Lazard Ltd
Form 10-Q
October 29, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

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

**001-32492**

**(Commission File Number)**

# LAZARD LTD

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

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

**Clarendon House**

**2 Church Street**

**Hamilton HM11, Bermuda**

**(Address of principal executive offices)**

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

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

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

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

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

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

As of October 23, 2013, there were 129,056,081 shares of the Registrant s Class A common stock (including 7,313,364 shares held by subsidiaries) and one share of the registrant s Class B common stock outstanding.

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*When we use the terms Lazard , we , us , our and the Company , we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ( Lazard Group ), that is the current holding company for our businesses. Lazard Ltd has no material operating assets other than indirect ownership as of September 30, 2013 of approximately 99.5% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements (Unaudited)**

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**SEPTEMBER 30, 2013 AND DECEMBER 31, 2012**

**(UNAUDITED)**

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

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 688,367 | $ 850,190 |
| Deposits with banks | 273,168 | 292,494 |
| Cash deposited with clearing organizations and other segregated cash | 59,541 | 65,232 |
| Receivables (net of allowance for doubtful accounts of $26,160 and $23,017 at September 30, 2013 and December 31, 2012, respectively): | | |
| Fees | 430,197 | 400,529 |
| Customers and other | 91,678 | 53,713 |
| Related parties | 14,276 | 23,801 |
| | 536,151 | 478,043 |
| Investments | 469,722 | 414,673 |
| Property (net of accumulated amortization and depreciation of $244,634 and $225,861 at September 30, 2013 and December 31, 2012, respectively) | 249,780 | 225,033 |
| Goodwill and other intangible assets (net of accumulated amortization of $38,039 and $35,281 at September 30, 2013 and December 31, 2012, respectively) | 376,401 | 392,822 |
| Other assets | 303,326 | 268,406 |
| Total Assets | $ 2,956,456 | $ 2,986,893 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**SEPTEMBER 30, 2013 AND DECEMBER 31, 2012**

**(UNAUDITED)**

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

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Liabilities: | | |
| Deposits and other customer payables | $ 289,872 | $ 269,763 |
| Accrued compensation and benefits | 382,064 | 467,578 |
| Senior debt | 1,076,850 | 1,076,850 |
| Capital lease obligations | 16,094 | 17,863 |
| Related party payables | 4,695 | 3,648 |
| Other liabilities | 529,820 | 499,651 |
| Total Liabilities | 2,299,395 | 2,335,353 |
| 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, 2013 and December 31, 2012 | | |
| Series B - no shares issued and outstanding | | |
| Common stock: | | |
| Class A, par value $.01 per share (500,000,000 shares authorized; 129,056,081 and 128,216,423 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively, including shares held by subsidiaries as indicated below) | 1,290 | 1,282 |
| Class B, par value $.01 per share (1 share authorized, issued and outstanding at September 30, 2013 and December 31, 2012) | | |
| Additional paid-in-capital | 693,741 | 846,050 |
| Retained earnings | 219,319 | 182,647 |
| Accumulated other comprehensive loss, net of tax | (127,852) | (110,541) |
| | 786,498 | 919,438 |
| Class A common stock held by subsidiaries, at cost (7,313,759 and 12,802,938 shares at September 30, 2013 and December 31, 2012, respectively) | (203,724) | (349,782) |
| Total Lazard Ltd Stockholders Equity | 582,774 | 569,656 |
| Noncontrolling interests | 74,287 | 81,884 |
| Total Stockholders Equity | 657,061 | 651,540 |
| Total Liabilities and Stockholders Equity | $ 2,956,456 | $ 2,986,893 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND 2012**

**(UNAUDITED)**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **REVENUE** | | | | |
| Investment banking and other advisory fees | $232,006 | $218,262 | $ 660,351 | $ 732,109 |
| Money management fees | 241,478 | 214,867 | 707,536 | 621,070 |
| Interest income | 1,347 | 733 | 3,823 | 4,598 |
| Other | 25,692 | 15,602 | 61,587 | 55,379 |
| Total revenue | 500,523 | 449,464 | 1,433,297 | 1,413,156 |
| Interest expense | 20,169 | 20,658 | 60,635 | 61,401 |
| Net revenue | 480,354 | 428,806 | 1,372,662 | 1,351,755 |
| **OPERATING EXPENSES** | | | | |
| Compensation and benefits | 301,809 | 283,818 | 910,679 | 905,527 |
| Occupancy and equipment | 27,393 | 25,680 | 96,435 | 80,309 |
| Marketing and business development | 17,077 | 19,096 | 60,646 | 69,685 |
| Technology and information services | 22,217 | 21,474 | 65,331 | 63,142 |
| Professional services | 12,904 | 8,514 | 32,223 | 31,099 |
| Fund administration and outsourced services | 14,475 | 13,179 | 43,328 | 39,300 |
| Amortization of intangible assets related to acquisitions | 877 | 2,494 | 2,758 | 6,172 |
| Other | 2,484 | 7,825 | 17,609 | 27,439 |
| Total operating expenses | 399,236 | 382,080 | 1,229,009 | 1,222,673 |
| **OPERATING INCOME** | 81,118 | 46,726 | 143,653 | 129,082 |
| Provision for income taxes | 18,370 | 13,053 | 31,335 | 32,191 |
| **NET INCOME** | 62,748 | 33,673 | 112,318 | 96,891 |
| **LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS** | 2,466 | 372 | 5,323 | 7,217 |
| **NET INCOME ATTRIBUTABLE TO LAZARD LTD** | $ 60,282 | $ 33,301 | $ 106,995 | $ 89,674 |
| **ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:** | | | | |
| **WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:** | | | | |
| Basic | 122,199,954 | 115,603,351 | 120,556,047 | 117,689,404 |
| Diluted | 134,242,144 | 135,380,036 | 133,174,000 | 135,537,050 |
| **NET INCOME PER SHARE OF COMMON STOCK:** | | | | |

| | | | | |
|---|---|---|---|---|
| Basic | $0.49 | $0.29 | $0.89 | $0.76 |
| Diluted | $0.45 | $0.26 | $0.81 | $0.70 |
| **DIVIDENDS DECLARED PER SHARE OF COMMON STOCK** | $0.25 | $0.20 | $0.50 | $0.56 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND 2012**

**(UNAUDITED)**

**(dollars in thousands)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **NET INCOME** | $ 62,748 | $ 33,673 | $ 112,318 | $ 96,891 |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:** | | | | |
| Currency translation adjustments | 12,157 | 14,306 | (18,610) | 12,352 |
| Amortization of interest rate hedge | 264 | 264 | 791 | 791 |
| Employee benefit plans: | | | | |
| Actuarial gain (loss) (net of tax (expense) benefit of $(25) and $994 for the three months ended September 30, 2013 and 2012, respectively, and $1,686 and $3,719 for the nine months ended September 30, 2013 and 2012, respectively) | 50 | (1,893) | (2,669) | (7,947) |
| Adjustment for items reclassified to earnings (net of tax expense of $404 and $278 for the three months ended September 30, 2013 and 2012, respectively, and $1,206 and $856 for the nine months ended September 30, 2013 and 2012, respectively) | 1,223 | 803 | 3,653 | 2,444 |
| **OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX** | 13,694 | 13,480 | (16,835) | 7,640 |
| **COMPREHENSIVE INCOME** | 76,442 | 47,153 | 95,483 | 104,531 |
| **LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS** | 2,523 | 1,086 | 5,201 | 7,784 |
| **COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD** | $ 73,919 | $ 46,067 | $ 90,282 | $ 96,747 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND 2012**

**(UNAUDITED)**

**(dollars in thousands)**

| | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 112,318 | $ 96,891 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Noncash items included in net income: | | |
| Depreciation and amortization of property | 25,465 | 22,472 |
| Amortization of deferred expenses, share-based incentive compensation and interest rate hedge | 239,357 | 252,812 |
| Amortization of intangible assets related to acquisitions | 2,758 | 6,172 |
| (Increase) decrease in operating assets: | | |
| Deposits with banks | 25,558 | 18,465 |
| Cash deposited with clearing organizations and other segregated cash | 6,291 | 13,614 |
| Receivables-net | (55,516) | 23,115 |
| Investments | (54,520) | (55,135) |
| Other assets | (81,898) | (54,449) |
| Increase (decrease) in operating liabilities: | | |
| Deposits and other payables | 14,158 | (28,361) |
| Accrued compensation and benefits and other liabilities | (66,104) | (55,770) |
| Net cash provided by operating activities | 167,867 | 239,826 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Additions to property | (54,344) | (71,722) |
| Disposals of property | 5,843 | 2,158 |
| Net cash used in investing activities | (48,501) | (69,564) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from: | | |
| Contribution from noncontrolling interests | 805 | 1,544 |
| Excess tax benefits from share-based incentive compensation | 2,211 | |
| Payments for: | | |
| Capital lease obligations | (2,092) | (1,878) |
| Distributions to noncontrolling interests | (10,228) | (17,399) |
| Purchase of Class A common stock | (77,934) | (222,679) |
| Class A common stock dividends | (60,931) | (66,219) |
| Settlement of vested share-based incentive compensation | (125,546) | (40,686) |
| Other financing activities | (165) | (99) |
| Net cash used in financing activities | (273,880) | (347,416) |

| | | |
|---|---|---|
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | (7,309) | 6,303 |
| | | |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (161,823) | (170,851) |
| **CASH AND CASH EQUIVALENTS January 1** | 850,190 | 1,003,791 |
| | | |
| **CASH AND CASH EQUIVALENTS September 30** | $ 688,367 | $ 832,940 |

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

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

**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012**

**(UNAUDITED)**

**(dollars in thousands)**

| | Series A Preferred Stock | | Common Stock | | | | Accumulated Other Comprehensive Income (Loss), | Class A Common Stock Held By Subsidiaries | | Total Lazard Ltd | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | $ | Shares(*) | $ | Additional Paid-In-Capital | Retained Earnings | Net of Tax | Shares | $ | Stockholders Equity | Noncontrolling Interests | Stockholders Equity |
| **Balance January 1, 2012** | **7,921** | **$** | **123,009,312** | **$ 1,230** | **$ 659,013** | **$ 258,646** | **$ (88,364)** | **3,492,017** | **$ (104,382)** | **$ 726,143** | **$ 140,713** | **$ 866,856** |
| Comprehensive income (loss): | | | | | | | | | | | | |
| Net income | | | | | | 89,674 | | | | 89,674 | 7,217 | 96,891 |
| Other comprehensive income (loss) - net of tax: | | | | | | | | | | | | |
| Currency translation adjustments | | | | | | | 11,547 | | | 11,547 | 805 | 12,352 |
| Amortization of interest rate hedge | | | | | | | 751 | | | 751 | 40 | 791 |
| Employee benefit plans: | | | | | | | | | | | | |
| Net actuarial loss | | | | | | | (7,545) | | | (7,545) | (402) | (7,947) |
| Adjustments for items reclassified to earnings | | | | | | | 2,320 | | | 2,320 | 124 | 2,444 |
| Comprehensive income | | | | | | | | | | 96,747 | 7,784 | 104,531 |
| Business acquisitions and related equity transactions: | | | | | | | | | | | | |
| Class A common stock issuable (including related amortization) | | | | | 3,369 | | | | | 3,369 | 180 | 3,549 |
| Amortization of share-based incentive compensation | | | | | 209,036 | | | | | 209,036 | 11,139 | 220,175 |
| Dividend-equivalents | | | | | 11,770 | (11,856) | | | | (86) | (5) | (91) |
| Class A common stock dividends | | | | | | (66,219) | | | | (66,219) | | (66,219) |
| Purchase of Class A common stock | | | | | | | | 8,235,306 | (222,679) | (222,679) | | (222,679) |
| Delivery of Class A common stock in connection with share-based incentive compensation and related tax expense of $972 | | | | | (141,781) | | | (3,196,018) | 100,172 | (41,609) | (49) | (41,658) |
| Class A common stock issued in exchange for Lazard Group common membership interests | | | 191,701 | 2 | (2) | | | | | | | |
| Distributions to noncontrolling interests, net | | | | | | | | | | | (15,855) | (15,855) |
| Deconsolidation of investment companies | | | | | | | | | | | (14,783) | (14,783) |
| Adjustments related to noncontrolling interests | | | | | 9,242 | | (117) | | | 9,125 | (9,125) | |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance** | **September 30, 2012** | **7,921** | **$** | **123,201,013** | **$ 1,232** | **$ 750,647** | **$ 270,245** | **$ (81,408)** | **8,531,305** | **$ (226,889)** | **$ 713,827** | **$ 119,999** | **$ 833,826** |

(*) Includes 123,009,311 and 123,201,012 shares of the Company s Class A common stock issued at January 1, 2012 and September 30, 2012, respectively, and 1 share of the Company s Class B common stock issued at each such date.

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

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

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

**(UNAUDITED)**

**(dollars in thousands)**

| | Series A Preferred Stock | | Common Stock | | | | Accumulated Other Comprehensive Income (Loss), | Class A Common Stock Held By Subsidiaries | | Total Lazard Ltd | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | $ | Shares(*) | $ | Additional Paid-In-Capital | Retained Earnings | Net of Tax | Shares | $ | Stockholders Equity | Noncontrolling Interests | Stockholders Equity |
| **Balance January 1, 2013** | **7,921** | **$** | **128,216,424** | **$ 1,282** | **$ 846,050** | **$ 182,647** | **$ (110,541)** | **12,802,938** | **$ (349,782)** | **$ 569,656** | **$ 81,884** | **$ 651,540** |
| Comprehensive income (loss): | | | | | | | | | | | | |
| Net income | | | | | | 106,995 | | | | 106,995 | 5,323 | 112,318 |
| Other comprehensive income (loss) - net of tax: | | | | | | | | | | | | |
| Currency translation adjustments | | | | | | | (18,478) | | | (18,478) | (132) | (18,610) |
| Amortization of interest rate hedge | | | | | | | 786 | | | 786 | 5 | 791 |
| Employee benefit plans: | | | | | | | | | | | | |
| Net actuarial loss | | | | | | | (2,654) | | | (2,654) | (15) | (2,669) |
| Adjustments for items reclassified to earnings | | | | | | | 3,633 | | | 3,633 | 20 | 3,653 |
| Comprehensive income | | | | | | | | | | 90,282 | 5,201 | 95,483 |
| Business acquisitions and related equity transactions: | | | | | | | | | | | | |
| Class A common stock issuable (including related amortization) | | | | | 829 | | | | | 829 | 5 | 834 |
| Delivery of Class A common stock (including dividend-equivalents) | | | | | (4,994) | (179) | | (170,988) | 5,173 | | | |
| Amortization of share-based incentive compensation | | | | | 182,338 | | | | | 182,338 | 1,003 | 183,341 |
| Dividend-equivalents | | | | | 8,440 | (8,604) | | | | (164) | (1) | (165) |
| Class A common stock dividends | | | | | | (60,931) | | | | (60,931) | | (60,931) |
| Purchase of Class A common stock | | | | | | | | 2,201,657 | (77,934) | (77,934) | | (77,934) |
| Delivery of Class A common stock in connection with shared-based incentive compensation and related tax benefit of $862 | | | | | (342,898) | (609) | | (7,519,848) | 218,819 | (124,688) | 4 | (124,684) |
| Class A common stock issued in exchange for Lazard Group common membership interests | | | 839,658 | 8 | (8) | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Distributions to noncontrolling interests, net | | | | | | | | | | (9,423) | (9,423) |
| Adjustments related to noncontrolling interests | | | | 3,984 | | (598) | | | 3,386 | (4,386) | (1,000) |
| **Balance September 30, 2013** | **7,921** | **$ 129,056,082** | **$ 1,290** | **$ 693,741** | **$ 219,319** | **$ (127,852)** | **7,313,759** | **$ (203,724)** | **$ 582,774** | **$ 74,287** | **$ 657,061** |

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

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

### *1. ORGANIZATION AND BASIS OF PRESENTATION*

***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 approximately 99.5% and 98.8% of all outstanding Lazard Group common membership interests as of September 30, 2013 and December 31, 2012, 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 owned by Lazard Group s current and former managing directors, held approximately 0.5% and 1.2% of the outstanding Lazard Group common membership interests as of September 30, 2013 and December 31, 2012, respectively. 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 0.5% and 1.2% of the voting power but no economic rights in the Company as of September 30, 2013 and December 31, 2012, respectively. Subject to certain limitations, LAZ-MD Holdings interests in Lazard Group are exchangeable for Lazard Ltd Class A common stock, par value $0.01 per share ( Class A common stock ).

Our sole operating asset is our indirect ownership of 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.

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**LAZARD LTD**

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

**(UNAUDITED)**

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

***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, 2012 (the Form 10-K ). The accompanying December 31, 2012 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. 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, 2013 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 (i) entities in which it has a controlling financial interest, (ii) variable interest entities ( VIEs ) where the Company has a variable interest and is deemed to be the primary beneficiary and (iii) limited partnerships where the Company is the general partner, unless the presumption of control is overcome. 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.

***2. RECENT ACCOUNTING DEVELOPMENTS***

*Offsetting (Netting) Assets and Liabilities* In the first quarter of 2013, the Company adopted the new disclosure requirements issued by the Financial Accounting Standards Board (the FASB ) regarding the nature of an entity s rights of setoff and related arrangements associated with its financial instruments, including derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either (i) offset or (ii) subject to an enforceable master netting arrangement. The new disclosures are designed to make financial statements prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards ( IFRS ) and will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position. The disclosure requirements are effective for interim and annual reporting periods beginning on or after January 1, 2013, with retrospective application required. The adoption of the new disclosure requirements did not have a material impact on the Company s consolidated financial statements.

*Reclassifications Out of Accumulated Other Comprehensive Income* In the first quarter of 2013, the Company adopted the FASB s amended guidance regarding the presentation of amounts reclassified out of accumulated other comprehensive income. The amendment required that the amounts reclassified out of accumulated other comprehensive income be presented by component and disclosed where the respective line item was reported in the consolidated statement of operations. The amendment was to be applied prospectively, and is effective with interim and annual periods beginning after December 15, 2012, with early adoption permitted. The adoption of the amended guidance did not have a material impact on the Company s consolidated financial statements.

*Presentation of Unrecognized Tax Benefits* In July 2013, 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. The Company is currently evaluating this guidance, but does not anticipate its adoption will have a material impact on the Company s consolidated financial statements.

### *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 of $26,160 and $23,017 at September 30, 2013 and December 31, 2012, respectively, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. The Company recorded bad debt expense (recoveries) of $(198) and $1,644 for the three month and nine month periods ended September 30, 2013, respectively, and $1,553 and $2,701 for the three month and nine month periods ended September 30, 2012, respectively. In addition, the Company recorded charge-offs, foreign currency translation and other adjustments, which resulted in a net increase to the allowance for doubtful accounts of $1,765 and $1,499 for the three month and nine month periods ended September 30, 2013, respectively, and $15 and $173 for the three month and nine month periods ended September 30, 2012, respectively. At September 30, 2013 and December 31, 2012, the Company had receivables past due or deemed uncollectible of $36,255 and $25,604, respectively.

Of the Company s total receivables at September 30, 2013 and December 31, 2012, $58,531 and $76,481, respectively, represented interest-bearing financing fee receivables. Based upon our historical loss experience, the credit quality of the counterparties, and the lack of past due or uncollectible amounts, there was no allowance for doubtful accounts required at those dates related to such receivables.

The aggregate carrying amount of our non-interest bearing receivables of $477,620 and $401,562 at September 30, 2013 and December 31, 2012, respectively, approximates fair value.

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**LAZARD LTD**

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

**(UNAUDITED)**

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

### *4. INVESTMENTS*

The Company s investments and securities sold, not yet purchased, consisted of the following at September 30, 2013 and December 31, 2012:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Debt (including interest-bearing deposits of $519 and $578, respectively) | $ 7,501 | $ 5,948 |
| Equities | 55,467 | 44,992 |
| Funds: | | |
| Alternative investments (a) | 45,809 | 57,890 |
| Debt (a) | 58,605 | 32,077 |
| Equity (a) | 177,831 | 154,310 |
| Private equity | 115,568 | 112,444 |
| | 397,813 | 356,721 |
| Equity method | 8,941 | 7,012 |
| Total investments | 469,722 | 414,673 |
| Less: | | |
| Interest-bearing deposits | 519 | 578 |
| Equity method | 8,941 | 7,012 |
| Investments, at fair value | $ 460,262 | $ 407,083 |
| Securities sold, not yet purchased, at fair value (included in other liabilities ) | $ 4,075 | $ 2,755 |

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of $7,886, $31,029 and $125,571, respectively, at September 30, 2013 and $5,054, $18,615 and $76,907, respectively, at December 31, 2012, held in order to satisfy the Company s liability upon vesting of previously granted Lazard Fund Interests ( Lazard Fund Interests ) and other similar deferred compensation arrangements. Lazard Fund Interests 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).

Debt securities primarily consist of seed investments invested in debt securities held within separately managed accounts related to our Asset Management business and non-U.S. government debt securities.

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.

Interests in 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, which invest in debt securities, and amounts related to Lazard Fund Interests discussed above.

Equity funds primarily consist of seed investments in funds related to our Asset Management business, which are invested in equity securities, and amounts related to Lazard Fund Interests discussed above.

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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) 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 2 ( COF2 ), a Lazard-managed Australian fund targeting Australasian 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 $12,379 and $11,490 at September 30, 2013 and December 31, 2012, respectively (see Note 10 of Notes to Condensed Consolidated Financial Statements).

During the three month and nine month periods ended September 30, 2013 and 2012, 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 (including, for the three month and nine month periods ended September 30, 2012, restated amounts pertaining to certain non-broker dealer subsidiaries):

| | Three Month Period Ended September 30, | | Nine Month Period Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Gross unrealized investment gains | $ 10,925 | $ 11,825 | $ 12,044 | $ 19,137 |
| Gross unrealized investment losses | $ | $ | $ 3,907 | $ 35 |

### 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.

*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 non-U.S. Government and other 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.

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

**(UNAUDITED)**

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

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 either Level 2 or Level 3 depending on the time frame of any applicable redemption restriction, and is valued at NAV or its equivalent, which is primarily determined based on information provided by external fund administrators.

The fair value of investments in debt funds is classified as Level 1 when the fair values are primarily based on the 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, 2 or 3 as follows: publicly traded asset management funds are classified as Level 1 and are valued based on the reported closing price for the fund; 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; and funds valued based on NAV or its equivalent that are not redeemable within the near term are classified as Level 3.

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

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

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

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

The following tables present the classification of investments and certain other assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 within the fair value hierarchy:

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Investments: | | | | |
| Debt (excluding interest-bearing deposits) | $ 1,090 | $ 5,892 | $ | $ 6,982 |
| Equities | 54,144 | | 1,323 | 55,467 |
| Funds: | | | | |
| Alternative investments | | 45,809 | | 45,809 |
| Debt | 58,601 | 4 | | 58,605 |
| Equity | 177,792 | 39 | | 177,831 |
| Private equity | | | 115,568 | 115,568 |
| Derivatives | | 313 | | 313 |
| Total | $ 291,627 | $ 52,057 | $ 116,891 | $ 460,575 |
| **Liabilities:** | | | | |
| Securities sold, not yet purchased | $ 4,075 | $ | $ | $ 4,075 |
| Derivatives | | 159,267 | | 159,267 |
| Total | $ 4,075 | $ 159,267 | $ | $ 163,342 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Investments: | | | | |
| Debt (excluding interest-bearing deposits) | $ 1,443 | $ 3,927 | $ | $ 5,370 |
| Equities | 44,802 | | 190 | 44,992 |
| Funds: | | | | |
| Alternative investments | | 54,433 | 3,457 | 57,890 |
| Debt | 32,073 | 4 | | 32,077 |
| Equity | 145,231 | 9,069 | 10 | 154,310 |
| Private equity | | | 112,444 | 112,444 |
| Derivatives | | 933 | | 933 |
| Total | $ 223,549 | $ 68,366 | $ 116,101 | $ 408,016 |
| **Liabilities:** | | | | |
| Securities sold, not yet purchased | $ 2,696 | $ 59 | $ | $ 2,755 |
| Derivatives | | 102,492 | | 102,492 |

| | | | | |
|---|---|---|---|---|
| Total | $ 2,696 | $ 102,551 | $ | $ 105,247 |

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, 2013 and 2012.

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**LAZARD LTD**

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

**(UNAUDITED)**

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

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, 2013 and 2012:

| | Three Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: | | | | | | |
| Equities | $ 637 | $ 2 | $ 650 | $ | $ 34 | $ 1,323 |
| Alternative investment funds | 11 | (11) | | | | |
| Private equity funds | 112,833 | 5,174 | 2,907 | (6,848) | 1,502 | 115,568 |
| Total Level 3 Assets | $ 113,481 | $ 5,165 | $ 3,557 | $ (6,848) | $ 1,536 | $ 116,891 |

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

| | Three Months Ended September 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |

| | | In Revenue-Other (a) | | | | |
|---|---|---|---|---|---|---|
| Investments: | | | | | | |
| Equities | $ 181 | $ | $ | $ | $ 5 | $ 186 |
| Alternative investment funds | 4,626 | 18 | 10 | (1,209) | | 3,445 |
| Private equity funds | 113,991 | (522) | 2,945 | (348) | 1,128 | 117,194 |
| Total Level 3 Assets | $ 118,798 | $ (504) | $ 2,955 | $ (1,557) | $ 1,133 | $ 120,825 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

| | Nine Months Ended September 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a) | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: | | | | | | |
| Equities | $ 211 | $ 5 | $ | $ (30) | $ | $ 186 |
| Alternative investment funds | 10,171 | 107 | 20 | (6,853) | | 3,445 |
| Private equity funds | 122,718 | 11,828 | 5,697 | (23,093) | 44 | 117,194 |
| Total Level 3 Assets | $ 133,100 | $ 11,940 | $ 5,717 | $ (29,976) | $ 44 | $ 120,825 |

(a) Earnings for the three month and nine month periods ended September 30, 2013 and the three month and nine month periods ended September 30, 2012 include net unrealized gains (losses) of $2,680, $6,007, $(460) and $9,103, respectively.

***Fair Value of Certain Investments Based on NAV*** The Company s Level 2 and Level 3 investments at September 30, 2013 and December 31, 2012 include certain investments that are valued using NAV or its equivalent as a practical expedient in determining fair value. Information with respect thereto was as follows:

| | September 30, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Estimated Liquidation Period of Investments Not Redeemable | | | Investments Redeemable | |
| | Fair Value | Unfunded Commitments | % of Fair Value Not Redeemable | % Next 5 Years | % 5-10 Years | % Thereafter | Redemption Frequency | Redemption Notice Period |
| Alternative investment funds | $ 45,809 | $ | NA | NA | NA | NA | (a) | <30-90 days |
| Debt funds | 4 | | NA | NA | NA | NA | (b) | 30 days |
| Equity funds | 39 | | NA | NA | NA | NA | (c) | <30-90 days |
| Private equity funds | 115,568 | 27,685 | 100% | 13% | 36% | 51% | NA | NA |
| Total | $ 161,420 | $ 27,685 | | | | | | |

Redemption frequency as follows:

(a) daily (1%), weekly (12%), monthly (55%) and quarterly (32%)
(b) daily (100%)
(c) daily (13%), monthly (58%) and quarterly (29%)

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

**(UNAUDITED)**

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

| | December 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Estimated Liquidation Period of Investments Not Redeemable | | | Investments Redeemable | |
| | Fair Value | Unfunded Commitments | % of Fair Value Not Redeemable | % Next 5 Years | % 5-10 Years | % Thereafter | Redemption Frequency | Redemption Notice Period |
| Alternative investment funds | $ 57,890 | $ | NA | NA | NA | NA | (a) | <30-120 days |
| Debt funds | 4 | | NA | NA | NA | NA | (b) | 30 days |
| Equity funds | 9,079 | | 2% | % | % | 2% | (c) | 30-120 days |
| Private equity funds | 112,444 | 31,482 | 100% | 13% | 39% | 48% | NA | NA |
| Total | $ 179,417 | $ 31,482 | | | | | | |

Redemption frequency as follows:

(a) daily (10%), weekly (9%), monthly (38%) and quarterly (43%)
(b) daily (100%)
(c) daily (37%) and monthly (61%)

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

***Investment Capital Funding Commitments*** At September 30, 2013, the Company s maximum unfunded commitments for capital contributions to investment funds arose from (i) commitments to Corporate Partners II Limited ( CP II ), which amounted to $1,940 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 $18,501 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 $7,244 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, equity and fixed income swaps and other derivative contracts to hedge exposures to fluctuations in currency exchange rates, interest rates and equity and debt prices. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company s derivative instruments are recorded at their fair value, and are included in other assets and other liabilities on the 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 Lazard Fund Interests awards and other similar deferred compensation arrangements, the fair value of which is based on the value of the underlying investments, adjusted for estimated forfeitures, and is

**LAZARD LTD**

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

**(UNAUDITED)**

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

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 Lazard Fund Interests awards 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 Lazard Fund Interests 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, 2013 and December 31, 2012:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **Derivative Assets:** | | |
| Forward foreign currency exchange rate contracts | $ 313 | $ 893 |
| Equity and fixed income swaps and other (a) | | 40 |
| | $ 313 | $ 933 |
| **Derivative Liabilities:** | | |
| Forward foreign currency exchange rate contracts | $ 1,136 | $ 322 |
| Interest rate swaps | | 235 |
| Equity and fixed income swaps (a) | 1,825 | 4,342 |
| Lazard Fund Interests and other similar deferred compensation arrangements | 156,306 | 97,593 |
| | $ 159,267 | $ 102,492 |

(a) For equity and fixed income swaps, amounts represent the netting of gross derivative assets and liabilities of $480 and $2,305 as of September 30, 2013, respectively, and $0 and $4,342 as of December 31, 2012, 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 $14,684 and $15,304 as of September 30, 2013 and December 31, 2012, respectively.

Net gains (losses) with respect to derivative instruments (predominantly reflected in revenue-other ) and the Company s derivative liabilities relating to its obligations pertaining to Lazard Fund Interests 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, 2013 and 2012, were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Forward foreign currency exchange rate contracts | $ (5,310) | $ (3,377) | $ (1,705) | $ (1,248) |

| | | | | |
|---|---|---|---|---|
| Lazard Fund Interests and other similar deferred compensation arrangements | (7,519) | (4,728) | (7,767) | (4,639) |
| Equity and fixed income swaps and other | (6,520) | (7,471) | (6,872) | (14,096) |
| Total | $ (19,349) | $ (15,576) | $ (16,344) | $ (19,983) |

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**LAZARD LTD**

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

**(UNAUDITED)**

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

### 7. PROPERTY

At September 30, 2013 and December 31, 2012, property consisted of the following:

| | Estimated Depreciable Life in Years | September 30, 2013 | December 31, 2012 |
|---|---|---|---|
| Buildings | 33 | $170,479 | $166,560 |
| Leasehold improvements | 3-20 | 173,303 | 143,408 |
| Furniture and equipment | 3-10 | 146,504 | 122,125 |
| Construction in progress | | 4,128 | 18,801 |
| Total | | 494,414 | 450,894 |
| Less - accumulated depreciation and amortization | | 244,634 | 225,861 |
| Property | | $249,780 | $225,033 |

### 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangible assets at September 30, 2013 and December 31, 2012 are presented below:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Goodwill | $ 350,619 | $ 364,328 |
| Other intangible assets (net of accumulated amortization) | 25,782 | 28,494 |
| | $ 376,401 | $ 392,822 |

At September 30, 2013 and December 31, 2012, goodwill of $286,078 and $299,787, respectively, was attributable to the Company s Financial Advisory segment and, at each such respective date, $64,541 of goodwill was attributable to the Company s Asset Management segment.

Changes in the carrying amount of goodwill for the nine month periods ended September 30, 2013 and 2012 are as follows:

| | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|
| Balance, January 1 | $ 364,328 | $ 356,657 |
| Business acquisitions | 1,601 | 4,272 |

| | | |
|---|---|---|
| Foreign currency translation adjustments | (15,310) | 3,832 |
| Balance, September 30 | $ 350,619 | $ 364,761 |

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

The gross cost and accumulated amortization of other intangible assets as of September 30, 2013 and December 31, 2012, by major intangible asset category, are as follows:

| | September 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Gross Cost | Accumulated Amortization | Net Carrying Amount | Gross Cost | Accumulated Amortization | Net Carrying Amount |
| Success/performance fees | $ 30,740 | $ 10,726 | $ 20,014 | $ 30,740 | $ 10,678 | $ 20,062 |
| Management fees, customer relationships and non-compete agreements | 33,081 | 27,313 | 5,768 | 33,035 | 24,603 | 8,432 |
| | $ 63,821 | $ 38,039 | $ 25,782 | $ 63,775 | $ 35,281 | $ 28,494 |

Amortization expense of intangible assets for the three month and nine month periods ended September 30, 2013 was $877 and $2,758, respectively, and for the three month and nine month periods ended September 30, 2012 was $2,494 and $6,172, respectively. Estimated future amortization expense is as follows:

| Year Ending December 31, | Amortization Expense (a) |
|---|---|
| 2013 (October 1 through December 31) | $ 2,589 |
| 2014 | 11,574 |
| 2015 | 6,438 |
| 2016 | 5,181 |
| Total amortization expense | $ 25,782 |

(a) Approximately 45% of intangible asset amortization is attributable to a noncontrolling interest.

### 9. *SENIOR DEBT*

Senior debt was comprised of the following as of September 30, 2013 and December 31, 2012:

| | Initial Principal Amount | Maturity Date | Annual Interest Rate | Outstanding As Of September 30, 2013 | Outstanding As Of December 31, 2012 |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Lazard Group 7.125% Senior Notes | $ 550,000 | 5/15/15 | 7.125% | $ 528,500 | $ 528,500 |
| Lazard Group 6.85% Senior Notes | 600,000 | 6/15/17 | 6.85% | 548,350 | 548,350 |
| Lazard Group Credit Facility | 150,000 | 9/25/15 | 0.76% | | |
| Total | | | | $ 1,076,850 | $ 1,076,850 |

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, 2013, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 0.76%. At September 30, 2013 and December 31, 2012, no amounts were outstanding under the Credit Facility.

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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, 2013, the Company was in compliance with such provisions. All of the Company s senior debt obligations are unsecured.

As of September 30, 2013, the Company had approximately $264,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately $54,000 (at September 30, 2013 exchange rates) and Edgewater of $55,000. 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, 2013 and December 31, 2012 is carried at historical amounts. At those dates, the fair value of such senior debt outstanding was approximately $1,197,000 and $1,207,000, respectively, and exceeded the aggregate carrying value by approximately $120,000 and $130,000, respectively. The fair value of the Company s senior debt was based on market quotations. The Company s senior debt would be categorized within Level 2 of the hierarchy of fair value measurements if carried at fair value.

### *10. COMMITMENTS AND CONTINGENCIES*

***Leases*** The Company has various leases and other contractual commitments arising in the ordinary course of business. In the opinion of management, the fulfillment of such commitments, in accordance with their terms, will not have a material adverse effect on the Company s consolidated financial position or results of operations.

***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, 2013, LFB had $4,337 of such indemnifications and held $3,572 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, 2013 and December 31, 2012, 1,371,992 and 1,209,154 shares, respectively, have been earned because applicable performance thresholds have been satisfied. Such shares are no longer subject to any contingencies. As of December 31, 2012, 686,004 of such shares have been settled, and no additional shares have been settled as of September 30, 2013.

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***Consideration Relating To Other Business Acquisitions*** For a business acquired in 2013, the Company is obligated to issue a maximum of 107,617 shares of Class A common stock if certain performance thresholds are achieved.

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 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.

For a business acquired in 2011, the Company is obligated to pay earnout consideration if certain performance thresholds are achieved. The maximum potential earnout consideration payable by the Company cannot exceed $7,000. Through September 30, 2013, no cash payments relating to the earnout consideration were required.

***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, 2013, 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, LFB enters into underwriting commitments in which it participates as a joint underwriter. The settlement of such transactions are not expected to have a material adverse effect on the Company s consolidated financial position or results of operations. At September 30, 2013, LFB 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 by LAZ-MD Holdings. Pursuant to provisions of the Operating

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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 and the members of LAZ-MD Holdings incur as a result of holding Lazard Group common membership interests.

During the nine month periods ended September 30, 2013 and 2012, 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, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|
| LAZ-MD Holdings | $ 565 | $ 3,729 |
| Subsidiaries of Lazard Ltd | 60,931 | 66,219 |
| | $ 61,496 | $ 69,948 |

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, 2013 and 2012, Lazard Ltd issued 839,658 and 191,701 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 Noncontrolling Interests below for additional information regarding Lazard Ltd s and LAZ-MD Holdings ownership interests in Lazard Group.

***Share Repurchase Program*** In February 2011, October 2011, April 2012 and October 2012 the Board of Directors of Lazard Ltd authorized, on a cumulative basis, the repurchase of up to $250,000, $125,000, $125,000 and $200,000, respectively, in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2012, December 31, 2013, December 31, 2013 and December 31, 2014, respectively. The Company s prior share repurchase authorizations expired on December 31, 2009 and December 31, 2011. The Company expects that the share repurchase program, with respect to the Class A common stock, will continue to be used, among other ways, 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 such authorizations, purchases have been made in the open market or through privately negotiated transactions. During the nine month period ended September 30, 2013, the Company made purchases of 2,201,657 Class A common shares, at an aggregate cost of $77,934 (no Lazard Group common membership interests were purchased during such nine month period).

As of September 30, 2013, $76,132 of the current share repurchase amount authorized as of such date remained available under the share repurchase program, all of which expires December 31, 2014. In addition, under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of restricted stock units ( RSUs ), performance-based restricted stock units ( PRSUs ) and delivery of restricted Class A common stock, shares of Class A common stock may be withheld by the Company to cover its minimum statutory tax withholding requirements (see Note 12 of Notes to Condensed Consolidated Financial Statements).

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In October 2013, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional $100,000 in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2015.

***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, are each non-participating securities convertible into Class A common stock and have no voting or dividend rights. As of both September 30, 2013 and December 31, 2012, 7,921 shares of Series A preferred stock were outstanding and no shares of Series B preferred stock were outstanding. At September 30, 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 table below reflects the components of AOCI at September 30, 2013 and activity during the nine month period then ended:

| | Currency Translation Adjustments | Interest Rate Hedge | Employee Benefit Plans | Total AOCI | Amount Attributable to Noncontrolling Interests | Total Lazard Ltd AOCI |
|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | $ 19,405 | $ (2,502) | $ (128,536) | $ (111,633) | $ (1,092) | $ (110,541) |
| Activity January 1 to September 30, 2013: | | | | | | |
| Other comprehensive gain (loss) before reclassifications | (18,610) | | (2,669) | (21,279) | 451 | (21,730) |
| Adjustments for items reclassified to earnings, net of tax | | 791 | 3,653 | 4,444 | 25 | 4,419 |
| Net other comprehensive income (loss) | (18,610) | 791 | 984 | (16,835) | 476 | (17,311) |
| Balance, September 30, 2013 | $ 795 | $ (1,711) | $ (127,552) | $ (128,468) | $ (616) | $ (127,852) |

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

| | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
|---|---|---|
| Amortization of interest rate hedge | $ 264 (a) | $ 791 (a) |
| Amortization relating to employee benefit plans | 1,627 (b) | 4,859 (b) |
| Less - related income taxes | 404 | 1,206 |

| | | | | |
|---|---|---|---|---|
| Net of tax | | 1,223 | | 3,653 |
| Total reclassifications, net of tax | $ | 1,487 | $ | 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.

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***Noncontrolling Interests*** Noncontrolling interests principally represent interests held in (i) Lazard Group by LAZ-MD Holdings and (ii) Edgewater s management vehicles that the Company is deemed to control, but does not own.

The following tables summarize the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings during the nine month periods ended September 30, 2013 and 2012:

| | Lazard Ltd | | LAZ-MD Holdings | | Total Lazard Group Common Membership Interests |
|---|---|---|---|---|---|
| | Common Membership Interests | % Ownership | Common Membership Interests | % Ownership | |
| Balance, January 1, 2012 | 123,009,311 | 94.8% | 6,756,779 | 5.2% | 129,766,090 |
| Activity January 1, 2012 to September 30, 2012: | | | | | |
| Common membership interest activity in connection with: | | | | | |
| Exchanges for Class A common stock | 191,701 | | (191,701) | | |
| Balance, September 30, 2012 | 123,201,012 | 94.9% | 6,565,078 | 5.1% | 129,766,090 |
| Balance, January 1, 2013 | 128,216,423 | 98.8% | 1,549,667 | 1.2% | 129,766,090 |
| Activity January 1, 2013 to September 30, 2013: | | | | | |
| Common membership interest activity in connection with: | | | | | |
| Exchanges for Class A common stock | 839,658 | | (839,658) | | |
| Balance, September 30, 2013 | 129,056,081 | 99.5% | 710,009 | 0.5% | 129,766,090 |

The change in Lazard Ltd s ownership in Lazard Group in the nine month periods ended September 30, 2013 and 2012 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, 2013 and 2012 and noncontrolling interests as of September 30, 2013 and December 31, 2012 in the Company s condensed consolidated financial statements:

| | Net Income (Loss) Attributable To Noncontrolling Interests | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|---|---|---|---|---|
| Edgewater | $ 2,018 | $ (1,704) | $ 4,671 | $ 2,168 |
| LAZ-MD Holdings | 365 | 1,937 | 862 | 4,956 |
| Other | 83 | 139 | (210) | 93 |
| Total | $ 2,466 | $ 372 | $ 5,323 | $ 7,217 |

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| | Noncontrolling Interests As Of | |
|---|---|---|
| | September 30, 2013 | December 31, 2012 |
| Edgewater | $ 71,075 | $ 75,262 |
| LAZ-MD Holdings | 2,629 | 5,405 |
| Other | 583 | 1,217 |
| Total | $ 74,287 | $ 81,884 |

***Dividend Declared, October 2013*** On October 23, 2013, the Board of Directors of Lazard Ltd declared a quarterly dividend of $0.25 per share on its Class A common stock, payable on November 22, 2013, to stockholders of record on November 4, 2013.

***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 nine month periods ended September 30, 2013 and 2012, 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, 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, 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Share-based incentive awards: | | | | |

| | | | | |
|---|---|---|---|---|
| RSUs (a) | $ 46,095 | $ 65,952 | $ 163,184 | $ 211,271 |
| PRSUs | 6,467 | | 8,900 | |
| Restricted stock (b) | 2,627 | 1,659 | 9,712 | 7,538 |
| DSUs | 71 | 78 | 1,545 | 1,366 |
| Total | $ 55,260 | $ 67,689 | $ 183,341 | $ 220,175 |

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(a) Includes $0 and $9,099 during the three month and nine month periods ended September 30, 2013 relating to the Cost Saving Initiatives (see Note 14 of Notes to Condensed Consolidated Financial Statements).

(b) Includes $0 and $247 during the three month and nine month periods ended September 30, 2013 relating to the Cost Saving Initiatives.

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, RSU 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 Class A common stock on a one-for-one basis after the stipulated vesting periods. PRSUs, which are a form of RSUs that are also subject to service-based vesting conditions, have additional 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 periods.

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 ordinary quarterly dividends paid on Class A common stock during such period. During the nine month periods ended September 30, 2013 and 2012, 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, | |
|---|---|---|
| | **2013** | **2012** |
| Number of RSUs issued | 250,834 | 479,958 |
| Charges to retained earnings, net of estimated forfeitures | $ 8,216 | $ 11,770 |

Non-executive members of the Board of 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 39,315 and 49,982 DSUs granted during the nine month periods ended September 30, 2013 and 2012, 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 Class A common stock at the time of cessation of service to the Board and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. DSUs

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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, 2013 and 2012.

The Company s Directors Fee Deferral Unit Plan permits its Non-Executive Directors to elect to receive additional DSUs 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 on which the foregone cash fees would otherwise have been paid. During the nine month periods ended September 30, 2013 and 2012, 5,880 and 7,988 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, 2013 and 2012:

| | RSUs | | DSUs | |
|---|---|---|---|---|
| | Units | Weighted Average Grant Date Fair Value | Units | Weighted Average Grant Date Fair Value |
| Balance, January 1, 2013 | 21,481,131 | $ 33.92 | 204,496 | $ 31.47 |
| Granted (including 250,834 RSUs relating to dividend participation) | 4,862,379 | $ 36.92 | 45,195 | $ 34.18 |
| Forfeited | (239,117) | $ 34.63 | | |
| Vested | (9,363,792) | $ 34.78 | | |
| Balance, September 30, 2013 | 16,740,601 | $ 34.30 | 249,691 | $ 31.96 |