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.10 | License Agreement, dated as of May 10, 2005, by and among Lazard Strategic Coordination Company LLC, Lazard Frères & Co. LLC, Lazard Frères S.A.S., Lazard & Co., Holdings Limited and LFCM Holdings LLC (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.11 | Administrative Services Agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings LLC, LFCM Holdings LLC and Lazard Group LLC (incorporated by reference to Exhibit 10.7 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.12 | Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.8 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |

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| 10.13 | Amendment and Consent, dated February 9, 2009, to the Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.12 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009). |
| 10.14 | Amended and Restated Operating Agreement of Lazard Strategic Coordination Company LLC, dated as of January 1, 2002 (incorporated by reference to Exhibit 10.16 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005). |
| 10.15 | Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.19 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005). |
| 10.16 | Amendment dated as of February 16, 2011, by and among RCPI Landmark Properties, L.L.C. (as the successor in interest to Rockefeller Center Properties), RCPI 30 Rock 22234849, L.L.C. and Lazard Group LLC (as the successor in interest to Lazard Frères & Co. LLC), to the Lease dated as of January 27, 1994, by and among Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.16 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011). |
| 10.17 | Occupational Lease, dated as of August 9, 2002, by and among Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005). |
| 10.18* | 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005). |
| 10.19* | Lazard Ltd s 2008 Incentive Compensation Plan (incorporated by reference to Annex B to the Registrant s Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 24, 2008). |
| 10.20* | 2005 Bonus Plan (incorporated by reference to Exhibit 10.23 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005). |
| 10.21* | Form of Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, applicable to, and related Schedule I for, Scott D. Hoffman (incorporated by reference to Exhibit 10.26 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.22* | Form of First Amendment, dated as of May 7, 2008, to Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, for Scott D. Hoffman (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 9, 2008). |
| 10.23* | Amendment, dated as of February 23, 2011, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005 and amended as of May 7, 2008, for Scott D. Hoffman (incorporated by reference to Exhibit 10.25 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011). |
| 10.24* | Form of Agreement Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005). |
| 10.25* | Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, by and between Lazard Group LLC and Alexander F. Stern (incorporated by reference to Exhibit 10.28 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009). |

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| 10.26* | First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, with Alexander F. Stern (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on March 23, 2010). |
| 10.27* | Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, by and between Lazard Group LLC and Kenneth M. Jacobs (incorporated by reference to Exhibit 10.29 to the Registrant s Annual Report on Form 10-K (File No. 001-32492) filed on March 1, 2010). |
| 10.28* | First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, with Kenneth M. Jacobs (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) field on March 23, 2010). |
| 10.29* | Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, by and between Lazard Group LLC and Matthieu Bucaille (incorporated by reference to Exhibit 10.31 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011). |
| 10.30* | First Amendment, dated as of April 1, 2011, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, between Lazard Group LLC and Matthieu Bucaille (incorporated by reference to Exhibit 10.32 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011). |
| 10.31* | Acknowledgement Letter, dated as of November 6, 2006 from Lazard Group LLC to certain managing directors of Lazard Group LLC modifying the terms of the retention agreements of persons party to the Amended and Restated Stockholders Agreement, dated as of November 6, 2006 (incorporated by reference to Exhibit 10.23 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006). |
| 10.32 | Letter Agreement, dated as of March 15, 2005, from IXIS Corporate and Investment Bank to Lazard LLC and Lazard Ltd (incorporated by reference to Exhibit 10.27 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005). |
| 10.33 | Registration Rights Agreement, dated as of May 10, 2005, by and among Lazard Group Finance LLC, the Registrant, Lazard Group LLC and IXIS Corporate and Investment Bank (incorporated by reference to Exhibit 10.30 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005). |
| 10.34* | Description of Non-Executive Director Compensation (incorporated by reference to Exhibit 10.33 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q for the quarter ended June 30, 2005). |
| 10.35* | Form of Award Letter for Annual Grant of Deferred Stock Units to Non-Executive Directors (incorporated by reference to Exhibit 99.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on September 8, 2005). |
| 10.36* | Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on January 26, 2006). |
| 10.37* | Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.41 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009). |
| 10.38* | Form of Agreement evidencing a grant of Deferred Cash Award to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.42 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009). |

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| 10.39* | Directors Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006). |
| 10.40* | First Amended Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.43 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 1, 2007). |
| 10.41 | Agreement and Plan of Merger, dated as of August 14, 2008, by and among Lazard Ltd, LAZ Sub I, Lazard Asset Management LLC and Lazard Asset Management Limited (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on August 15, 2008). |
| 10.42 | Senior Revolving Credit Agreement, dated as of September 25, 2012, among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.47 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 1, 2012). |
| 10.43* | Form of Agreement evidencing a grant of Restricted Stock under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010). |
| 10.44* | Form of Agreement evidencing a grant of Lazard Fund Interests under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011). |
| 10.45* | Form of Agreement evidencing a grant of Restricted Stock Units and Restricted Stock to Executive Officers who are or may become eligible for retirement under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.53 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 2, 2012). |
| 10.46* | First Amendment, dated as of August 2, 2011, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 15, 2005, between Lazard Group LLC and Ashish Bhutani (incorporated by reference to Exhibit 10.56 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on August 4, 2011). |
| 10.47* | Second Amendment, dated as of October 24, 2012, to the Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005 and amended on March 23, 2010, among the Registrant, Lazard Group LLC and Kenneth M. Jacobs (incorporated by reference to Exhibit 10.52 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 1, 2012). |
| 10.48* | Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of March 15, 2005 and amended on August 2, 2011, among the Registrant, Lazard Group LLC and Ashish Bhutani (incorporated by reference to Exhibit 10.50 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |
| 10.49* | Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of October 4, 2004 and amended on April 1, 2011, among the Registrant, Lazard Group LLC and Matthieu Bucaille (incorporated by reference to Exhibit 10.51 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |
| 10.50* | Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of May 4, 2005 and amended on May 7, 2008 and February 23, 2011, among the Registrant, Lazard Group LLC and Scott D. Hoffman (incorporated by reference to Exhibit 10.52 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |

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| 10.51* | Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of October 4, 2004 and amended on March 23, 2010, among the Registrant, Lazard Group LLC and Alexander F. Stern (incorporated by reference to Exhibit 10.53 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |
| 10.52* | Form of Agreement evidencing a grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.54 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |
| 10.53* | Form of Agreement evidencing a grant of Lazard Fund Interests to Named Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |
| 10.54* | Form of Agreement evidencing a grant of Restricted Stock Units to Named Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.56 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013). |
| 10.55* | Form of Agreement evidencing a February 20, 2014 grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed May 6, 2014). |
| 10.56* | Agreement between the Company and Kenneth M. Jacobs, dated as of February 20, 2014, evidencing a grant of Performance-Based Stock Units under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.56 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 6, 2014). |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Rule 13a-14(a) Certification of Kenneth M. Jacobs. |
| 31.2 | Rule 13a-14(a) Certification of Matthieu Bucaille. |
| 32.1 | Section 1350 Certification for Kenneth M. Jacobs. |
| 32.2 | Section 1350 Certification for Matthieu Bucaille. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

* Management contract or compensatory plan or arrangement.

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## SIGNATURES

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

Date: October 27, 2014

LAZARD LTD

By: /s/ Matthieu Bucaille
Name: Matthieu Bucaille
Title: Chief Financial Officer

By: /s/ Dominick Ragone
Name: Dominick Ragone
Title: Chief Accounting Officer