
**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 March 31, 2014

OR

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

For the transition period from _____ to _____

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

Bermuda

(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 April 25, 2014, there were 129,056,081 shares of the Registrant's Class A common stock (including 6,230,717 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 March 31, 2014 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

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LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2014 AND DECEMBER 31, 2013
(UNAUDITED)
(dollars in thousands, except for per share data)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 666,589	\$ 841,482
Deposits with banks	274,391	244,879
Cash deposited with clearing organizations and other segregated cash	64,460	62,046
Receivables (net of allowance for doubtful accounts of \$31,324 and \$28,777 at March 31, 2014 and December 31, 2013, respectively):		
Fees	401,037	452,535
Customers and other	117,860	52,220
Related parties	4,185	7,920
	<u>523,082</u>	<u>512,675</u>
Investments	417,295	478,105
Property (net of accumulated amortization and depreciation of \$262,928 and \$253,930 at March 31, 2014 and December 31, 2013, respectively)	242,977	248,796
Goodwill and other intangible assets (net of accumulated amortization of \$46,599 and \$45,379 at March 31, 2014 and December 31, 2013, respectively)	366,921	363,877
Other assets	342,488	259,277
Total Assets	<u>\$2,898,203</u>	<u>\$ 3,011,137</u>

See notes to condensed consolidated financial statements.

LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2014 AND DECEMBER 31, 2013
(UNAUDITED)
(dollars in thousands, except for per share data)

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits and other customer payables	\$ 350,114	\$ 275,434
Accrued compensation and benefits	339,162	523,063
Senior debt	1,048,350	1,048,350
Capital lease obligations	15,246	15,834
Related party payables	2,582	5,031
Other liabilities	587,108	513,427
Total Liabilities	2,342,562	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 March 31, 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; 129,056,081 shares issued and outstanding at March 31, 2014 and December 31, 2013, including shares held by subsidiaries as indicated below)	1,291	1,291
Class B, par value \$.01 per share (1 share authorized, issued and outstanding at March 31, 2014 and December 31, 2013)	-	-
Additional paid-in-capital	556,711	737,899
Retained earnings	242,818	203,236
Accumulated other comprehensive loss, net of tax	(126,383)	(133,004)
	674,437	809,422
Class A common stock held by subsidiaries, at cost (6,060,439 and 8,317,065 shares at March 31, 2014 and December 31, 2013, respectively)	(188,593)	(249,213)
Total Lazard Ltd Stockholders' Equity	485,844	560,209
Noncontrolling interests	69,797	69,789
Total Stockholders' Equity	555,641	629,998
Total Liabilities and Stockholders' Equity	<u>\$2,898,203</u>	<u>\$3,011,137</u>

See notes to condensed consolidated financial statements.

LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(UNAUDITED)
(dollars in thousands, except for per share data)

	Three Months Ended	
	March 31,	
	2014	2013
REVENUE		
Investment banking and other advisory fees	\$ 272,675	\$168,104
Money management fees	253,031	231,137
Interest income	1,419	1,131
Other	22,228	21,686
Total revenue	549,353	422,058
Interest expense	15,953	20,155
Net revenue	533,400	401,903
OPERATING EXPENSES		
Compensation and benefits	321,565	277,739
Occupancy and equipment	28,312	29,304
Marketing and business development	19,233	18,192
Technology and information services	23,487	22,980
Professional services	7,591	8,613
Fund administration and outsourced services	15,454	13,465
Amortization of intangible assets related to acquisitions	1,220	877
Other	9,358	9,136
Total operating expenses	426,220	380,306
OPERATING INCOME	107,180	21,597
Provision for income taxes	21,751	3,948
NET INCOME	85,429	17,649
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,587	2,289
NET INCOME ATTRIBUTABLE TO LAZARD LTD	\$ 80,842	\$ 15,360
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:		
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	121,776,207	117,708,204
Diluted	134,025,991	132,815,560
NET INCOME PER SHARE OF COMMON STOCK:		
Basic	\$0.66	\$0.13
Diluted	\$0.61	\$0.12
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	\$0.30	-

See notes to condensed consolidated financial statements.

LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(UNAUDITED)
(dollars in thousands)

	Three Months Ended	
	March 31,	
	2014	2013
NET INCOME	<u>\$85,429</u>	<u>\$ 17,649</u>
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Currency translation adjustments	5,913	(12,433)
Amortization of interest rate hedge	–	264
Employee benefit plans:		
Actuarial loss (net of tax benefit of \$50 and \$1,795 for the three months ended March 31, 2014 and 2013, respectively)	(557)	(3,423)
Adjustment for items reclassified to earnings (net of tax expense of \$532 and \$402 for the three months ended March 31, 2014 and 2013, respectively)	1,289	1,218
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	<u>6,645</u>	<u>(14,374)</u>
COMPREHENSIVE INCOME	92,074	3,275
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,611	2,132
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD	<u>\$87,463</u>	<u>\$ 1,143</u>

See notes to condensed consolidated financial statements.

LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(UNAUDITED)
(dollars in thousands)

	Three Months Ended	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 85,429	\$ 17,649
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property	8,859	8,059
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	83,023	88,074
Amortization of intangible assets related to acquisitions	1,220	877
(Increase) decrease in operating assets:		
Deposits with banks	(29,370)	30,635
Cash deposited with clearing organizations and other segregated cash	(2,284)	2,812
Receivables-net	(9,149)	11,333
Investments	61,090	4,954
Other assets	(102,518)	(77,560)
Increase (decrease) in operating liabilities:		
Deposits and other payables	71,680	(13,792)
Accrued compensation and benefits and other liabilities	(114,174)	(146,126)
Net cash provided by (used in) operating activities	<u>53,806</u>	<u>(73,085)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(3,153)	(29,198)
Disposals of property	250	2,631
Net cash used in investing activities	<u>(2,903)</u>	<u>(26,567)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Contributions from noncontrolling interests	384	–
Excess tax benefits from share-based incentive compensation	1,925	2,211
Payments for:		
Capital lease obligations	(583)	(1,004)
Distributions to noncontrolling interests	(4,312)	(2,617)
Purchase of Class A common stock	(106,935)	(30,168)
Class A common stock dividends	(35,917)	–
Settlement of vested share-based incentive compensation	(82,021)	(116,954)
Other financing activities	(332)	–
Net cash used in financing activities	<u>(227,791)</u>	<u>(148,532)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,995	(15,895)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(174,893)	(264,079)
CASH AND CASH EQUIVALENTS—January 1	<u>841,482</u>	<u>850,190</u>
CASH AND CASH EQUIVALENTS—March 31	<u>\$ 666,589</u>	<u>\$ 586,111</u>

See notes to condensed consolidated financial statements.

LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 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						15,360				15,360	2,289	17,649
Other comprehensive loss - net of tax							(14,217)			(14,217)	(157)	(14,374)
Business acquisitions and related equity transactions:												
Class A common stock issuable (including related amortization)					446					446	5	451
Delivery of Class A common stock (including dividend-equivalents)					(4,994)	(179)		(170,988)	5,173	–		–
Amortization of share-based incentive compensation					69,868					69,868	844	70,712
Purchase of Class A common stock								831,157	(30,168)	(30,168)		(30,168)
Delivery of Class A common stock in connection with shared-based incentive compensation and related tax benefit of \$862					(307,883)	(609)		(6,658,417)	192,390	(116,102)	10	(116,092)
Distributions to noncontrolling interests, net										–	(2,617)	(2,617)
Adjustments related to noncontrolling interests					1,757					1,757	(1,757)	–
Other					(78)	78				–		–
Balance – March 31, 2013	7,921	\$ –	128,216,424	\$ 1,282	\$ 605,166	\$ 197,297	\$ (124,758)	6,804,690	\$(182,387)	\$ 496,600	\$ 80,501	\$ 577,101

(*) Includes 128,216,423 shares of the Company's Class A common stock issued at January 1, 2013 and March 31, 2013, and 1 share of the Company's Class B common stock issued at each such date.

See notes to condensed consolidated financial statements.

LAZARD LTD
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 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	<u>7,921</u>	<u>\$ –</u>	<u>129,056,082</u>	<u>\$ 1,291</u>	<u>\$ 737,899</u>	<u>\$ 203,236</u>	<u>\$ (133,004)</u>	<u>8,317,065</u>	<u>\$ (249,213)</u>	<u>\$ 560,209</u>	<u>\$ 69,789</u>	<u>\$ 629,998</u>
Comprehensive income:												
Net income						80,842				80,842	4,587	85,429
Other comprehensive income - net of tax							6,621			6,621	24	6,645
Business acquisitions and related equity transactions:												
Class A common stock issuable (including related amortization)					128					128	1	129
Amortization of share-based incentive compensation					60,464					60,464	333	60,797
Dividend-equivalents					5,013	(5,343)				(330)	(2)	(332)
Class A common stock dividends						(35,917)				(35,917)		(35,917)
Purchase of Class A common stock								2,392,674	(106,935)	(106,935)	–	(106,935)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefit of \$1,776					(247,810)			(4,649,300)	167,555	(80,255)	10	(80,245)
Distributions to noncontrolling interests, net										–	(3,928)	(3,928)
Adjustments related to noncontrolling interests					1,017					1,017	(1,017)	–
Balance – March 31, 2014	<u>7,921</u>	<u>\$ –</u>	<u>129,056,082</u>	<u>\$ 1,291</u>	<u>\$ 556,711</u>	<u>\$ 242,818</u>	<u>\$ (126,383)</u>	<u>6,060,439</u>	<u>\$ (188,593)</u>	<u>\$ 485,844</u>	<u>\$ 69,797</u>	<u>\$ 555,641</u>

(*) Includes 129,056,081 shares of the Company's Class A common stock issued at January 1, 2014 and March 31, 2014, and 1 share of the Company's Class B common stock issued at each such date.

See notes to condensed consolidated financial statements.

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% of all outstanding Lazard Group common membership interests as of March 31, 2014 and December 31, 2013. 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% of the outstanding Lazard Group common membership interests as of March 31, 2014 and 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 March 31, 2014 and December 31, 2013. 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.

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, 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. 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 period ended March 31, 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 (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.

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

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 periods ended March 31, 2014 and 2013 was as follows:

	Three Months Ended	
	March 31,	
	2014	2013
Balance, January 1	\$28,777	\$23,017
Bad debt expense, net of recoveries	9,136	148
Charge-offs, foreign currency translation and other adjustments	(6,589)	(360)
Balance, March 31	<u>\$31,324</u>	<u>\$22,805</u>

At March 31, 2014 and December 31, 2013, the Company had receivables past due or deemed uncollectible of \$35,566 and \$39,341, respectively.

Of the Company’s fee receivables at March 31, 2014 and December 31, 2013, \$65,241 and \$69,464, respectively, represented interest-bearing financing 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 \$457,841 and \$443,211 at March 31, 2014 and December 31, 2013, respectively, approximates fair value.

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, consist of the following at March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Debt (including interest-bearing deposits of \$533 and \$516, respectively)	\$ 7,806	\$ 8,529
Equities	57,757	59,394
Funds:		
Alternative investments (a)	36,321	37,030
Debt (a)	48,207	58,769
Equity (a)	143,115	190,702
Private equity	115,537	114,193
	<u>343,180</u>	<u>400,694</u>
Equity method	8,552	9,488
Total investments	417,295	478,105
Less:		
Interest-bearing deposits	533	516
Equity method	8,552	9,488
Investments, at fair value	<u>\$408,210</u>	<u>\$ 468,101</u>
Securities sold, not yet purchased, at fair value (included in "other liabilities")	<u>\$ 5,330</u>	<u>\$ 4,045</u>

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of \$8,626, \$25,520 and \$95,933, respectively, at March 31, 2014 and \$7,099, \$31,515 and \$130,481, respectively, at December 31, 2013, held in order to satisfy the Company's liability upon vesting of previously granted Lazard Fund Interests ("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.

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 Lazard Fund Interests 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 Lazard Fund Interests discussed above.

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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 \$9,286 and \$9,787 at March 31, 2014 and December 31, 2013, respectively (see Note 10 of Notes to Condensed Consolidated Financial Statements).

During the three month periods ended March 31, 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 Months Ended March 31,	
	2014	2013
Gross unrealized investment gains	\$ 3,084	\$ 8,395
Gross unrealized investment losses	\$ 2,593	\$ 1,636

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

	March 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Debt (excluding interest-bearing deposits)	\$ 1,720	\$ 5,553	\$ –	\$ 7,273
Equities	56,420	–	1,337	57,757
Funds:				
Alternative investments	–	36,321	–	36,321
Debt	48,203	4	–	48,207
Equity	143,074	41	–	143,115
Private equity	–	–	115,537	115,537
Derivatives	–	275	–	275
Total	<u>\$ 249,417</u>	<u>\$ 42,194</u>	<u>\$ 116,874</u>	<u>\$ 408,485</u>
Liabilities:				
Securities sold, not yet purchased	\$ 5,330	\$ –	\$ –	\$ 5,330
Derivatives	–	219,172	–	219,172
Total	<u>\$ 5,330</u>	<u>\$ 219,172</u>	<u>\$ –</u>	<u>\$ 224,502</u>

	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments:				
Debt (excluding interest-bearing deposits)	\$ 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	<u>\$ 309,160</u>	<u>\$ 44,090</u>	<u>\$ 115,533</u>	<u>\$ 468,783</u>
Liabilities:				
Securities sold, not yet purchased	\$ 4,045	\$ –	\$ –	\$ 4,045
Derivatives	–	164,001	–	164,001
Total	<u>\$ 4,045</u>	<u>\$ 164,001</u>	<u>\$ –</u>	<u>\$ 168,046</u>

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The following tables provide a summary of changes in fair value of the Company's Level 3 assets for the three month periods ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a)	Purchases/ Acquisitions	Sales/ Disposition	Foreign Currency Translation Adjustments	Ending Balance
Investments:						
Equities	\$ 1,340	\$ 2	\$ —	\$ —	\$ (5)	\$ 1,337
Private equity funds	114,193	5,582	347	(4,669)	84	115,537
Total Level 3 Assets	<u>\$115,533</u>	<u>\$ 5,584</u>	<u>\$ 347</u>	<u>\$ (4,669)</u>	<u>\$ 79</u>	<u>\$116,874</u>

	Three Months Ended March 31, 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	\$ —	\$ —	\$ —	\$ (6)	\$ 184
Alternative investment funds	3,457	94	—	(2,247)	—	1,304
Equity funds	10	—	—	(10)	—	—
Private equity funds	112,444	682	—	(1,256)	(1,374)	110,496
Total Level 3 Assets	<u>\$116,101</u>	<u>\$ 776</u>	<u>\$ —</u>	<u>\$ (3,513)</u>	<u>\$ (1,380)</u>	<u>\$111,984</u>

(a) Earnings for the three month periods ended March 31, 2014 and 2013 include net unrealized gains (losses) of \$4,413 and \$670, 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 periods ended March 31, 2014 and 2013.

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Fair Value of Certain Investments Based on NAV—The Company’s Level 2 and Level 3 investments at March 31, 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:

	March 31, 2014							
	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	\$ 32,210	\$ –	NA	NA	NA	NA	(a)	<30-60 days
Funds of funds	487	–	NA	NA	NA	NA	(b)	<30-90 days
Other	3,624	–	NA	NA	NA	NA	(c)	<30-60 days
Debt funds	4	–	NA	NA	NA	NA	(d)	30 days
Equity funds	41	–	NA	NA	NA	NA	(e)	30-90 days
Private equity funds:								
Equity growth	71,408	27,156	100%	14%	61%	25%	NA	NA
Mezzanine debt	44,129	–	100%	–%	–%	100%	NA	NA
Total	\$151,903	\$ 27,156						

- (a) weekly (17%), monthly (64%) and quarterly (19%)
(b) monthly (95%) and quarterly (5%)
(c) daily (9%), weekly (2%) and monthly (89%)
(d) daily (100%)
(e) daily (14%), monthly (58%) and quarterly (28%)

	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	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%)

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- (d) daily (100%)
- (e) daily (13%), monthly (58%) and quarterly (29%)

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 March 31, 2014, the Company’s maximum unfunded commitments for capital contributions to investment funds arose from (i) commitments to 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 \$18,337, 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 \$6,879, 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 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 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.

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The tables below present the fair values of the Company’s derivative instruments reported within “other assets” and “other liabilities” and the fair value 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 March 31, 2014 and December 31, 2013:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Derivative Assets:		
Forward foreign currency exchange rate contracts	\$ 275	\$ 250
Total return swaps and other (a)	—	432
	<u>\$ 275</u>	<u>\$ 682</u>
Derivative Liabilities:		
Forward foreign currency exchange rate contracts	\$ 1,046	\$ 1,579
Total return swaps and other (a)	4,688	—
Lazard Fund Interests and other similar deferred compensation arrangements	213,438	162,422
	<u>\$219,172</u>	<u>\$ 164,001</u>

(a) For total return swaps, amounts represent the netting of gross derivative assets and liabilities of \$120 and \$4,808 as of March 31, 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 \$15,884 and \$11,384 as of March 31, 2014 and December 31, 2013, 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 periods ended March 31, 2014 and 2013, were as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Forward foreign currency exchange rate contracts	\$(1,153)	\$ 5,231
Lazard Fund Interests and other similar deferred compensation arrangements	(2,626)	(3,725)
Total return swaps and other	(1,946)	(4,108)
	<u>\$(5,725)</u>	<u>\$(2,602)</u>

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7. PROPERTY

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

	Estimated Depreciable Life in Years	March 31, 2014	December 31, 2013
Buildings	33	\$ 173,735	\$ 173,772
Leasehold improvements	3-20	176,369	175,600
Furniture and equipment	3-10	151,311	149,598
Construction in progress		4,490	3,756
Total		<u>505,905</u>	<u>502,726</u>
Less - Accumulated depreciation and amortization		262,928	253,930
Property		<u>\$242,977</u>	<u>\$ 248,796</u>

8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	March 31, 2014	December 31, 2013
Goodwill	\$349,716	\$ 345,453
Other intangible assets (net of accumulated amortization)	17,205	18,424
	<u>\$366,921</u>	<u>\$ 363,877</u>

At March 31, 2014 and December 31, 2013, goodwill of \$285,175 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.

Changes in the carrying amount of goodwill for the three month periods ended March 31, 2014 and 2013 are as follows:

	Three Months Ended	
	March 31,	
	2014	2013
Balance, January 1	\$345,453	\$364,328
Business acquisitions	-	1,440
Foreign currency translation adjustments	4,263	(119)
Balance, March 31	<u>\$349,716</u>	<u>\$365,649</u>

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

	March 31, 2014			December 31, 2013		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	\$30,740	\$ 17,687	\$13,053	\$30,740	\$ 17,173	\$13,567
Management fees, customer relationships and non-compete agreements	33,064	28,912	4,152	33,063	28,206	4,857
	<u>\$63,804</u>	<u>\$ 46,599</u>	<u>\$17,205</u>	<u>\$63,803</u>	<u>\$ 45,379</u>	<u>\$18,424</u>

Amortization expense of intangible assets for the three month periods ended March 31, 2014 and 2013 was \$1,220 and \$877, respectively. Estimated future amortization expense is as follows:

<u>Year Ending December 31,</u>	<u>Amortization Expense (a)</u>
2014 (April 1 through December 31)	\$ 5,591
2015	6,433
2016	5,181
Total amortization expense	<u>\$ 17,205</u>

(a) Approximately 43% of intangible asset amortization is attributable to a noncontrolling interest.

9. SENIOR AND SUBORDINATED DEBT

Senior Debt—Senior debt is comprised of the following as of March 31, 2014 and December 31, 2013:

	Initial Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As of	
				March 31, 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				<u>\$1,048,350</u>	<u>\$ 1,048,350</u>

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 commencing on May 14, 2014.

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

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applicable margin. As of March 31, 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 March 31, 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 March 31, 2014, the Company was in compliance with such provisions. All of the Company's senior debt obligations are unsecured.

As of March 31, 2014, the Company had approximately \$258,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately \$48,000 (at March 31, 2014 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 March 31, 2014 and December 31, 2013 is carried at historical amounts. At those dates, the fair value of such senior debt was approximately \$1,140,000 and \$1,117,000, respectively, and exceeded the aggregate carrying value by approximately \$92,000 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.

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 March 31, 2014, LFB had \$5,908 of such indemnifications and held \$5,255 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 March 31, 2014 and December 31, 2013, of the Initial Shares and Earnout

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Shares, 1,371,992 shares have been earned because applicable performance thresholds have been satisfied. Such shares are no longer subject to any contingencies. As of December 31, 2013, 1,029,006 of such shares have been settled, and no additional shares have been settled as of March 31, 2014.

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 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.

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 March 31, 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, 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 March 31, 2014, 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 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.

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During the three month periods ended March 31, 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):

	Three Months Ended March 31,	
	2014	2013
LAZ-MD Holdings	\$ 213	\$ —
Subsidiaries of Lazard Ltd	35,917	—
	<u>\$ 36,130</u>	<u>\$ —</u>

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.

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 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.

<u>Date</u>	<u>Share Repurchase Authorization</u>	<u>Expiration</u>
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

The Company expects that the share repurchase program, with respect to the Class A common stock, 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. Purchases with respect to such program are set forth in the table below:

<u>Three Months Ended March 31:</u>	<u>Number of Shares/Common Membership Interests Purchased</u>	<u>Average Price Per Share/Common Membership Interest</u>
2013	831,157	\$ 36.30
2014	2,392,674	\$ 44.69

As of March 31, 2014, a total of \$14,654 of share repurchase authorization remained available under the Company’s share repurchase program, which will expire on December 31, 2015.

In April 2014, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional \$200,000 in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2015.

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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 March 31, 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 March 31, 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 three month periods ended March 31, 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 March 31, 2014:					
Other comprehensive gain (loss) before reclassifications	5,913	(557)	5,356	17	5,339
Adjustments for items reclassified to earnings, net of tax	—	1,289	1,289	7	1,282
Net other comprehensive income	5,913	732	6,645	24	6,621
Balance, March 31, 2014	<u>\$ 9,782</u>	<u>\$(136,699)</u>	<u>\$(126,917)</u>	<u>\$ (534)</u>	<u>\$(126,383)</u>

	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 March 31, 2013:						
Other comprehensive loss before reclassifications	(12,433)	—	(3,423)	(15,856)	(175)	(15,681)
Adjustments for items reclassified to earnings, net of tax	—	264	1,218	1,482	18	1,464
Net other comprehensive income (loss)	(12,433)	264	(2,205)	(14,374)	(157)	(14,217)
Balance, March 31, 2013	<u>\$ 6,972</u>	<u>\$(2,238)</u>	<u>\$(130,741)</u>	<u>\$(126,007)</u>	<u>\$ (1,249)</u>	<u>\$(124,758)</u>

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The table below reflects adjustments for items reclassified out of AOCI, by component, for the three month periods ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Amortization of interest rate hedge (a)	\$ —	\$ 264
Amortization relating to employee benefit plans (b)	1,821	1,620
Less – related income taxes	532	402
Net of tax	1,289	1,218
Total reclassifications, net of tax	\$ 1,289	\$ 1,482

- (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 and (ii) Edgewater’s management vehicles that the Company is deemed to control, but does not own.

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

As of March 31:	Lazard Ltd		LAZ-MD Holdings		Total Lazard Group Common Membership Interests
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	
2013	128,216,423	98.8%	1,549,667	1.2%	129,766,090
2014	129,056,081	99.5%	710,009	0.5%	129,766,090

The change in Lazard Ltd’s ownership in Lazard Group in the three month periods ended March 31, 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 periods ended March 31, 2014 and 2013 and noncontrolling interests as of March 31, 2014 and December 31, 2013 in the Company’s condensed consolidated financial statements:

	Net Income Attributable to Noncontrolling Interests	
	Three Months Ended March 31,	
	2014	2013
Edgewater	\$ 4,120	\$ 2,366
LAZ-MD Holdings	467	192
Other	–	(269)
Total	\$ 4,587	\$ 2,289

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	Noncontrolling Interests As Of	
	March 31, 2014	December 31, 2013
Edgewater	\$ 66,849	\$ 66,641
LAZ-MD Holdings	2,168	2,566
Other	780	582
Total	<u>\$ 69,797</u>	<u>\$ 69,789</u>

Dividend Declared, April 2014—On April 30, 2014, Lazard Ltd announced a quarterly dividend of \$0.30 per share on its Class A common stock, payable on May 23, 2014, to stockholders of record on May 12, 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 periods ended March 31, 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 periods ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Share-based incentive awards:		
RSUs (a)	\$ 52,285	\$ 64,942
PRSUs	1,798	438
Restricted Stock (b)	6,612	5,261
DSUs	102	71
Total	<u>\$ 60,797</u>	<u>\$ 70,712</u>

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- (a) Includes, during the three month period ended March 31, 2013, charges relating to the cost saving initiatives of \$4,455 (see Note 14 of Notes to Condensed Consolidated Financial Statements).
- (b) Includes, during the three month period ended March 31, 2013, charges relating to the cost saving initiatives of \$233.

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 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 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 three month period ended March 31, 2014, 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:

	Three Months Ended March 31, 2014
Number of RSUs issued	115,297
Charges to retained earnings, net of estimated forfeitures	\$ 5,013

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. No such DSUs were granted in connection with annual compensation during the three month periods ended March 31, 2014 and 2013. 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 and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock

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outstanding using the “treasury stock” method. DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the three month period ended March 31, 2014.

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 three month periods ended March 31, 2014 and 2013, 2,310 and 1,886 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 three month periods ended March 31, 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 115,297 RSUs relating to dividend participation)	3,492,223	\$ 43.00	2,310	\$ 44.35
Forfeited	(21,301)	\$ 34.61	–	–
Vested	(6,317,612)	\$ 38.04	–	–
Balance, March 31, 2014	<u>13,783,319</u>	<u>\$ 35.04</u>	<u>253,744</u>	<u>\$ 32.13</u>
Balance, January 1, 2013	21,481,131	\$ 33.92	204,496	\$ 31.47
Granted	4,297,664	\$ 37.33	1,886	\$ 37.60
Forfeited	(45,907)	\$ 36.12	–	–
Vested	(8,268,744)	\$ 34.97	–	–
Balance, March 31, 2013	<u>17,464,144</u>	<u>\$ 34.26</u>	<u>206,382</u>	<u>\$ 31.52</u>

In connection with RSUs that vested during the three month periods ended March 31, 2014 and 2013, the Company satisfied its minimum statutory tax withholding requirements in lieu of issuing 1,843,389 and 3,231,285 shares of Class A common stock in the respective three month periods. Accordingly, 4,474,223 and 5,037,459 shares of Class A common stock held by the Company were delivered during the three month periods ended March 31, 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 three month period ended March 31, 2013, compensation expense of \$1,690 was recorded for such liability awards.

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As of March 31, 2014, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately \$267,421, with such expense expected to be recognized over a weighted average period of approximately 1.6 years subsequent to March 31, 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 three month periods ended March 31, 2014 and 2013:

	<u>Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Balance, January 1, 2014	575,054	\$ 32.72
Granted	449,344	\$ 45.52
Vested	<u>(205,075)</u>	\$ 35.23
Balance, March 31, 2014	<u>819,323</u>	\$ 39.11
Balance, January 1, 2013	1,972,609	\$ 34.85
Granted	388,763	\$ 36.73
Forfeited	<u>(3,269)</u>	\$ 36.64
Vested	<u>(1,715,275)</u>	\$ 36.04
Balance, March 31, 2013	<u>642,828</u>	\$ 32.81

In connection with shares of restricted Class A common stock that vested during the three month periods ended March 31, 2014 and 2013, the Company satisfied its minimum statutory tax withholding requirements in lieu of delivering 29,999 and 12,308 shares of Class A common stock during the respective three month periods. Accordingly, 175,076 and 1,702,967 shares of Class A common stock held by the Company were delivered during the three month periods ended March 31, 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 March 31, 2014, unrecognized restricted stock expense was approximately \$20,657, with such expense to be recognized over a weighted average period of approximately 1.9 years subsequent to March 31, 2014.

PRSUs

PRSU 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 PRSU granted in 2013, three times the target number in the event of a substantial increase in fiscal year 2014 revenue (adjusted for certain items)). The PRSU granted in 2014 will vest on a single date three years following the date of the grant and the PRSU 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

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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 three month periods ended March 31, 2014 and 2013 at the target level:

	<u>PRSUs</u>	<u>Weighted Average Grant Date Fair Value</u>
Balance, January 1, 2014	448,128	\$ 36.11
Granted	360,783	\$ 44.46
Balance, March 31, 2014	<u>808,911</u>	<u>\$ 39.83</u>
Balance, January 1, 2013	—	—
Granted	448,128	\$ 36.11
Balance, March 31, 2013	<u>448,128</u>	<u>\$ 36.11</u>

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 March 31, 2014, the total estimated unrecognized compensation expense was approximately \$33,673, and the Company expects to amortize such expense over a weighted-average period of approximately 2.0 years subsequent to March 31, 2014.

Lazard Fund Interests and Other Similar Deferred Compensation Arrangements

Commencing in February 2011, the Company granted Lazard Fund Interests to eligible employees. In connection with the Lazard Fund Interests 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. Lazard Fund Interests and similar deferred compensation arrangements that do not require future service are expensed immediately. The related compensation liability is accounted for at fair value as a derivative liability, which contemplates the impact of estimated forfeitures, and is adjusted for changes in fair value primarily related to changes in value of the underlying investments.

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The following is a summary of activity relating to Lazard Fund Interests and other similar deferred compensation arrangements during the three month periods ended March 31, 2014 and 2013:

	Prepaid Compensation Asset	Compensation Liability
Balance, January 1, 2014	\$ 60,433	\$ 162,422
Granted	92,711	92,711
Settled	–	(45,450)
Forfeited	(9)	(2)
Amortization	(19,407)	–
Change in fair value related to:		
Increase in fair value of underlying investments	–	2,626
Adjustment for estimated forfeitures	–	899
Other	116	232
Balance, March 31, 2014	<u>\$ 133,844</u>	<u>\$ 213,438</u>

	Prepaid Compensation Asset	Compensation Liability
Balance, January 1, 2013	\$ 47,445	\$ 97,593
Granted	72,182	72,182
Settled	–	(14,832)
Forfeited	(309)	(396)
Amortization	(12,488)	–
Change in fair value related to:		
Increase in fair value of underlying investments	–	3,725
Adjustment for estimated forfeitures	–	648
Other	(106)	(111)
Balance, March 31, 2013	<u>\$ 106,724</u>	<u>\$ 158,809</u>

The amortization of the prepaid compensation asset will generally be recognized over a weighted average period of approximately 2.2 years subsequent to March 31, 2014.

The following is a summary of the impact of Lazard Fund Interests and other similar deferred compensation arrangements on “compensation and benefits” expense within the accompanying condensed consolidated statements of operations for the three month periods ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Amortization, net of forfeitures (a)	\$20,313	\$13,049
Change in the fair value of underlying investments	2,626	3,725
Total	<u>\$22,939</u>	<u>\$16,774</u>

(a) Includes, during the three month period ended March 31, 2013, charges relating to the cost saving initiatives of \$917.

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13. EMPLOYEE BENEFIT PLANS

The Company provides retirement and other post-retirement benefits to certain of its employees through defined benefit pension plans (the “pension plans”) and, in the U.S., a partially funded contributory post-retirement plan covering qualifying U.S. employees (the “medical plan” and together with the pension plans, the “post-retirement plans”). The Company also offers defined contribution plans. 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. Management also evaluates from time to time whether to make voluntary contributions to the plans. The Company did not make a contribution to the U.S. pension plans during the three month period ended March 31, 2014.

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”) (which superseded the terms of an agreement reached in June 2009 with respect to the previous triennial valuation as of December 31, 2007) whereby the Company: (i) made a contribution in December 2011 to the plans of 2.3 million British pounds (\$3,687 at December 31, 2011 exchange rates) from a previously established escrow account, (ii) agreed to make contributions of 1 million British pounds during each year from 2012 through 2020 inclusive and (iii) amended the previous escrow arrangement into an account security arrangement covering 10.2 million British pounds, committing to make annual contributions of 1 million British pounds into such 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 aggregate amount in the account security arrangement was approximately \$17,000 and \$16,900 at March 31, 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.

During the three month period ended March 31, 2014, no contribution to these U.K. pension plans was required to be made. Contributions were made to other non-U.S. pension plans of approximately \$4,800.

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The following table summarizes the components of net periodic benefit cost (credit) related to the Company's post-retirement plans for the three month periods ended March 31, 2014 and 2013:

Components of Net Benefit Cost (Credit):	Pension Plans		Medical Plan	
	Three Months Ended March 31,			
	2014	2013	2014	2013
Service cost	\$ 223	\$ 314	\$ 12	\$ 10
Interest cost	7,531	6,753	53	47
Expected return on plan assets	(8,079)	(6,797)	–	–
Amortization of:				
Prior service cost	733	706	–	–
Net actuarial loss	1,111	914	(23)	–
Net benefit cost	<u>\$ 1,519</u>	<u>\$ 1,890</u>	<u>\$ 42</u>	<u>\$ 57</u>

14. COST SAVING INITIATIVES

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

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

	Financial Advisory	Asset Management	Corporate	Total
Three Month Period Ended March 31, 2013:				
Compensation and benefits	\$20,394	\$ 236	\$ 4,041	\$ 24,671
Other	1,621	(1)	31	1,651
Total	<u>\$22,015</u>	<u>\$ 235</u>	<u>\$ 4,072</u>	<u>\$ 26,322</u>
Cumulative October 2012 Through March 31, 2013:				
Compensation and benefits	\$96,527	\$ 12,292	\$ 15,839	\$ 124,658
Other	3,020	732	488	4,240
Total	<u>\$99,547</u>	<u>\$ 13,024</u>	<u>\$ 16,327</u>	<u>\$ 128,898</u>

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Activity related to the obligations pursuant to the Cost Saving Initiatives during the three month period ended March 31, 2014 was as follows:

	<u>Accrued Compensation and Benefits</u>	<u>Other Liabilities</u>	<u>Total</u>
Balance, January 1, 2014	\$ 11,860	\$ 5,356	\$17,216
Less:			
Settlements	(2,390)	—	(2,390)
Balance, March 31, 2014	<u>\$ 9,470</u>	<u>\$ 5,356</u>	<u>\$14,826</u>

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 its 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 \$21,751 and \$3,948 for the three month periods ended March 31, 2014 and 2013, respectively, representing effective tax rates of 20.3% and 18.3%, respectively. The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates reflected above principally relates to (i) Lazard Group primarily operating as a limited liability company in the U.S., (ii) taxes payable to foreign jurisdictions that are not offset against U.S. income taxes, (iii) foreign source income (loss) not subject to U.S. income taxes (including interest on intercompany financings), (iv) change in the U.S. federal valuation allowance affecting the provision for income taxes, (v) Lazard Group's income from U.S. operations attributable to noncontrolling interests, and (vi) U.S. state and local taxes (primarily UBT), which are incremental to the U.S. federal statutory tax rate.

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

Tax Receivable Agreement

The redemption of historical partner interests 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, and future exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, 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 LLC ("LFCM Holdings", see Note 17 below) 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

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actually realizes as a result of these increases in tax basis. The Company calculates this provision annually and includes such amounts in operating expenses on its consolidated statements of operations once the results of operations for the full year are known. If any provision is required pursuant to the tax receivable agreement, such amount would be fully offset by a reduction in the Company's income tax expense.

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 periods ended March 31, 2014 and 2013 are computed as described below.

Basic Net Income Per Share

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

Denominator—utilizes the weighted average number of shares of Class A common stock outstanding for the respective years 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 to settle share-based incentive compensation, convertible debt, convertible preferred stock and LAZ-MD Holdings exchangeable interests, using the "treasury stock" method, the "if converted" method or the "as-if-exchanged" basis, as applicable.

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The calculations of the Company's basic and diluted net income per share and weighted average shares outstanding for the three month periods ended March 31, 2014 and 2013 are presented below:

	Three Months Ended	
	March 31,	
	2014	2013
Net income attributable to Lazard Ltd	\$ 80,842	\$ 15,360
Add (deduct) - adjustment associated with Class A common stock issuable on a non-contingent basis	—	—
Net income attributable to Lazard Ltd - basic	80,842	15,360
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	433	182
Net income attributable to Lazard Ltd - diluted	<u>\$ 81,275</u>	<u>\$ 15,542</u>
Weighted average number of shares of Class A common stock outstanding	121,361,210	116,921,983
Add - adjustment for shares of Class A common stock issuable on a non-contingent basis	414,997	786,221
Weighted average number of shares of Class A common stock outstanding - basic	121,776,207	117,708,204
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	12,249,784	15,107,356
Weighted average number of shares of Class A common stock outstanding - diluted	<u>134,025,991</u>	<u>132,815,560</u>
Net income attributable to Lazard Ltd per share of Class A common stock:		
Basic	<u>\$0.66</u>	<u>\$0.13</u>
Diluted	<u>\$0.61</u>	<u>\$0.12</u>

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17. RELATED PARTIES

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

	March 31, 2014	December 31, 2013
Receivables		
LFCM Holdings	\$ 4,067	\$ 7,794
Other	118	126
Total	<u>\$ 4,185</u>	<u>\$ 7,920</u>
Payables		
LFCM Holdings	\$ 1,663	\$ 4,300
Other	919	731
Total	<u>\$ 2,582</u>	<u>\$ 5,031</u>

LFCM Holdings

LFCM Holdings owns and operates 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 (which also include the Company’s executive officers) who were or are also members of LAZ-MD Holdings. 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”), employee benefits, insurance matters and licensing. In addition, LFCM Holdings and Lazard Group entered into a business alliance agreement (the “business alliance agreement”). Certain of these agreements are described in more detail in the Company’s Form 10-K.

For the three month periods ended March 31, 2014 and 2013, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$369 and \$632, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to \$543 and \$500, 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 March 31, 2014 and December 31, 2013 include \$2,967 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 \$1,100 and \$4,682, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at March 31, 2014 and December 31, 2013 include \$414 and \$3,051, respectively, primarily relating to referral fees for Financial Advisory transactions, and, at March 31, 2014 and December 31, 2013, \$1,249 related to obligations pursuant to the tax receivable agreement (see Note 15 of Notes to Condensed Consolidated Financial Statements).

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Other

Other payables at March 31, 2014 and 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 as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group's cost allocation methodology and, for the three month periods ended March 31, 2014 and 2013, such charges amounted to \$250 for each period.

18. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage (6 ²/₃%) of total aggregate indebtedness recorded in LFNY's Financial and Operational Combined Uniform Single ("FOCUS") report filed with the Financial Industry Regulatory Authority ("FINRA"), or \$100, whichever is greater. At March 31, 2014, LFNY's regulatory net capital was \$100,252, which exceeded the minimum requirement by \$97,110.

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 March 31, 2014, the aggregate regulatory net capital of the U.K. Subsidiaries was \$92,574, which exceeded the minimum requirement by \$75,634.

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 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 March 31, 2014, the consolidated regulatory net capital of CFLF was \$140,872, which exceeded the minimum requirement set for regulatory capital levels by \$105,079. 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.

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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 March 31, 2014, for those subsidiaries with regulatory capital requirements, their aggregate net capital was \$105,753, which exceeded the minimum required capital by \$77,600.

At March 31, 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 months ended March 31, 2014 and 2013 is prepared using the following methodology:

- Revenue and expenses directly associated with each segment are included in determining operating income.
- Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.
- Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

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, legal, facilities management and senior management activities.

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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	
		March 31,	
		2014	2013(a)
Financial Advisory	Net Revenue	\$ 275,496	\$ 168,462
	Operating Expenses	245,415	216,908
	Operating Income (Loss)	<u>\$ 30,081</u>	<u>\$ (48,446)</u>
Asset Management	Net Revenue	\$ 268,564	\$ 244,025
	Operating Expenses	175,761	155,077
	Operating Income	<u>\$ 92,803</u>	<u>\$ 88,948</u>
Corporate	Net Revenue	\$ (10,660)	\$ (10,584)
	Operating Expenses	5,044	8,321
	Operating Loss	<u>\$ (15,704)</u>	<u>\$ (18,905)</u>
Total	Net Revenue	\$ 533,400	\$ 401,903
	Operating Expenses	426,220	380,306
	Operating Income	<u>\$ 107,180</u>	<u>\$ 21,597</u>

(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 three month period ended March 31, 2013.

	As Of	
	March 31, 2014	December 31, 2013
Total Assets		
Financial Advisory	\$ 702,885	\$ 714,708
Asset Management	536,836	612,018
Corporate	1,658,482	1,684,411
Total	<u>\$2,898,203</u>	<u>\$3,011,137</u>

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”, “first quarter”, “three months” or “the period” refer to, as the context requires, the three month periods ended March 31, 2014 and March 31, 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,” “believe,” “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:

- business’ financial goals, including the ratio of awarded compensation and benefits expense to operating revenue,
- business’ ability to deploy surplus cash through dividends, share repurchases and debt repurchases,

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- business' ability to offset stockholder dilution through share repurchases,
- business' possible or assumed future results of operations and operating cash flows,
- business' strategies and investment policies,
- business' financing plans and the availability of short-term borrowing,
- business' competitive position,
- future acquisitions, including the consideration to be paid and the timing of consummation,
- potential growth opportunities available to our businesses,
- recruitment and retention of our managing directors and employees,
- potential levels of compensation expense and non-compensation expense,
- business' potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,
- likelihood of success and impact of litigation,
- expected tax rates, including effective tax rates,
- changes in interest and tax rates,
- expectations with respect to the economy, the securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other macroeconomic and industry trends,
- effects of competition on our business, and
- impact of future legislation and regulation on our business.

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

Business Summary

Lazard is one of the world's preeminent financial advisory and asset management firms. We have long specialized in crafting solutions to the complex financial and strategic challenges of a diverse set of clients around the world, including corporations, governments, institutions, partnerships and individuals. Founded in 1848 in New Orleans, we currently operate from 41 cities in key business and financial centers across 26 countries throughout Europe, North America, Asia, Australia, the Middle East and Central and South America.

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

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

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

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

- Financial Advisory, which offers corporate, partnership, institutional, government, sovereign and individual clients across the globe a wide array of financial advisory services regarding M&A and other strategic matters, restructurings, capital structure, capital raising and various other financial matters, and
- Asset Management, which offers a broad range of global investment solutions and investment management services in equity and fixed income strategies, alternative investments and private equity funds to corporations, public funds, sovereign entities, endowments and foundations, labor funds, financial intermediaries and private clients.

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

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

Our consolidated net revenue was derived from the following segments:

	Three Months Ended	
	March 31,	
	2014	2013
Financial Advisory	52%	42%
Asset Management	50	61
Corporate	(2)	(3)
Total	<u>100%</u>	<u>100%</u>

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. Also, consistent with any obligations to LFCM Holdings LLC ("LFCM Holdings"), we may explore capital markets opportunities.

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.

Equity market indices for developed markets at March 31, 2014 increased as compared to such indices at March 31, 2013, while equity market indices for emerging markets decreased as compared to March 31, 2013. On an industry-wide basis, during the first quarter of 2014, the number of completed and announced M&A transactions decreased as compared to the same period in the prior year, while the value of announced transactions increased as compared to the same period in the prior year. Global restructuring activity, as measured by the number of corporate defaults, was lower in the first quarter of 2014 as compared to the same period in the prior year, and the aggregate value of debt defaults remained low, consistent with the last several years.

In early 2014, interest rates remain low and corporate cash balances remain high. Macroeconomic conditions appear to be improving in the developed countries, particularly in North America, CEO and board confidence appears to be returning and, as such, companies based in these regions may be better positioned to make acquisitions for future growth and investors may be increasingly interested in deploying capital for investment purposes. Although market volatility may continue, we believe the long term trends appear positive.

We intend to leverage our existing infrastructure to capitalize on any global macroeconomic recovery, any upturn in the M&A cycle, and any momentum in the global equity markets. We expect to generate revenue growth by remaining adequately staffed to capitalize on any macroeconomic recovery and deploying our intellectual capital to generate new revenue streams. The cost saving initiatives that we began in 2012 are effectively complete, and through 2013, more than two-thirds of these savings were realized, with the full impact of all the savings expected to be reflected in our 2014 results. See “Cost Saving Initiatives” below and Note 14 of Notes to Condensed Consolidated Financial Statements.

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

- **Financial Advisory** – In the near- to mid-term, we expect that the U.S. macroeconomic environment will likely be the strongest of the developed economies. Certain legal decisions in the U.S. reinforce the importance of independent advice, and the global scale and breadth of our Financial Advisory business allows us to advise on large, complex cross-border transactions across a variety of industries. 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. We have also established the Lazard Africa initiative, to leverage our sovereign and corporate expertise in this rapidly growing region, for our clients in both developed and developing countries.
- **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

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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 and Dubai. 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 and earnings growth and stockholder returns, the prudent management of our costs and expenses, the efficient use of our assets and the return of capital to our stockholders.

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

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 in the first quarter of 2014 as compared to the first quarter of 2013, however for deals with values greater than \$500 million, the value and number increased in the current period as compared to the prior period. With respect to announced M&A transactions, the value of all transactions, including deals with values greater than \$500 million, increased substantially in the first quarter of 2014 as compared to the first quarter of 2013.

	Three Months Ended March 31,		
	2014	2013	% Incr / (Decr)
Completed M&A Transactions:			
All deals:			
Value	\$ 662	\$ 669	(1)%
Number	7,835	9,538	(18)%
Deals Greater than \$500 million:			
Value	\$ 512	\$ 483	6%
Number	222	221	—%
Announced M&A Transactions:			
All deals:			
Value	\$ 813	\$ 648	25%
Number	8,614	9,495	(9)%
Deals Greater than \$500 million:			
Value	\$ 636	\$ 461	38%
Number	249	210	19%

Source: Dealogic as of April 7, 2014.

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Global restructuring activity during the first quarter of 2014, as measured by the number of corporate defaults, decreased as compared to the first quarter of 2013, and the aggregate value of debt defaults remained low, consistent with the last several years. The number of defaulting issuers decreased to 8 in the first quarter of 2014, according to Moody's Investors Service, Inc., as compared to 21 in the first quarter of 2013. In the U.S., the number of corporate defaults decreased 36% in the first quarter of 2014 as compared to the first quarter of 2013, while the value of such defaults decreased 67% during the same period.

Asset Management

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

	Percentage Changes March 31, 2014 vs.	
	December 31, 2013	March 31, 2013
MSCI World Index	1%	17%
Euro Stoxx	2%	21%
MSCI Emerging Market	(1)%	(4)%
S&P 500	1%	19%

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 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 March 31, 2014 increased 1% versus AUM at December 31, 2013, due to market and foreign exchange appreciation as well as net inflows. Average AUM in the first quarter of 2014 increased 9% as compared to average AUM in the first quarter 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. Through 2013, more than two-thirds of these savings were realized, with the full impact of all the savings expected 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 and for referring opportunities to LFCM Holdings for underwriting, distribution and placement of securities. The referral fees received from LFCM Holdings are generally one-half of the revenue recorded by LFCM Holdings in respect of such activities. Significant fluctuations in Financial Advisory net revenue can occur over the course of any given year, because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard's control.

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

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

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

For private equity funds, incentive fees may be earned in the form of a "carried interest" if profits arising from realized investments exceed a specified threshold. Typically, such carried interest is ultimately calculated

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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 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 quarter of 2014 represented (2)% of Lazard's net revenue, total assets in the Corporate segment represented 57% of Lazard's consolidated total assets as of March 31, 2014, which are attributable to investments in government bonds and money market funds, fixed income funds, alternative investment funds and other securities, private equity investments, 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 Incentive Compensation Plan (the "2008 Plan") and (b) Lazard Fund Interests awards 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 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.

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

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

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

Provision for Income Taxes

As a result of its indirect investment in Lazard Group, Lazard Ltd, through certain of its subsidiaries, is subject to U.S. federal income taxes on its 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 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. The Company expects that all remaining interests in LAZ-MD Holdings that are exchangeable for shares of the Company’s Class A common stock will be exchanged in May 2014. Following such event, Lazard Group will be a wholly-owned indirect subsidiary of Lazard Ltd, and the sole issued and outstanding share of the Company’s Class B common stock will automatically convert into one share of the Company’s Class A 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

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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 accounting principles generally accepted in the United States of America ("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.

	Three Months Ended March 31,	
	2014	2013
	(\$ in thousands)	
Net Revenue	<u>\$533,400</u>	<u>\$401,903</u>
Operating Expenses:		
Compensation and benefits	321,565	277,739
Non-compensation	103,435	101,690
Amortization of intangible assets related to acquisitions	1,220	877
Total operating expenses	<u>426,220</u>	<u>380,306</u>
Operating Income	107,180	21,597
Provision for income taxes	<u>21,751</u>	<u>3,948</u>
Net Income	85,429	17,649
Less – Net Income Attributable to Noncontrolling Interests	<u>4,587</u>	<u>2,289</u>
Net Income Attributable to Lazard Ltd	<u>\$ 80,842</u>	<u>\$ 15,360</u>
Operating Income, as a % of net revenue	<u>20.1%</u>	<u>5.4%</u>

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 March 31,	
	2014	2013
	(\$ in thousands)	
Operating Revenue:		
Net revenue	\$533,400	\$401,903
Adjustments:		
Interest expense (a)	15,716	19,848
Revenue related to noncontrolling interests (b)	(6,266)	(4,322)
Gains on investments pertaining to Lazard Fund Interests (c)	(2,626)	(3,725)
Operating revenue	<u>\$540,224</u>	<u>\$413,704</u>

- (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 Lazard Fund Interests and other similar deferred compensation arrangements for which a corresponding equal amount is excluded from compensation and benefits expense.

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	Three Months Ended March 31,	
	2014	2013
(\$ in thousands)		
Adjusted Compensation and Benefits Expense:		
Total compensation and benefits expense	\$321,565	\$277,739
Adjustments:		
Noncontrolling interests (a)	(1,148)	(1,121)
Charges pertaining to Lazard Fund Interests (b)	(2,626)	(3,725)
Cost saving initiatives (c)	—	(24,671)
Adjusted compensation and benefits expense	<u>\$317,791</u>	<u>\$248,222</u>
Adjusted compensation and benefits expense, as a % of operating revenue	<u>58.8%</u>	<u>60.0%</u>

- (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 Lazard Fund Interests 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 March 31,	
	2014	2013
(\$ in thousands)		
Adjusted Non-Compensation Expense:		
Total non-compensation expense	\$103,435	\$101,690
Adjustments:		
Noncontrolling interests (a)	(434)	(458)
Cost saving initiatives (b)	—	(1,651)
Adjusted non-compensation expense	<u>\$103,001</u>	<u>\$99,581</u>
Adjusted non-compensation expense, as a % of operating revenue	<u>19.1%</u>	<u>24.1%</u>

- (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 March 31,	
	2014	2013
(\$ in thousands)		
Earnings From Operations:		
Operating revenue	\$540,224	\$413,704
Deduct:		
Adjusted compensation and benefits expense	(317,791)	(248,222)
Adjusted non-compensation expense	(103,001)	(99,581)
Earnings from operations	<u>\$119,432</u>	<u>\$65,901</u>
Earnings from operations, as a % of operating revenue	<u>22.1%</u>	<u>15.9%</u>

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Headcount information is set forth below:

	March 31, 2014	As Of December 31, 2013(a)	March 31, 2013(a)
Headcount:			
Managing Directors:			
Financial Advisory	140	132	146
Asset Management	82	72	76
Corporate	17	15	15
Total Managing Directors	239	219	237
Other Employees:			
Business segment professionals	1,082	1,082	1,097
All other professionals and support staff	1,119	1,102	1,132
Total	<u>2,440</u>	<u>2,403</u>	<u>2,466</u>

(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, in the case of managing directors, by 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 March 31, 2014 versus March 31, 2013

The Company reported net income attributable to Lazard Ltd of \$81 million, as compared to net income of \$15 million in the 2013 period. The changes in the Company's operating results during these periods are described below.

Net revenue increased \$131 million, or 33%, with operating revenue increasing \$127 million, or 31%, as compared to the 2013 period. Fee revenue from investment banking and other advisory activities increased \$105 million, or 62%, 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 absolute number of completed transactions involving fees greater than \$1 million as compared to the 2013 period, as well as in the number of those transactions generating fees significantly greater than \$1 million. Money management fees, including incentive fees, increased \$22 million, or 9%, principally reflecting a \$15 billion, or 9%, 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 \$5 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 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 \$44 million, or 16%, as compared to the 2013 period (which included a \$24 million charge related to the cost saving initiatives), primarily driven by 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 \$318 million, an increase of \$70

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million, or 28%, as compared to \$248 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. 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 \$2 million, or 2%, as compared to the 2013 period (which included a charge of \$2 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 \$3 million, or 3%, as compared to the 2013 period, primarily due to increases in (i) marketing and business development expense associated with higher expenses for travel and other business development; (ii) higher mutual fund servicing fees and outsourced services reflecting the implementation of an existing outsourcing arrangement across a broader number of accounts, as well as the increase in average AUM, partially offset by a decrease in professional fees. The ratio of adjusted non-compensation expense to operating revenue was 19.1%, as compared to 24.1% in the 2013 period.

Amortization of intangible assets remained substantially unchanged as compared to the 2013 period.

Operating income increased \$86 million, as compared to the 2013 period (including the charges relating to the cost saving initiatives of \$26 million). Operating income, as a percentage of net revenue, was 20.1%, as compared to 5.4% in the 2013 period.

Earnings from operations increased \$54 million, or 81%, as compared to the 2013 period, and, as a percentage of operating revenue, was 22.1%, as compared to 15.9% in the 2013 period.

The provision for income taxes reflects an effective tax rate of 20.3%, as compared to 18.3% for the 2013 period. The increase 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 \$2 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, legal, information technology, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as revenue, headcount, square footage and other factors.

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Financial Advisory

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

	Three Months Ended March 31,	
	2014	2013
	(\$ in thousands)	
M&A and Other Advisory	\$ 239,144	\$ 120,756
Capital Raising	6,216	14,686
Total Strategic Advisory	245,360	135,442
Restructuring	30,136	33,020
Net Revenue	275,496	168,462
Operating Expenses(a)	245,415	216,908
Operating Income (Loss)	\$ 30,081	\$ (48,446)
Operating income (loss), as a % of net revenue	10.9%	(28.8)%

(a) In 2013, includes \$22,015 associated with the implementation of the cost saving initiatives.

Net revenue trends in Financial Advisory for M&A and Other Advisory and Restructuring are generally correlated to the level of completed industry-wide M&A transactions and restructuring transactions occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, our results can diverge from industry-wide activity where there are material variances from the level of industry-wide M&A activity in a particular market where Lazard has significant market share, or regarding the relative number of our advisory engagements with respect to larger-sized transactions, and where we are involved in non-public or sovereign advisory assignments. For example, in the 2014 period, the industry statistics for global M&A transactions described above reflect a 1% decrease in the value, and an 18% decrease in the number, of all completed transactions as compared to the 2013 period. For M&A deals with values greater than \$500 million, the value of completed transactions increased 6%, while the number of such deals remained flat, as compared to the 2013 period. Our M&A and Other Advisory revenue (which includes Sovereign and Capital Structure Advisory revenue) increased 98% as compared to the 2013 period.

Certain Lazard fee and transaction statistics are set forth below:

	Three Months Ended March 31,	
	2014	2013
Lazard Statistics:		
Number of clients with fees greater than \$1 million:		
Total Financial Advisory	62	44
M&A and Other Advisory	51	36
Percentage of total Financial Advisory net revenue from top 10 clients	42%	34%
Number of M&A transactions completed with values greater than \$500 million (a)	20	16

(a) Source: Dealogic as of April 7, 2014.

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The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms and is based on the Lazard offices that generate Financial Advisory net revenue, which are located in the U.S., Europe (primarily in the U.K., France, Italy, Spain and Germany) and the rest of the world (primarily in Australia) and therefore may not be reflective of the geography in which the clients are located.

	Three Months Ended March 31,	
	2014	2013
United States	62%	60%
Europe	31	33
Rest of World	7	7
Total	<u>100%</u>	<u>100%</u>

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

Financial Advisory Results of Operations

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

Three Months Ended March 31, 2014 versus March 31, 2013

Total Strategic Advisory net revenue, representing fees from our M&A and Other Advisory and Capital Raising businesses, increased \$110 million, or 81%, and Restructuring revenue decreased \$3 million, or 9%, as compared to the 2013 period.

M&A and Other Advisory revenue increased \$118 million, or 98%, while Capital Raising revenue decreased by \$8 million, or 58%, as compared to the 2013 period. The increase in M&A and Other Advisory revenue was primarily due to an increase in the absolute number of completed transactions involving fees greater than \$1 million as compared to the 2013 period, as well as in the number of those transactions generating fees significantly greater than \$1 million. Our major clients, which in the aggregate represented a significant portion of our M&A and Other Advisory revenue for the 2014 period, included Cadence Pharmaceuticals, The Coca-Cola Company, Fiat, Google, Leap Wireless, Royal Bank of Scotland, Singapore Power, Shire and Shapell Industries.

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

Operating expenses increased \$29 million, or 13%, as compared to the 2013 period, and in the 2013 period included a \$22 million charge related to the cost saving initiatives. Excluding such charge, operating expenses increased \$51 million, or 26%. The primary contributors to the increase were higher compensation and benefits expense due to higher operating revenue.

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Financial Advisory operating income was \$30 million, an increase of \$78 million as compared to operating loss of \$48 million (including the impact of the \$22 million charge related to the cost saving initiatives) in the 2013 period and, as a percentage of net revenue, was 10.9%, as compared to (28.8%) in the 2013 period. Excluding the impact of such charges in the 2013 period, operating income increased \$57 million as compared to operating income in the 2013 period.

Asset Management

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

	As of	
	March 31, 2014	December 31, 2013
(\$ in millions)		
AUM by Asset Class:		
Equity:		
Emerging Markets	\$ 47,679	\$ 47,450
Global	35,359	35,521
Local	30,467	31,232
Multi-Regional	41,754	39,859
Total Equity	<u>155,259</u>	<u>154,062</u>
Fixed Income:		
Emerging Markets	10,230	9,048
Global	3,437	3,164
Local	3,638	3,507
Multi-Regional	11,073	11,155
Total Fixed Income	<u>28,378</u>	<u>26,874</u>
Alternative Investments		
Private Equity	1,156	1,151
Cash Management	166	147
Total AUM	<u>\$189,453</u>	<u>\$ 186,924</u>

Total AUM at March 31, 2014 was \$189 billion, an increase of \$3 billion, or 1%, as compared to total AUM of \$187 billion at December 31, 2013, due to market and foreign exchange appreciation and net inflows. Average AUM for the three months ended March 31, 2014 was 9% higher than that for three months ended March 31, 2013.

As of March 31, 2014, approximately 89% of our AUM was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors, and approximately 11% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and individuals, and was substantially unchanged from the corresponding percentages at December 31, 2013.

As of March 31, 2014, AUM denominated in foreign currencies represented approximately 62% of our total AUM, as compared to 63% at December 31, 2013. Foreign denominated AUM generally declines in value with the strengthening of the U.S. Dollar and increases in value as the U.S. Dollar weakens, with all other factors held constant.

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The following is a summary of changes in AUM by asset class for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31, 2014						
	AUM Beginning Balance	Inflows	Outflows	Net Flows	Market Value Appreciation/ (Depreciation)	Foreign Exchange Appreciation/ (Depreciation)	AUM Ending Balance
	(\$ in millions)						
Equity	\$ 154,062	\$ 6,841	\$ (6,875)	\$ (34)	\$ 517	\$ 714	\$ 155,259
Fixed Income	26,874	1,685	(626)	1,059	363	82	28,378
Other	5,988	314	(491)	(177)	56	(51)	5,816
Total	<u>\$ 186,924</u>	<u>\$ 8,840</u>	<u>\$ (7,992)</u>	<u>\$ 848</u>	<u>\$ 936</u>	<u>\$ 745</u>	<u>\$ 189,453</u>

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

	Three Months Ended March 31, 2013						
	AUM Beginning Balance	Inflows	Outflows	Net Flows	Market Value Appreciation/ (Depreciation)	Foreign Exchange Appreciation/ (Depreciation)	AUM Ending Balance
	(\$ in millions)						
Equity	\$ 138,171	\$ 7,479	\$ (9,131)	\$ (1,652)	\$ 8,979	\$ (2,696)	\$ 142,802
Fixed Income	22,718	1,458	(641)	817	58	(463)	23,130
Other	6,171	155	(315)	(160)	38	(16)	6,033
Total	<u>\$ 167,060</u>	<u>\$ 9,092</u>	<u>\$ (10,087)</u>	<u>\$ (995)</u>	<u>\$ 9,075</u>	<u>\$ (3,175)</u>	<u>\$ 171,965</u>

As of April 25, 2014, AUM was 190.2 billion, a \$0.7 billion increase since March 31, 2014, with such increase primarily due to market and foreign exchange appreciation.

Average AUM for the three month period ended March 31, 2014 and 2013 for each significant asset class is set forth below. Average AUM generally represents the average of the monthly ending AUM balances for the period.

Average AUM by Asset Class:	Three Months Ended March 31,	
	2014	2013
	(\$ in millions)	
Equity	\$ 152,412	\$ 141,813
Fixed Income	27,332	22,784
Alternative Investments	2,350	2,846
Private Equity	2,604	2,379
Cash Management	904	843
Total Average AUM	<u>\$ 185,602</u>	<u>\$ 170,665</u>

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

	Three Months Ended	
	March 31,	
	2014	2013
	(\$ in thousands)	
Revenue:		
Management Fees	\$239,523	\$219,992
Incentive Fees	10,378	8,794
Other Income	18,663	15,239
Net Revenue	268,564	244,025
Operating Expenses(a)	175,761	155,077
Operating Income	\$ 92,803	\$ 88,948
Operating income, as a % of net revenue	34.6%	36.5%

(a) In 2013, includes \$235 associated with the implementation of the cost saving initiatives.

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

	Three Months Ended	
	March 31,	
	2014	2013
United States	62%	52%
Europe	30	35
Rest of World	8	13
Total	100%	100%

Asset Management Results of Operations

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

Three Months Ended March 31, 2014 versus March 31, 2013

Asset Management net revenue increased \$25 million, or 10%, as compared to the 2013 period. Management fees increased \$20 million, or 9%, as compared to the 2013 period, reflecting a \$15 billion, or 9%, increase in average AUM. Incentive fees increased \$2 million, or 18%, as compared to the 2013 period, primarily due to fees related to traditional investment products. Other revenue increased \$3 million, or 22%, as compared to the 2013 period, primarily due to higher transaction based commission revenue as a result of increased market activity and custody fees.

Operating expenses increased \$21 million, or 13%, as compared to the 2013 period, primarily in (i) compensation and benefits expense related to the increase in operating revenue, (ii) mutual fund servicing fees and in outsourced services reflecting the implementation of an existing outsourcing arrangement across a broader number of accounts, as well as the increase in average AUM, and (iii) travel and other business development expenses.

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Asset Management operating income was \$93 million, an increase of \$4 million, or 4%, as compared to operating income of \$89 million (including the impact of the \$0.2 million charge related to the cost saving initiatives) in the 2013 period and, as a percentage of net revenue, was 34.6%, as compared to 36.5% in the 2013 period.

Corporate

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

	Three Months Ended March 31,	
	2014	2013
	(\$ in thousands)	
Interest Income	\$ 981	\$ 717
Interest Expense	(15,952)	(20,151)
Net Interest (Expense)	(14,971)	(19,434)
Other Revenue	4,311	8,850
Net Revenue (Expense)	(10,660)	(10,584)
Operating Expenses (a)	5,044	8,321
Operating Loss	<u>\$ (15,704)</u>	<u>\$ (18,905)</u>

(a) In 2013, includes \$4,072 associated with the implementation of the cost saving initiatives.

Corporate Results of Operations

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

Three Months Ended March 31, 2014 versus March 31, 2013

Net interest expense decreased \$4 million, or 23%, as compared to the 2013 period, primarily due to the refinancing of the 2015 Notes.

Other revenue decreased \$5 million, or 51%, as compared to the 2013 period, primarily due to decreased investment income.

Operating expenses decreased \$3 million, or 39%, as compared to the 2013 period, and included in the 2013 period charges of \$4 million associated with the cost saving initiatives. Excluding the impact of such charges, operating expenses remained substantially unchanged as compared to the 2013 period.

Cash Flows

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

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

Summary of Cash Flows:

	Three Months Ended	
	March 31,	
	2014	2013
	(\$ in millions)	
Cash Provided By (Used In):		
Operating activities:		
Net income	\$ 85.4	\$ 17.6
Noncash charges (a)	93.1	97.1
Other operating activities (b)	(124.7)	(187.8)
Net cash provided by (used in) operating activities	53.8	(73.1)
Investing activities	(2.9)	(26.6)
Financing activities (c)	(227.8)	(148.5)
Effect of exchange rate changes	2.0	(15.9)
Net Decrease in Cash and Cash Equivalents	(174.9)	(264.1)
Cash and Cash Equivalents:		
Beginning of Period	841.5	850.2
End of Period	<u>\$ 666.6</u>	<u>\$ 586.1</u>

(a) Consists of the following:

Depreciation and amortization of property	\$ 8.9	\$ 8.1
Amortization of deferred expenses, stock units and interest rate hedge	83.0	88.1
Amortization of intangible assets related to acquisitions	1.2	0.9
Total	<u>\$ 93.1</u>	<u>\$ 97.1</u>

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

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

Liquidity and Capital Resources

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

Operating Activities

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

Liquidity is significantly impacted by cash payments for, or in respect of, incentive compensation, a significant portion of which are made during the first three months of the year. As a consequence, cash on hand generally

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declines in the beginning of the year and gradually builds over the remainder of the year. We also pay certain tax advances during the year on behalf of our managing directors, which serve to reduce their respective incentive compensation payments. We expect this seasonal pattern of cash flow to continue. During 2013, liquidity was also impacted by cash payments, including severance payments, associated with the cost saving initiatives (see “Cost Saving Initiatives” above and Note 14 of Notes to Condensed Consolidated Financial Statements).

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

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures, dividend payments, purchases of shares of Class A common stock and Lazard Group common membership interests and matters relating to liquidity and to compliance with regulatory net capital requirements. At March 31, 2014, Lazard had approximately \$667 million of cash, with such amount including approximately \$313 million held at Lazard’s operations outside the U.S. Since Lazard provides for U.S. income taxes on substantially all of its unrepatriated foreign earnings, no material amount of additional U.S. income taxes would be recognized upon receipt of dividends or distributions of such earnings from its foreign operations.

We maintain lines of credit in excess of anticipated liquidity requirements. As of March 31, 2014, Lazard had approximately \$258 million in unused lines of credit available to it, including a \$150 million, three-year, senior revolving credit facility with a group of lenders that expires in September 2015 (the “Credit Facility”) (see “—Financing Activities” below) and unused lines of credit available to LFB of approximately \$48 million (at March 31, 2014 exchange rates) and Edgewater of \$55 million. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

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

Financing Activities

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

	Maturity Date	As of		Increase (Decrease)
		March 31, 2014	December 31, 2013	
(\$ in millions)				
Senior Debt:				
6.85%	2017	\$ 548.4	\$ 548.4	\$ —
4.25%	2020	500.0	500.0	—
Total Senior Debt		<u>\$1,048.4</u>	<u>\$ 1,048.4</u>	<u>\$ —</u>

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

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

As long as the lenders’ commitments remain in effect, any loan pursuant to the Credit Facility remains outstanding and unpaid or any other amount is due to the lending bank group, the Credit Facility includes financial covenants that require that Lazard Group not permit (i) its Consolidated Leverage Ratio (as defined in the Credit Facility) for the 12-month period ending on the last day of any fiscal quarter to be greater than 4.00 to 1.00 or (ii) its Consolidated Interest Coverage Ratio (as defined in the Credit Facility) for the 12-month period ending on the last day of any fiscal quarter to be less than 3.00 to 1.00. For the 12-month period ended March 31, 2014, Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 1.50 to 1.00 and its Consolidated Interest Coverage Ratio being 10.85 to 1.00. In any event, no amounts were outstanding under the Credit Facility as of March 31, 2014.

In addition, the Credit Facility, indenture and supplemental indentures relating to Lazard Group’s senior notes contain certain other covenants (none of which relate to financial condition), events of default and other customary provisions. At March 31, 2014, the Company was in compliance with all of these provisions. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources, which may cause us to be subject to additional restrictions or covenants.

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

Stockholders’ Equity

At March 31, 2014, total stockholders’ equity was \$556 million, as compared to \$630 million at December 31, 2013, including \$486 million and \$560 million attributable to Lazard Ltd on the respective dates. The net activity in stockholders’ equity during the three month period ended March 31, 2014 is reflected in the table below (in millions of dollars):

Stockholders’ Equity—January 1, 2014	\$ 630
Increase (decrease) due to:	
Net income	85
Other comprehensive income	7
Amortization of share-based incentive compensation	61
Purchase of Class A common stock	(107)
Settlement of share-based incentive compensation, net of related tax benefit of \$2 (a)	(80)
Class A common stock dividends	(36)
Distributions to noncontrolling interests, net	(4)
Stockholders’ Equity—March 31, 2014	<u>\$ 556</u>

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

The Board of Directors of Lazard Ltd has issued a series of authorizations to repurchase Class A common stock and Lazard Group common membership interests, which help offset the dilutive effect of our share-based incentive compensation plans. During a given year the Company intends to repurchase at least as many shares as

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it expects to ultimately issue pursuant to such compensation plans in respect of year-end incentive compensation attributable to the prior year. The rate at which the Company purchases shares in connection with this annual objective may vary from quarter to quarter due to a variety of factors. Purchases with respect to such program are set forth in the table below:

<u>Three Months Ended March 31:</u>	<u>Number of Shares/Common Membership Interests Purchased</u>	<u>Average Price Per Share/Common Membership Interest</u>
2013	831,157	\$ 36.30
2014	2,392,674	\$ 44.69

As of March 31, 2014, a total of \$15 million of share repurchase authorization remained available under the Company's share repurchase program, which will expire on December 31, 2015.

During the three months ended March 31, 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.

In April 2014, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional \$200 million in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2015.

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

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

Regulatory Capital

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

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

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

Compensation Liabilities

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

Income Taxes

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

A deferred tax asset is recognized if it is more likely than not (defined as a likelihood of greater than 50%) that a tax benefit will be accepted by a taxing authority. The measurement of deferred tax assets and liabilities is based upon currently enacted tax rates in the applicable jurisdictions. At December 31, 2013, on a consolidated basis, we recorded gross deferred tax assets of approximately \$1.40 billion.

Subsequent to the initial recognition of deferred tax assets, we also must continually assess the likelihood that such deferred tax assets will be realized. If we determine that we may not fully derive the benefit from a deferred tax asset, we consider whether it would be appropriate to apply a valuation allowance against the applicable deferred tax asset. In order to determine whether we apply a valuation allowance, we must assess whether it is more likely than not that such asset will be realized, taking into account all available information. The ultimate realization of a deferred tax asset for a particular entity depends, among other things, on the generation of taxable income by such entity in the applicable jurisdiction. Although we have been profitable on a consolidated basis for the three year periods ended December 31, 2013 and March 31, 2014, certain of our tax-paying entities have individually experienced minimal profits on a cumulative basis during such years and losses

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in 2012, primarily due to permanent differences between net income and taxable income at such entities. Considering the recent operating results of such entities and the other factors listed below, we recorded a valuation allowance of approximately \$1.23 billion on our deferred tax assets as of December 31, 2013 and have not changed our assessment regarding the level of valuation allowance as of March 31, 2014.

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

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

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

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

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

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

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

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The Company records tax positions taken or expected to be taken in a tax return based upon the amount that is more likely than not to be realized or paid, including in connection with the resolution of any related appeals or other legal processes. Accordingly, the Company recognizes liabilities for certain unrecognized tax benefits based on the amounts that are more likely than not to be settled with the relevant taxing authority. Such liabilities are evaluated periodically as new information becomes available and any changes in the amounts of such liabilities are recorded as adjustments to “income tax expense.” Liabilities for unrecognized tax benefits involve significant judgment and the ultimate resolution of such matters may be materially different from our estimates.

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

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

Investments

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

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

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

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Data relating to investments is set forth below:

	March 31, 2014	December 31, 2013
	(\$ in thousands)	
Seed investments by asset class:		
Equities (a)	\$ 103,850	\$ 118,535
Fixed income	19,893	25,231
Alternative investments	27,673	29,920
Total seed investments	<u>151,416</u>	<u>173,686</u>
Other investments owned:		
Private equity (b)	106,251	104,405
Short-term investments and other	11,711	11,644
Total other investments owned	<u>117,962</u>	<u>116,049</u>
Subtotal	<u>269,378</u>	<u>289,735</u>
Add:		
Equity method (c)	8,552	9,488
Private equity consolidated, not owned (d)	9,286	9,787
Lazard Fund Interests (e)	130,079	169,095
Total investments	<u>\$417,295</u>	<u>\$ 478,105</u>

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

	March 31, 2014	December 31, 2013
Percentage invested in:		
Financials	32%	31%
Consumer	28	29
Industrial	12	12
Technology	9	9
Energy	7	6
Other	<u>12</u>	<u>13</u>
Total	<u>100%</u>	<u>100%</u>

- (b) Private equity investments include investments related to certain legacy businesses and co-investments in private equity funds managed by our Asset Management business. Co-investments owned were \$20 million and \$18 million as of March 31, 2014 and December 31, 2013, respectively.
- (c) Represents investments accounted for under the equity method of accounting.
- (d) Represents private equity investments that are consolidated but owned by noncontrolling interests, and therefore do not subject the Company to market or credit risk. The applicable noncontrolling interests are presented within “stockholders’ equity” on the condensed consolidated statements of financial condition.
- (e) Composed of investments held in connection with Lazard Fund Interests and other similar deferred compensation arrangements. The market risk associated with such investments is equally offset by the market risk associated with the derivative liability with respect to awards expected to vest. The Company is subject to market risk associated with any portion of such investments that employees may forfeit. See “—Risk Management—Risks Related to Derivatives” for risk management information relating to derivatives.

At March 31, 2014 and December 31, 2013, \$117 million and \$116 million, respectively, of our total investments at a fair value of \$408 and \$468 million, respectively, or 29% and 25%, respectively, were classified

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as Level 3 investments. Substantially all of our Level 3 investments at both dates are priced based on NAV. During the three months ended March 31, 2014 and 2013, gains of approximately \$6 million and \$1 million, respectively, were recognized in “revenue-other” on the consolidated statement of operations pertaining to Level 3 investments. See Notes 4 and 5 of Notes to Condensed Consolidated Financial Statements for additional information regarding investments measured at fair value, including the levels of fair value within which such measurements of fair value fall.

As of March 31, 2014 and December 31, 2013, the Company held seed investments of approximately \$151 million and \$174 million, respectively. Seed investments held in entities in which the Company maintained a controlling interest were \$46 million in six entities as of March 31, 2014, as compared to \$58 million in nine entities as of December 31, 2013.

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

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

Assets Under Management

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

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

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

Goodwill

In accordance with current accounting guidance, goodwill has an indefinite life and is tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. For years prior to 2011, Lazard made estimates and assumptions in order to determine the fair value of its assets and liabilities and to project future earnings using various valuation techniques. Commencing in 2011, as permitted under an amendment issued by the Financial Accounting Standards Board, the Company elected to perform a qualitative evaluation about whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount in lieu of actually calculating the fair value of the reporting unit. During the fourth quarter of 2013, the Company changed the date of its annual impairment testing from December 31 to November 1. See Note 8 of Notes to Condensed Consolidated Financial Statements for additional information regarding goodwill.

Consolidation of Variable Interest Entities

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

- **Voting Interest Entities.** VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity’s activities. Lazard is required to consolidate a VOE if it either holds a majority of the voting interest in such entity or is the general partner in such entity and the third-party investors do not have the right to replace the general partner.
- **Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a VOE. If Lazard has a variable interest, or a combination of variable interests, in a VIE, it is required to analyze whether it needs to consolidate such VIE. Lazard is required to consolidate a VIE if, through our variable interests, we absorb a majority of the expected losses, expected residual returns, or both, of such entity.

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

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

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

Risk Management

Investments

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

Risk sensitivities include the effects of economic hedging. For equity market price risk, investment portfolios and their corresponding hedges are beta-adjusted to the All-Country World equity index. Fair value

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and sensitivity measurements presented herein are based on various portfolio exposures at a particular point in time and may not be representative of future results. Risk exposures may change as a result of ongoing portfolio activities and changing market conditions, among other things.

Equity Market Price Risk—As of March 31, 2014 and December 31, 2013, the Company's exposure to equity market price risk in its investment portfolio, which primarily relates to investments in equity securities, equity funds and hedge funds, was approximately \$117 million and \$134 million, respectively. The Company hedges market exposure arising from a significant portion of our equity investment portfolios by entering into total return swaps. The Company estimates that a hypothetical 10% adverse change in market prices would result in a net decrease of approximately \$1.0 million and \$1.7 million in the carrying value of such investments as of March 31, 2014 and December 31, 2013, respectively, including the effect of the hedging transactions.

Interest Rate/Credit Spread Risk—As of March 31, 2014 and December 31, 2013, the Company's exposure to interest rate and credit spread risk in its investment portfolio related to investments in debt securities or funds which invest primarily in debt securities was \$44 million and \$48 million, respectively. The Company hedges market exposure arising from a portion of our debt investment portfolios by entering into total return swaps. The Company estimates that a hypothetical 100 basis point adverse change in interest rates or credit spreads would result in a decrease of approximately \$0.7 million and \$0.9 million in the carrying value of such investments as of March 31, 2014 and December 31, 2013, respectively, including the effect of the hedging transactions.

Foreign Exchange Rate Risk—As of March 31, 2014 and December 31, 2013, the Company's exposure to foreign exchange rate risk in its investment portfolio, which primarily relates to investments in foreign currency denominated equity and debt securities, was \$71 million and \$85 million, respectively. A significant portion of the Company's foreign currency exposure is hedged through the aforementioned total return swaps. The Company estimates that a 10% adverse change in foreign exchange rates versus US dollars would result in a decrease of approximately \$0.3 million and \$1.4 million in the carrying value of such investments as of March 31, 2014 and December 31, 2013, respectively, including the effect of the hedging transactions.

Private Equity—The Company invests in private equity primarily as a part of its co-investment activities and in connection with certain legacy businesses. As of March 31, 2014 and December 31, 2013, the Company's exposure to changes in the fair value of such investments was approximately \$106 million and \$104 million, respectively. The Company estimates that a hypothetical 10% adverse change in fair value would result in a decrease of approximately \$10.6 million and \$10.4 million in the carrying value of such investments as of March 31, 2014 and December 31, 2013, respectively.

Risks Related to Receivables

We maintain an allowance for doubtful accounts to provide coverage for probable losses from our receivables. We determine the adequacy of the allowance by estimating the probability of loss based on our analysis of the client's creditworthiness and specifically provide for exposures where we determine the receivables are impaired. At March 31, 2014, total receivables amounted to \$523 million, net of an allowance for doubtful accounts of \$31 million. As of that date, Financial Advisory and Asset Management fees, and customer and related party receivables comprised 77%, 22% and 1% of total receivables, respectively. At December 31, 2013, total receivables amounted to \$513 million, net of an allowance for doubtful accounts of \$29 million. As of that date, Financial Advisory and Asset Management fees, and customer and related party receivables comprised 88%, 10% and 2% of total receivables, respectively. At March 31, 2014 and December 31, 2013, the Company had receivables past due or deemed uncollectible of approximately \$36 million and \$39 million, respectively. See also "Critical Accounting Policies and Estimates—Revenue Recognition" above and Note 3 of Notes to Condensed Consolidated Financial Statements for additional information regarding receivables.

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LFB engages in lending activities, including commitments to extend credit. At March 31, 2014 and December 31, 2013, customer receivables included \$22 million and \$15 million of LFB loans, respectively. Such loans are closely monitored for counterparty creditworthiness to help minimize exposure. In addition, as of March 31, 2014, LFB's commitments to lend, which are fully collateralized and generally contain requirements for the counterparty to maintain a minimum collateral level, were not significant.

Credit Concentrations

To reduce the exposure to concentrations of credit, the Company monitors large exposures to individual counterparties. As of March 31, 2014, the Company's largest individual counterparty exposure was a Financial Advisory fee receivable of \$12 million.

Risks Related to Derivatives

Lazard enters into interest rate swaps and forward foreign currency exchange contracts to hedge exposures to interest rates and currency exchange rates and uses total return swap contracts on various equity and debt indices to hedge a portion of its market exposure with respect to certain seed investments related to our Asset Management business. Derivative contracts are recorded at fair value. Derivative assets amounted to \$0.3 million and \$1 million at March 31, 2014 and December 31, 2013, respectively, and derivative liabilities, excluding the derivative liability arising from the Company's obligation pertaining to Lazard Fund Interests and other similar deferred compensation arrangements, amounted to \$6 million and \$2 million at such respective dates.

The Company also 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. Changes in the fair value of the derivative liabilities are equally offset by the changes in the fair value of investments which are expected to be delivered upon settlement of Lazard Fund Interests awards. Derivative liabilities relating to Lazard Fund Interests amounted to \$213 million and \$162 million at March 31, 2014 and December 31, 2013, respectively.

In addition, LFB enters into interest rate swaps, forward foreign currency exchange contracts and other derivative contracts to hedge exposures to interest rate and currency fluctuations on open positions that arise primarily from client activity. Such foreign currency and interest rate positions are subject to strict internal limits and, based on account balances as of March 31, 2014, we do not believe that the impact of potential significant movements in either the currency or interest rate markets on LFB's positions would materially affect the Company's annual operating income.

Risks Related to Short-Term Investments and Corporate Indebtedness

A significant portion of the Company's indebtedness has fixed interest rates, while its short-term investments generally have floating interest rates. Based on account balances as of March 31, 2014, Lazard estimates that its annual operating income relating to cash and short-term investments and corporate indebtedness would increase by approximately \$7 million in the event interest rates were to increase by 1% and decrease by approximately \$1 million if rates were to decrease by 1%.

As of March 31, 2014, the Company's cash and cash equivalents totaled approximately \$667 million. Substantially all of the Company's cash and cash equivalents were invested in highly liquid institutional money market funds (a significant majority of which were invested solely in U.S. Government or agency money market funds), in short-term interest earning accounts at a number of leading banks throughout the world, and in short-term certificates of deposit from such banks. Cash and cash equivalents are constantly monitored. On a regular basis, management reviews its investment profile as well as the credit profile of its list of depositor banks in order to adjust any deposit or investment thresholds as necessary.

Operational Risks

Operational risk is inherent in all our business and may, for example, manifest itself in the form of errors, breaches in the system of internal controls, business interruptions, fraud or legal actions due to operating deficiencies or noncompliance. The Company maintains a framework including policies and a system of internal controls designed to monitor and manage operational risk and provide management with timely and accurate

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information. Management within each of the operating companies is primarily responsible for its operational risk programs. The Company has in place business continuity and disaster recovery programs that manage its capabilities to provide services in the case of a disruption. We purchase insurance policies designed to help protect the Company against accidental loss and losses that may significantly affect our financial objectives, personnel, property or our ability to continue to meet our responsibilities to our various stakeholder groups.

Recent Accounting Developments

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Risk Management

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

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

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

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

None.

Issuer Repurchases of Equity Securities

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

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
January 1 – January 31, 2014				
Share Repurchase Program (1)	1,084,086	\$44.97	1,084,086	\$ 72.8 million
Employee Transactions (2)	–	\$ –	–	\$ –
February 1 – February 28, 2014				
Share Repurchase Program (1)	913,488	\$43.97	913,488	\$ 32.7 million
Employee Transactions (2)	1,860,011	\$43.78	–	\$ –
March 1 – March 31, 2014				
Share Repurchase Program (1)	395,100	\$45.61	395,100	\$ 14.7 million
Employee Transactions (2)	13,377	\$45.28	–	\$ –
Total				
Share Repurchase Program (1)	2,392,674	\$44.69	2,392,674	\$ 14.7 million
Employee Transactions (2)	1,873,388	\$43.79	–	\$ –

(1) As disclosed in more detail in Note 11 of Notes to Condensed Consolidated Financial Statements, in February 2011, October 2011, April 2012, October 2012 and October 2013, the Board of Directors authorized, on a cumulative basis, the repurchase of up to an additional \$250 million, \$125 million, \$125 million, \$200 million and \$100 million, respectively, in aggregate cost of Lazard Ltd Class A common stock and Lazard Group common membership interests through December 31, 2012, December 31, 2013, December 31, 2013, December 31, 2014 and December 31, 2015, respectively. The share repurchase

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program is used primarily to offset a portion of the shares to be issued under the 2005 Plan and the 2008 Plan. Purchases under the share repurchase program may be made in the open market or through privately negotiated transactions. Amounts shown in this line item include repurchases of Class A common stock and exclude the shares of Class A common stock withheld by the Company to meet the minimum statutory tax withholding requirements as described below.

During the three months ended March 31, 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.

In April 2014, the Board of Directors authorized the repurchase of up to an additional \$200 million in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2015.

- (2) Under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of RSUs, PRSUs and delivery of restricted Class A common stock, shares of Class A common stock may be withheld by the Company to meet the minimum statutory tax withholding requirements. During the three month period ended March 31, 2014, the Company satisfied such obligations in lieu of issuing (i) 1,843,389 shares of Class A common stock upon the vesting of 6,317,612 RSUs and (ii) 29,999 shares of Class A common stock upon the vesting of 205,075 shares of restricted Class A common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

PART IV

Item 6. Exhibits

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

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

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

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

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

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

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

Date: May 6, 2014

LAZARD LTD

By: /s/ Matthieu Bucaille

Name: Matthieu Bucaille

Title: Chief Financial Officer

By: /s/ Dominick Ragone

Name: Dominick Ragone

Title: Chief Accounting Officer

**This document constitutes part of a prospectus covering securities that have been registered
under the Securities Act of 1933.**

PERFORMANCE-BASED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated as of February 20, 2014, between Lazard Ltd, a Bermuda exempted company (the “Company”), on behalf of its applicable Affiliate (as defined under the definitional rules of Section 1(a) below), and [NAME] (the “Employee”).

W I T N E S S E T H

In consideration of the mutual promises and covenants made herein and the mutual benefits to be derived herefrom, the parties hereto agree as follows:

1. Grant and Vesting of Performance-Based Stock Units.

(a) Subject to the provisions of this Agreement and to the provisions of the Company’s 2008 Incentive Compensation Plan (the “Plan”) (all capitalized terms used herein, to the extent not defined, shall have the meaning set forth in the Plan), the Company, on behalf of its applicable Affiliate, hereby grants to the Employee, as of the date set forth above (the “Grant Date”), the target number of performance-based Stock Units (“Stock Units”) specified in Appendix A, each with respect to one Share. Subject to the terms and conditions set forth in this Agreement, the Employee will actually earn (or be deemed to earn) a number of Stock Units that is between 0% and 200% of the target number of Stock Units subject to this Agreement, such number of earned Stock Units to be determined based on achievement of the performance goals set forth on Appendix A (the “Performance Conditions”).

(b) Subject to the terms and conditions of this Agreement and to the provisions of the Plan, the Stock Units shall vest and no longer be subject to any restriction if each of the following two conditions has been satisfied:

- (i) The Employee has remained continuously employed by the Company or any of its Affiliates until March 1, 2017 (such date, the “Final Service Date”, and such condition, the “Service Condition”); and
- (ii) The Committee concludes that during the period beginning on January 1, 2014 and ending on December 31, 2016 (the “Performance Period”), the Company has achieved the Performance Conditions and specifies the level at which the Stock Units shall vest, based on the scoring, adjustment and weighting provisions set forth in Appendix A; provided, however, that the Committee, in its sole discretion, may interpret the goals and scoring set forth in Appendix A as it deems necessary or appropriate (including, without limitation, to the extent necessary to address extraordinary events or circumstances). The ultimate score achieved based on Appendix A (which may range from 0.0 to 2.0) will be multiplied by the total target number of Stock Units in order to determine the number of Stock Units that may vest upon satisfaction of the Service Condition. Furthermore, the Committee shall determine, following the end of each fiscal year during

the Performance Period and in accordance with the methodology described in the first sentence of this Section 1(b)(ii), the extent to which the Company has achieved the Performance Conditions with respect to such fiscal year and, in the event that the Performance Conditions in that year have been achieved at the target level (i.e., the 1.0x level) or above, then the Performance Conditions will be deemed satisfied with respect to twenty-five percent (25%) of the total target number of Stock Units (any such Stock Units that are earned in accordance with this sentence, the "Fiscal Year Stock Units"). Any Fiscal Year Stock Units will vest upon satisfaction (or deemed satisfaction) of the Service Condition in accordance with Section 1(b)(i) above or Section 1(d) or 1(f) below. In the event that the Committee makes any conclusion regarding achievement of the Performance Conditions for the full Performance Period (or, in the case of Section 1(d)(i) or 1(f)(i), for a portion thereof), any Fiscal Year Stock Units will be applied to reduce the number of Stock Units that would otherwise be earned in accordance with this Agreement.

(c) Except as set forth in Section 1(f) below, in the event that the Employee incurs a Termination of Employment prior to the Final Service Date for any reason not set forth in Section 1(d), all unvested Stock Units (and any Remaining Shares (as defined in Section 1(d)(iii) below)) shall be forfeited by the Employee effective immediately upon such Termination of Employment. For purposes of this Section 1(c), the Employee will be deemed to have incurred a Termination of Employment on the date that the Employee provides notice of termination to the Company, and accordingly, all unvested Stock Units (and any Remaining Shares) shall be forfeited by the Employee immediately upon delivery of any such notice. In addition, all unvested Stock Units (excluding any Fiscal Year Stock Units or Dividend Equivalent Stock Units (as defined in Section 4 below)) shall be forfeited by the Employee to the extent that, following the last day of the Performance Period (or such earlier date as specified in Section 1(d) or 1(f)), the Performance Conditions with respect to such Stock Units have not been satisfied.

(d) (i) Except as set forth in Section 1(f) below, in the event that the Employee incurs a Termination of Employment prior to the Final Service Date due to (A) the Employee's Disability, (B) the Employee's death or (C) a Termination of Employment by the Company other than for Cause, subject to Section 1(e) below, the Stock Units (and any Remaining Shares) held by the Employee on the Date of Termination shall no longer be subject to the Performance Conditions and the Service Condition, and any Stock Units shall be settled as set forth in Section 1(d)(iii) or Section 2 below but such Stock Units and Remaining Shares shall remain subject to forfeiture pursuant to Section 1(e) through the Final Service Date; provided that, in the case of a Termination of Employment due to the Employee's death as described in clause (B) of this Section 1(d)(i) or in the case of the Employee's death subsequent to a Termination of Employment described in this Section 1(d)(i), the Stock Units (and any Remaining Shares) will immediately vest upon the date of death and the Stock Units shall be settled through delivery of fully transferable Shares as soon as practicable following such date (or, if applicable, in the event the Employee's death occurs more than halfway through a fiscal quarter, as soon as practicable following the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable measurement period). The Stock Units (excluding Fiscal Year Stock Units and Dividend Equivalent Stock Units) shall vest based on (1)

the actual performance level during the period beginning on the first day of the Performance Period and ending on the last day of the most recent fiscal quarter preceding the Date of Termination (or, if the Date of Termination occurs more than halfway through a fiscal quarter, the last day of such current fiscal quarter), as determined by the Committee, and (2) deemed performance at the target level for the period beginning on the first day of the following fiscal quarter through the last day of the Performance Period.

- (ii) Except as set forth in Section 1(f) below, in the event that the Employee incurs a Termination of Employment prior to the Final Service Date due to the Employee's Retirement (as defined below), all Stock Units held by the Employee on the Date of Termination (and any Remaining Shares) shall no longer be subject to the Service Condition and, following satisfaction of the Performance Conditions and subject to Section 1(e), shall be settled as set forth in Section 1(d)(iii) below (unless already settled pursuant to such section prior to Termination of Employment) but shall remain subject to forfeiture pursuant to Section 1(e) through the Final Service Date (subject to any acceleration of vesting as otherwise set forth in this Agreement). Such Stock Units (excluding Fiscal Year Stock Units and Dividend Equivalent Stock Units) shall vest at the level determined by the Committee following the last day of the Performance Period, based on actual performance during the Performance Period. For purposes of this Agreement, "Retirement" shall mean that the Employee voluntarily incurs a Termination of Employment on or after the date on which the Employee meets all of the following retirement eligibility requirements (such date, the "Retirement Eligibility Date"): (A) minimum age fifty-six (56); (B) minimum of five (5) years of service with the Company or its Affiliates; and (C) actual age plus years of service with the Company or any of its Affiliates at least seventy (70).
- (iii) Subject to the final sentence of Section 2 below, all Shares underlying the (A) Fiscal Year Stock Units, (B) Stock Units for which the Performance Conditions have been satisfied (or are deemed to be satisfied in accordance with Section 1(d)(i) or Section 1(f)(i)) and (C) Dividend Equivalent Stock Units shall be delivered to the Employee (1) in the case of any Termination of Employment due to Disability or the occurrence of the Retirement Eligibility Date, within 30 days following the later of (x) the date that the Employee is no longer required to perform any additional services in order to retain such Stock Units and (y) the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable measurement period, and (2) in the case of a Termination of Employment by the Company other than for Cause, as soon as practicable following the later of (x) the date that the release described in Section 1(e) below has become effective and irrevocable and (y) the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable measurement period (but in all cases, such settlement shall not be later than March 15 of the calendar year following the year in which such Stock

Units are no longer subject to a substantial risk of forfeiture within the meaning of Treasury Regulation Section 1.409A-1(d)) (the date that Shares are delivered to the Employee is an “Initial Delivery Date”). For the avoidance of doubt, there may be multiple Initial Delivery Dates for purposes of this Agreement (including as a result of achievement of Performance Conditions applicable to the Fiscal Year Stock Units and as a result of the Dividend Equivalent Stock Units). Immediately following the Initial Delivery Date with respect to any Stock Units, subject to approval of the Compliance Department of the Company or an Affiliate, the Employee will be permitted to dispose of the Applicable Percentage (as defined below) of the Shares (such Shares, the “Transferable Shares”) delivered to the Employee pursuant to this Section 1(d)(iii) immediately following the date that such Shares are delivered to the Employee. For purposes of this Agreement, the “Applicable Percentage” is the percentage of the Shares (if any) delivered to the Employee that the Company determines, in its sole discretion, is necessary to satisfy the Employee’s tax liability incurred with respect to such Shares on the date that such Shares are delivered to the Employee. All Shares delivered to the Employee on the Initial Delivery Date that are not Transferable Shares (such Shares, the “Remaining Shares”) will remain subject to the restrictions set forth in this Agreement (including Section 1(e)) until the date that such Remaining Shares otherwise would have been delivered to the Employee following the Final Service Date or such earlier date on which such Remaining Shares would have been delivered pursuant to this Agreement as a result of the Employee’s death or a Change in Control (such date, the “Final Delivery Date”). Accordingly, prior to the Final Delivery Date, neither the Employee nor any of the Employee’s creditors or beneficiaries will have the right to subject the Remaining Shares to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, hedge, exchange, attachment or garnishment or any similar transaction. Furthermore, for the avoidance of doubt, the Remaining Shares shall continue to be subject to the forfeiture provisions set forth in this Agreement relating to violation of the restrictive covenants set forth in Appendix B, which are incorporated herein by reference (the “Restrictive Covenants”) until the Final Delivery Date.

(e) Notwithstanding any provision of this Agreement to the contrary, in the event that the Employee incurs a Termination of Employment by the Company other than for Cause (regardless of whether the Retirement Eligibility Date precedes the date of such Termination of Employment) or due to a Retirement in accordance with Section 1(d)(ii), in each case, prior to a Change in Control, from and after the date of such Termination of Employment, in order for the Stock Units or the Remaining Shares, as applicable, to be treated as provided in Section 1(d), the Employee must sign a customary release of claims in favor of the Company and its Affiliates that is acceptable to the Company, and such release must become effective and irrevocable on or before the 65th day following the Employee’s Termination of Employment. In the event the Employee does not sign such release or revokes such release before it becomes irrevocable, the Employee shall forfeit all rights to any unvested Stock Units or Remaining Shares, as applicable.

In the event that the Employee incurs a Termination of Employment pursuant to Section 1(d)(i) (other than as a result of death) or 1(d)(ii), and the Employee violates any of the provisions of the Restrictive Covenants prior to the Final Delivery Date, all outstanding vested or unvested Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and, if applicable, all Remaining Shares, shall be forfeited and canceled. Notwithstanding that certain Restrictive Covenants in Appendix B apply for only a limited period following a Termination of Employment, in the event that the Employee incurs a Termination of Employment due to a Retirement, the Employee will forfeit any outstanding Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and, if applicable, any Remaining Shares, if the Employee does not comply with all of the Restrictive Covenants in Appendix B until the earlier of the Final Service Date or, as applicable, Final Delivery Date. For the avoidance of doubt, in no event shall a violation of the Restrictive Covenants in Appendix B serve as a basis for forfeiture of Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and, if applicable, any Remaining Shares, from and after a Change in Control.

(f) (i) Notwithstanding any provision of this Agreement to the contrary, in the event of a Change in Control that occurs prior to the end of the Performance Period (without regard to whether the Employee's Retirement has occurred on or prior to the date of such Change in Control), the Performance Conditions shall no longer apply and, instead, shall be deemed to have been satisfied as of immediately prior to the Change in Control at the greater of (A) the target level and (B) the actual performance level achieved during the period beginning at the start of the Performance Period and ending on the date of such Change in Control, as determined by the Committee prior to the Change in Control with any necessary exercise of discretion determined by the Committee prior to the Change in Control.

- (ii) Except as otherwise provided in this Section 1(f)(ii) and 1(f)(iii) below, following a Change in Control, the unvested Stock Units (and, if applicable, any Remaining Shares) shall remain outstanding through the Final Service Date or Final Delivery Date, as applicable; provided, however, that in the event that the Employee incurs a Termination of Employment upon or following a Change in Control but prior to the Final Service Date under any of the circumstances described in Section 1(d)(i) or 1(d)(ii) above, the date of such Termination of Employment shall be deemed to be the Final Delivery Date, and all Shares issued in settlement of such Stock Units shall be Transferable Shares. Furthermore, in the event that the Employee incurs a Termination of Employment under any of the circumstances described in Section 1(d)(i) or 1(d)(ii) above prior to the Final Delivery Date and prior to a Change in Control, upon a Change in Control, the date of the Change in Control shall be deemed to be the Final Service Date for purposes of any Stock Units (and the Final Delivery Date for any Remaining Shares and, for purposes of Section 1(e), all Stock Units) then held by the Employee and any dividends held by an escrow agent with respect thereto, as set forth in Section 4 below.
- (iii) Notwithstanding the foregoing, in the event of a Change in Control prior to the Final Service Date, unless (A) either (1) the unvested Stock Units and Remaining Shares remain outstanding following such Change in

Control or (2) provision is made in connection with the Change in Control for assumption of such Stock Units or substitution of such Stock Units and Remaining Shares for new awards covering equity interests in a successor entity, with appropriate adjustments to the number of Stock Units and Remaining Shares, as determined by the Committee prior to the Change in Control pursuant to Section 3(b)(ii) of the Plan, and (B) the material terms and conditions of such Stock Units and Remaining Shares as in effect immediately prior to the Change in Control are preserved following the Change in Control (including, without limitation, with respect to the vesting schedules, the intrinsic value of the Stock Units and Remaining Shares and transferability of the Shares or other securities underlying the Stock Units and Remaining Shares prior to and following the Change in Control), the date of the Change in Control shall be deemed to be the Final Service Date for purposes of such Stock Units (and the Final Delivery Date for purposes of any Remaining Shares then outstanding and, for purposes of Section 1(e), all Stock Units) and such Stock Units shall be settled within 30 days following such date.

2. Settlement of Units, Restrictions on Remaining Shares.

As soon as practicable (but in no event more than 30 days) after any Stock Unit has vested and is no longer subject to the applicable Service Condition and Performance Conditions, the Company shall, subject to Sections 1(d), 1(e) and 6, cause its applicable Affiliate to deliver to the Employee one or more unlegended, freely-transferable stock certificates or book-entry credits in respect of such Shares issued upon settlement of the vested Stock Units. Notwithstanding the foregoing, (a) the Company shall be entitled to hold the Shares or cash issuable upon settlement of Stock Units that have vested until the Company shall have received from the Employee a duly executed Form W-9 or W-8, as applicable, and (b) any certificate or book entry credit issued or entered in respect of the Remaining Shares shall be registered in the Employee's name and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to the Remaining Shares, substantially in the following form:

“The transferability of this certificate and the shares of stock represented hereby is subject to the terms and conditions (including forfeiture) of the Lazard Ltd 2008 Incentive Compensation Plan and an Award Agreement, as well as the terms and conditions of applicable law. Copies of such Plan and Agreement are on file at the offices of Lazard Ltd.”

The Company may require that the certificates or book entry credits evidencing title of the Remaining Shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of receiving the Remaining Shares, the Employee shall have delivered to the Company a stock power, endorsed in blank, relating to such Remaining Shares. If and when the Final Delivery Date occurs (or is deemed to occur) with respect to the Remaining Shares, the legend set forth shall be removed from the certificates or book entry credits evidencing such Shares. Notwithstanding any provision of this Agreement to the contrary, Shares will be delivered to the Employee in settlement of any Stock Units for which all conditions have been satisfied (or deemed satisfied) no later than March 15 of the year following the year in which such Stock Units are no longer subject to a substantial risk of forfeiture within the meaning of Treasury Regulation Section 1.409A-1(d).

3. Nontransferability of the Stock Units and Remaining Shares.

Until such time as the Stock Units are ultimately settled or the Remaining Shares are ultimately free from restriction, as applicable, as provided in Section 1(d), Section 1(f) or Section 2 above, the Stock Units and Remaining Shares shall not be transferable by the Employee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. Dividend Equivalents, Rights as a Shareholder.

If the Company declares and pays (or sets a record date with respect to) ordinary quarterly cash dividends on the Common Stock (a) during the Performance Period, the target number of Stock Units less any Transferable Shares and Remaining Shares (such Stock Units, the "Target Stock Units") shall be credited with additional Stock Units (determined by dividing the aggregate dividend amount that would have been paid with respect to the Target Stock Units if they had been actual Shares by the Fair Market Value of a Share on the dividend payment date) (such additional Stock Units, the "Dividend Equivalent Stock Units"), which Dividend Equivalent Stock Units (and any additional Dividend Equivalent Stock Units that are granted while the Dividend Equivalent Stock Units are outstanding) shall be subject to the Service Condition and all other terms of this Agreement but shall not be subject to the Performance Conditions (i.e., the Dividend Equivalent Stock Units shall be treated as Stock Units for which the Performance Conditions have already been satisfied), or (b) after the Performance Period but while any Stock Units remain outstanding, any then outstanding Stock Units shall be credited with additional Stock Units (determined by dividing the aggregate dividend amount that would have been paid with respect to the Stock Units if they had been actual Shares by the Fair Market Value of a Share on the dividend payment date), which additional Stock Units shall vest and be settled concurrently with the underlying Stock Units and be treated as Stock Units for all purposes of this Agreement. For the avoidance of doubt, the provisions of the immediately preceding sentence shall not apply to any extraordinary dividends or distributions, which are addressed in Section 3(b)(i) of the Plan.

Notwithstanding the foregoing, subject to Section 1(d) and Section 2 and any other applicable law or agreement, from and after the Initial Delivery Date, the Employee will have all rights and privileges of a shareholder with respect to the Shares delivered on such Initial Delivery Date, including the right to vote the Shares and to receive dividends and other distributions with respect thereto, provided that, any dividends that are paid on the Remaining Shares prior to the Final Delivery Date (whether payable in cash or Shares) will be held until the Final Delivery Date by an escrow agent that is designated by the Company, and in the event that the Remaining Shares are forfeited in accordance with Section 1(e), such dividends will also be forfeited. For the avoidance of doubt, the determination of applicable dividends, and the calculation of amounts equivalent thereto, provided for in this Section 4 shall be made consistent with the Company's past practice with respect to similar Awards.

5. Payment of Transfer Taxes, Fees and Other Expenses.

The Company agrees, or will cause its applicable Affiliate, to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of Shares received by an Employee in connection with the Stock Units, together with any and all other fees and expenses necessarily incurred by the Company in connection therewith.

6. Taxes and Withholding; Disbursement of Tax Benefits.

(a) No later than the date as of which an amount first becomes includible in the gross income of the Employee for federal, state, local or foreign income tax purposes with respect to any Stock Units, the Employee shall pay to the Company or its applicable Affiliate, or make arrangements satisfactory to the Company or its applicable Affiliate regarding the payment of, any federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld with respect to such amount. Except as otherwise required by applicable law, the Company will report that the Employee will be taxed on the full value of the Shares underlying the Employee's Stock Units on the date that such Shares are issued to the Employee in accordance with this Agreement. The obligations of the Company under this Agreement shall be conditioned on compliance by the Employee with this Section 6, and the Company or its applicable Affiliate shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Employee, including deducting such amount from the delivery of Shares or cash issued upon settlement of the Stock Units that gives rise to the withholding requirement. Notwithstanding the foregoing, the Company or an Affiliate may, in the Company's sole discretion and subject to such other terms and conditions as the Company may determine, if the Employee is not subject to withholding as a matter of applicable law as of the date that the Shares are delivered to the Employee (including if the Employee is a member of the Company who reports income from the Company and its Affiliates on Schedule K-1 to the Company's Federal income tax return) and pursuant to the prior written approval of the Company, permit the Employee to surrender some or all of the Transferable Shares to the Company or an Affiliate and have the Company or such Affiliate remit the relevant taxes on the Employee's behalf to the appropriate taxing authorities. Prior to an Initial Delivery Date, the Company will notify the Employee of (i) how many Shares will be delivered to the Employee on such Initial Delivery Date and (ii) the portion, if any, of the Transferable Shares that the Company or an Affiliate will retain pursuant to the immediately preceding sentence.

(b) In the event that the Employee incurs a Termination of Employment due to a Retirement and, after such Retirement, the Employee forfeits the Remaining Shares and the dividends held in escrow in accordance with Section 4 of this Agreement, the Employee shall disgorge to the Company any tax benefit the Employee realizes from the forfeiture of any such Remaining Shares or dividends, if, as and when actually realized by the Employee. The Employee agrees to use commercially reasonable efforts to claim any tax benefit from such forfeiture that the Company reasonably determines is available to the Employee on all relevant tax returns filed after having received notice from the Company. Notwithstanding the foregoing, this Section 6(b) shall not apply from and after a Change in Control or a Termination of Employment pursuant to Section 1(d)(i).

7. Effect of Agreement.

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company. The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. Nothing in this Agreement or the Plan shall confer upon the Employee any right to continue in the employ of the Company or any of its Affiliates or interfere in any way with the right of the Company or any such Affiliates to terminate the Employee's employment at any time. Until Shares are actually delivered to the Employee upon settlement of the Stock Units, the Employee shall not have any rights as a shareholder with respect to the Stock Units, except as specifically provided herein.

8. Laws Applicable to Construction; Consent to Jurisdiction.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York (United States of America), without regard to principles of conflict of laws that could cause the application of the law of any jurisdiction other than the State of New York. In addition to the terms and conditions set forth in this Agreement and the Restrictive Covenants, the Stock Units are subject to the terms and conditions of the Plan, which is hereby incorporated by reference. By accepting the Stock Units, the Employee agrees to and is bound by the Plan and the Restrictive Covenants.

(b) Subject to the provisions of Section 8(c), any controversy or claim between the Employee and the Company or its Affiliates arising out of or relating to or concerning the provisions of this Agreement or the Plan shall be finally settled by arbitration in New York City before, and in accordance with the rules then obtaining of, the Financial Industry Regulatory Authority ("FINRA") or, if FINRA declines to arbitrate the matter, the American Arbitration Association (the "AAA") in accordance with the commercial arbitration rules of the AAA.

(c) Notwithstanding the provisions of Section 8(b), and in addition to its right to submit any dispute or controversy to arbitration, the Company or one of its Affiliates may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in the City of New York, whether or not an arbitration proceeding has theretofore been or is ever initiated, for the purpose of temporarily, preliminarily, or permanently enforcing the provisions of the Restrictive Covenants, or to enforce an arbitration award, and, for the purposes of this Section 8(c), the Employee (i) expressly consents to the application of Section 8(d) to any such action or proceeding, (ii) agrees that proof shall not be required that monetary damages for breach of the provisions of the Restrictive Covenants or this Agreement would be difficult to calculate and that remedies at law would be inadequate, and (iii) irrevocably appoints the General Counsel of the Company as the Employee's agent for service of process in connection with any such action or proceeding, who shall promptly advise the Employee of any such service of process by notifying the Employee at the last address on file in the Company's records.

(d) The Employee and the Company hereby irrevocably submit to the exclusive jurisdiction of any state or federal court located in the City of New York over any suit, action, or proceeding arising out of, relating to or in connection with this Agreement or the Plan that is not otherwise required to be arbitrated or resolved in accordance with the provisions of Section 8(b).

This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. The Employee and the Company acknowledge that the forum designated by this Section 8(d) has a reasonable relation to this Agreement, and to the Employee's relationship to the Company. Notwithstanding the foregoing, nothing herein shall preclude the Company or the Employee from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of Sections 8(a), 8(b), or this Section 8(d). The agreement of the Employee and the Company as to forum is independent of the law that may be applied in the action, and the Employee and the Company agree to such forum even if the forum may under applicable law choose to apply non-forum law. The Employee and the Company hereby waive, to the fullest extent permitted by applicable law, any objection which the Employee or the Company now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in this Section 8(d). The Employee and the Company undertake not to commence any action arising out of, or relating to or in connection with this Agreement in any forum other than a forum described in this Section 8(d), or, to the extent applicable, Section 8(b). The Employee and the Company agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the Employee and the Company.

9. Conflicts and Interpretation.

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (a) interpret the Plan, (b) prescribe, amend and rescind rules and regulations relating to the Plan, and (c) make all other determinations deemed necessary or advisable for the administration of the Plan.

10. Amendment.

Any modification, amendment or waiver to this Agreement that shall materially impair the rights of the Employee with respect to the Stock Units shall require an instrument in writing to be signed (either in paper format or electronically) by both parties hereto, except such a modification, amendment or waiver made to cause the Plan or the Stock Units to comply with applicable law, tax rules, stock exchange rules or accounting rules and which is made to similarly situated employees. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

11. Section 409A of the Code.

It is intended that the Stock Units shall be exempt from Section 409A of the Code pursuant to the "short-term deferral" rule applicable to such section, as set forth in the regulations or other guidance published by the Internal Revenue Service thereunder.

12. Electronic Delivery.

In lieu of receiving documents in paper format, the Employee hereby agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company or any Affiliate may be required to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or Award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with the Stock Units or any other prior or future Award (it being understood and agreed that the Company or its Affiliates may, in their sole discretion, elect to satisfy any delivery requirements electronically, in paper format, or a combination of both methods). Electronic delivery of a document to the Employee may be via a Company email system or by reference to a location on a Company intranet or secure internet site to which Employee has access.

13. Compensation Recovery Policy.

The Employee acknowledges and agrees that the Employee and the Stock Units are subject to the Company's Compensation Recovery Policy Applicable to Named Executive Officers, as in effect as of the date hereof (a copy of which has been provided to the Employee).

14. Headings.

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

IN WITNESS WHEREOF, as of the date first above written, the Company has caused this Agreement to be executed on behalf of its applicable Affiliate by a duly authorized officer and the Employee has hereunto set the Employee's hand.

LAZARD LTD,

by _____

Name:
Title:

NAME

Performance Criteria and Calculation

Restrictive Covenants

The Employee acknowledges that the grant of the performance-based Stock Units pursuant to the Performance-Based Stock Unit Agreement (such Stock Units, the "Stock Units" and such Performance-Based Stock Unit Agreement, the "Agreement") confers a substantial benefit upon the Employee, and agrees to the following covenants (the "Restrictive Covenants"), which are designed, among other things, to protect the interests of the Lazard Group LLC, a Delaware limited liability company (the "Company"), and its Affiliates (collectively, the "Firm") in its confidential and proprietary information, trade secrets, customer and employee relationships, orderly transition of responsibilities, and other legitimate business interests. All capitalized terms used herein, to the extent not defined, shall have the meaning set forth in the Lazard Ltd 2008 Incentive Compensation Plan. The Employee acknowledges that the Stock Units will be forfeited upon a violation by the Employee of the Restrictive Covenants, and that, pursuant to the Agreement, the Firm may seek injunctive relief in order to enforce the Restrictive Covenants:

(a) Confidential Information. The Employee shall not at any time (whether prior to or following the Employee's Termination of Employment) disclose or use for the Employee's own benefit or purposes or the benefit or purposes of any other person, corporation or other business organization or entity, other than the Firm, any trade secrets, information, data, or other confidential or proprietary information relating to the customers, developments, programs, plans or business and affairs of the Firm; provided that the foregoing shall not apply to information that is not unique to the Firm or that is generally known to the industry or the public other than as a result of the Employee's breach of this Restrictive Covenant or as required pursuant to an order of a court, governmental agency or other authorized tribunal (provided that the Employee shall provide the Firm prior written notice of any such required disclosure). The Employee agrees that upon the Employee's Termination of Employment, the Employee or, in the event of the Employee's death, the Employee's heirs or estate at the request of the Firm, shall return to the Firm immediately all books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Firm. Without limiting the foregoing, the existence of, and any information concerning, any dispute between the Employee and the Firm shall be subject to the terms of this Paragraph (a), except that the Employee may disclose information concerning such dispute to the arbitrator or court that is considering such dispute, and to the Employee's legal counsel, spouse or domestic partner, and tax and financial advisors (provided that such persons agree not to disclose any such information).

(b) Non-Competition. The Employee acknowledges and recognizes the highly competitive nature of the businesses of the Firm. The Employee further acknowledges that the Employee has been and shall be provided with access to sensitive and proprietary information about the clients, prospective clients, knowledge capital and business practices of the Firm, and has been and shall be provided with the opportunity to develop relationships with clients, prospective clients, consultants, employees, representatives and other agents of the Firm, and the Employee further acknowledges that such proprietary information and relationships are extremely valuable assets in which the Firm has invested and shall continue to invest substantial time, effort and expense. The Employee agrees that while employed by the Firm and thereafter until (i) (A) three months after the Employee's date of Termination of Employment for any

reason other than a termination by the Firm without Cause or (B) one month after the date of the Employee's Termination of Employment by the Firm without Cause (in either case, the date of such Termination of Employment, the "Date of Termination") or (ii) the end of any longer period during which any similar covenants would be applicable to the Employee pursuant to any other agreement (other than an award agreement evidencing previously granted equity-based, fund interest, deferred cash or similar awards (collectively, the "Prior Awards")) between the Employee and the Firm (such period, the "Non-compete Restriction Period"), the Employee shall not, directly or indirectly, on the Employee's behalf or on behalf of any other person, firm, corporation, association or other entity, as an employee, director, advisor, partner, consultant or otherwise, provide services or perform activities for, or acquire or maintain any ownership interest in, a "Competitive Enterprise". For purposes of the Agreement, including this Appendix B, "Competitive Enterprise" shall mean a business (or business unit) that (x) engages in any activity or (y) owns or controls a significant interest in any entity that engages in any activity, that in either case, competes anywhere with any activity that is similar to an activity in which the Firm is engaged up to and including the Employee's Date of Termination. Notwithstanding anything in this Appendix B, the Employee shall not be considered to be in violation of the Restrictive Covenants solely by reason of owning, directly or indirectly, any stock or other securities of a Competitive Enterprise (or comparable interest, including a voting or profit participation interest, in any such Competitive Enterprise) if the Employee's interest does not exceed 5% of the outstanding capital stock of such Competitive Enterprise (or comparable interest, including a voting or profit participation interest, in such Competitive Enterprise). The Employee acknowledges that the Firm is engaged in business throughout the world. Accordingly, and in view of the nature of the Employee's position and responsibilities, the Employee agrees that the provisions of this Paragraph (b) shall be applicable to each jurisdiction, foreign country, state, possession or territory in which the Firm may be engaged in business while the Employee is providing services to the Firm.

(c) Nonsolicitation of Clients. The Employee hereby agrees that during the Non-compete Restriction Period, the Employee shall not, in any manner, directly or indirectly, (i) Solicit a Client to transact business with a Competitive Enterprise or to reduce or refrain from doing any business with the Firm, to the extent the Employee is soliciting a Client to provide them with services the performance of which would violate Paragraph (b) above if such services were provided by the Employee, or (ii) interfere with or damage (or attempt to interfere with or damage) any relationship between the Firm and a Client. For purposes of the Agreement, including this Appendix B, the term "Solicit" means any direct or indirect communication of any kind whatsoever, regardless of by whom initiated, inviting, advising, persuading, encouraging or requesting any person or entity, in any manner, to take or refrain from taking any action, and the term "Client" means any client or prospective client of the Firm to whom the Employee provided services, or for whom the Employee transacted business, or whose identity became known to the Employee in connection with the Employee's relationship with or employment by the Firm, whether or not the Firm has been engaged by such Client pursuant to a written agreement; provided that an entity which is not a client of the Firm shall be considered a "prospective client" for purposes of this sentence only if the Firm made a presentation or written proposal to such entity during the 12-month period preceding the Date of Termination or was preparing to make such a presentation or proposal at the time of the Date of Termination.

(d) No Hire of Employees. The Employee hereby agrees that while employed by the Firm and thereafter until (i) six months after the Date of Termination for any reason or (ii) the end of any longer period during which any similar covenants would be applicable to the Employee pursuant to any other agreement (other than an award agreement evidencing any Prior Awards) between the Employee and the Firm (such period, the “No Hire Restriction Period”), the Employee shall not, directly or indirectly, for himself or on behalf of any third party at any time in any manner, Solicit, hire, or otherwise cause any employee who is at the associate level or above (including, without limitation, managing directors), officer or agent of the Firm to apply for, or accept employment with, any Competitive Enterprise, or to otherwise refrain from rendering services to the Firm or to terminate his or her relationship, contractual or otherwise, with the Firm, other than in response to a general advertisement or public solicitation not directed specifically to employees of the Firm.

(e) Nondisparagement. The Employee shall not at any time (whether prior to or following the Employee’s Termination of Employment), and shall instruct the Employee’s spouse or domestic partner, parents, and any of their lineal descendants (it being agreed that in any dispute between the parties regarding whether the Employee breached such obligation to instruct, the Firm shall bear the burden of demonstrating that the Employee breached such obligation) not to, make any comments or statements to the press, employees of the Firm, any individual or entity with whom the Firm has a business relationship or any other person, if such comment or statement is disparaging to the Firm, its reputation, any of its affiliates or any of its current or former officers, members or directors, except for truthful statements as may be required by law.

(f) Notice of Termination Required. The Employee agrees to provide a period of advance written notice to the Firm prior to the Employee’s Termination of Employment equal to (i) three months or (ii) any longer notice period required pursuant to any other agreement (other than an award agreement evidencing any Prior Awards) between the Employee and the Firm. The Employee hereby agrees that, if, during the applicable period after the Employee has provided notice of termination to the Firm or prior thereto, the Employee enters (or has entered into) a written agreement to provide services or perform activities for a Competitive Enterprise that would violate Paragraph (b) if performed during the Non-compete Restriction Period, such action shall be deemed a violation of this Paragraph (f).

(g) Restrictive Covenants Generally. If any of the Restrictive Covenants is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such Restrictive Covenant shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining such Restrictive Covenants shall not be affected thereby; provided, however, that if any of such Restrictive Covenants is finally held to be invalid, illegal or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such Restrictive Covenant shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Employee hereby agrees that prior to accepting employment with any other person or entity during his period of service with the Firm or during the Non-compete Restriction Period or the No Hire Restriction Period, the Employee shall provide such prospective employer with written notice of the provisions of this Appendix B, with a copy of such notice delivered no later than the date of the Employee’s commencement of

such employment with such prospective employer, to the General Counsel of the Company. The Employee acknowledges and agrees that the terms of the Restrictive Covenants: (i) are reasonable in light of all of the circumstances, (ii) are sufficiently limited to protect the legitimate interests of the Firm, (iii) impose no undue hardship on the Employee and (iv) are not injurious to the public. The Employee acknowledges and agrees that the Employee's breach of the Restrictive Covenants will cause the Firm irreparable harm, which cannot be adequately compensated by money damages. The Employee also agrees that the Firm shall be entitled to injunctive relief for any actual or threatened violation of any of the Restrictive Covenants in addition to any other remedies it may have, including, without limitation, money damages and forfeiture of the Stock Units. The Employee further acknowledges that, except as provided in Paragraph (h), the Restrictive Covenants and notice period requirements set forth herein shall operate independently of, and not instead of, any other restrictive covenants or notice period requirements to which the Employee is subject pursuant to other plans and agreements involving the Firm.

(h) Other Restrictive Covenants. The Employee acknowledges that, in the event that the Employee is subject to an employment contract, the Restrictive Covenants set forth in this Appendix B constitute a supplement to such employment contract and will be entirely governed by the distinct and specific provisions of this Appendix B. The Employee acknowledges that the Restrictive Covenants set forth in this Appendix B shall supersede and are in full substitution for any and all prior restrictive covenants included in any award agreement evidencing any Prior Awards by which the Employee is bound, and this Paragraph (h) shall constitute a valid amendment to such award agreements.

**This document constitutes part of a prospectus covering securities that have been registered
under the Securities Act of 1933.**

PERFORMANCE-BASED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated as of February 20, 2014, between Lazard Ltd, a Bermuda exempted company (the “Company”), on behalf of its applicable Affiliate (as defined under the definitional rules of Section 1(a) below), and Kenneth M. Jacobs (the “Employee”).

WITNESSETH

In consideration of the mutual promises and covenants made herein and the mutual benefits to be derived herefrom, the parties hereto agree as follows:

1. Grant and Vesting of Performance-Based Stock Units.

(a) Subject to the provisions of this Agreement and to the provisions of the Company’s 2008 Incentive Compensation Plan (the “Plan”) (all capitalized terms used herein, to the extent not defined, shall have the meaning set forth in the Plan), the Company, on behalf of its applicable Affiliate, hereby grants to the Employee, as of the date set forth above (the “Grant Date”), the target number of performance-based Stock Units (“Stock Units”) specified in Appendix A, each with respect to one Share. Subject to the terms and conditions set forth in this Agreement, the Employee will actually earn (or be deemed to earn) a number of Stock Units that is between 0% and 200% of the target number of Stock Units subject to this Agreement, such number of earned Stock Units to be determined based on achievement of the performance goals set forth on Appendix A (the “Performance Conditions”).

(b) Subject to the terms and conditions of this Agreement and to the provisions of the Plan, the Stock Units shall vest and no longer be subject to any restriction if each of the following two conditions has been satisfied:

- (i) The Employee has remained continuously employed by the Company or any of its Affiliates until March 1, 2017 (such date, the “Final Service Date”, and such condition, the “Service Condition”); and
- (ii) The Committee concludes that during the period beginning on January 1, 2014 and ending on December 31, 2016 (the “Performance Period”), the Company has achieved the Performance Conditions and specifies the level at which the Stock Units shall vest, based on the scoring, adjustment and weighting provisions set forth in Appendix A; provided, however, that the Committee, in its sole discretion, may interpret the goals and scoring set forth in Appendix A as it deems necessary or appropriate (including, without limitation, to the extent necessary to address extraordinary events or circumstances). The ultimate score achieved based on Appendix A (which may range from 0.0 to 2.0) will be multiplied by the total target number of Stock Units in order to determine the number of Stock Units that may vest upon satisfaction of the Service Condition. Furthermore, the Committee shall determine, following the end of each fiscal year during

the Performance Period and in accordance with the methodology described in the first sentence of this Section 1(b)(ii), the extent to which the Company has achieved the Performance Conditions with respect to such fiscal year and, in the event that the Performance Conditions in that year have been achieved at the target level (i.e., the 1.0x level) or above, then the Performance Conditions will be deemed satisfied with respect to twenty-five percent (25%) of the total target number of Stock Units (any such Stock Units that are earned in accordance with this sentence, the "Fiscal Year Stock Units"). Any Fiscal Year Stock Units will vest upon satisfaction (or deemed satisfaction) of the Service Condition in accordance with Section 1(b)(i) above or Section 1(d) or 1(f) below and will be settled at the time set forth in Section 1(d)(iii) below. In the event that the Committee makes any conclusion regarding achievement of the Performance Conditions for the full Performance Period (or, in the case of Section 1(d)(i) or 1(f)(i), for a portion thereof), any Fiscal Year Stock Units will be applied to reduce the number of Stock Units that would otherwise be earned in accordance with this Agreement.

(c) Except as set forth in Section 1(f) below, in the event that the Employee incurs a Termination of Employment prior to the Final Service Date for any reason not set forth in Section 1(d), all unvested Stock Units (and any Remaining Shares (as defined in Section 1(d)(iii) below)) shall be forfeited by the Employee effective immediately upon such Termination of Employment. For purposes of this Section 1(c), the Employee will be deemed to have incurred a Termination of Employment on the date that the Employee provides notice of termination to the Company, and accordingly, all unvested Stock Units (and any Remaining Shares) shall be forfeited by the Employee immediately upon delivery of any such notice. In addition, all unvested Stock Units (excluding any Fiscal Year Stock Units or Dividend Equivalent Stock Units (as defined in Section 4 below)) shall be forfeited by the Employee to the extent that, following the last day of the Performance Period (or such earlier date as specified in Section 1(d) or 1(f)), the Performance Conditions with respect to such Stock Units have not been satisfied.

(d) (i) Except as set forth in Section 1(f) below, in the event that the Employee incurs a Termination of Employment prior to the Final Service Date due to (A) the Employee's Disability, (B) the Employee's death or (C) a Termination of Employment by the Company other than for Cause, subject to Section 1(e) below, the Stock Units (and any Remaining Shares) held by the Employee on the Date of Termination shall no longer be subject to the Performance Conditions and the Service Condition, and any Stock Units shall be settled as set forth in Section 1(d)(iii) or Section 2 below but such Stock Units and Remaining Shares shall remain subject to forfeiture pursuant to Section 1(e) through the Final Service Date; provided that, in the case of a Termination of Employment due to the Employee's death as described in clause (B) of this Section 1(d)(i) or in the case of the Employee's death subsequent to a Termination of Employment described in this Section 1(d)(i), the Stock Units (and any Remaining Shares) will immediately vest upon the date of death and the Stock Units shall be settled through delivery of fully transferable Shares as soon as practicable following such date (or, if applicable, in the event the Employee's death occurs more than halfway through a fiscal quarter, as soon as practicable following the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable measurement period). The Stock Units

(excluding Fiscal Year Stock Units and Dividend Equivalent Stock Units) shall vest based on (1) the actual performance level during the period beginning on the first day of the Performance Period and ending on the last day of the most recent fiscal quarter preceding the Date of Termination (or, if the Date of Termination occurs more than halfway through a fiscal quarter, the last day of such current fiscal quarter), as determined by the Committee, and (2) deemed performance at the target level for the period beginning on the first day of the following fiscal quarter through the last day of the Performance Period.

- (ii) Except as set forth in Section 1(f) below, in the event that the Employee incurs a Termination of Employment prior to the Final Service Date due to the Employee's Retirement (as defined below), all Stock Units held by the Employee on the Date of Termination (and any Remaining Shares) shall no longer be subject to the Service Condition and, following satisfaction of the Performance Conditions and subject to Section 1(e), shall be settled as set forth in Section 1(d)(iii) below (unless already settled pursuant to such section prior to Termination of Employment) but shall remain subject to forfeiture pursuant to Section 1(e) through the Final Service Date (subject to any acceleration of vesting as otherwise set forth in this Agreement). Such Stock Units (excluding Fiscal Year Stock Units and Dividend Equivalent Stock Units) shall vest at the level determined by the Committee following the last day of the Performance Period, based on actual performance during the Performance Period. For purposes of this Agreement, the terms "Retirement" and "Retirement Eligibility Date" shall have the meanings set forth in Section 1(g) of this Agreement or any earlier date on or following September 12, 2014 if the Employee's spouse dies or becomes disabled.
- (iii) Subject to the final sentence of Section 2 below and except for any such earlier dates as provided below in the case of Fiscal Year Stock Units and Dividend Equivalent Stock Units, all Shares underlying the Stock Units for which the Performance Conditions have been satisfied (or are deemed to be satisfied in accordance with Section 1(d)(i) or Section 1(f)(i)) shall be delivered to the Employee (A) in the case of any Termination of Employment due to Disability, within 30 days following the later of (1) the date that the Employee is no longer required to perform any additional services in order to retain such Stock Units and (2) the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable measurement period, (B) in the case of a Termination of Employment by the Company other than for Cause, as soon as practicable following the later of (1) the date that the release described in Section 1(e) below has become effective and irrevocable and (2) the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable measurement period or (C) in the case of a Change of Control, within 30 days following the occurrence of such Change in Control (the date that Shares are delivered to the Employee is an "Initial Delivery Date"). In the case of the Fiscal Year Stock Units, the Initial Delivery Date shall occur

within 30 days following the date that the Committee determines the extent to which the Performance Conditions have been satisfied for the applicable fiscal year. In the case of the Dividend Equivalent Stock Units, the Initial Delivery Date shall occur within 30 days following the later of (x) September 12, 2014 and (y) the date that the applicable dividend is paid to the Company's shareholders. Notwithstanding any provision herein to the contrary, in all cases, the Initial Delivery Date shall not be later than March 15 of the calendar year following the calendar year in which such Stock Units are no longer subject to a substantial risk of forfeiture within the meaning of Treasury Regulation Section 1.409A-1(d). Except in the case of the delivery of Shares upon (1) the Employee's death, (2) a Change in Control in which any of the conditions set forth in clauses (A) and (B) of Section 1(f)(iii) are not satisfied or (3) the Employee's Termination of Employment upon or immediately following a Change in Control under any of the circumstances described in Section 1(d)(i) or 1(d)(ii), the Employee agrees to make a timely election (or elections, as necessary) pursuant to Section 83(b) of the Code with respect to all Shares that are delivered to the Employee prior to January 1, 2017, whether pursuant to this Section 1(d)(iii), Section 1(g)(ii) or any other section of this Agreement. Immediately following the Initial Delivery Date with respect to any Stock Units, subject to approval of the Compliance Department of the Company or an Affiliate, the Employee will be permitted to dispose of the Applicable Percentage (as defined below) of the Shares (such Shares, the "Transferable Shares") delivered to the Employee pursuant to this Section 1(d)(iii) immediately following the date that such Shares are delivered to the Employee. For purposes of this Agreement, the "Applicable Percentage" is the percentage of the Shares delivered to the Employee that the Company determines, in its sole discretion, is necessary to satisfy the Employee's tax liability incurred with respect to such Shares on the date that such Shares are delivered to the Employee. All Shares delivered to the Employee on the Initial Delivery Date that are not Transferable Shares (such Shares, the "Remaining Shares") will remain subject to the restrictions set forth in this Agreement (including Section 1(e)) until the date that such Remaining Shares otherwise would have been delivered to the Employee following the Final Service Date or such earlier date on which such Remaining Shares would have been delivered pursuant to this Agreement as a result of the Employee's death or a Change in Control (such date, the "Final Delivery Date"). Accordingly, prior to the Final Delivery Date, neither the Employee nor any of the Employee's creditors or beneficiaries will have the right to subject the Remaining Shares to any anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, hedge, exchange, attachment or garnishment or any similar transaction. Furthermore, for the avoidance of doubt, the Remaining Shares shall continue to be subject to the forfeiture provisions set forth in this Agreement relating to violation of the restrictive covenants set forth in Appendix B, which are incorporated herein by reference (the "Restrictive Covenants") until the Final Delivery Date.

(e) Notwithstanding any provision of this Agreement to the contrary, in the event that the Employee incurs a Termination of Employment by the Company other than for Cause (regardless of whether the Retirement Eligibility Date precedes the date of such Termination of Employment) or due to a Retirement in accordance with Section 1(d)(ii), in each case, prior to a Change in Control, from and after the date of such Termination of Employment, in order for the Stock Units or the Remaining Shares, as applicable, to be treated as provided in Section 1(d), the Employee must sign a release of claims in favor of the Company and its Affiliates, which requirement shall be satisfied (i) upon a Termination of Employment other than for Cause, by the Employee's signing the Waiver and General Release attached as Exhibit A (the "Release") to Schedule I to the Agreement Relating to Retention and Noncompetition and Other Covenants by and among the Company, Lazard Group LLC and the Employee as amended ("Schedule I") that is required to be signed as a condition to receipt of severance benefits, modified as necessary to include the Stock Units or the Remaining Shares, as applicable, as consideration for the Release (it being agreed that the Employee need not sign two releases) and (ii) upon a Retirement, by the signing of a release that contains the substantive provisions set forth in the Release, modified as necessary to reflect the Employee's rights in connection with a Retirement, and which release shall be at least as favorable to the Employee as the release used for other retiring award holders. In either case, such Release must become effective and irrevocable on or before the 65th day following the Employee's Termination of Employment. In the event the Employee does not sign such Release or revokes such Release before it becomes irrevocable, the Employee shall forfeit all rights to any unvested Stock Units or Remaining Shares, as applicable. In the event that the Employee incurs a Termination of Employment pursuant to Section 1(d)(i) (other than as a result of death) or 1(d)(ii), and the Employee violates any of the provisions of the Restrictive Covenants prior to the Final Delivery Date, all outstanding vested or unvested Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and, if applicable, all Remaining Shares, shall be forfeited and canceled. Notwithstanding that certain Restricted Covenants in Appendix B apply for only a limited period following a Termination of Employment, in the event that the Employee incurs a Termination of Employment due to a Retirement, the Employee will forfeit any outstanding Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and, if applicable, any Remaining Shares, if the Employee does not comply with all of the Restrictive Covenants in Appendix B until the earlier of the Final Service Date or, as applicable, Final Delivery Date. For the avoidance of doubt, in no event shall a violation of the Restrictive Covenants in Appendix B serve as a basis for forfeiture of Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and, if applicable, any Remaining Shares, from and after a Change in Control.

(f) (i) Notwithstanding any provision of this Agreement to the contrary, in the event of a Change in Control that occurs prior to the end of the Performance Period (without regard to whether the Employee's Retirement has occurred on or prior to the date of such Change in Control), the Performance Conditions shall no longer apply and, instead, shall be deemed to have been satisfied as of immediately prior to the Change in Control at the greater of (A) the target level and (B) the actual performance level achieved during the period beginning at the start of the Performance Period and ending on the date of such Change in Control, as determined by the Committee prior to the Change in Control with any necessary exercise of discretion determined by the Committee prior to the Change in Control.

- (ii) Except as otherwise provided in this Section 1(f)(ii) and 1(f)(iii) below, following a Change in Control, all Remaining Shares that were outstanding immediately prior to the Change in Control, and all Remaining Shares that were issued in connection with the Change in Control pursuant to Section 1(d)(iii) above, shall remain outstanding through the Final Delivery Date; provided, however, that in the event that the Employee incurs a Termination of Employment upon or following a Change in Control but prior to the Final Service Date under any of the circumstances described in Section 1(d)(i) or 1(d)(ii) above, the date of such Termination of Employment shall be deemed to be the Final Delivery Date. Furthermore, in the event that the Employee incurs a Termination of Employment under any of the circumstances described in Section 1(d)(i) or 1(d)(ii) above prior to the Final Delivery Date and prior to a Change in Control, upon a Change in Control, the date of the Change in Control shall be deemed to be the Final Service Date for purposes of any Stock Units (and the Final Delivery Date for any Remaining Shares) then held by the Employee and any dividends held by an escrow agent with respect thereto, as set forth in Section 4 below.
- (iii) Notwithstanding the foregoing, in the event of a Change in Control prior to the Final Service Date, unless (A) either (1) the Remaining Shares remain outstanding following such Change in Control or (2) provision is made in connection with the Change in Control for substitution of such Remaining Shares for new awards covering equity interests in a successor entity, with appropriate adjustments to the number of Remaining Shares, as determined by the Committee prior to the Change in Control pursuant to Section 3(b)(ii) of the Plan, and (B) the material terms and conditions of such Remaining Shares as in effect immediately prior to the Change in Control are preserved following the Change in Control (including, without limitation, with respect to the vesting schedules, the intrinsic value of the Remaining Shares and transferability of the Shares or other securities underlying the Remaining Shares prior to and following the Change in Control), the date of the Change in Control shall be deemed to be the Final Delivery Date for purposes of any Remaining Shares then outstanding.

(g) (i) For purposes of this Agreement and any other agreement between the Employee and the Company that governs the Employee's Stock Units and Remaining Shares that was entered into prior to the date of this Agreement (a "Prior Stock Unit Agreement"), "Retirement" shall mean that the Employee voluntarily incurs a Termination of Employment on or after the date on which the Employee meets the following retirement eligibility requirement (such date, the "Retirement Eligibility Date"): the Employee has remained actively employed by the Company or its Affiliates through March 31, 2016.

- (ii) Notwithstanding any provision of this Agreement or any Prior Stock Unit Agreement to the contrary, in the case of any Stock Units that were outstanding immediately prior to the date of this Agreement and that have a Final Service Date that is scheduled to occur after March 2, 2015, unless such Stock Units are forfeited prior to March 15, 2015, such Stock Units shall be settled through the issuance of Shares no later than March 15, 2015, and such Shares (other than any Shares that are deemed to be Transferable Shares) shall remain subject to forfeiture based on the Employee's continued service through March 1, 2016 (subject to any acceleration of vesting that may occur prior to such date in accordance with this Agreement, the applicable Prior Stock Unit Agreement or Schedule I).
- (iii) Notwithstanding any provision of Schedule I, this Agreement or any Prior Stock Unit Agreement to the contrary, solely for purposes of the Employee's Stock Units (including Fiscal Year Stock Units and Dividend Equivalent Stock Units) and Remaining Shares granted pursuant to this Agreement or any Prior Stock Unit Agreement, from September 12, 2014 through the Retirement Eligibility Date, any determination by the Employee that Good Reason (as defined in Schedule I) exists (and any determination by the Employee of whether an event constituting Good Reason has been cured by the Company) will be deemed to be correct so long as such determination is made in good faith taking into account all relevant facts and the Employee complies with all procedures set forth in paragraph 4 of Schedule I regarding termination of employment for Good Reason; provided, however, that if the Board of Directors determines in good faith taking into account all relevant facts that the Employee would not have been entitled to resign for Good Reason but for the terms of this Section 1(g)(iii) (i.e., the Board of Directors determines that, in the absence of this Section 1(g)(iii), the alleged Good Reason event would not constitute Good Reason under Schedule I or that the actions taken by the Company have adequately cured such event if it in fact constituted Good Reason), then the Employee will nevertheless be entitled to resign for Good Reason, but such Termination of Employment will be treated as a Retirement, rather than a Termination of Employment without Cause, for purposes of determining the treatment of any Stock Units (and any Remaining Shares) granted under this Agreement or any Prior Stock Unit Agreement and then held by the Employee in connection with such Termination of Employment (including, without limitation, for purposes of determining the level of vesting of any such Stock Units, the duration of the restrictive covenants applicable to such Stock Units and Remaining Shares and the disgorgement of tax benefits in the event of forfeiture of any Remaining Shares). Notwithstanding any provision of this Agreement to the contrary, for purposes of this Section 1(g), when the terms "Dividend Equivalent Stock Units", "Final Service Date", "Fiscal Year Stock Units", "Remaining Shares", "Stock Units" and "Transferable Shares" are used, they shall have the meaning attributable to such terms

under this Agreement or the applicable Prior Stock Unit Agreement, as the context requires. For the avoidance of doubt, in no event shall the requirement to sign a release as set forth in Section 1(e) of this Agreement with respect to the Stock Units granted under this Agreement apply to the Stock Units and Remaining Shares granted under any Prior Agreements.

- (iv) The parties acknowledge and agree that this Agreement constitutes an amendment to the Prior Stock Unit Agreements to the extent set forth in this Section 1(g).

2. Settlement of Units, Restrictions on Remaining Shares.

As soon as practicable (but in no event more than 30 days) after any Stock Unit has vested and is no longer subject to the applicable Service Condition and Performance Conditions, the Company shall, subject to Sections 1(d), 1(e) and 6, cause its applicable Affiliate to deliver to the Employee one or more unlegended, freely-transferable stock certificates or book-entry credits in respect of such Shares issued upon settlement of the vested Stock Units. Notwithstanding the foregoing, (a) the Company shall be entitled to hold the Shares or cash issuable upon settlement of Stock Units that have vested until the Company shall have received from the Employee a duly executed Form W-9 or W-8, as applicable, and (b) any certificate or book entry credit issued or entered in respect of the Remaining Shares shall be registered in the Employee's name and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to the Remaining Shares, substantially in the following form:

“The transferability of this certificate and the shares of stock represented hereby is subject to the terms and conditions (including forfeiture) of the Lazard Ltd 2008 Incentive Compensation Plan and an Award Agreement, as well as the terms and conditions of applicable law. Copies of such Plan and Agreement are on file at the offices of Lazard Ltd.”

The Company may require that the certificates or book entry credits evidencing title of the Remaining Shares be held in custody by the Company until the restrictions thereon shall have lapsed and that, as a condition of receiving the Remaining Shares, the Employee shall have delivered to the Company a stock power, endorsed in blank, relating to such Remaining Shares. If and when the Final Delivery Date occurs (or is deemed to occur) with respect to the Remaining Shares, the legend set forth shall be removed from the certificates or book entry credits evidencing such Shares. Notwithstanding any provision of this Agreement to the contrary, Shares will be delivered to the Employee in settlement of any Stock Units for which all conditions have been satisfied (or deemed satisfied) no later than March 15 of the year following the year in which such Stock Units are no longer subject to a substantial risk of forfeiture within the meaning of Treasury Regulation Section 1.409A-1(d).

3. Nontransferability of the Stock Units and Remaining Shares.

Until such time as the Stock Units are ultimately settled or the Remaining Shares are ultimately free from restriction, as applicable, as provided in Section 1(d), Section 1(f) or Section 2 above, the Stock Units and Remaining Shares shall not be transferable by the Employee by means of sale, assignment, exchange, encumbrance, pledge, hedge or otherwise.

4. Dividend Equivalents, Rights as a Shareholder.

If the Company declares and pays (or sets a record date with respect to) ordinary quarterly cash dividends on the Common Stock (a) during the Performance Period, the target number of Stock Units less any Transferable Shares and Remaining Shares (such Stock Units, the "Target Stock Units") shall be credited with additional Stock Units (determined by dividing the aggregate dividend amount that would have been paid with respect to the Target Stock Units if they had been actual Shares by the Fair Market Value of a Share on the dividend payment date) (such additional Stock Units, the "Dividend Equivalent Stock Units"), which Dividend Equivalent Stock Units (and any additional Dividend Equivalent Stock Units that are granted while the Dividend Equivalent Stock Units are outstanding) shall be subject to the Service Condition and all other terms of this Agreement but shall not be subject to the Performance Conditions (i.e., the Dividend Equivalent Stock Units shall be treated as Stock Units for which the Performance Conditions have already been satisfied), or (b) after the Performance Period but while any Stock Units remain outstanding, any then outstanding Stock Units shall be credited with additional Stock Units (determined by dividing the aggregate dividend amount that would have been paid with respect to the Stock Units if they had been actual Shares by the Fair Market Value of a Share on the dividend payment date), which additional Stock Units shall vest and be settled concurrently with the underlying Stock Units and be treated as Stock Units for all purposes of this Agreement. For the avoidance of doubt, the provisions of the immediately preceding sentence shall not apply to any extraordinary dividends or distributions, which are addressed in Section 3(b)(i) of the Plan. All Dividend Equivalent Stock Units shall be settled in accordance with Section 1(d)(iii) above.

Notwithstanding the foregoing, subject to Section 1(d) and Section 2 and any other applicable law or agreement, from and after the Initial Delivery Date, the Employee will have all rights and privileges of a shareholder with respect to the Shares delivered on such Initial Delivery Date, including the right to vote the Shares and to receive dividends and other distributions with respect thereto, provided that, any dividends that are paid on the Remaining Shares prior to the Final Delivery Date (whether payable in cash or Shares) will be held until the Final Delivery Date by an escrow agent that is designated by the Company, and in the event that the Remaining Shares are forfeited in accordance with Section 1(e), such dividends will also be forfeited. For the avoidance of doubt, the determination of applicable dividends, and the calculation of amounts equivalent thereto, provided for in this Section 4 shall be made consistent with the Company's past practice with respect to similar Awards.

5. Payment of Transfer Taxes, Fees and Other Expenses.

The Company agrees, or will cause its applicable Affiliate, to pay any and all original issue taxes and stock transfer taxes that may be imposed on the issuance of Shares received by an Employee in connection with the Stock Units, together with any and all other fees and expenses necessarily incurred by the Company in connection therewith.

6. Taxes and Withholding; Disgorgement of Tax Benefits.

(a) No later than the date as of which an amount first becomes includible in the gross income of the Employee for federal, state, local or foreign income tax purposes with respect to any Stock Units, the Employee shall pay to the Company or its applicable Affiliate, or make arrangements satisfactory to the Company or its applicable Affiliate regarding the payment of, any federal, state, local and foreign taxes that are required by applicable laws and regulations to be withheld with respect to such amount. Except as otherwise required by applicable law, the Company will report that the Employee will be taxed on the full value of the Shares underlying the Employee's Stock Units on the date that such Shares are issued to the Employee in accordance with this Agreement. The obligations of the Company under this Agreement shall be conditioned on compliance by the Employee with this Section 6, and the Company or its applicable Affiliate shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Employee, including deducting such amount from the delivery of Shares or cash issued upon settlement of the Stock Units that gives rise to the withholding requirement. Notwithstanding the foregoing, the Company or an Affiliate may, in the Company's sole discretion and subject to such other terms and conditions as the Company may determine, if the Employee is not subject to withholding as a matter of applicable law as of the date that the Shares are delivered to the Employee (including if the Employee is a member of the Company who reports income from the Company and its Affiliates on Schedule K-1 to the Company's Federal income tax return) and pursuant to the prior written approval of the Company, permit the Employee to surrender some or all of the Transferable Shares to the Company or an Affiliate and have the Company or such Affiliate remit the relevant taxes on the Employee's behalf to the appropriate taxing authorities. Prior to an Initial Delivery Date, the Company will notify the Employee of (i) how many Shares will be delivered to the Employee on such Initial Delivery Date and (ii) the portion, if any, of the Transferable Shares that the Company or an Affiliate will retain pursuant to the immediately preceding sentence.

(b) In the event that the Employee incurs a Termination of Employment due to a Retirement and, after such Retirement, the Employee forfeits the Remaining Shares and the dividends held in escrow in accordance with Section 4 of this Agreement, the Employee shall disgorge to the Company any tax benefit the Employee realizes from the forfeiture of any such Remaining Shares or dividends, if, as and when actually realized by the Employee. The Employee agrees to use commercially reasonable efforts to claim any tax benefit from such forfeiture that the Company reasonably determines is available to the Employee on all relevant tax returns filed after having received notice from the Company. Notwithstanding the foregoing, this Section 6(b) shall not apply from and after a Change in Control or a Termination of Employment pursuant to Section 1(d)(i).

7. Effect of Agreement.

Except as otherwise provided hereunder, this Agreement shall be binding upon and shall inure to the benefit of any successor or successors of the Company. The invalidity or enforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. Nothing in this Agreement or the Plan shall confer upon the Employee any right to continue in the employ of the Company or any of its Affiliates or interfere in any way with the right of the Company or any such Affiliates to terminate the

Employee's employment at any time. Until Shares are actually delivered to the Employee upon settlement of the Stock Units, the Employee shall not have any rights as a shareholder with respect to the Stock Units, except as specifically provided herein.

8. Laws Applicable to Construction; Consent to Jurisdiction.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York (United States of America), without regard to principles of conflict of laws that could cause the application of the law of any jurisdiction other than the State of New York. In addition to the terms and conditions set forth in this Agreement and the Restrictive Covenants, the Stock Units are subject to the terms and conditions of the Plan, which is hereby incorporated by reference. By accepting the Stock Units, the Employee agrees to and is bound by the Plan and the Restrictive Covenants.

(b) Subject to the provisions of Section 8(c), any controversy or claim between the Employee and the Company or its Affiliates arising out of or relating to or concerning the provisions of this Agreement or the Plan shall be finally settled by arbitration in New York City before, and in accordance with the rules then obtaining of, the Financial Industry Regulatory Authority ("FINRA") or, if FINRA declines to arbitrate the matter, the American Arbitration Association (the "AAA") in accordance with the commercial arbitration rules of the AAA.

(c) Notwithstanding the provisions of Section 8(b), and in addition to its right to submit any dispute or controversy to arbitration, the Company or one of its Affiliates may bring an action or special proceeding in a state or federal court of competent jurisdiction sitting in the City of New York, whether or not an arbitration proceeding has theretofore been or is ever initiated, for the purpose of temporarily, preliminarily, or permanently enforcing the provisions of the Restrictive Covenants, or to enforce an arbitration award, and, for the purposes of this Section 8(c), the Employee (i) expressly consents to the application of Section 8(d) to any such action or proceeding, (ii) agrees that proof shall not be required that monetary damages for breach of the provisions of the Restrictive Covenants or this Agreement would be difficult to calculate and that remedies at law would be inadequate, and (iii) irrevocably appoints the General Counsel of the Company as the Employee's agent for service of process in connection with any such action or proceeding, who shall promptly advise the Employee of any such service of process by notifying the Employee at the last address on file in the Company's records.

(d) The Employee and the Company hereby irrevocably submit to the exclusive jurisdiction of any state or federal court located in the City of New York over any suit, action, or proceeding arising out of, relating to or in connection with this Agreement or the Plan that is not otherwise required to be arbitrated or resolved in accordance with the provisions of Section 8(b). This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. The Employee and the Company acknowledge that the forum designated by this Section 8(d) has a reasonable relation to this Agreement, and to the Employee's relationship to the Company. Notwithstanding the foregoing, nothing herein shall preclude the Company or the Employee from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of Sections 8(a), 8(b), or this Section 8(d). The agreement of the Employee and the Company as to forum is independent of the law that may be applied in the action, and the Employee and the Company agree to such forum even if the forum may under applicable law

choose to apply non-forum law. The Employee and the Company hereby waive, to the fullest extent permitted by applicable law, any objection which the Employee or the Company now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in this Section 8(d). The Employee and the Company undertake not to commence any action arising out of, or relating to or in connection with this Agreement in any forum other than a forum described in this Section 8(d), or, to the extent applicable, Section 8(b). The Employee and the Company agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the Employee and the Company.

9. Conflicts and Interpretation.

In the event of any conflict between this Agreement and the Plan, the Plan shall control. In the event of any ambiguity in this Agreement, or any matters as to which this Agreement is silent, the Plan shall govern including, without limitation, the provisions thereof pursuant to which the Committee has the power, among others, to (a) interpret the Plan, (b) prescribe, amend and rescind rules and regulations relating to the Plan, and (c) make all other determinations deemed necessary or advisable for the administration of the Plan.

10. Amendment.

Any modification, amendment or waiver to this Agreement that shall materially impair the rights of the Employee with respect to the Stock Units shall require an instrument in writing to be signed (either in paper format or electronically) by both parties hereto, except such a modification, amendment or waiver made to cause the Plan or the Stock Units to comply with applicable law, tax rules, stock exchange rules or accounting rules and which is made to similarly situated employees. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

11. Section 409A of the Code.

It is intended that the Stock Units shall be exempt from Section 409A of the Code pursuant to the "short-term deferral" rule applicable to such section, as set forth in the regulations or other guidance published by the Internal Revenue Service thereunder.

12. Electronic Delivery.

In lieu of receiving documents in paper format, the Employee hereby agrees, to the fullest extent permitted by law, to accept electronic delivery of any documents that the Company or any Affiliate may be required to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or Award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with the Stock Units or any other prior or future Award (it being understood and agreed that the Company or its Affiliates may, in their sole discretion, elect to satisfy any delivery requirements electronically, in paper format, or a combination of both methods). Electronic delivery of a document to the Employee may be via a Company email system or by reference to a location on a Company intranet or secure internet site to which Employee has access.

13. Compensation Recovery Policy.

The Employee acknowledges and agrees that the Employee and the Stock Units are subject to the Company's Compensation Recovery Policy Applicable to Named Executive Officers, as in effect as of the date hereof (a copy of which has been provided to the Employee).

14. Headings.

The headings of paragraphs herein are included solely for convenience of reference and shall not affect the meaning or interpretation of any of the provisions of this Agreement.

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IN WITNESS WHEREOF, as of the date first above written, the Company has caused this Agreement to be executed on behalf of its applicable Affiliate by a duly authorized officer and the Employee has hereunto set the Employee's hand.

LAZARD LTD,

by

Name:
Title:

NAME

Performance Criteria and Calculation

Restrictive Covenants

The Employee acknowledges that the grant of the performance-based Stock Units pursuant to the Performance-Based Stock Unit Agreement (such Stock Units, the "Stock Units" and such Performance-Based Stock Unit Agreement, the "Agreement") confers a substantial benefit upon the Employee, and agrees to the following covenants (the "Restrictive Covenants"), which are designed, among other things, to protect the interests of the Lazard Group LLC, a Delaware limited liability company (the "Company"), and its Affiliates (collectively, the "Firm") in its confidential and proprietary information, trade secrets, customer and employee relationships, orderly transition of responsibilities, and other legitimate business interests. All capitalized terms used herein, to the extent not defined, shall have the meaning set forth in the Lazard Ltd 2008 Incentive Compensation Plan. The Employee acknowledges that the Stock Units will be forfeited upon a violation by the Employee of the Restrictive Covenants, and that, pursuant to the Agreement, the Firm may seek injunctive relief in order to enforce the Restrictive Covenants:

(a) Confidential Information. The Employee shall not at any time (whether prior to or following the Employee's Termination of Employment) disclose or use for the Employee's own benefit or purposes or the benefit or purposes of any other person, corporation or other business organization or entity, other than the Firm, any trade secrets, information, data, or other confidential or proprietary information relating to the customers, developments, programs, plans or business and affairs of the Firm; provided that the foregoing shall not apply to information that is not unique to the Firm or that is generally known to the industry or the public other than as a result of the Employee's breach of this Restrictive Covenant or as required pursuant to an order of a court, governmental agency or other authorized tribunal (provided that the Employee shall provide the Firm prior written notice of any such required disclosure). The Employee agrees that upon the Employee's Termination of Employment, the Employee or, in the event of the Employee's death, the Employee's heirs or estate at the request of the Firm, shall return to the Firm immediately all books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Firm. Without limiting the foregoing, the existence of, and any information concerning, any dispute between the Employee and the Firm shall be subject to the terms of this Paragraph (a), except that the Employee may disclose information concerning such dispute to the arbitrator or court that is considering such dispute, and to the Employee's legal counsel, spouse or domestic partner, and tax and financial advisors (provided that such persons agree not to disclose any such information).

(b) Non-Competition. The Employee acknowledges and recognizes the highly competitive nature of the businesses of the Firm. The Employee further acknowledges that the Employee has been and shall be provided with access to sensitive and proprietary information about the clients, prospective clients, knowledge capital and business practices of the Firm, and has been and shall be provided with the opportunity to develop relationships with clients, prospective clients, consultants, employees, representatives and other agents of the Firm, and the Employee further acknowledges that such proprietary information and relationships are extremely valuable assets in which the Firm has invested and shall continue to invest substantial time, effort and expense. The Employee agrees that while employed by the Firm and thereafter until (i) (A) three months after the Employee's date of Termination of Employment for any

reason other than a termination by the Firm without Cause or (B) one month after the date of the Employee's Termination of Employment by the Firm without Cause (in either case, the date of such Termination of Employment, the "Date of Termination") or (ii) the end of any longer period during which any similar covenants would be applicable to the Employee pursuant to any other agreement (other than an award agreement evidencing previously granted equity-based, fund interest, deferred cash or similar awards (collectively, the "Prior Awards")) between the Employee and the Firm (such period, the "Non-compete Restriction Period"), the Employee shall not, directly or indirectly, on the Employee's behalf or on behalf of any other person, firm, corporation, association or other entity, as an employee, director, advisor, partner, consultant or otherwise, provide services or perform activities for, or acquire or maintain any ownership interest in, a "Competitive Enterprise". For purposes of the Agreement, including this Appendix B, "Competitive Enterprise" shall mean a business (or business unit) that (x) engages in any activity or (y) owns or controls a significant interest in any entity that engages in any activity, that in either case, competes anywhere with any activity that is similar to an activity in which the Firm is engaged up to and including the Employee's Date of Termination. Notwithstanding anything in this Appendix B, the Employee shall not be considered to be in violation of the Restrictive Covenants solely by reason of owning, directly or indirectly, any stock or other securities of a Competitive Enterprise (or comparable interest, including a voting or profit participation interest, in any such Competitive Enterprise) if the Employee's interest does not exceed 5% of the outstanding capital stock of such Competitive Enterprise (or comparable interest, including a voting or profit participation interest, in such Competitive Enterprise). The Employee acknowledges that the Firm is engaged in business throughout the world. Accordingly, and in view of the nature of the Employee's position and responsibilities, the Employee agrees that the provisions of this Paragraph (b) shall be applicable to each jurisdiction, foreign country, state, possession or territory in which the Firm may be engaged in business while the Employee is providing services to the Firm.

(c) Nonsolicitation of Clients. The Employee hereby agrees that during the Non-compete Restriction Period, the Employee shall not, in any manner, directly or indirectly, (i) Solicit a Client to transact business with a Competitive Enterprise or to reduce or refrain from doing any business with the Firm, to the extent the Employee is soliciting a Client to provide them with services the performance of which would violate Paragraph (b) above if such services were provided by the Employee, or (ii) interfere with or damage (or attempt to interfere with or damage) any relationship between the Firm and a Client. For purposes of the Agreement, including this Appendix B, the term "Solicit" means any direct or indirect communication of any kind whatsoever, regardless of by whom initiated, inviting, advising, persuading, encouraging or requesting any person or entity, in any manner, to take or refrain from taking any action, and the term "Client" means any client or prospective client of the Firm to whom the Employee provided services, or for whom the Employee transacted business, or whose identity became known to the Employee in connection with the Employee's relationship with or employment by the Firm, whether or not the Firm has been engaged by such Client pursuant to a written agreement; provided that an entity which is not a client of the Firm shall be considered a "prospective client" for purposes of this sentence only if the Firm made a presentation or written proposal to such entity during the 12-month period preceding the Date of Termination or was preparing to make such a presentation or proposal at the time of the Date of Termination.

(d) No Hire of Employees. The Employee hereby agrees that while employed by the Firm and thereafter until (i) six months after the Date of Termination for any reason or (ii) the end of any longer period during which any similar covenants would be applicable to the Employee pursuant to any other agreement (other than an award agreement evidencing any Prior Awards) between the Employee and the Firm (such period, the "No Hire Restriction Period"), the Employee shall not, directly or indirectly, for himself or on behalf of any third party at any time in any manner, Solicit, hire, or otherwise cause any employee who is at the associate level or above (including, without limitation, managing directors), officer or agent of the Firm to apply for, or accept employment with, any Competitive Enterprise, or to otherwise refrain from rendering services to the Firm or to terminate his or her relationship, contractual or otherwise, with the Firm, other than in response to a general advertisement or public solicitation not directed specifically to employees of the Firm.

(e) Nondisparagement. The Employee shall not at any time (whether prior to or following the Employee's Termination of Employment), and shall instruct the Employee's spouse or domestic partner, parents, and any of their lineal descendants (it being agreed that in any dispute between the parties regarding whether the Employee breached such obligation to instruct, the Firm shall bear the burden of demonstrating that the Employee breached such obligation) not to, make any comments or statements to the press, employees of the Firm, any individual or entity with whom the Firm has a business relationship or any other person, if such comment or statement is disparaging to the Firm, its reputation, any of its affiliates or any of its current or former officers, members or directors, except for truthful statements as may be required by law.

(f) Notice of Termination Required. The Employee agrees to provide a period of advance written notice to the Firm prior to the Employee's Termination of Employment equal to (i) three months or (ii) any longer notice period required pursuant to any other agreement (other than an award agreement evidencing any Prior Awards) between the Employee and the Firm. The Employee hereby agrees that, if, during the applicable period after the Employee has provided notice of termination to the Firm or prior thereto, the Employee enters (or has entered into) a written agreement to provide services or perform activities for a Competitive Enterprise that would violate Paragraph (b) if performed during the Non-compete Restriction Period, such action shall be deemed a violation of this Paragraph (f).

(g) Restrictive Covenants Generally. If any of the Restrictive Covenants is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such Restrictive Covenant shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining such Restrictive Covenants shall not be affected thereby; provided, however, that if any of such Restrictive Covenants is finally held to be invalid, illegal or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such Restrictive Covenant shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Employee hereby agrees that prior to accepting employment with any other person or entity during his period of service with the Firm or during the Non-compete Restriction Period or the No Hire Restriction Period, the Employee shall provide such prospective employer with written notice of the provisions of this Appendix B, with a copy of such notice delivered no later than the date of the Employee's commencement of

such employment with such prospective employer, to the General Counsel of the Company. The Employee acknowledges and agrees that the terms of the Restrictive Covenants: (i) are reasonable in light of all of the circumstances, (ii) are sufficiently limited to protect the legitimate interests of the Firm, (iii) impose no undue hardship on the Employee and (iv) are not injurious to the public. The Employee acknowledges and agrees that the Employee's breach of the Restrictive Covenants will cause the Firm irreparable harm, which cannot be adequately compensated by money damages. The Employee also agrees that the Firm shall be entitled to injunctive relief for any actual or threatened violation of any of the Restrictive Covenants in addition to any other remedies it may have, including, without limitation, money damages and forfeiture of the Stock Units. The Employee further acknowledges that, except as provided in Paragraph (h), the Restrictive Covenants and notice period requirements set forth herein shall operate independently of, and not instead of, any other restrictive covenants or notice period requirements to which the Employee is subject pursuant to other plans and agreements involving the Firm.

(h) Other Restrictive Covenants. The Employee acknowledges that, in the event that the Employee is subject to an employment contract, the Restrictive Covenants set forth in this Appendix B constitute a supplement to such employment contract and will be entirely governed by the distinct and specific provisions of this Appendix B. The Employee acknowledges that the Restrictive Covenants set forth in this Appendix B shall supersede and are in full substitution for any and all prior restrictive covenants included in any award agreement evidencing any Prior Awards by which the Employee is bound, and this Paragraph (h) shall constitute a valid amendment to such award agreements.

LAZARD LTD

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (a)

The following table sets forth the ratio of earnings to fixed charges for Lazard Ltd and its subsidiaries on a consolidated basis.

	Three Months Ended March 31, 2014	Year Ended December 31,				
		2013	2012	2011	2010	2009
Operating income (loss)	\$ 107,180	\$ 216,807	\$ 123,885	\$ 235,499	\$ 243,650	\$ (182,234)
Add—Fixed charges	22,020	103,668	106,470	110,919	117,119	127,398
Operating income (loss) before fixed charges	<u>\$ 129,200</u>	<u>\$ 320,475</u>	<u>\$ 230,355</u>	<u>\$ 346,418</u>	<u>\$ 360,769</u>	<u>\$ (54,836)</u>
Fixed Charges:						
Interest (b)	\$ 15,953	\$ 79,381	\$ 81,565	\$ 90,126	\$ 97,709	\$ 107,890
Other (c)	6,067	24,287	24,905	20,793	19,410	19,508
Total fixed charges	<u>\$ 22,020</u>	<u>\$ 103,668</u>	<u>\$ 106,470</u>	<u>\$ 110,919</u>	<u>\$ 117,119</u>	<u>\$ 127,398</u>
Ratio of earnings to fixed charges	<u>5.87</u>	<u>3.09(d)</u>	<u>2.16(e)</u>	<u>3.12</u>	<u>3.08(f)</u>	<u>-(g)</u>
Deficiency in the coverage of operating income (loss) before fixed charges to total fixed charges						<u>\$ 182,234</u>

Notes (dollars in thousands):

(a) For purposes of computing the ratio of earnings to fixed charges:

- earnings for the periods presented represent income before income taxes and fixed charges, and
- fixed charges represent the interest expense and the portion of rental expense which represents an appropriate interest factor.

(b) The Company's policy is to include interest expense on unrecognized tax benefits in income tax expense. Accordingly, such interest expense is not included in the computations of the ratio of earnings to fixed charges.

(c) Other fixed charges consist of the interest factor in rentals.

(d) Operating income for the year ended December 31, 2013 is presented after giving effect to charges of (i) \$64,703 associated with the cost saving initiatives announced by the Company in October 2012, (ii) \$54,087 pertaining to the refinancing of the 2015 Notes and the issuance of the 2020 Notes and (iii) \$12,203 relating to private equity incentive compensation. Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 4.35.

(e) Operating income for the year ended December 31, 2012 is presented after giving effect to (i) a charge in the first quarter of \$24,659 relating to severance costs and benefit payments associated with staff reductions, including the acceleration of unrecognized amortization expense of deferred incentive compensation previously granted to individuals being terminated, and (ii) a charge in the fourth quarter of \$102,576 associated with the cost saving initiatives announced by the Company in October 2012. Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 3.36.

(f) Operating income for the year ended December 31, 2010 is presented after giving effect to (i) a restructuring charge of \$87,108, (ii) a charge of \$24,860 relating to the amendment of Lazard's retirement policy with respect to RSU awards and (iii) benefits pursuant to the tax receivable agreement of \$8,834 relating to the aforementioned items. Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 3.96.

(g) Operating loss for the year ended December 31, 2009 is presented after giving effect to (i) a restructuring charge of \$62,550, (ii) the acceleration of amortization expense of \$86,514 relating to share-based incentive awards previously granted to our former Chairman and Chief Executive Officer and (iii) the acceleration of amortization expense of \$60,512 relating to the accelerated vesting of the unamortized portion of previously awarded deferred cash incentive awards. Excluding the impact of such charges, the ratio of earnings to fixed charges would have been 1.21.

I, Kenneth M. Jacobs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 of Lazard Ltd (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 6, 2014

/s/ Kenneth M. Jacobs

Kenneth M. Jacobs

Chairman and Chief Executive Officer

I, Matthieu Bucaille, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 of Lazard Ltd (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 6, 2014

/s/ Matthieu Bucaille

Matthieu Bucaille
Chief Financial Officer

May 6, 2014
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lazard Ltd (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Kenneth M. Jacobs

Kenneth M. Jacobs
Chairman and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

May 6, 2014
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lazard Ltd (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Matthieu Bucaille

Matthieu Bucaille
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.