

Lazard Ltd
Form 10-Q
October 28, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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

Edgar Filing: Lazard Ltd - Form 10-Q

(Exact name of registrant as specified in its charter)

Bermuda
(State or Other Jurisdiction of Incorporation
or Organization)

98-0437848
(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 No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer

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

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).

Table of Contents

TABLE OF CONTENTS

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.

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	79
<u>Item 4. Controls and Procedures</u>	79
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	80
<u>Item 1A. Risk Factors</u>	80
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	80
<u>Item 3. Defaults Upon Senior Securities</u>	81
<u>Item 4. Mine Safety Disclosures</u>	81
<u>Item 5. Other Information</u>	81
<u>Item 6. Exhibits</u>	82
<u>Signatures</u>	88

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

	Page
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2014 and December 31, 2013</u>	2
<u>Condensed Consolidated Statements of Operations for the three month and nine month periods ended September 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three month and nine month periods ended September 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2014 and 2013</u>	6
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine month periods ended September 30, 2014 and 2013</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9

Table of Contents**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.

Table of Contents**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.

Table of Contents**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:				

Edgar Filing: Lazard Ltd - Form 10-Q

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.

Table of Contents**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.

Table of Contents**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	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)

Edgar Filing: Lazard Ltd - Form 10-Q

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.

Table of Contents

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		Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	\$	Shares(*)	\$				Shares	\$			
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 share-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

Edgar Filing: Lazard Ltd - Form 10-Q

Balance September 30, 2013 \$

(*) 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.

Table of Contents

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		Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	\$	Shares(*)	\$				Shares	\$			
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

Edgar Filing: Lazard Ltd - Form 10-Q

(*) 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents**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.

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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

Edgar Filing: Lazard Ltd - Form 10-Q

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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.

Table of Contents

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(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

Edgar Filing: Lazard Ltd - Form 10-Q

Liabilities:

Securities sold, not yet purchased	\$ 4,045	\$	\$	\$ 4,045
Derivatives		164,001		164,001
Total	\$ 4,045	\$ 164,001	\$	\$ 168,046

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

The following tables provide a summary of changes in fair value of the Company's Level 3 assets 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:						

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****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		Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending Balance
		In Revenue- Other (a)					
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:

	Fair value	Unfunded Commitments	% of Fair Value Not Redeemable	September 30, 2014 Estimated Liquidation Period of Investments Not Redeemable			% Redemption Frequency	Investments Redeemable Redemption Notice Period
				% Next 5 Years	% 5-10 Years	% Thereafter		
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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

	December 31, 2013							
	Fair value	Unfunded Commitments	% of Fair Value Not Redeemable	Estimated Liquidation Period of Investments Not Redeemable			Investments Redeemable	
				% Next 5 Years	% 5-10 Years	% Thereafter	Redemption Frequency	Redemption Notice Period
Alternative investment funds:								
Hedge funds	\$ 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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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,

Edgar Filing: Lazard Ltd - Form 10-Q

	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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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

Edgar Filing: Lazard Ltd - Form 10-Q

- (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	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

Table of Contents

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****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.

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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	2013
LAZ-MD Holdings	\$ 213	\$ 565

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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)

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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,		Nine Months Ended September 30,	
	2014	2013	2014	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:

	Lazard Ltd		LAZ-MD Holdings		Total Lazard Group Common Membership Interests
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	
As of September 30:					
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		Nine Months Ended	
	September 30, 2014	2013	September 30, 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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

	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:				

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

(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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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.

PRSU

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

Edgar Filing: Lazard Ltd - Form 10-Q

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(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:

Edgar Filing: Lazard Ltd - Form 10-Q

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	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).

Table of Contents

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

13. EMPLOYEE BENEFIT PLANS

The Company provides retirement and other post-retirement benefits to certain of its employees through defined benefit pension plans (the pension plans) and, 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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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:

Edgar Filing: Lazard Ltd - Form 10-Q

	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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

	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.

Edgar Filing: Lazard Ltd - Form 10-Q

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.

Table of Contents

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(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.

Edgar Filing: Lazard Ltd - Form 10-Q

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,

Table of Contents

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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 ($6\frac{2}{3}\%$) 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

Table of Contents

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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.

Edgar Filing: Lazard Ltd - Form 10-Q

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.

Table of Contents**LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)**

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.

Edgar Filing: Lazard Ltd - Form 10-Q

	As Of	
	September 30, 2014	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

Table of Contents

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-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies, business plans and initiatives and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. These factors include, but are not limited to, those discussed in our Form 10-K under the caption "Risk Factors," including the following:

a decline in general economic conditions or 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:

Edgar Filing: Lazard Ltd - Form 10-Q

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,

Table of Contents

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

Edgar Filing: Lazard Ltd - Form 10-Q

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents**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) (\$ in billions)	2014	2013	% Incr / (Decr)
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

Table of Contents

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,

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

	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.

Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	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)

Edgar Filing: Lazard Ltd - Form 10-Q

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%

Table of Contents

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

Table of Contents

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,

Table of Contents

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.

Table of Contents

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			