Lazard Ltd
Form 10-K
February 27, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from ___________ to ___________

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

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

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

Registrant s telephone number: (441) 295-1422

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock, par value $0.01 per share	**New York Stock Exchange**

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant as of June 30, 2013 was approximately $3,886,191,338.

As of January 31, 2014, there were 129,056,081 shares of the Registrant s Class A common stock (including 9,401,151 shares held by subsidiaries) and one share of the registrant s Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s proxy statement for its 2014 annual general meeting of shareholders are incorporated by reference in this Form 10-K in response to Part III Items 10, 11, 12, 13 and 14.

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LAZARD LTD

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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Part I

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 December 31, 2013 of approximately 99.5% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

Item 1. Business

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.

Principal Business Lines

We focus primarily on two business segments - Financial Advisory and Asset Management. We believe that the mix of our activities across business segments, geographic regions, industries and investment strategies helps to diversify and stabilize our revenue stream.

Financial Advisory

Our Financial Advisory business 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. We focus on solving our clients most complex issues, providing advice to key decision-makers, senior management, boards of directors and business owners, as well as governments and governmental agencies, in transactions that typically are of significant strategic and financial importance to them.

We continue to build our Financial Advisory business by fostering long-term, senior level relationships with existing and new clients as their independent advisor on strategic transactions. We seek to build and sustain long-term relationships with our clients rather than focusing simply on individual transactions, a practice that we believe enhances our access to senior management of major corporations and institutions around the world. We emphasize providing clients with senior level focus during all phases of transaction analysis and execution.

While we strive to earn repeat business from our clients, we operate in a highly competitive environment in which there are no long-term contracted sources of revenue. Each revenue-generating engagement is separately negotiated and awarded. To develop new client relationships, and to develop new engagements from historical client relationships, we maintain an active dialogue with a large number of clients and potential clients, as well as with their financial and legal advisors, on an ongoing basis. We have gained a significant number of new clients each year through our business development initiatives, through recruiting additional senior investment banking professionals who bring with them client relationships and through referrals from directors, attorneys and other third parties with whom we have relationships. At the same time, we lose clients each year as a result of the sale or merger of a client, a change in a client s senior management, competition from other investment banks and other causes.

For the years ended December 31, 2013, 2012 and 2011, our Financial Advisory segment net revenue totaled $981 million, $1.049 billion and $992 million, respectively, accounting for approximately 49%, 55% and 54%, respectively, of our consolidated net revenue for such years. We earned $1 million or more from 235 clients, 255 clients and 241 clients for the years ended December 31, 2013, 2012 and 2011, respectively. For the years ended December 31, 2013, 2012 and 2011, the ten largest fee paying clients constituted approximately 19%, 18% and 14% of our Financial Advisory segment net revenue, respectively, with no client individually constituting more than 10% of segment net revenue during any of these years. For the years ended December 31, 2013, 2012 and 2011, our Financial Advisory segment reported operating income (loss) of $21 million, $(9) million and $62 million, respectively. Operating income in 2013 and 2012 included charges of $47 million and $78 million, respectively, associated with the cost saving initiatives (as described in Note 16 of Notes to Consolidated Financial Statements) announced by the Company in October 2012. Excluding the impact of such charges, our Financial Advisory segment had operating income of $68 million and $69 million in the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, 2012 and 2011, our Financial Advisory segment had total assets of $715 million, $793 million and $768 million, respectively.

We believe that we have been pioneers in offering financial advisory services on an international basis, with the establishment of our New York, Paris and London offices dating back to the nineteenth century. We maintain a major local presence in the U.S., the United Kingdom (the U.K.) and France, including a network of regional branch offices in the U.S., as well as a presence in Argentina, Australia, Belgium, Brazil, Chile, China, Colombia, Germany, Hong Kong, India, Italy, Japan, the Netherlands, Panama, Peru, Singapore, Spain, Sweden, Switzerland and the Middle East Region.

Over the past several years, our Financial Advisory segment has made several business acquisitions and entered into certain other business relationships. In 2007 we acquired all of the outstanding ownership interests of Goldsmith, Agio, Helms & Lynner, LLC (GAHL), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies, all of the outstanding shares of Carnegie, Wylie & Company (Holdings) Pty Ltd (CWC), an Australia-based financial advisory and private equity firm, now known as Lazard Australia Holdings Pty Limited, and, along with the Company s existing financial advisory business in Australia, referred to below as Lazard Australia , and we entered into a joint cooperation agreement with Raiffeisen Investment AG (Raiffeisen) for merger and acquisition advisory services in Russia and the Central and Eastern European (the CEE) region. The cooperation agreement between us and Raiffeisen, one of the CEE region s top M&A advisors, provides domestic, international and cross-border expertise within Russia and the CEE region. In 2008, we acquired a 50% interest in Merchant Bankers Asociados (MBA), an Argentina-based financial advisory services firm with offices across Central and South America. In 2009, we entered into a strategic alliance with a financial advisory firm in Mexico to provide global M&A advisory services for clients, both inside and outside of Mexico, who are seeking to acquire or sell assets in Mexico or have interests in other financial transactions with companies in Mexico, and to provide restructuring advisory services to clients in Mexico. In 2012, we integrated our Brazilian operations based in São Paulo, and established a Lazard Africa initiative to leverage our sovereign and corporate expertise in this rapidly growing region, for our clients in both developed and developing countries.

In addition to seeking business centered in the locations referred to above, we historically have focused in particular on advising clients with respect to cross-border transactions. We believe that we are particularly well known for our legacy of offering broad teams of professionals who are indigenous to their respective regions and who have long-term client relationships, capabilities and know-how in their respective regions, who will coordinate with our professionals with global sector expertise. We also believe that this positioning affords us insight around the globe into key industry, economic, government and regulatory issues and developments, which we can bring to bear on behalf of our clients.

Services Offered

We advise clients on a wide range of strategic and financial issues. When we advise clients on the potential acquisition of another company, business or certain assets, our services include evaluating potential acquisition targets, providing valuation analyses, evaluating and proposing financial and structural alternatives, and rendering, if appropriate, fairness opinions. We also may advise as to the timing, financing and pricing of a proposed acquisition and assist in negotiating and closing the acquisition. In addition, we may assist in executing an acquisition by acting as a dealer-manager in transactions structured as a tender or exchange offer.

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When we advise clients that are contemplating the sale of certain businesses, assets or an entire company, our services include advising on the sale process for the situation, providing valuation analyses, assisting in preparing an offering circular or other appropriate sale materials and rendering, if appropriate, fairness opinions. We also identify and contact selected qualified acquirors and assist in negotiating and closing the proposed sale. As appropriate, we also advise our clients regarding potential financial and strategic alternatives to a sale, including recapitalizations, spin-offs, carve-outs and split-offs. We frequently provide advice with respect to the structure, timing and pricing of these alternatives.

For companies in financial distress, our services may include reviewing and analyzing the business, operations, properties, financial condition and prospects of the company, evaluating debt capacity, assisting in the determination of an appropriate capital structure and evaluating financial and strategic alternatives. If appropriate, we may provide financial advice and assistance in developing and seeking approval of a restructuring or reorganization plan, which may include a plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code or other similar court administered processes in non-U.S. jurisdictions. In such cases, we may assist in certain aspects of the implementation of such a plan, including advising and assisting in structuring and effecting the financial aspects of a sale or recapitalization, structuring new securities, exchange offers, other consideration or other inducements to be offered or issued, as well as assisting and participating in negotiations with affected entities or groups.

When we assist clients in connection with their capital structure, we typically review and analyze structural alternatives, assist in long-term capital planning and advise and assist with respect to rating agency discussions and relationships, among other things.

When we assist clients in raising private or public market financing, our services include originating and executing private placements of equity, debt and related securities, assisting clients in connection with securing, refinancing or restructuring bank loans or other debt, including convertible securities, originating public underwritings of equity, debt and convertible securities and originating and executing private placements of partnership and similar interests in alternative investment funds such as leveraged buyout, mezzanine or real estate focused funds.

Since the beginning of the financial crisis that began in mid-2007, we also have been at the forefront of providing independent advice to governments and governmental agencies challenged by the economic environment. Lazard s Sovereign Advisory Group has advised a number of countries with respect to sovereign debt and other issues.

On May 10, 2005, Lazard Group transferred its capital markets business, which consisted of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, and fund management activities outside of France, as well as other specified non-operating assets and liabilities, to LFCM Holdings LLC (LFCM Holdings), an entity owned by former and current managing directors (including our executive officers) of Lazard Group. We refer to these businesses, assets and liabilities as the separated businesses and these transfers collectively as the separation. In connection with the separation, we entered into a business alliance agreement dated as of May 10, 2005 by and among Lazard Group, LAZ-MD Holdings LLC (LAZ-MD Holdings), an entity owned by former and current managing directors of Lazard Group, and LFCM Holdings (the business alliance agreement), pursuant to which a subsidiary of LFCM Holdings generally underwrites and distributes U.S. securities offerings originated by our Financial Advisory business in a manner intended to be similar to our practice prior to the separation, with revenue from such offerings generally continuing to be divided evenly between Lazard Group and LFCM Holdings. Consistent with any obligations to LFCM Holdings, we may explore capital markets opportunities in the future.

Staffing

We staff our assignments with a team of quality professionals who have appropriate product and industry expertise. We pride ourselves on, and we believe we differentiate ourselves from our competitors by, being able to offer a high level of attention from senior personnel to our clients and organizing ourselves in such a way that

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managing directors who are responsible for securing and maintaining client relationships also actively participate in providing related transaction execution services. Our managing directors have significant experience, and many of them are able to use this experience to advise on M&A, financings, restructurings, capital structure and other transactions or financial matters, depending on our clients needs. Many of our managing directors and senior advisors come from diverse backgrounds, such as senior executive positions at corporations and in government, law and strategic consulting, which we believe enhances our ability to offer sophisticated advice and customized solutions to our clients. As of December 31, 2013, our Financial Advisory segment had 132 managing directors and 701 other professionals (which includes directors, vice presidents, associates and analysts).

Industries Served

We seek to offer our services across most major industry groups, including, in many cases, sub-industry specialties. Our Mergers and Acquisitions managing directors and professionals are organized to provide advice in the following major industry practice areas:

- consumer,
- financial institutions,
- healthcare and life sciences,
- industrial,
- power and energy/infrastructure,
- real estate, and
- technology, media and telecommunications.

These groups are managed locally in each relevant geographic region and are coordinated globally, which allows us to bring local industry-specific knowledge to bear on behalf of our clients on a global basis. We believe that this enhances the scope and the quality of the advice that we can offer, which improves our ability to market our capabilities to clients.

In addition to our Mergers and Acquisitions and Restructuring practices, we also maintain specialties in the following distinct practice areas within our Financial Advisory segment:

- government and sovereign advisory,
- capital structure and debt advisory,
- fund raising for alternative investment funds,

- private investment in public equities, or PIPES, and
- corporate finance and other advisory services, including convertible exchange transactions, registered direct offerings and private placements.

We endeavor to coordinate the activities of the professionals in these areas with our Mergers and Acquisitions industry specialists in order to offer clients customized teams of cross-functional expertise spanning both industry and practice area expertise.

Strategy

Our focus in our Financial Advisory business is on:

- investing in our intellectual capital through senior professionals who we believe have strong client relationships and industry expertise,
- increasing our contacts with existing clients to further enhance our long-term relationships and our efforts in developing new client relationships,

developing new client relationships, including leveraging the broad geographic footprint and strong relationships in our Asset Management business,

expanding the breadth and depth of our industry expertise and selectively adding or reinforcing practice areas, such as our Capital Structure Advisory and Sovereign Advisory Groups,

coordinating our industry specialty activities on a global basis and increasing the integration of our industry experts in Mergers and Acquisitions with our other professionals, and

broadening our geographic presence by adding new offices, including, since the beginning of 2007, offices in Australia (Melbourne and Perth), Switzerland (Zurich) and the Middle East Region, as well as new regional offices in the U.S. (Boston, Minneapolis and Charlotte), acquiring a 50% interest in a financial advisory firm with offices in Central and South America (Argentina, Chile, Colombia, Panama and Peru), integrating our Brazilian operations based in São Paulo, establishing the Lazard Africa initiative and entering into a joint cooperation agreement with respect to Russia and the CEE region, as well as a strategic alliance with a financial advisory firm in Mexico.

In addition to the investments made as part of this strategy, we believe that our Financial Advisory business may benefit from external market factors, including:

increasing demand for independent, unbiased financial advice;

debt reduction, recapitalization and related activities that are occurring in the developed markets;

relatively low interest rates and high corporate cash balances in the current macroeconomic environment; and

a potential increase in cross-border M&A and large capitalization M&A, two of our areas of historical specialization.

Going forward, our strategic emphasis in our Financial Advisory business is to leverage the investments we have made to grow our business and drive our productivity. We continue to seek to opportunistically attract outstanding individuals to our business. We routinely reassess our strategic position and may in the future seek opportunities to further enhance our competitive position. In this regard, we have broadened our geographic footprint through acquisitions, investments and alliances.

Recapitalization and Relationship with Natixis

On May 10, 2005, we completed the initial equity public offering (the equity public offering) of Class A common stock of Lazard Ltd (Class A common stock or common stock), a public offering of equity security units of Lazard Ltd, private placements under an investment agreement with IXIS Corporate & Investment Bank (IXIS or, following its merger with and into its parent, Natixis) and a private offering of 7.125% senior notes due 2015 of Lazard Group, primarily to recapitalize Lazard Group. We refer to these financing transactions and the recapitalization, collectively, as the recapitalization. As part of the recapitalization, Lazard Group used the net proceeds from the financing transactions primarily to redeem the outstanding Lazard Group membership interests of certain of its historical partners.

Lazard Group and Natixis had in place a cooperation arrangement to place and underwrite securities in the French capital markets under a common brand, Lazard-Natixis, and cooperate in their respective origination, syndication, placement and other activities. The cooperation arrangement primarily covered French listed companies included in the Société des Bourses Francaises (SBF) 120 Index and initial public offerings with an expected resulting market capitalization of at least 500 million. The term of the cooperation arrangement expired on December 31, 2012. Discussions have occurred, and may occur in the future, regarding the execution of a new form of cooperation arrangement.

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Asset Management

Our Asset Management business 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. Our goal in our Asset Management business is to produce superior risk-adjusted investment returns and provide investment solutions customized for our clients. Many of our equity investment strategies share an investment philosophy that centers on fundamental security selection with a focus on analyzing, among other things, a company s financial position, productivity and opportunities in light of its valuation.

As of December 31, 2013, total assets under management (AUM) were $187 billion, of which approximately 82% was invested in equities, 14% in fixed income, 3% in alternative investments and 1% in private equity funds. As of the same date, within the equity platform, approximately 25% of our AUM was invested in emerging markets strategies, 21% in multi-regional (*i.e.,* non-U.S. and regional non-U.S.) investment strategies, 19% in global investment strategies and 17% in local investment strategies. Within the fixed income platform, approximately 5% of our AUM was invested in emerging markets strategies, 6% in multi-regional (*i.e.,* non-U.S. and regional non-U.S.) investment strategies, 1% in global investment strategies and 2% in local investment strategies. Our top ten clients accounted for 24%, 23% and 22% of our total AUM at December 31, 2013, 2012 and 2011, respectively, with no client individually constituting more than 10% of our Asset Management segment net revenue during any of the respective years. Approximately 90% of our AUM as of December 31, 2013 was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors, and approximately 10% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

The charts below illustrate the mix of our AUM as of December 31, 2013, measured by broad product strategy and by office location.

For the years ended December 31, 2013, 2012 and 2011, our Asset Management segment net revenue totaled $1.039 billion, $896 million and $897 million, respectively, accounting for approximately 52%, 47% and 49%, respectively, of our consolidated net revenue for such years. For the years ended December 31, 2013, 2012 and 2011, our Asset Management segment reported operating income of $335 million, $237 million and $268 million, respectively. Operating income in 2013 and 2012 included charges of $0.2 million and $13 million, respectively, associated with the cost saving initiatives announced by the Company in October 2012, and, in 2013, included a charge of $12 million relating to private equity incentive compensation (as described in Management s Discussion and Analysis of Financial Condition and Results of Operations). Excluding the impact of such charges, our Asset Management segment had operating income of $347 million and $250 million in the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, 2012 and 2011, our Asset Management segment had total assets of $612 million, $567 million and $584 million, respectively.

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LAM and LFG

Our largest Asset Management businesses are Lazard Asset Management LLC and its subsidiaries (LAM), with offices in New York, San Francisco, Boston, Chicago, Toronto, Montreal, London, Milan, Frankfurt, Hamburg, Zurich, Tokyo, Hong Kong, Sydney, Seoul, Singapore and Manama (aggregating approximately $168 billion in total AUM as of December 31, 2013), and Lazard Frères Gestion SAS (LFG), with offices in Paris, Bordeaux, Brussels, Lyon and Nantes (aggregating approximately $18 billion in total AUM as of December 31, 2013). These operations, with 72 managing directors and 362 professionals as of December 31, 2013, provide our asset management business with both a global presence and a local identity.

Primary distinguishing features of these operations include:

- a global footprint with global research, global mandates and global clients,
- a broad-based team of investment professionals, including focused, in-house investment analysts across all products and platforms, many of whom have substantial industry or sector specific expertise, and
- world-wide brand recognition and multi-channel distribution capabilities.

Our Investment Philosophy, Process and Research. Our investment philosophy is generally based upon a fundamental security selection approach to investing. Across many of our products, we apply three key principles to investment portfolios:

- select securities, not markets,
- evaluate a company s financial position, productivity and opportunities in light of its valuation, and
- manage risk.

In searching for equity investment opportunities, many of our investment professionals follow an investment process that incorporates several interconnected components that may include:

- analytical framework analysis and screening,
- accounting analysis,
- fundamental analysis,
- security selection and portfolio construction, and
- risk management.

In our Asset Management business, we conduct investment research on a global basis to develop market, industry and company specific insights and evaluate investment opportunities. Our global equity analysts, located in our worldwide offices, are organized around six global industry sectors:

- consumer goods,
- financial services,
- health care,
- industrials,
- power and energy, and
- technology, media and telecommunications.

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Investment Strategies. Our Asset Management business provides equity, fixed income, cash management and alternative investment strategies to our clients, paying close attention to our clients varying and expanding investment needs. We offer the following product platform of investment strategies:

	Global	Multi-Regional	Local	Emerging Markets
Equity	***Global***	***Pan-European***	***U.S.***	***Global***
	Large Capitalization	Large Capitalization	Large Capitalization**	Large Capitalization
	Small Capitalization	Small Capitalization	Mid Capitalization	Small Capitalization Quantitative
	Thematic	Quantitative	Small/Mid Capitalization	Multi Strategies
	Convertibles**		Multi-Capitalization	Managed Volatility
	Listed Infrastructure	***Eurozone***	Real Estate	
	Quantitative	Large Capitalization**		***Latin America***
	Trend	Small Capitalization**	***Other***	Latin America
	Real Estate		U.K. (Large Capitalization)	
	Multi Strategies	***Continental European***	U.K. (Small Capitalization)	
	Managed Volatility	Small Cap	U.K. Quantitative	
		Multi Cap	Australia	
	Global Ex	Eurozone	France (Large Capitalization)*	
	Global Ex-U.K.	Euro-Trend (Thematic)	France (Small Capitalization)*	
	Global Ex-Japan		Japan**	
	Global Ex-Australia	***Asian***	Korea	
		Asia Ex-Japan		
		Europe, Australasia and Far East		
		Large Capitalization		
		Small Capitalization		
		Multi-Capitalization		
		Quantitative		

		Real Estate		
Fixed Income and Cash Management	***Global***	***Pan-European***	***U.S.***	***Global***
	Core Fixed Income	Core Fixed Income	Core Fixed Income	Emerging Debt
	High Yield	High Yield	High Yield	Emerging Corporates
	Short Duration	Cash Management*	Short Duration	
		Duration Overlay	Municipals	
			Cash Management*	
		Eurozone		
		Fixed Income**	***Non-U.S.***	
		Cash Management*	U.K. Fixed Income	
		Corporate Bonds**		
Alternative	***Global***		***Non-U.S.***	***Global***
	Fund of Hedge Funds		Japan (Long/Short)	Emerging Income
	Fund of Closed-End Funds (Long and Long/Short)			Emerging Debt
	Convertible			
	Long/Short Equity			
	Arbitrage/Relative Value			

All of the above strategies are offered by LAM, except for those denoted by *, which are offered exclusively by LFG. Investment strategies offered by both LAM and LFG are denoted by **.

In addition to the primary investment strategies listed above, we also provide locally customized investment solutions to our clients. In many cases, we also offer both diversified and more concentrated versions of our products. These products are generally offered on a separate account basis, as well as through pooled vehicles.

Distribution. We distribute our products through a broad array of marketing channels on a global basis. LAM s marketing, sales and client service efforts are organized through a global market delivery and service network, with distribution professionals located in cities including New York, Boston, Chicago, San Francisco, London, Milan, Montreal, Toronto, Singapore, Frankfurt, Hamburg, Zurich, Tokyo, Sydney, Hong Kong, Manama and Seoul. We have developed a well-established presence in the institutional asset management arena, managing assets for corporations, labor unions, sovereign wealth funds and public pension funds around the world. In addition, we manage assets for insurance companies, savings and trust banks, endowments, foundations and charities.

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We also have become a leading firm in managing mutual funds and separately managed accounts for many of the world s largest broker-dealers, insurance companies, registered advisors and other financial intermediaries.

LFG markets and distributes its products through sales professionals based in France and Belgium, who directly target both individual and institutional investors.

Strategy

Our strategic plan in our Asset Management business is to focus on delivering superior investment performance and client service and broadening our product offerings and distribution in selected areas in order to continue to drive improved business results. Over the past several years, in an effort to improve our Asset Management business operations and expand our Asset Management business, we have:

- focused on enhancing our investment performance,
- improved our investment management platform by adding a number of senior investment professionals (including portfolio managers and analysts),
- continued to strengthen our marketing and consultant relations capabilities, including by expanding our marketing resources and leveraging the broad geographic footprint and strong client relationships in our Financial Advisory business,
- expanded our product platform, including through the addition of an emerging markets fixed income team, an asian equity team and a global real estate investment team, and
- continued to expand the geographic reach of our Asset Management business, including through opening offices in Switzerland and Singapore.

We believe that our Asset Management business has long maintained an outstanding team of portfolio managers and global research analysts. We intend to maintain and supplement our intellectual capital to achieve our goals. We routinely reassess our strategic position and may in the future seek acquisitions or other transactions, including the opportunistic hiring of new employees, in order to further enhance our competitive position. In this regard, in September 2011, LAM acquired the assets of Grubb & Ellis Alesco Global Advisors, LLC (Alesco). Alesco is an investment advisor located in San Francisco, California, focusing on real estate securities and managing three registered mutual funds. We also believe that our specific investment strategies, global reach, unique brand identity and access to multiple distribution channels may allow us to expand into new investment products, strategies and geographic locations. In addition, we may expand our participation in alternative investment activities through investments in new and successor funds, through organic growth, acquisitions or otherwise. We may also continue to expand our geographic reach. In 2014, we announced our expansion in the Middle East with plans to open a Dubai office.

Alternative Investments

Historically, Lazard has made selected investments with its own capital, often alongside capital of qualified institutional and individual investors. These activities typically are organized in funds that make substantial or controlling investments in private or public companies, generally through privately negotiated transactions and with a view to divest within two to seven years. While potentially risky and frequently illiquid, such investments, when successful, can yield investors substantial returns on capital and generate attractive management and performance fees for the sponsor of such funds.

Since 2005, we have been engaged in selected alternative investments and private equity activities. In 2009, we established a private equity business with The Edgewater Funds (Edgewater), a Chicago-based private equity firm, through the acquisition of Edgewater s management vehicles. The acquisition of Edgewater was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the Edgewater Acquisition). As of December 31, 2013, Edgewater had approximately $1 billion of AUM and unfunded fee-earning commitments.

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In Australia, we operate our private equity business through Lazard Australia, which, as of December 31, 2013, had approximately $173 million of AUM and unfunded fee-earning commitments.

LFCM Holdings, through certain subsidiaries of Lazard Alternative Investments Holdings LLC (LAI), operates the alternative investment business (including private equity activities) that was transferred to it in the separation. We retained an investment in certain of the funds that were or are still operated by LAI and its subsidiaries. We are entitled to receive a portion of the carry attributable to our investment in a fund previously formed and managed by LAI (net of compensation payable to investment professionals who manage this fund). In addition, pursuant to the business alliance agreement, we retained an option to acquire the North American and European fund management activities of LAI and have the right to participate in the governance of LAI and to consent to certain actions. On December 15, 2009, we exercised our option to acquire the right to conduct private equity activities in Europe. While the remaining option to purchase the management entities of LAI s North American businesses (the North American Option) is currently exercisable at any time prior to May 10, 2014, during the fourth quarter of 2011, we determined that we are unlikely to exercise such option (see Note 19 of Notes to Consolidated Financial Statements).

In 2009, the business alliance agreement with LFCM Holdings was amended to remove certain restrictions on our ability to engage in private equity activities in North America and to reduce the price of the North American Option.

Employees

We believe that our people are our most important asset, and it is their reputation, talent, integrity and dedication that underpin our success. As of December 31, 2013, we employed 2,403 people, which included 132 managing directors and 701 other professionals in our Financial Advisory segment and 72 managing directors and 376 other professionals in our Asset Management segment. We strive to maintain a work environment that fosters professionalism, excellence, diversity and cooperation among our employees worldwide. We generally utilize an evaluation process at the end of each year to measure performance, determine compensation and provide guidance on opportunities for improved performance. Generally, our employees are not subject to any collective bargaining agreements, except that our employees in certain of our European offices, including France and Italy, are covered by national, industry-wide collective bargaining agreements. We believe that we have good relations with our employees.

In October 2012 we announced a number of cost saving initiatives to reduce our expenses, which have impacted the number of people that we employ. See Management s Discussion and Analysis of Financial Condition Cost Saving Initiatives below.

Competition

The financial services industry, and all of the businesses in which we compete, are intensely competitive, and we expect them to remain so. Our competitors are other investment banking and financial advisory firms, broker-dealers, commercial and universal banks, insurance companies, investment management firms, hedge fund management firms, alternative investment firms and other financial institutions. We compete with some of them globally and with others on a regional, product or niche basis. We compete on the basis of a number of factors, including quality of people, transaction execution skills, investment track record, quality of client service, individual and institutional client relationships, absence of conflicts, range of products and services, innovation, brand recognition and business reputation.

While our competitors vary by country in our Financial Advisory business, we believe our primary competitors in securing engagements are Bank of America Merrill Lynch, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Evercore Partners, Goldman Sachs, Greenhill, JPMorgan Chase, Mediobanca, Morgan Stanley, Rothschild and UBS. In our Restructuring practice, our primary competitors are The Blackstone Group, Evercore Partners, Greenhill, Houlihan Lokey, Moelis & Company and Rothschild.

We believe that our primary global competitors in our Asset Management business include, in the case of LAM, Aberdeen and Schroders, Alliance Bernstein, Capital Management & Research, Fidelity, Franklin Templeton, Invesco, JP Morgan Asset Management, Lord Abbett and MFS and, in the case of LFG, private banks with offices in France as well as large institutional banks and fund managers. We face competition in private equity both in the pursuit of outside investors for our private equity funds and the acquisition of investments in attractive portfolio companies. We compete with hundreds of other funds, many of which are subsidiaries of, or otherwise affiliated with, large financial service providers.

Competition is also intense in each of our businesses for the attraction and retention of qualified employees, and we compete, among other factors, on the level and nature of compensation and equity-based incentives for key employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees, in each case at appropriate compensation levels.

In recent years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. This trend was amplified in connection with the unprecedented disruption and volatility in the financial markets during the past several years, and, as a result, a number of financial services companies have merged, been acquired or have fundamentally changed their respective business models, including, in certain cases, becoming bank holding companies or commercial banks. Many of these firms have the ability to offer a wider range of products than we offer, including loans, deposit taking, insurance and brokerage services. Many of these firms also offer more extensive asset management and investment banking services, which may enhance their competitive position. They also may have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenue in an effort to gain market share, which could result in pricing pressure in our businesses. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors, and, in certain instances, has afforded them access to government funds. At the same time, demand for independent financial advice has increased and has created opportunities for new entrants, including a number of boutique financial advisory firms.

Regulation

Our businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets, not with protecting the interests of our stockholders or creditors. Many of our affiliates that participate in securities markets are subject to comprehensive regulations that include some form of minimum capital retention requirements and customer protection rules. In the U.S., certain of our subsidiaries are subject to such regulations promulgated by the United States Securities and Exchange Commission (the SEC), the Financial Industry Regulatory Authority (FINRA) or the Municipal Securities Rulemakers Board (the MSRB). Standards, requirements and rules implemented throughout the European Union are broadly comparable in scope and purpose to the regulatory capital and customer protection requirements imposed under the SEC and FINRA rules. European Union directives also permit local regulation in each jurisdiction, including those in which we operate, to be more restrictive than the requirements of such European Union-wide directives. These sometimes burdensome local requirements can result in certain competitive disadvantages to us.

In the U.S., the SEC is the federal agency responsible for the administration of the federal securities laws. FINRA is a voluntary, self-regulatory body composed of members, such as our broker-dealer subsidiaries, that have agreed to abide by FINRA s rules and regulations. The MSRB is also a voluntary, self-regulatory body, composed of members, including municipal advisors , that have agreed to abide by the MSRB s rules and regulations. The SEC, FINRA, MSRB and non-U.S. regulatory organizations may examine the activities of, and may expel, fine and otherwise discipline us and our employees. The laws, rules and regulations comprising this framework of regulation and the interpretation and enforcement of existing laws, rules and regulations are

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constantly changing, particularly in light of the extraordinary disruption and volatility in the global financial markets experienced in recent years. The effect of any such changes cannot be predicted and may impact the manner of operation and profitability of our company.

Our principal U.S. broker-dealer subsidiary, Lazard Frères & Co. LLC (LFNY), through which we conduct most of our U.S. Financial Advisory business, is currently registered as a broker-dealer with the SEC and FINRA, and as a broker-dealer in all 50 U.S. states, the District of Columbia and Puerto Rico. As such, LFNY is subject to regulations governing most aspects of the securities business, including minimum capital retention requirements, record-keeping and reporting procedures, relationships with customers, experience and training requirements for certain employees, and business procedures with firms that are not members of certain regulatory bodies. LFNY is also currently registered with the SEC and the MSRB as a municipal advisor, a registration category that includes placement agents that solicit investments from public pension funds on behalf of investment funds. The MSRB has adopted, and is in the process of adopting, additional rules to govern municipal advisors, including pay-to-play rules and rules regarding professional standards, and LFNY is subject to those rules. Lazard Asset Management Securities LLC, a subsidiary of LAM, is registered as a broker-dealer with the SEC and FINRA and in all 50 U.S. states, the District of Columbia and Puerto Rico. Lazard Middle Market LLC, a subsidiary of GAHL, is registered as a broker-dealer with the SEC and FINRA, and as a broker-dealer in various U.S. states and territories.

Certain U.K. subsidiaries of Lazard Group, including Lazard & Co., Limited, Lazard Fund Managers Limited and Lazard Asset Management Limited, which we refer to in this Annual Report on Form 10-K (this Form 10-K) as the U.K. subsidiaries, are regulated by the Financial Conduct Authority (the FCA). We also have other subsidiaries that are registered as broker-dealers (or have similar non-U.S. registration) in various jurisdictions.

Compagnie Financière Lazard Frères SAS (CFLF), our French subsidiary under which asset management and commercial banking activities are carried out in France, is subject to regulation by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) for its banking activities conducted through its subsidiary, our Paris-based banking affiliate, Lazard Frères Banque SA (LFB). The investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG, also are subject to regulation and supervision by the Autorité des Marchés Financiers. 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.

Our U.S. broker-dealer subsidiaries, including LFNY, are subject to the SEC s uniform net capital rule, Rule 15c3-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), and the net capital rules of FINRA, which may limit our ability to make withdrawals of capital from our broker-dealer subsidiaries. The uniform net capital rule sets the minimum level of net capital a broker-dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if it would result in net capital falling below FINRA s requirements. In addition, our broker-dealer subsidiaries are subject to certain notification requirements related to withdrawals of excess net capital. Our broker-dealer subsidiaries are also subject to regulations, including the USA PATRIOT Act of 2001, which impose obligations regarding the prevention and detection of money-laundering activities, including the establishment of customer due diligence and other compliance policies and procedures. Failure to comply with these requirements may result in monetary, regulatory and, in certain cases, criminal penalties.

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Certain of our Asset Management subsidiaries are registered as investment advisors with the SEC. As registered investment advisors, each is subject to the requirements of the Investment Advisers Act and the SEC s regulations thereunder. Such requirements relate to, among other things, the relationship between an advisor and its advisory clients, as well as general anti-fraud prohibitions. LAM serves as an advisor to several mutual funds which are registered under the Investment Company Act. The Investment Company Act regulates, among other things, the relationship between a mutual fund and its investment advisor (and other service providers) and prohibits or severely restricts principal transactions between an advisor and its advisory clients, imposes record- keeping and reporting requirements, disclosure requirements, limitations on trades where a single broker acts as the agent for both the buyer and seller (known as agency cross), and limitations on affiliated transactions and joint transactions. Lazard Asset Management Securities LLC, a subsidiary of LAM, serves as an underwriter or distributor for mutual funds and hedge funds managed by LAM, and as an introducing broker to Pershing LLC for unmanaged accounts of LAM s private clients.

As a result of certain recent changes effected by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) related to the regulation of over-the-counter swaps and other derivative instruments, LAM and certain of its subsidiaries have recently registered with the U.S. Commodity Futures Trading Commission (the CFTC) and the National Futures Association (the NFA), and are subject to certain aspects of the U.S. Commodity Exchange Act and the regulations thereunder, and to the rules of the NFA. The CFTC and the NFA have authority over the laws, rules and regulations related to commodities (including the over-the-counter swaps and derivatives markets), and regulate our relationship with clients who trade in these instruments. The U.S. Commodity Exchange Act and the regulations thereunder also impose additional record-keeping and reporting requirements and disclosure requirements on LAM and its subsidiaries.

In addition, the Japanese Ministry of Finance and the Financial Supervisory Agency, the Korean Financial Supervisory Commission, the Securities and Futures Commission of Hong Kong, the Monetary Authority of Singapore, the Australian Securities & Investments Commission and German banking authorities, among others, regulate relevant operating subsidiaries of the Company and also have capital standards and other requirements comparable to the rules of the SEC. Our business is also subject to regulation by other non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where we operate.

Regulators are empowered to conduct administrative proceedings that can result, among other things, in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion or other disciplining of a broker-dealer or its directors, officers or employees.

Over the last several years, global financial markets experienced extraordinary disruption and volatility. As a result, the U.S. and other governments and institutions have taken actions, and may continue to take further actions, in response to this disruption and volatility, including expanding current or enacting new standards, requirements and rules that may be applicable to us and our subsidiaries. The effect of any such expanded or new standards, requirements and rules is uncertain and could have adverse consequences to our business and results of operations. See Item 1A, Risk Factors Other Business Risks Extensive regulation of our businesses limits our activities and results in ongoing exposure to the potential for significant penalties, including fines or limitations on our ability to conduct our businesses.

Executive Officers of the Registrant

Set forth below are the name, age, present title, principal occupation and certain biographical information for each of our executive officers as of February 21, 2014, all of whom have been appointed by, and serve at the pleasure of, our board of directors.

Kenneth M. Jacobs, 55

Mr. Jacobs has served as Chairman of the Board of Directors and Chief Executive Officer of Lazard Ltd and Lazard Group since November 2009. Mr. Jacobs has served as a Managing Director of Lazard since 1991 and

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had been a Deputy Chairman of Lazard from January 2002 until November 2009. Mr. Jacobs also served as Chief Executive Officer of Lazard North America from January 2002 until November 2009. Mr. Jacobs initially joined Lazard in 1988. Mr. Jacobs is a member of the Board of Trustees of the University of Chicago and the Brookings Institution.

Matthieu Bucaille, 54

Mr. Bucaille has served as Chief Financial Officer of Lazard Ltd and Lazard Group since April 1, 2011. Mr. Bucaille has served as a Managing Director of Lazard since 1998 and served as the Deputy Chief Executive Officer of LFB in Paris from October 2009 until December 2011. Mr. Bucaille joined Lazard in 1989 from the First Boston Corporation in New York.

Ashish Bhutani, 53

Mr. Bhutani has served as a member of the Board of Directors of Lazard Ltd and Lazard Group since March 2010. Mr. Bhutani is a Vice Chairman and a Managing Director of Lazard and has been the Chief Executive Officer of LAM since March 2004. Mr. Bhutani previously served as Head of New Products and Strategic Planning for LAM from June 2003 to March 2004. Prior to joining Lazard, he was Co-Chief Executive Officer, North America, of Dresdner Kleinwort Wasserstein from 2001 to the end of 2002, and was a member of its Global Corporate and Markets Board, and a member of its Global Executive Committee. Mr. Bhutani worked at Wasserstein Perella Group (the predecessor to Dresdner Kleinwort Wasserstein) from 1989 to 2001, serving as Deputy Chairman of Wasserstein Perella Group and Chief Executive Officer of Wasserstein Perella Securities from 1994 to 2001. Mr. Bhutani began his career at Salomon Brothers in 1985, where he was a Vice President in Fixed Income. Mr. Bhutani is a member of the Board of Directors of four registered investment companies, which are part of the Lazard fund complex.

Scott D. Hoffman, 51

Mr. Hoffman has served as General Counsel of Lazard Ltd and Lazard Group since May 2005. Mr. Hoffman has served as a Managing Director of Lazard Group since January 1999 and General Counsel of Lazard Group since January 2001. Mr. Hoffman previously served as Vice President and Assistant General Counsel from February 1994 to December 1997 and as a Director from January 1998 to December 1998. Prior to joining Lazard, Mr. Hoffman was an attorney at Cravath, Swaine & Moore LLP. Mr. Hoffman is a member of the Board of Trustees of the New York University School of Law.

Alexander F. Stern, 47

Mr. Stern has served as Chief Operating Officer of Lazard Ltd and Lazard Group since November 2008. He has served as a Managing Director since January 2002 and as the Firm s Global Head of Strategy since February 2006. Mr. Stern previously served as a Vice President in Lazard s Financial Advisory business from January 1998 to December 2000 and as a Director from January 2001 to December 2001. Mr. Stern initially joined Lazard in 1994 and previously held various positions with Patricof & Co. Ventures and IBM.

Where You Can Find Additional Information

Lazard Ltd files current, annual and quarterly reports, proxy statements and other information required by the Exchange Act with the SEC. You may read and copy any document the company files at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company s SEC filings are also available to the public from the SEC s internet site at *http://www.sec.gov*. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

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Our public website is *http://www.lazard.com* and the investor relations SEC filings section of our public website is located at *http://www.lazard.com/InvestorRelations/SEC-Filings.aspx.* We will make available free of charge, on or through the investor relations section of our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request of any Lazard Ltd shareholder to the Investor Relations Department, are charters for the Company s Audit Committee, Compensation Committee and Nominating & Governance Committee. Copies of these charters and our Corporate Governance Guidelines and Code of Business Conduct and Ethics governing our directors, officers and employees are also posted on the investor relations section of our website in the corporate governance subsection.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this Form 10-K, including our consolidated financial statements and related notes. The following risks comprise material risks of which we are aware. If any of the events or developments described below actually occurred, our business, financial condition or results of operations would likely suffer.

Risks Relating to the Financial Services Industry and Financial Markets

In recent years, regional and global capital markets and economies have experienced periods of significant disruption and volatility, which has had negative repercussions on the global economy, and any continued disruption or volatility could present challenges for our business.

In recent years, certain adverse financial developments have impacted regional and global capital markets and the macroeconomic climate. These developments included a general slowing of economic growth both in the U.S. and globally, periods of volatility in equity securities markets and volatility and tightening of liquidity in credit markets. In addition, concerns over sovereign debt levels, high unemployment levels, business and consumer confidence levels, geopolitical issues and weak real estate markets have contributed to increased volatility and have affected expectations for the economy and the markets going forward. Furthermore, investor concerns about the financial health of certain European countries and financial institutions caused market disruptions in recent years and may continue to cause disruption in future periods. If significant levels of market disruption and volatility continue, or if current conditions materially worsen, our business may be adversely affected, which may have a material impact on our business and results of operations.

The full extent of the effects of governmental economic and regulatory involvement in the wake of disruption and volatility in global financial markets remains uncertain.

As a result of market volatility and disruption in recent years, the U.S. and other governments have taken unprecedented steps to try to stabilize the financial system, including investing in financial institutions and taking certain regulatory actions. The full extent of the effects of these actions and legislative and regulatory initiatives (including the Dodd-Frank Act) effected in connection with, and as a result of, such extraordinary disruption and volatility is uncertain, both as to the financial capital markets and participants in general, and as to us in particular.

The soundness of third parties, including our clients, as well as financial, governmental and other institutions, could adversely affect us.

We have exposure to many different industries, institutions, products and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be fully realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us.

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Our share price may decline due to the large number of our common shares eligible for future sale.

As of December 31, 2013, our authorized and unissued shares of Class A common stock include approximately 18.8 million shares of our common stock underlying restricted stock units (RSUs), deferred stock units (DSUs), restricted stock awards and performance-based restricted stock units (PRSUs) that have been granted pursuant to Lazard Ltd s 2005 Equity Incentive Plan (the 2005 Plan) and 2008 Incentive Compensation Plan (the 2008 Plan). RSUs and restricted stock awards generally require future service, among other requirements, as a condition for the delivery of the underlying shares of our Class A common stock (unless the recipient is then eligible for retirement under the Company s retirement policy) and convert into Class A common stock on a one-for-one basis after the stipulated vesting periods. Such vesting events generally occur in the first quarter of each year, at which point a large number of our shares of Class A common stock immediately become available for sale. PRSUs generally require future service and satisfaction of performance-based vesting criteria as a condition for the delivery of the underlying shares of Class A common stock, and the number of such shares that may be received in connection with each PRSU may range from zero to two times the target number (or, for the PRSUs granted in 2013, three times the target number in the event of a substantial increase in our operating revenue in 2014. In addition, as of December 31, 2013, approximately 1.2 million shares of our common stock are issuable in connection with business acquisitions completed in prior years.

We have generally withheld a portion of the Class A common stock issued to our employees upon vesting of RSUs or delivery of restricted stock to comply with minimum statutory tax withholding requirements. In addition, we have historically repurchased in the open market and through privately negotiated transactions a significant number of shares of our Class A common stock. If we were to cease to or were unable to repurchase shares of our Class A common stock, the number of shares outstanding would increase over time, diluting the ownership of our existing stockholders. Furthermore, we cannot predict whether, when and how many shares of our Class A common stock will be sold into the market and the effect, if any, that the possibility of market sales of shares of our Class A common stock, the actual sale of such shares or the availability of such shares will have on the market price of our Class A common stock or our ability to raise capital through the issuance of equity securities from time to time.

Other Business Risks

Our ability to retain our managing directors and other key professional employees is critical to the success of our business, including maintaining compensation levels at an appropriate level of costs, and failure to do so may materially adversely affect our results of operations and financial position.

Our people are our most important resource. We must retain the services of our managing directors and other key professional employees, and strategically recruit and hire new talented employees, to obtain and successfully execute the Financial Advisory and Asset Management engagements that generate substantially all our revenue.

We have experienced several significant events in recent years. In general, our industry continues to experience change and exerts competitive pressures for retaining top talent, which makes it more difficult for us to retain professionals. If any of our managing directors and other key professional employees were to retire, join an existing competitor, form a competing company or otherwise leave us, some of our clients could choose to use the services of that competitor or some other competitor instead of our services. In any such event, our investment banking fees, money management fees or AUM could decline. The employment arrangements, non-competition agreements and retention agreements we have or will enter into with our managing directors and other key professional employees may not prevent our managing directors and other key professional employees from resigning from practice or competing against us. In addition, these arrangements and agreements have a limited duration and will expire after a certain period of time. We continue to be subject to intense competition in the financial services industry regarding the recruitment and retention of key professionals, and have experienced departures from and added to our professional ranks as a result. Certain changes to our employee compensation arrangements may result in increased compensation and benefits expense. In addition, any changes to the mix of

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cash and deferred compensation granted to our employees may affect certain financial measures applicable to our business, including ratios of compensation and benefits expense to revenue, and may result in increased levels of Class A common stock issued to our employees upon vesting of RSUs or grants of restricted stock in a particular year. Our compensation levels, results of operations and financial position may be significantly affected by many factors, including general economic and market conditions, our operating and financial performance, staffing levels and competitive pay conditions.

Difficult market conditions can adversely affect our business in many ways, including by reducing the volume of the transactions involving our Financial Advisory business and reducing the value or performance of the assets we manage in our Asset Management business, which, in each case, could materially reduce our revenue or income and adversely affect our financial position.

As a financial services firm, our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. The financial environment in the U.S. and globally has been volatile during recent years. Unfavorable economic and market conditions can adversely affect our financial performance in both the Financial Advisory and Asset Management businesses.

For example, revenue generated by our Financial Advisory business is directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of M&A transactions may decrease, thereby reducing the demand for our Financial Advisory services and increasing price competition among financial services companies seeking such engagements. Our results of operations would be adversely affected by any such reduction in the volume or value of M&A transactions. In addition, our profitability would be adversely affected due to our fixed costs and the possibility that we would be unable to reduce our variable costs without reducing revenue or within a timeframe sufficient to offset any decreases in revenue relating to changes in market and economic conditions. The future market and economic climate may deteriorate because of many factors, including possible increases in interest rates, inflation, corporate or sovereign defaults, terrorism or political uncertainty.

Within our Financial Advisory business, we have typically seen that, during periods of economic strength and growth, our Mergers and Acquisitions practice historically has been more active and our Restructuring practice has been less active. Conversely, during periods of economic weakness and contraction, we typically have seen that our Restructuring practice has been more active and our Mergers and Acquisitions practice has been less active. As a result, revenue from our Restructuring practice has tended to correlate negatively to our revenue from our Mergers and Acquisitions practice over the course of business cycles. These trends are cyclical in nature and subject to periodic reversal. However, these trends do not cancel out the impact of economic conditions in our Financial Advisory business, which may be adversely affected by a downturn in economic conditions leading to decreased Mergers and Acquisitions practice activity, notwithstanding improvements in our Restructuring practice. Moreover, revenue improvements in our Mergers and Acquisitions practice in strong economic conditions could be offset in whole or in part by any related revenue declines in our Restructuring practice. While we generally have experienced a counter-cyclical relationship between our Mergers and Acquisitions practice and our Restructuring practice, this relationship may not continue in the future.

Our Asset Management business also would be expected to generate lower revenue in a market or general economic downturn. Under our Asset Management business arrangements, investment advisory fees we receive typically are based on the market value of AUM. Accordingly, a decline in the prices of securities, such as that which occurred on a global basis in 2008, or in specific geographic markets or sectors that constitute a significant portion of our AUM (*e.g.*, our emerging markets strategies), would be expected to cause our revenue and income to decline by causing:

- the value of our AUM to decrease, which would result in lower investment advisory fees,

- some of our clients to withdraw funds from our Asset Management business due to the uncertainty or volatility in the market, or in favor of investments they perceive as offering greater opportunity or lower risk, which would also result in lower investment advisory fees, some of our clients or prospective clients to hesitate in allocating assets to our Asset Management business due to the uncertainty or volatility in the market, which would also result in lower investment advisory fees, or

negative absolute performance returns for some accounts which have performance-based incentive fees, which would result in a reduction of revenue from such fees.

If our Asset Management revenue declines without a commensurate reduction in our expenses, our net income would be reduced. In addition, in the event of a market or general economic downturn, our alternative investment and private equity practices also may be impacted by a difficult fund raising environment and reduced exit opportunities in which to realize the value of their investments. Fluctuations in foreign currency exchange rates may also affect the levels of our AUM and our investment advisory fees. See Fluctuations in foreign currency exchange rates could reduce our stockholders equity and net income or negatively impact the portfolios of our Asset Management clients and may affect the levels of our AUM below.

A substantial portion of our revenue is derived from Financial Advisory fees, which are not long-term contracted sources of revenue and are subject to intense competition, and declines in our Financial Advisory engagements could have a material adverse effect on our business, financial condition and results of operations.

We historically have earned a substantial portion of our revenue from advisory fees paid to us by our Financial Advisory clients, which usually are payable upon the successful completion of a particular transaction or restructuring. For example, for the year ended December 31, 2013, Financial Advisory services accounted for approximately 49% of our consolidated net revenue. We expect that we will continue to rely on Financial Advisory fees for a substantial portion of our revenue for the foreseeable future, and a decline in our advisory engagements or the market for advisory services would adversely affect our business, financial condition and results of operations.

In addition, we operate in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue-generating engagement typically is separately awarded and negotiated. Furthermore, many businesses do not routinely engage in transactions requiring our services and, as a consequence, our fee paying engagements with many clients are not likely to be predictable. We also lose clients each year, including as a result of the sale or merger of a client, a change in a client s senior management and competition from other financial advisors and financial institutions. As a result, our engagements with clients are constantly changing and our Financial Advisory fees could decline quickly due to the factors discussed above.

If the number of debt defaults, bankruptcies or other factors affecting demand for our Restructuring services declines, our Restructuring revenue could suffer.

We provide various restructuring and restructuring-related advice to companies in financial distress or to their creditors or other stakeholders. Historically, the fees from restructuring related services have been a significant part of our Financial Advisory revenue. A number of factors could affect demand for these advisory services, including improving general economic conditions, the availability and cost of debt and equity financing and changes to laws, rules and regulations, including deregulation or privatization of particular industries and those that protect creditors.

Due to the nature of our business, financial results could differ significantly from period to period, which may make it difficult for us to achieve steady earnings growth on a quarterly basis.

We experience significant fluctuations in quarterly revenue and profits. These fluctuations generally can be attributed to the fact that we earn a substantial portion of our Financial Advisory revenue upon the successful completion of a transaction or a restructuring, the timing of which is uncertain and is not subject to our control. As a result, our Financial Advisory business is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. For example, a client or counterparty could delay or terminate an acquisition transaction because of a failure to agree upon final terms, failure to obtain necessary regulatory consents or board of directors or stockholder approval, failure to secure necessary financing, adverse market conditions or because the seller s business is experiencing unexpected operating or financial problems. Anticipated bidders for assets of a client during a restructuring transaction may not materialize or our client may not be able to restructure its operations or indebtedness, for example, due to a failure to reach agreement with its principal creditors. In addition, a bankruptcy court may deny our right to collect a success or completion fee. In these circumstances, other than in engagements where we receive monthly retainers, we often do not receive any advisory fees other than the reimbursement of certain expenses despite the fact that we devote resources to these transactions. Accordingly, the failure of one or more transactions to close either as anticipated or at all could cause significant fluctuations in quarterly revenue and profits and could materially adversely affect our business, financial condition and results of operations. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations .

In addition, our Asset Management revenue is particularly sensitive to fluctuations in our AUM. Asset Management fees are predominantly based on average AUM as of the end of a quarter or month. As a result, a reduction in AUM at the end of a quarter or month (as a result of market depreciation, withdrawals, fluctuations in foreign currency exchange rates or otherwise) will result in a decrease in management fees. Similarly, timing of flows, contributions and withdrawals are often out of our control and may be inconsistent from quarter to quarter. Incentive fees are driven by investment performance (either absolute performance or relative to an established benchmark), which is directly impacted by market movements, and may therefore fluctuate from period to period.

As a result of quarterly fluctuations, it may be difficult for us to achieve steady earnings growth on a quarterly basis.

We could lose clients and suffer a decline in our Asset Management revenue and earnings if the investments we choose in our Asset Management business perform poorly or if we lose key employees, regardless of overall trends in the prices of securities.

Investment performance affects our AUM relating to existing clients and is one of the most important factors in retaining clients and competing for new Asset Management business. Poor investment performance could impair our revenue and growth because:

- existing clients might withdraw funds from our Asset Management business in favor of better performing products, which would result in lower investment advisory fees,
- our incentive fees, which provide us with a set percentage of returns on some alternative investment and private equity funds and other accounts, would decline,
- third-party financial intermediaries, rating services, advisors or consultants may rate our products poorly, which may result in client withdrawals and reduced asset flows, or
- firms with which we have strategic alliances may terminate such relationships with us, and future strategic alliances may be unavailable.

If key employees were to leave our Asset Management business, whether to join a competitor or otherwise, we may suffer a decline in revenue or earnings and our financial position could be adversely affected. Loss of key employees may occur due to perceived opportunity for promotion, compensation levels, work environment or other individual reasons, some of which may be beyond our control.

Over certain time periods, we may have a higher concentration of assets in certain strategies. To the extent that this is the case, underperformance, changes in investment personnel or other changes in these strategies may result in a withdrawal of assets. If a significant amount of clients withdraw from these strategies for any reason, our revenues would decline and our operating results would be adversely affected.

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Our investment style in our Asset Management business, including the mix of asset classes comprising our AUM, may underperform other investment approaches, which may result in significant client or asset departures, or a reduction in AUM.

Even when securities prices are rising generally, performance can be affected by investment style and mix of asset classes. Many of the equity investment strategies in our Asset Management business share a common investment orientation towards fundamental security selection. We believe this style tends to outperform the market in some market environments and underperform it in others. In particular, a prolonged growth environment may cause certain investment strategies to go out of favor with some clients, advisors, consultants or third-party intermediaries. In combination with poor performance relative to peers, changes in personnel, extensive periods in particular market environments or other difficulties, the underperformance of our investment style may result in significant client or asset departures or a reduction in AUM.

Because many of our Asset Management clients can remove the assets we manage on short notice, we may experience unexpected declines in revenue and profitability.

Our investment advisory contracts are generally terminable upon very short notice. 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, departures from or changes to the teams that manage our investment products, or changes in prevailing interest rates and financial market performance. Poor performance relative to other investment management firms tends to result in decreased investments in our investment products, increased redemptions of our investment products, and the loss of institutional or individual accounts or strategic alliances. In addition, the ability to terminate relationships may allow clients to renegotiate for lower fees paid for asset management services.

In addition, in the U.S., as required by the Investment Company Act, each of our investment advisory contracts with the mutual funds we advise or subadvise automatically terminates upon its assignment. Each of our other investment advisory contracts subject to the provisions of the Investment Advisers Act provide, as required by the Investment Advisers Act, that the contract may not be assigned without the consent of the customer. A sale of a sufficiently large block of shares of our voting securities or other transactions could be deemed an assignment in certain circumstances. An assignment, actual or constructive, would trigger these termination provisions and could adversely affect our ability to continue managing client accounts.

Access to clients through intermediaries is important to our Asset Management business, and reductions in referrals from such intermediaries or poor reviews of our products or our organization by such intermediaries could materially reduce our revenue and impair our ability to attract new clients.

Our ability to market our Asset Management services relies in part on receiving mandates from the client base of national and regional securities firms, banks, insurance companies, defined contribution plan administrators, investment consultants and other intermediaries. To an increasing extent, our Asset Management business uses referrals from accountants, lawyers, financial planners and other professional advisors. The inability to have this access could materially adversely affect our Asset Management business. In addition, many of these intermediaries review and evaluate our products and our organization. Poor reviews or evaluations of either the particular product or of us may result in client withdrawals or an inability to attract new assets through such intermediaries.

We have investments, primarily through our private equity businesses, in relatively high-risk, illiquid assets, and we may lose some or all of the principal amount of these investments or fail to realize any profits from these investments for a considerable period of time.

We have made, and in the future may make, principal investments in public or private companies or in alternative investments (including private equity funds) established by us or by LFCM Holdings, and continue to hold principal investments directly or through funds managed by LFCM Holdings and certain affiliates of Lazard, including Edgewater and Lazard Australia. Making principal investments is risky, and we may lose some or all of the principal amount of our investments. Certain of these types of investments may be in relatively high-risk, illiquid assets. Because it may take several years before attractive alternative investment opportunities are identified, some or all of the capital committed by us to these funds is likely to be invested in government securities, other short-term, highly rated debt securities and money market funds that traditionally have offered investors relatively lower returns. In addition, these investments may be adjusted for accounting purposes to fair value at the end of each quarter, and any related gains or losses would affect our results of operations, even though such fair value fluctuations may have no cash impact, which could increase the volatility of our earnings. It takes a substantial period of time to identify attractive alternative investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value of an investment through resale. Even if an alternative investment proves to be profitable, it may be several years or longer before any profits can be realized in cash or other proceeds.

Our revenue from our private equity business is derived primarily from management fees, which are calculated as a percentage of committed capital or invested capital depending on the stage of each respective fund. Transaction and advisory fees are also earned. Incentive fees are earned if investments are profitable over a specified threshold. Our ability to form new alternative investment funds is subject to a number of uncertainties, including past performance of our funds, market or economic conditions, competition from other fund managers and the ability to negotiate terms with major investors.

Our results of operations may be affected by fluctuations in the fair value of positions held in our investment portfolios.

We invest capital in various types of equity and debt securities in order to seed LAM equity, debt and alternative investment funds, and for general corporate purposes. Such investments are subject to market fluctuations due to changes in the market prices of securities, interest rates or other market factors, such as liquidity. While we may seek to hedge the market risk for some of these investments, an effective hedge may not be available. These investments are adjusted for accounting purposes to fair value at the end of each quarter regardless of our intended holding period, with any related gains or losses reflected in our results of operations, and therefore may increase the volatility of our earnings, even though such gains or losses may not be realized.

The financial services industry, and all of the businesses in which we compete, are intensely competitive.

The financial services industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our advice, employees and transaction execution, our products and services, innovation, reputation and price. We have experienced intense fee competition in some of our businesses in recent years, and we believe that we may experience pricing pressures in these and other areas in the future as some of our competitors seek to obtain increased market share by reducing fees.

A number of factors increase the competitive risks of our Financial Advisory and Asset Management businesses:

- there are relatively few barriers to entry impeding the launch of new asset management and financial advisory firms, including a relatively low cost of entering these businesses, and the successful efforts of new entrants into our lines of business, including major banks and other financial institutions, have resulted in increased competition;

- other industry participants will from time to time seek to recruit our employees away from us in order to compete in our lines of business; and

- certain of our Financial Advisory practices and Asset Management products are newly established and relatively small.

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We also face increased competition due to a trend toward consolidation. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. This trend was amplified in connection with the unprecedented disruption and volatility in the financial markets during the past several years and, as a result, a number of financial services companies have merged, been acquired or have fundamentally changed their respective business models. Many of these firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They may also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services in an effort to gain market share, which could result in pricing pressure in our businesses.

Competitive pressure could adversely affect our ability to attract new or retain existing clients, make successful investments, retain our personnel or maintain AUM, any of which would adversely impact our revenue and earnings.

An inability to access the debt and equity capital markets as a result of our debt obligations, credit ratings or other factors could impair our liquidity, increase our borrowing costs or otherwise adversely affect our competitive position or results of operations.

As of December 31, 2013, Lazard Group and its subsidiaries had approximately $1.1 billion in debt (including capital lease obligations) outstanding, of which $548 million and $500 million relate to Lazard Group senior notes that mature in 2017 and 2020, respectively. This debt has certain mandated payment obligations, which may constrain our ability to operate our business. If we decide to redeem or retire this debt before maturity, we may be required to pay a significant premium to do so, which may adversely impact our earnings and affect our financial position. In addition, in the future we may need to incur debt or issue equity in order to fund our working capital requirements or refinance existing indebtedness, as well as to make acquisitions and other investments. The amount of our debt obligations may impair our ability to raise debt or issue equity for financing purposes. Our access to funds also may be impaired if regulatory authorities take significant action against us, or if we discover that any of our employees had engaged in serious unauthorized or illegal activity. In addition, our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings or place us on credit watch with negative implications at any time. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

We may pursue acquisitions, joint ventures or cooperation agreements that may result in additional risks and uncertainties in our business and could present unforeseen integration obstacles or costs.

We routinely assess our strategic position and may in the future seek acquisitions or other transactions to further enhance our competitive position. We have in the past pursued joint ventures and other transactions aimed at expanding the geography and scope of our operations. During 2007, we acquired all of the outstanding ownership interests of GAHL and CWC, we entered into a joint cooperation agreement with Raiffeisen and we entered into a shareholders agreement to acquire a 50% interest in MBA. During 2009, we established a private equity business with Edgewater and entered into a strategic alliance with a financial advisory firm in Mexico. During 2011, we acquired the assets of Alesco. During 2012, we integrated our Brazilian operations based in São Paulo. We expect to continue to explore acquisitions and partnership or strategic alliance opportunities that we believe to be attractive.

Acquisitions and joint ventures involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management, difficulty with integrating personnel and financial and other systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations. Our clients may react unfavorably to our acquisition and joint venture strategy, we may not realize any anticipated benefits from acquisitions, we may be exposed to additional liabilities of any acquired business or joint venture and we may not be able to renew on similar terms (or at all) previously successful joint ventures or similar arrangements, any of which could materially adversely affect our revenue and results of operations.

Employee misconduct, which is difficult to detect and deter, could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry generally, and we run the risk that employee misconduct could occur in our business as well. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in legal action, regulatory sanctions and serious reputational or financial harm. Our Financial Advisory business often requires that we deal with client confidences of great significance to our clients, improper use of which may harm our clients or our relationships with our clients. Any breach of our clients confidences as a result of employee misconduct may impair our ability to attract and retain Financial Advisory clients and may subject us to liability. Similarly, in our Asset Management business, we have authority over client assets, and we may, from time to time, have custody of such assets. In addition, we often have discretion to trade client assets on the client s behalf and must do so acting in the best interests of the client. As a result, we are subject to a number of obligations and standards, and the violation of those obligations or standards may adversely affect our clients and us. It is difficult to detect and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases.

The financial services industry faces substantial litigation and regulatory risks, and we may face damage to our professional reputation and legal liability if our services are not regarded as satisfactory or for other reasons.

As a financial services firm, we depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, such dissatisfaction may be more damaging to our business than to other types of businesses. Moreover, our role as advisor to our clients on important transactions involves complex analysis and the exercise of professional judgment, including, if appropriate, rendering fairness opinions in connection with mergers and other transactions.

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against financial advisors has been increasing. Our Financial Advisory activities may subject us to the risk of significant legal actions by our clients and third parties, including our clients stockholders, under securities or other laws for allegations relating to materially false or misleading statements made in connection with securities and other transactions and potential liability for the fairness opinions and other advice provided to participants in corporate transactions. In our Asset Management business, we make investment decisions on behalf of our clients which could result in substantial losses. This also may subject us to the risk of legal actions alleging negligence, misconduct, breach of fiduciary duty or breach of contract. Our Financial Advisory engagements typically include broad indemnities from our clients and provisions designed to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be available or adhered to in all cases. We also are subject to claims arising from disputes with employees for alleged wrongful termination, discrimination or harassment, among other things. These risks often may be difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. As a result, we may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business.

Other operational risks may disrupt our businesses, result in regulatory action against us or limit our growth.

Our business is dependent on communications and information systems, including those of our vendors. Any failure or interruption of these systems, whether caused by fire, other natural disaster, power or telecommunications failure, act of terrorism or war or otherwise, could materially adversely affect our operating results. Although back-up systems are in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate.

Particularly in our Asset Management business, we rely heavily on our financial, accounting, trading, compliance and other data processing systems, and those of our third party vendors or service providers who support these functions. We expect that we will need to review whether to continue to upgrade and expand the capabilities of these systems in the future to avoid disruption of, or constraints on, our operations. However, if any of these systems do not operate properly or are disabled, including for reasons beyond our control, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. The inability of our systems (or those of our vendors or service providers) to accommodate an increasing volume of transactions also could constrain our ability to expand our businesses.

In addition, if we were to experience a local or regional disaster or other business continuity problem, such as a pandemic or other man-made or natural disaster, our continued success will depend, in part, on the availability of our personnel and office facilities and the proper functioning of our computer, telecommunications, transaction processing and other related systems and operations, as well as those of third parties on whom we rely. Such events could lead us to experience operational challenges, and our inability to successfully recover could materially disrupt our businesses and cause material financial loss, regulatory actions, reputational harm or legal liability.

Extensive regulation of our businesses limits our activities and results in ongoing exposure to the potential for significant penalties, including fines or limitations on our ability to conduct our businesses.

The financial services industry is subject to extensive regulation. We are subject to regulation by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the U.S., are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer from registration or membership. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements.

We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. In addition, the regulatory environment in which we operate is subject to modifications and further regulation. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to us and our clients also may adversely affect our business, and our ability to function in this environment will depend on our ability to constantly monitor and react to these changes.

In recent years, the U.S. and global financial markets experienced periods of extraordinary disruption and volatility. As a result, the U.S. and other governments have taken actions, and may continue to take further actions, in response to this disruption and volatility, including expanding current or enacting new standards, requirements and rules that may be applicable to us and our subsidiaries. The effect of any such expanded or new standards, requirements and rules is uncertain and could have adverse consequences to our business and results of operations. For example, in July 2010, the Dodd-Frank Act was signed into law, bringing sweeping changes in the regulation of financial institutions. It will take several years for all of the rules under the Dodd-Frank Act to be written and become effective, and the final scope and interpretations of those rules, and their impact on our business, will not be fully known for some time, but could have implications for the manner in which we conduct our business and, consequently, its profitability. While we continue to examine the potential impact of the

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Dodd-Frank Act and related regulations, as well as new regulations that may become applicable to us in the U.S. and in the European Union (see Business Regulation), we are not able to predict the ultimate effect on us. In addition, several states and municipalities in the United States have adopted pay-to-play rules, which could limit our ability to charge fees in connection with certain of our Private Fund Advisory engagements, and could therefore affect the profitability of that portion of our business.

The regulatory environment in which our clients operate may also impact our business. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of M&A activity and changes in state laws may limit investment activities of state pension plans.

For asset management businesses in general, there have been a number of highly publicized cases involving fraud or other misconduct by employees of asset management firms, as well as industry-wide regulatory inquiries. These cases and inquiries have resulted in increased scrutiny in the industry and may result in new rules and regulations for mutual funds, hedge funds and their investment managers. This regulatory scrutiny and these rulemaking initiatives may result in an increase in operational and compliance costs or the risk of assessment of significant fines or penalties against our Asset Management business, and may otherwise limit our ability to engage in certain activities.

Financial services firms are subject to numerous conflicts of interest or perceived conflicts. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures. However, these policies, controls and procedures may result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies, controls and procedures may result in regulatory sanctions or client litigation.

Specific regulatory changes also may have a direct impact on the revenue of our Asset Management business. In addition to regulatory scrutiny and potential fines and sanctions, regulators continue to examine different aspects of the asset management industry. For example, the use of soft dollars, where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, has recently been reexamined by different regulatory bodies and may in the future be limited or modified. Although a substantial portion of the research relied on by our Asset Management business in the investment decision-making process is generated internally by our investment analysts, external research, including external research paid for with soft dollars, is important to the process. This external research generally is used for information gathering or verification purposes, and includes broker-provided research, as well as third-party provided databases and research services. For the year ended December 31, 2013, our Asset Management business obtained research and other services through third-party soft dollar arrangements, the total cost of which we estimate to be approximately $22 million. If the use of soft dollars is limited, we may have to bear some of these costs. In addition, new regulations regarding the management of hedge funds and the use of certain investment products may impact our Asset Management business and result in increased costs. For example, many regulators around the world adopted disclosure and reporting requirements relating to the hedge fund businesses or other businesses, and changes to the laws, rules and regulations in the U.S. related to the over-the-counter swaps and derivatives markets require additional registration, recordkeeping and reporting obligations.

Legislators and regulators around the world continue to explore changes to, and additional oversight of, the financial industry generally. The impact of the potential changes on us are uncertain and may result in an increase in costs or a reduction of revenue associated with our businesses.

See Business Regulation for a further discussion of the regulatory environment in which we conduct our businesses.

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Fluctuations in foreign currency exchange rates could reduce our stockholders equity and net income or negatively impact the portfolios of our Asset Management clients and may affect the levels of our AUM.

We are exposed to fluctuations in foreign currencies. Our financial statements are denominated in U.S. Dollars and, for the year ended December 31, 2013, we received approximately 39% of our consolidated net revenue in other currencies, predominantly in euros and British pounds. In addition, we pay a significant amount of our expenses in such other currencies. The exchange rates of these currencies versus the U.S. Dollar affects the carrying value of our assets and liabilities as well as our revenues, expenses and net income. We do not generally hedge such foreign currency exchange rate exposure arising in our subsidiaries outside of the U.S. Fluctuations in foreign currency exchange rates may also make period to period comparisons of our results of operations difficult.

Fluctuations in foreign currency exchange rates also can impact the portfolios of our Asset Management clients. Client portfolios are invested in securities across the globe, although most portfolios are in a single base currency. Foreign currency exchange rate fluctuations can adversely impact investment performance for a client s portfolio and also may affect the levels of our AUM. As our AUM include significant assets that are denominated in currencies other than U.S. dollars, an increase in the value of the U.S. Dollar relative to non-U.S. currencies may result in a decrease in the dollar value of our AUM, which, in turn, would result in lower U.S. Dollar-denominated revenue in our Asset Management business.

See Note 13 of Notes to Consolidated Financial Statements for additional information regarding the impact on stockholders equity from currency translation adjustments.

Lazard Ltd is a holding company and, accordingly, depends upon distributions from Lazard Group to pay dividends and taxes and other expenses.

Lazard Ltd is a holding company and has no independent means of generating significant revenue. We control Lazard Group through our indirect control of both of the managing members of Lazard Group. Our wholly-owned subsidiaries incur income taxes on their proportionate share of any net taxable income of Lazard Group in their respective tax jurisdictions. We intend to continue to cause Lazard Group to make distributions to its members, including our wholly-owned subsidiaries, in an amount sufficient to cover all applicable taxes payable by us and dividends, if any, declared by us. To the extent that our subsidiaries need funds to pay taxes on their share of Lazard Group s net taxable income, or if Lazard Ltd needs funds for any other purpose, and Lazard Group is restricted from making such distributions under applicable law or regulation, or is otherwise unable to provide such funds, it could materially adversely affect our business, financial condition or results of operations.

Lazard Group is a holding company and therefore depends on its subsidiaries to make distributions to Lazard Group to enable it to service its obligations under its indebtedness.

Lazard Group depends on its subsidiaries, which conduct the operations of its businesses, for dividends and other payments to generate the funds necessary to meet its financial obligations, including payments of principal and interest on its indebtedness. However, none of Lazard Group s subsidiaries is obligated to make funds available to it for servicing such financial obligations. In addition, legal and contractual restrictions in agreements governing current and future indebtedness, as well as financial conditions, minimum regulatory net capital and similar requirements and operating requirements of Lazard Group s subsidiaries, currently limit and may, in the future, limit Lazard Group s ability to obtain cash from its subsidiaries. The earnings from, or other available assets of, Lazard Group s subsidiaries may not be sufficient to pay dividends or make distributions or loans to enable Lazard Group to make payments with respect to its financial obligations when such payments are due. In addition, even if such earnings were sufficient, the agreements governing the current and future indebtedness of Lazard Group s subsidiaries, regulatory requirements with respect to our broker-dealer and other regulated subsidiaries, foreign exchange controls and a variety of other factors may impede our subsidiaries ability to provide Lazard Group with sufficient dividends, distributions or loans to fund its financial obligations, when due.

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In the event of a change or adverse interpretation of relevant income tax law, regulation or treaty, or a failure to qualify for treaty benefits, our overall tax rate may be substantially higher than the rate used for purposes of our consolidated financial statements.

Our effective tax rate is based upon the application of currently applicable income tax laws, regulations and treaties, current judicial and administrative authorities interpreting those income tax laws, regulations and treaties, and upon our non-U.S. subsidiaries ability to qualify for benefits, including reduced withholding tax rates, among other things, under those treaties, and that a portion of their income is not subject to U.S. tax as effectively connected income. Moreover, those income tax laws, regulations and treaties, and the administrative and judicial authorities interpreting them, are subject to change at any time, and any such change may be retroactive.

The eligibility of our non-U.S. subsidiaries for treaty benefits generally depends upon, among other things, at least 50% of the principal class of shares in such subsidiaries being ultimately owned by U.S. citizens and persons who are qualified residents for purposes of the treaty. It is possible that this requirement may not be met, and even if it is met, we may not be able to document that fact to the satisfaction of the U.S. Internal Revenue Service (IRS). If our non-U.S. subsidiaries are not treated as eligible for treaty benefits, such subsidiaries will be subject to additional U.S. taxes, including branch profits tax on their effectively connected earnings and profits (as determined for U.S. federal income tax purposes) at a rate of 30% rather than a treaty rate of 5%.

The inability, for any reason, to achieve and maintain an overall income tax rate approximately equal to the rate used in preparing our consolidated financial statements could materially adversely affect our business and our results of operations and could materially adversely affect our financial statements.

Tax authorities may challenge our tax computations and classifications, our transfer pricing methods, and our application of related policies and methods.

Our tax returns are subject to audit by federal, local and foreign tax authorities. These authorities may successfully challenge certain tax positions or deductions taken by our subsidiaries. For example, tax authorities may contest intercompany allocations of fee income, management charges or interest charges among affiliates in different tax jurisdictions. While we believe that we have provided the appropriate required reserves (see Note 2 of Notes to Consolidated Financial Statements), it is possible that a tax authority may disagree with all, or a portion, of the tax benefits claimed. If a tax authority were to successfully challenge our positions, it could result in significant additional tax costs or payments to LFCM Holdings under the tax receivable agreement.

Outcome of future U.S. tax legislation is unknown at the present time.

The Executive Branch has not yet submitted its 2015 budget proposals to Congress. The 2014 budget proposals submitted on April 10, 2013 included several potential revenue generating items, including proposals to (i) limit the deduction of certain related party interest and (ii) limit or defer the deduction of interest attributable to foreign source income of foreign subsidiaries. In addition, members of Congress may propose legislation that, if enacted, would reclassify certain types of foreign corporations as U.S. corporations for U.S. tax purposes if the management and control of such entities occurs primarily within the U.S.

We are currently unable to predict the ultimate outcome of any of these proposals. If enacted in the form proposed in the 2014 budget submission, however, some of these proposals may increase Lazard s effective tax rate during future periods.

Any reduction of our valuation allowance against our deferred tax assets could affect our effective tax rate.

As further discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Income Taxes , as of December 31, 2013, we

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recorded gross deferred tax assets of approximately $1.40 billion, and a valuation allowance against such deferred tax assets of approximately $1.23 billion. If any significant reduction of this valuation allowance were to occur, we would likely have a negative effective tax rate in the period in which such reduction occurs and, 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.

Our subsidiaries will be required to pay LFCM Holdings most of the cash tax savings relating to any tax depreciation or amortization deductions our subsidiaries may claim as a result of the tax basis step-up our subsidiaries have received in connection with the Company s equity public offerings and related transactions.

In connection with our various secondary offerings and certain other transactions, LAZ-MD Holdings exchangeable interests were, in effect, exchanged for shares of our Class A common stock. A limited number of additional exchanges are expected to take place in the future. The redemption and the exchanges have resulted in increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries interest in Lazard Group that otherwise would not have been available. These increases in tax basis may reduce the amount of cash taxes that our subsidiaries would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

In connection with the separation and recapitalization transactions in 2005, our subsidiaries entered into a tax receivable agreement with LFCM Holdings that provides for the payment by our subsidiaries to LFCM Holdings of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. We expect to benefit from the remaining 15% of cash savings realized. Our subsidiaries have the right to terminate the tax receivable agreement at any time for an amount based on an agreed value of certain payments remaining to be made under the tax receivable agreement at such time. While the actual amount and timing of any payments under this agreement will vary depending upon a number of factors, including the timing of exchanges, the extent to which such exchanges are taxable, the allocation of the step-up among the Lazard Group assets, and the amount and timing of our income, we expect that, as a result of the size of the increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries interest in Lazard Group, during the 24-year term of the tax receivable agreement, the payments that our subsidiaries may make to LFCM Holdings could be substantial. As of December 31, 2013, the aggregate increase in tax basis attributable to our subsidiaries interest in Lazard Group was approximately $3.11 billion. The aggregate amount, including those interests not yet exchanged, would have been approximately $3.15 billion as of that date (based on the then closing price per share of our Class A common stock on the NYSE of $45.32), including the increase in tax basis associated with the redemption and recapitalization in 2005. The potential future increase in tax basis will depend on the price of our Class A common stock at the time of the limited number of remaining exchanges. The cash savings that our subsidiaries would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our statutory tax rate due to a number of factors, including insufficient taxable income to absorb the increase in tax basis, the allocation of the increase in tax basis to foreign or non-amortizable assets, the impact of the increase in the tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets. Our ability to achieve benefits from any such increase, and the payments to be made under the tax receivable agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

In addition, if the IRS successfully challenges the tax basis increase, under certain circumstances, our subsidiaries could make payments to LFCM Holdings under the tax receivable agreement in excess of our subsidiaries cash tax savings.

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Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business.

We have documented and tested our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors regarding our internal control over financial reporting. We are in compliance with Section 404 of the Sarbanes-Oxley Act as of December 31, 2013. However, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to maintain an effective internal control environment could have a material adverse effect on our business.

A failure in or breach of our information systems or infrastructure, or those of third parties with which we do business, including as a result of cyber attacks, could disrupt our businesses, lead to reputational harm and legal liability or otherwise impact our ability to operate our business.

Our operations rely on the secure processing, storage and transmission of confidential and other information involving our computer systems, hardware, software and networks, which we refer to as information systems, and involving the information systems of third parties with which we do business. Such information systems may be subject to unauthorized access, computer viruses or other malicious code or other events that could have a security impact and there can be no assurance that we will not suffer material losses relating to cyber attacks on, or other security breaches involving, our information systems, despite taking protective measures to prevent such breaches. If a successful cyber attack or other security breach were to occur, our confidential or proprietary information, or the confidential or proprietary information of our clients or their counterparties, that is stored in, or transmitted through, such information systems could be compromised or misappropriated. Any such cyber attack or other security breach, or any disruption of or failure in the physical or logical infrastructure or operating systems that support such information systems or our businesses, could significantly impact our ability to operate our businesses, result in reputational damage or lead to legal liability, which could lead to the loss of clients or business opportunities and financial losses that are either not insured against or not fully covered through any insurance maintained by us. As cyber threats continue to evolve, we may also be required to expend additional resources on information security and compliance costs in order to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or other exposures.

LAZ-MD Holdings, Lazard Group, LFCM Holdings and Lazard Ltd entered into various arrangements, including the master separation agreement, which contain cross-indemnification obligations of LAZ-MD Holdings, Lazard Group, LFCM Holdings and Lazard Ltd, that any party may be unable to satisfy.

The master separation agreement that Lazard Ltd entered into with Lazard Group, LAZ-MD Holdings and LFCM Holdings provides, among other things, that LFCM Holdings generally will indemnify Lazard Ltd, Lazard Group and LAZ-MD Holdings for losses that we incur arising out of, or relating to, the separated businesses and the businesses conducted by LFCM Holdings and losses that Lazard Ltd, Lazard Group or LAZ-MD Holdings incur arising out of, or relating to, LFCM Holdings breach of the master separation agreement. In addition, LAZ-MD Holdings generally will indemnify Lazard Ltd, Lazard Group and LFCM Holdings for losses that they incur arising out of, or relating to, LAZ-MD Holdings breach of the master separation agreement. Our ability to collect under the indemnities from LAZ-MD Holdings or LFCM Holdings depends on their financial position. For example, persons may seek to hold us responsible for liabilities assumed by LAZ-MD Holdings or LFCM Holdings or, as a result of the use of the Lazard name by subsidiaries of LFCM Holdings, for certain actions of LFCM Holdings or its subsidiaries. If these liabilities are significant and we are held liable for them, we may not be able to recover any or all of the amount of those losses from LAZ-MD Holdings or LFCM Holdings should either be financially unable to perform under their indemnification obligations.

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In addition, Lazard Group generally will indemnify LFCM Holdings and LAZ-MD Holdings for liabilities related to Lazard Group s businesses and Lazard Group will indemnify LFCM Holdings and LAZ-MD Holdings for losses that they incur to the extent arising out of, or relating to, Lazard Group s or Lazard Ltd s breach of the master separation agreement. Several of the ancillary agreements that Lazard Group entered into together with the master separation agreement also provide for separate indemnification arrangements. For example, under the administrative services agreement, Lazard Group provides a range of services to LFCM Holdings, including information technology, general office and building services and financing and accounting services, and LFCM Holdings will generally indemnify Lazard Group for liabilities that Lazard Group incurs arising from the provision of these services absent Lazard Group s intentional misconduct. Lazard Group may face claims for indemnification from LFCM Holdings and LAZ-MD Holdings under these provisions regarding matters for which Lazard Group has agreed to indemnify them. If these liabilities are significant, Lazard Group may be required to make substantial payments, which could materially adversely affect our results of operations.

We may have potential business conflicts of interest with LAZ-MD Holdings and LFCM Holdings with respect to our past and ongoing relationships that could harm our business operations.

Several employees of Lazard provide services to LFCM Holdings. Conflicts of interest may arise between LFCM Holdings and us in a number of areas relating to our past and ongoing relationships, including:

- labor, tax, employee benefits, indemnification and other matters arising from the separation,
- intellectual property and real property matters, including sublease arrangements,
- business combinations,
- business operations or business opportunities of LFCM Holdings or us that would compete with the other party s business opportunities, including investment banking by us and the management of alternative investment funds by LFCM Holdings, particularly as some of our managing directors provide services to LFCM Holdings,
- the terms of the master separation agreement and related ancillary agreements, including the operation of the alternative investment fund management business and Lazard Group s option to purchase the business,
- the nature, quality and pricing of administrative services to be provided by us, and
- the provision of services by certain of our managing directors to LFCM Holdings.

In addition, the administrative services agreement commits us to provide a range of services to LFCM Holdings and LAZ-MD Holdings, which could require the expenditure of significant amounts of time by our management. Our agreements with LAZ-MD Holdings and LFCM Holdings may be amended upon agreement of the parties to those agreements. We may not be able to resolve any potential conflicts and, even if we do, the resolution may be less favorable to us than if we were dealing with a different party.

The use of the Lazard brand name by subsidiaries of LFCM Holdings may expose us to reputational harm that could affect our operations and adversely affect our financial position should these subsidiaries take actions that damage the brand name.

The Lazard brand name has over 160 years of heritage, connoting, we believe, world-class professional advice, independence and global capabilities with deeply rooted, local know-how. LFCM Holdings operates as a separate legal entity, and Lazard Group licensed to subsidiaries of LFCM Holdings that operate the separated businesses the use of the Lazard brand name for certain specified purposes, including in connection with alternative investment fund management and capital markets activities. As these subsidiaries of LFCM Holdings historically have and will continue to use the Lazard brand name, and because we no longer control these entities, there is a risk of reputational harm to us if these subsidiaries have, or in the future were to, among other things, engage in poor business practices, experience adverse results or otherwise damage the reputational value of the Lazard brand name. These risks could expose us to liability and also may adversely affect our revenue and our business prospects.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions Business, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-K 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, potent 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, the numerous risks and uncertainties outlined in 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 M&A activity, our share of the M&A market or our 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 this Form 10-K may 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-K 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,
- 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,

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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 LAM and its subsidiaries. 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-K.

Item 1B. Unresolved Staff Comments

There are no unresolved written comments that were received from the SEC staff 180 days or more before December 31, 2013 relating to our periodic or current reports under the Exchange Act.

Item 2. Properties

The following table lists the properties used for the entire Lazard organization as of December 31, 2013, including properties used by the separated businesses. As a general matter, one or both of our Financial Advisory and Asset Management segments (as well as our Corporate segment) uses the following properties. We sublease to affiliates of LFCM Holdings certain office space, including office space that is used by the separated businesses. This includes subleasing 52,573 square feet principally relating to our lease in New York City located at 30 Rockefeller Plaza to affiliates of LFCM Holdings. Additionally, our London and other offices sublease 55,676 and 3,977 square feet, respectively, to third parties. We remain fully liable for the subleased space to the extent that affiliates of LFCM Holdings, or the third parties, fail to perform their obligations under the subleases for any reason.

Location	Square Footage	Offices

New York City	448,764 square feet of leased space	Principal office located at 30 Rockefeller Plaza
Other North America	155,909 square feet of leased space	Boston, Charlotte, Chicago, Houston, Los Angeles, Minneapolis, Montreal and San Francisco
Paris	152,924 square feet of owned and leased space	Principal office located at 121 Boulevard Haussmann
London	142,371 square feet of leased space	Principal office located at 50 Stratton Street
Other Europe	111,626 square feet of leased space	Amsterdam, Bordeaux, Brussels, Frankfurt, Hamburg, Lyon, Madrid, Milan, Nantes, Stockholm and Zurich
Asia, Australia and Other	84,270 square feet of leased space	Beijing, Dubai, Hong Kong, Melbourne, Mumbai, Perth, Riyadh, So Paulo, Seoul, Singapore, Sydney and Tokyo

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Item 3. Legal Proceedings

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.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on The New York Stock Exchange under the symbol LAZ. There is no publicly traded market for our Class B common stock, which is held by LAZ-MD Holdings. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices per share of our Class A common stock, as reported in the consolidated transaction reporting system, and the quarterly dividends declared during 2013 and 2012.

Price Range of Our Common Stock

	Sales Price		Dividends per Share of
	High	**Low**	**Common Stock**
2013			
Fourth quarter	$ 46.98	$ 35.10	$0.50
Third quarter	$ 39.50	$ 30.72	$0.25
Second quarter	$ 35.49	$ 30.63	$0.25
First quarter	$ 38.36	$ 30.57	$0.00
2012			
Fourth quarter	$ 31.90	$ 26.15	$0.60
Third quarter	$ 31.23	$ 23.58	$0.20
Second quarter	$ 29.34	$ 22.21	$0.20
First quarter	$ 31.08	$ 26.16	$0.16

As of February 7, 2014, there were approximately 34 holders of record of our Class A common stock. This does not include the number of shareholders that hold shares in street-name through banks or broker-dealers.

On February 7, 2014, the last reported sales price for our Class A common stock on the New York Stock Exchange was $43.55 per share.

On January 29, 2014, the Board of Directors of Lazard Ltd declared a quarterly dividend of $0.30 per share on its Class A common stock, payable on February 21, 2014, to stockholders of record on February 10, 2014.

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Share Repurchases in the Fourth Quarter of 2013

The following table sets forth information regarding Lazard s purchases of its Class A common stock on a monthly basis during the fourth quarter of 2013. Share repurchases are recorded on a trade date basis.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 October 31, 2013				
Share Repurchase Program (1)		$		$ 176.1 million
Employee Transactions (2)	(129)	$ 36.36		
November 1 November 30, 2013				
Share Repurchase Program (1)	545,116	$ 41.45	545,116	$ 153.5 million
Employee Transactions (2)	152,245	$ 39.05		
December 1 December 31, 2013				
Share Repurchase Program (1)	741,328	$ 43.10	741,328	$ 121.6 million
Employee Transactions (2)	27,089	$ 38.68		
Total				
Share Repurchase Program (1)	1,286,444	$ 42.40	1,286,444	$ 121.6 million
Employee Transactions (2)	179,205	$ 39.00		

(1) As disclosed in more detail in Note 13 of Notes to Consolidated Financial Statements, in February 2011, October 2011, April 2012, October 2012 and October 2013, the Board of Directors of Lazard Ltd 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 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.

(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 December 31, 2013, the Company satisfied such obligations in lieu of issuing 179,205 shares of Class A common stock upon the vesting of 405,056 RSUs.

Equity Compensation Plan Information

See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plan Information.

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Stock Performance

The stock performance graph below compares the performance of an investment in our Class A common stock, from December 31, 2008 through December 31, 2013, with that of the S&P 500 Index and the S&P Financial Index. The graph assumes $100 was invested at the close of business on December 31, 2008 in each of our Class A common stock, the S&P 500 Index and the S&P Financial Index. It also assumes that dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

Other Matters

None.

Item 6. Selected Financial Data

The following table sets forth the selected consolidated financial data for the Company for all years presented.

The consolidated statements of financial condition and operations data as of and for each of the years in the five-year period ended December 31, 2013 have been derived from Lazard Ltd s consolidated financial statements. The audited consolidated statements of financial condition as of December 31, 2013 and 2012 and audited consolidated statements of operations for each of the years in the three year period ended December 31, 2013 are included in this Form 10-K. The audited consolidated statements of financial condition as of December 31, 2011, 2010 and 2009, and the audited consolidated statements of operations for the years ended December 31, 2010 and 2009, are not included in this Form 10-K. Historical results are not necessarily indicative of results for any future period.

The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Company s consolidated financial statements and related notes included elsewhere in this Form 10-K.

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Selected Consolidated Financial Data

	As Of Or For The Year Ended December 31, (dollars in thousands, except for per share amounts)				
	2013	2012	2011	2010	2009
Consolidated Statements of Operations Data					
Net Revenue:					
Financial Advisory (a)	$ 980,577	$ 1,049,090	$ 992,107	$ 1,119,867	$ 986,820
Asset Management (b)	1,039,130	896,260	897,401	849,662	601,652
Corporate (c)	(34,355)	(32,902)	(59,996)	(64,161)	(57,954)
Net Revenue	1,985,352	1,912,448	1,829,512	1,905,368	1,530,518
Compensation and Benefits (d)	1,278,534	1,351,129	1,168,945	1,194,168	1,309,240
Other Operating Expenses (e)	490,011	437,434	425,068	467,550	403,512
Total Operating Expenses	1,768,545	1,788,563	1,594,013	1,661,718	1,712,752
Operating Income (Loss)	$ 216,807	$ 123,885	$ 235,499	$ 243,650	$ (182,234)
Net Income (Loss)	$ 165,114	$ 92,785	$ 190,559	$ 194,423	$ (188,245)
Net Income (Loss) Attributable to Lazard Ltd	$ 160,212	$ 84,309	$ 174,917	$ 174,979	$ (130,242)
Net Income (Loss) Per Share of Class A Common Stock:					
Basic	$1.33	$0.72	$1.48	$1.68	$(1.68)
Diluted	$1.21	$0.65	$1.36	$1.36	$(1.68)
Dividends Declared Per Share of Class A Common Stock	$1.00	$1.16	$0.605	$0.50	$ 0.45
Consolidated Statements of Financial Condition Data					
Total Assets	$ 3,011,137	$ 2,986,893	$ 3,081,936	$ 3,422,532	$ 3,147,762
Total Debt (f)	$ 1,064,184	$ 1,094,713	$ 1,096,934	$ 1,249,753	$ 1,261,478
Total Lazard Ltd Stockholders Equity	$ 560,209	$ 569,656	$ 726,143	$ 652,398	$ 355,391
Total Stockholders Equity	$ 629,998	$ 651,540	$ 866,856	$ 796,117	$ 523,097
Other Data					
Assets Under Management:					
As of December 31	$ 186,924,000	$ 167,060,000	$ 141,039,000	$ 155,337,000	$ 129,543,000
Average During Year	$ 173,702,000	$ 155,549,000	$ 152,072,000	$ 137,381,000	$ 103,988,000
Total Headcount, As of December 31	2,403	2,513	2,511	2,332	2,294

***Notes (in thousands of dollars)*:**

(a) Financial Advisory net revenue consists of the following:

	For The Year Ended December 31,				
	2013	2012	2011	2010	2009
M&A and Other Advisory	$ 768,790	$ 792,928	$ 700,539	$ 714,059	$ 526,225
Capital Raising	78,916	73,403	93,825	111,933	83,885
Total Strategic Advisory	847,706	866,331	794,364	825,992	610,110
Restructuring	132,871	182,759	197,743	293,875	

										376,710
Financial Advisory Net Revenue	$	980,577	$	1,049,090	$	992,107	$	1,119,867	$	986,820

(b) Asset Management net revenue consists of the following:

	For The Year Ended December 31,									
	2013		2012		2011		2010		2009	
Management Fees	$	903,956	$	806,044	$	818,038	$	715,885	$	486,810
Incentive Fees		78,342		43,661		26,245		86,298		74,795
Other Income		56,832		46,555		53,118		47,479		40,047
Asset Management Net Revenue	$	1,039,130	$	896,260	$	897,401	$	849,662	$	601,652

(c) Corporate includes interest expense (net of interest income), investment income (losses) from certain investments and net revenue earned by LFB through its commercial banking operations.

(d) Includes (i) in 2013, charges of $51,399 relating to the acceleration of unrecognized amortization expense pertaining to previously granted deferred incentive compensation, severance and benefit payments and other compensation-related costs, all relating to the cost saving initiatives announced by the Company in October 2012, and $12,203 related to incentive compensation expense related to private equity transactions for which revenue may be recognized in the future (ii) in 2012, charges of $21,754 recorded in the first quarter pertaining 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 $99,987 recorded in the fourth quarter relating to the acceleration of unrecognized amortization expense pertaining to previously granted deferred incentive compensation, severance and benefit payments and other compensation-related costs relating to the cost saving initiatives announced by the Company in October 2012; (iii) in 2010, charges of $24,860 relating to the acceleration of amortization expense pertaining to the amendment of Lazard s retirement policy with respect to RSU awards; and (iv) in 2009, charges of $86,514 related to the acceleration of amortization expense relating to share-based incentive awards previously granted to our former Chairman and Chief Executive Officer and $60,512 related to the accelerated vesting of the then unamortized portion of previously awarded deferred cash incentive awards.

(e) Includes (i) in 2013, non-compensation costs of $13,304 relating to the cost saving initiatives announced by the Company in October 2012 and $54,087 related to the refinancing of the 7.125% senior notes maturing on May 15, 2015; (ii) in 2012, non-compensation costs of $2,905 recorded in the first quarter associated with staff reductions and $2,589 recorded in the fourth quarter relating to the cost saving initiatives announced by the Company in October 2012; (iii) in 2010, restructuring expense of $87,108 related to the restructuring plan announced in the first quarter of 2010; and (iv) in 2009, restructuring expense of $62,550 related to the restructuring plan announced in the first quarter of 2009.

(f) Represents the aggregate amount reflected in the Company s consolidated statements of financial condition relating to senior debt, capital lease obligations and subordinated debt.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Lazard Ltd s consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K (this Form 10-K). This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those set forth in the sections entitled Risk Factors and Special Note Regarding Forward-Looking Statements and elsewhere in this Form 10-K.

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. 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 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 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:

	Year Ended December 31,		
	2013	2012	2011
Financial Advisory	49%	55%	54%
Asset Management	52	47	49
Corporate	(1)	(2)	(3)
Total	100%	100%	100%

We also invest our own capital from time to time, generally alongside capital of qualified institutional and individual investors in alternative investments or private equity investments, and, since 2005, we have engaged in a number of alternative investments and private equity activities, including investments through (i) the Edgewater Funds (Edgewater), our Chicago-based private equity firm (see Note 12 of Notes to 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 assets under management (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 December 31, 2013 increased when compared to such indices at December 31, 2012, while equity market indices for emerging markets decreased as compared to December 31, 2012. On an industry-wide basis, during 2013, the number of completed and announced M&A transactions decreased, compared to the prior year. Global restructuring activity, as measured by the number of corporate defaults, was slightly lower in 2013 as compared to the prior year, and the aggregate value of debt defaults remained low, consistent with the last several years.

Entering 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. In our Asset Management business, we entered 2014 with a record level of assets under management. 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 16 of Notes to 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 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 and Singapore. We also announced plans to open an office in 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 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 this 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.

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Financial Advisory

As reflected in the following table, which sets forth global M&A industry statistics, the value of all completed and announced M&A transactions increased in 2013 compared to 2012, while the number of such transactions decreased as compared to 2012. With respect to the value of announced transactions, the 2013 increase was partially driven by one large transaction. Both the value and number of announced transactions involving deal values greater than $500 million increased in 2013 as compared to 2012.

	Year Ended December 31,		
	2013	2012	% Incr / (Decr)
	($ in billions)		
Completed M&A Transactions:			
All deals:			
Value	$ 2,601	$ 2,549	2%
Number	35,945	43,417	(17)%
Deals Greater than $500 million:			
Value	1,846	1,704	8%
Number	943	954	(1)%
Announced M&A Transactions:			
All deals:			
Value	$ 2,911	$ 2,679	9%
Number	37,367	43,678	(14)%
Deals Greater than $500 million:			
Value	2,065	1,828	13%
Number	1,062	1,012	5%

Source: Dealogic as of January 6, 2014.

Global restructuring activity during 2013, as measured by the number of corporate defaults, decreased as compared to 2012, and the aggregate value of debt defaults remained low, consistent with the last several years. The number of defaulting issuers decreased slightly to 62 in 2013, according to Moody s Investors Service, Inc., as compared to 63 in 2012. In the U.S., the number of corporate defaults decreased 30% in 2013 as compared to 2012, while the value of such defaults decreased 17% during the same period.

Asset Management

The percentage change in major equity market indices at December 31, 2013, as compared to such indices at December 31, 2012, and at December 31, 2012, as compared to such indices at December 31, 2011, is shown in the table below.

	Percentage Changes December 31,	
	2013 vs. 2012	2012 vs. 2011
MSCI World Index	24%	13%
Euro Stoxx	18%	14%
MSCI Emerging Market	(5)%	15%
S&P 500	30%	13%

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.

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Movements in AUM during the period generally reflect the changes in equity market indices. Our AUM at December 31, 2013 increased 12% versus AUM at December 31, 2012, primarily due to market appreciation. Average AUM for 2013 also increased 12% as compared to average AUM in 2012.

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

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

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

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

Corporate segment net revenue consists primarily of investment gains and losses on the Company s seed investments related to our Asset Management business, principal investments in private equity funds and equity method investments, net of hedging activities, as well as gains and losses on investments held in connection with Lazard Fund Interests 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 2013 represented (1)% of Lazard s net revenue, total assets in the Corporate segment represented 56% of Lazard s consolidated total assets as of December 31, 2013, 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 14 of Notes to 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.

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 actual 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.

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 calculations with respect to adjusted compensation and benefits expense and awarded compensation and benefits expense and related ratios to operating revenue, see the table under Consolidated Results of Operations below.

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 for the year ended December 31, 2013 was 58.3%. While we have implemented initiatives, including the cost saving initiatives announced in October 2012 (see Cost Saving Initiatives above and Note 16 of Notes to 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.

Lazard s 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. In 2013, non-compensation expense also included the implementation of the cost saving initiatives and expenses related to the refinancing of the 7.125% senior notes

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due 2015 (the 2015 Notes) and the issuance of $500 million of 4.25% senior notes maturing in 2020 (the 2020 Notes) (see Note 11 of Notes to Consolidated Financial Statements). In 2012, non-compensation expense included the implementation of the cost saving initiatives, and the relevant portion of the expense relating to the staff reductions. 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. 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 pertaining to the limited liability company is not subject to U.S. federal income taxes because taxes associated with such income represent obligations of the individual partners. Outside the U.S., Lazard Group operates principally through corporations and is 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 s operations apportioned to New York City.

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 13 of Notes to Consolidated Financial Statements for information regarding the Company s noncontrolling interests.

Consolidated Results of Operations

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

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The 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 consolidated results of operations is set forth below, followed by a more detailed discussion of both the consolidated and business segment results.

	Year Ended December 31, 2013	2012 ($ in thousands)	2011
Net Revenue	$ 1,985,352	$ 1,912,448	$ 1,829,512
Operating Expenses:			
Compensation and benefits	1,278,534	1,351,129	1,168,945
Non-compensation	479,897	429,075	413,153
Amortization of intangible assets related to acquisitions	10,114	8,359	11,915
Total operating expenses	1,768,545	1,788,563	1,594,013
Operating Income	216,807	123,885	235,499
Provision for income taxes	51,693	31,100	44,940
Net Income	165,114	92,785	190,559
Less Net Income Attributable to Noncontrolling Interests	4,902	8,476	15,642
Net Income Attributable to Lazard Ltd	$ 160,212	$ 84,309	$ 174,917
Operating Income, as a % of Net Revenue	10.9%	6.5%	12.9%

The tables below describe the components of operating revenue, adjusted and awarded 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.

	Year Ended December 31, 2013	2012 ($ in thousands)	2011
Operating Revenue			
Net revenue	$ 1,985,352	$ 1,912,448	$ 1,829,512
Add (deduct):			
Other interest expense (a)	78,148	80,029	86,200
Revenue related to noncontrolling interests (b)	(15,115)	(14,104)	(16,696)
Gain on the repurchase of subordinated promissory note (c)			(18,171)
(Gains) losses on investments pertaining to Lazard Fund Interests (d)	(14,099)	(7,557)	3,024
Operating revenue	$ 2,034,286	$ 1,970,816	$ 1,883,869

(a) Interest expense (excluding interest expense incurred by LFB) is added back in determining operating revenue because such expense 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) Gain related to the repurchase of the Company s subordinated promissory note is excluded because of the non-operating nature of such transaction.

(d) Changes in the fair value of investments held in connection with Lazard Fund Interests and other similar deferred compensation arrangements that correspond to changes in the value of the related compensation liability, which is recorded within compensation and benefits expense, are excluded.

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	Year Ended December 31,		
	2013	2012	2011
		($ in thousands)	
Compensation and Benefits Expense			
Total compensation and benefits expense	$ 1,278,534	$ 1,351,129	$ 1,168,945
Deduct:			
Charges pertaining to staff reductions (a)		(21,754)	
Cost saving initiatives (a)	(51,399)	(99,987)	
Noncontrolling interests (b)	(4,232)	(4,040)	(3,740)
Private equity incentive compensation (c)	(12,203)		
(Charges) credits pertaining to Lazard Fund Interests (d)	(14,099)	(7,557)	3,024
Adjusted compensation and benefits expense	1,196,601	1,217,791	1,168,229
Deduct amortization of incentive compensation awards	(297,607)	(334,796)	(289,366)
Total adjusted cash compensation and benefits expense (e)	898,994	882,995	878,863
Add:			
Year-end deferred incentive compensation awards (f)	291,007	272,391	282,418
Sign-on and other special incentive awards (g)	22,107	42,088	39,941
Deduct adjustment for estimated forfeitures (h)	(27,270)	(27,360)	(28,045)
Other adjustments (i)	1,908	1,354	(4,620)
Awarded compensation and benefits expense	$ 1,186,746	$ 1,171,468	$ 1,168,557
Adjusted compensation and benefits expense, as a % of Operating Revenue	58.8%	61.8%	62.0%
Awarded compensation and benefits expense, as a % of Operating Revenue	58.3%	59.4%	62.0%

(a) Represents expenses pertaining to the first quarter 2012 staff reductions and the cost saving initiatives announced in October 2012, as applicable, for (i) severance costs and benefit payments; (ii) the acceleration of unrecognized amortization expense of deferred incentive compensation previously granted to individuals whose employment was terminated; and (iii) the settlement of certain contractual obligations.

(b) Expenses related to the consolidation of noncontrolling interests are excluded because, as is the case with operating revenue, Lazard has no economic interest in such amounts.

(c) Incentive compensation expense pertaining to private equity transactions for which revenue may be recognized in the future is excluded in order to more closely align the timing of the recognition of such expense to the timing of the recognition of the related revenue.

(d) Changes in fair value of the derivative compensation liability recorded in connection with Lazard Fund Interests and other similar deferred compensation arrangements are excluded because such amounts correspond to the changes in the fair value of the underlying investments, which are excluded from operating revenue.

(e) Includes base salaries and benefits of $530,454, $515,822 and $506,490 for 2013, 2012 and 2011, respectively, and cash incentive compensation of $368,540, $367,173 and $372,373 for the respective years.

(f) Grant date fair value of deferred incentive compensation awards applicable to the relevant year-end compensation process (*e.g.* 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).

(g) Represents deferred incentive compensation awards that are granted outside the year-end compensation process, and includes investments in people (*e.g.* sign-on bonuses).

(h) An estimate, based on historical experience and future expectations, for future forfeitures of the deferred portion of such awards in order to present awarded compensation and benefits expense on a similar basis to that under U.S. GAAP, which also considers estimated forfeitures.

(i) Represents an adjustment to the year-end foreign exchange spot rate from the full year average rate for year- end incentive compensation awards.

	Year Ended December 31, 2013	2012	2011
Adjusted Non-Compensation Expense			
Total non-compensation expense	$479,897	$429,075	$ 413,153
Deduct:			
Noncontrolling interests (a)	(1,993)	(2,558)	(2,008)
Charges pertaining to staff reductions (b)		(2,905)	
Cost saving initiatives (b)	(13,304)	(2,589)	
Charges pertaining to senior debt refinancing (c)	(54,087)		
Provision relating to U.K. lease (d)			(5,539)
Provision relating to LAI option (d)			(5,500)
Adjustment related to the provision pursuant to the tax receivable agreement (TRA)	(1,249)		(429)
Adjusted non-compensation expense	$409,264	$421,023	$ 399,677
Adjusted non-compensation expense, as a % of Operating Revenue	20.1%	21.4%	21.2%

(a) Expenses related to the consolidation of noncontrolling interests are excluded because, as is the case with operating revenue, the Company has no economic interest in such amounts.

(b) Non-compensation costs in 2013 and 2012 associated with the cost saving initiatives and the first quarter 2012 staff reductions are excluded to enhance comparability of adjusted non-compensation expense between present, historical and future periods.

(c) Charges pertaining to the refinancing of the 2015 Notes and the issuance of the 2020 Notes are excluded because of the non-operating nature of such transactions. See Liquidity and Capital Resources *Financing Activities*.

(d) These charges are excluded due to the non-recurring nature of such items and to enhance comparability of adjusted non-compensation expense between present, historical and future periods (see Notes 12 and 19 of Notes to Consolidated Financial Statements).

	Year Ended December 31, 2013	2012	2011
Earnings From Operations			
Operating revenue	$ 2,034,286	$ 1,970,816	$ 1,883,869
Deduct:			
Adjusted compensation and benefits expense	(1,196,601)	(1,217,791)	(1,168,229)
Adjusted non-compensation expense	(409,264)	(421,023)	(399,677)
Earnings from operations	$ 428,421	$ 332,002	$ 315,963
Earnings from operations, as a % of Operating Revenue	21.1%	16.8%	16.8%

Certain additional key ratios and headcount information are set forth below:

	Year Ended December 31, 2013	2012	2011
As a % of Net Revenue, by Revenue Category:			
Investment banking and other advisory fees	49%	54%	53%
Money management fees	50	45	47
Interest income		1	1
Other	5	4	4
Interest expense	(4)	(4)	(5)
Net Revenue	100%	100%	100%

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See Note 21 of Notes to Consolidated Financial Statements for additional financial information on a geographic basis.

	As Of December 31,		
	2013(a)	2012	2011
Headcount:			
Managing Directors:			
Financial Advisory	132	151	140
Asset Management	72	75	71
Corporate	15	14	11
Total Managing Directors	219	240	222
Other Employees:			
Business segment professionals	1,082	1,108	1,092
All other professionals and support staff	1,102	1,165	1,197
Total	2,403	2,513	2,511

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

Operating Results

Year Ended December 31, 2013 versus December 31, 2012

The Company reported net income attributable to Lazard Ltd in 2013 of $160 million, as compared to net income of $84 million in 2012. The changes in the Company s operating results during these years are described below.

Net revenue in 2013 increased $73 million, or 4%, with operating revenue increasing $63 million, or 3%, as compared to 2012. Fee revenue from investment banking and other advisory activities decreased $67 million, or 6%, primarily due to decreases in Restructuring revenue and M&A and Other Advisory fees. The decline in Restructuring revenue was attributable to the closing of several large assignments during 2012, and was consistent with the industry-wide low level of corporate restructuring activity. The decrease in M&A and Other Advisory fee revenue was primarily due to a lower number of completed transactions involving fees greater than $1 million in 2013 as compared to 2012, which included significant fees related to Sovereign Advisory and reflected a higher level of activity in our Lazard Middle Market business. Money management fees, including incentive fees, increased $136 million, or 16%, principally reflecting a $18 billion, or 12%, increase in average AUM as compared to 2012. In the aggregate, interest income, other revenue and interest expense reflected an increase in net revenue of $4 million as compared to 2012. Such increase was primarily due to higher transaction based commission revenue as a result of increased market activity in 2013, and a decrease in interest expense as a result of the refinancing of the 2015 Notes.

Compensation and benefits expense in 2013 decreased $73 million, or 5%, compared to 2012, and included a $51 million charge related to the cost saving initiatives and a $12 million charge related to private equity incentive compensation, as compared to an aggregate $122 million charge related to the cost saving initiatives and staff reductions in 2012.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between years, as described above), was $1.197 billion in 2013, a decrease of $21 million, or 2%, when compared to $1.218 billion in 2012, primarily driven by lower headcount related to the cost saving initiatives and, as described below, reduced amortization expense related to 2008 deferred compensation (the 2008 grant). The ratio of adjusted compensation and benefits expense to operating revenue was reduced to

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58.8% for 2013, as compared to 61.8% for 2012, despite a 3% increase in operating revenue in 2013. Awarded compensation and benefits expense in 2013 was $1.187 billion, an increase of $16 million, or 1%, when compared to $1.171 billion in 2012. The ratio of awarded compensation and benefits expense to operating revenue was reduced to 58.3% for 2013, as compared to 59.4% for 2012. The grant date fair value of year-end deferred incentive awards for 2013 was $291 million, representing a $19 million, or 7%, increase compared to 2012. As described above, when analyzing compensation and benefits expense on a full year basis, we believe that awarded compensation and benefits expense provides the most meaningful basis for comparison of compensation and benefits expense between present, historical and future years.

The amortization of deferred incentive compensation awards related to 2010, 2011 and 2012 was $298 million for 2013, a decrease of $37 million as compared to $335 million for 2012. The lower level of amortization expense was primarily attributable to the 2008 grant. The 2008 grant had a comparatively longer, four-year vesting period and, together with compensation awards related to 2009, 2010 and 2011 deferred compensation, affected amortization expense for the full year of 2012. The 2008 grant was fully vested on March 1, 2013.

Non-compensation expense in 2013 increased $51 million, or 12%, as compared to 2012 and included a charge of $13 million related to the cost saving initiatives and $54 million related to the refinancing of the 2015 Notes and the issuance of the 2020 Notes, as compared to an aggregate charge of $5 million related to the cost saving initiatives and staff reductions in 2012. When excluding such charges, as well as non-compensation costs relating to noncontrolling interests, adjusted non-compensation expense in 2013 decreased $11 million, or 3%, as compared to 2012, primarily due to decreases in (i) marketing and business development expense associated with lower expenses for travel and other business development and (ii) technology expense for telecommunications and market data, all primarily attributable to the cost saving initiatives. Other contributing factors were reduced deal-related costs, which were higher in 2012 as a result of transactions that closed during that period. Such decreases were partially offset by increased investments in technology, and higher mutual fund servicing fees primarily related to the increase in higher average AUM. The ratio of adjusted non-compensation expense to operating revenue was 20.1% in 2013 versus 21.4% in 2012.

Amortization of intangible assets increased $2 million, as compared to 2012.

Operating income in 2013 (including the charges relating to the cost saving initiatives, private equity incentive compensation and the refinancing of the 2015 Notes of $64 million, $12 million and $54 million, respectively) increased $93 million, or 75%, as compared to 2012 (including the charges relating to the cost saving initiatives and staff reductions of $103 million and $25 million, respectively, in 2012). Operating income, as a percentage of net revenue, was 10.9%, as compared to 6.5% in 2012.

Earnings from operations increased $96 million, or 29%, when compared to 2012, and, as a percentage of operating revenue, was 21.1% in 2013, as compared to 16.8% in 2012.

The provision for income taxes increased $21 million, or 66%, when compared to 2012, and reflected an effective tax rate of 23.8%, as compared to 25.1% for 2012. The decrease in the effective tax rate is primarily reflective of the change in the geographic mix of earnings (see Note 17 of Notes to Consolidated Financial Statements for additional information).

Net income attributable to noncontrolling interests decreased $4 million in 2013.

Year Ended December 31, 2012 versus December 31, 2011

The Company reported net income attributable to Lazard Ltd in 2012 of $84 million, as compared to net income of $175 million in 2011. The changes in the Company s operating results during these years are described below.

Net revenue in 2012 increased $83 million, or 5%, with operating revenue increasing $87 million, or 5%, respectively, as compared to 2011. Fee revenue from investment banking and other advisory activities increased

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$69 million, or 7%, primarily due to an increase in M&A and Other Advisory fees, partially offset by a decrease in Restructuring fees. The increase in M&A and Other Advisory fee revenue was primarily driven by the strong performance of Lazard Middle Market and the overall breadth and volume of our global M&A and Sovereign Advisory businesses. Higher fees were earned from our top 10 clients during 2012, reflecting the closing of several significant M&A and Sovereign Advisory transactions. The decrease in Restructuring fee revenue was generally in line with the industry-wide low level of corporate restructuring activity. Money management fees decreased $1 million during 2012. In the aggregate, interest income, other revenue and interest expense reflected an increase in net revenue of $15 million as compared to 2011. Such increase was principally due to increases in investment income (including a gain relating to the increase in market value of investments underlying Lazard Fund Interests, that correspond to changes in the related compensation and benefits expense for awards expected to vest), that was partially offset by decreases in other revenue due to the $18 million gain on the repurchase of the Company s subordinated promissory note in 2011, as well as decreases in referral fees from LFCM Holdings and commissions.

Compensation and benefits expense in 2012 increased $182 million, or 16%, compared to 2011, which, in part, reflected a $22 million first quarter 2012 charge associated with staff reductions and a fourth quarter 2012 charge of $100 million related to the cost saving initiatives. Such charges primarily relate to severance costs and benefit payments, with $8 million and $22 million of the respective charges relating to the acceleration of unrecognized amortization expense of deferred incentive compensation previously granted to individuals being terminated. Amortization expense of previously granted deferred incentive compensation awards related to the 2008 grant, which, as described above, had a comparatively longer, four year vesting period, also contributed to the increase.

Adjusted compensation and benefits expense (which excludes certain items and which we believe allows for improved comparability between years, as described above), was $1.218 billion in 2012, an increase of $50 million, or 4%, when compared to $1.168 billion in 2011. The ratio of adjusted compensation and benefits expense to operating revenue was reduced to 61.8% for 2012 as compared to 62.0% for 2011, despite the 5% increase in operating revenue during the same period. In 2012, amortization expense relating to the 2008 Grant represented approximately 2.0% of operating revenue. Awarded compensation and benefits expense in 2012 of $1.171 billion remained substantially unchanged when compared to $1.169 billion for 2011, despite the 5% increase in operating revenue during the same period. The ratio of awarded compensation and benefits expense to operating revenue was reduced to 59.4% in 2012 as compared to 62.0% for 2011. The grant date fair value of year-end deferred incentive compensation awards for 2012 was $272 million, representing a $10 million, or 4%, decrease compared to 2011.

Amortization of deferred incentive compensation awards, excluding the above-mentioned charges of $8 million and $22 million relating to the first quarter 2012 staff reductions and fourth quarter 2012 cost saving initiatives, respectively, was $335 million in 2012, as compared to $289 million in 2011. Amortization expense during 2012 included approximately $40 million related to the 2008 grant, which had a four year vesting period, and was the only outstanding grant with a vesting period in excess of three years.

Non-compensation expense in 2012 increased $16 million, or 4%, as compared to 2011. Non-compensation expense in 2012 included a first quarter charge of $3 million associated with the staff reductions and a fourth quarter charge of an additional $3 million related to the cost saving initiatives, while the fourth quarter of 2011 included aggregate charges of $11 million related to the Company s leased facilities in the U.K. and the write-off of the capitalized costs related to the Company s option to acquire the fund management activities of Lazard Alternative Investment Holdings LLC (LAI). When excluding such charges, as well as non-compensation costs relating to noncontrolling interests, adjusted non-compensation expense in 2012 increased $21 million, or 5%, primarily attributable to (i) higher occupancy costs in 2012 as a result of our amended lease and associated build-out costs of our Rockefeller Center facility, (ii) deal-related costs specifically related to transactions that closed in 2012 and (iii) investments in technology, with such increased costs partially offset by decreased professional fees, mutual fund servicing fees, travel and other expenses. The ratio of adjusted non-compensation expense to operating revenue was 21.4% in 2012 versus 21.2% for 2011.

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Amortization of intangible assets decreased $4 million, or 30%, as compared to 2011.

Operating income in 2012 (including the charges that are described above relating to staff reductions and cost saving initiatives aggregating $25 million and $103 million, respectively) decreased $112 million, or 47%, as compared to operating income in 2011. Operating income, as a percentage of net revenue, was 6.5%, as compared to 12.9% in 2011.

Earnings from operations increased $16 million, or 5%, when compared to 2011, and, as a percentage of operating revenue, was 16.8% in both 2012 and 2011.

The provision for income taxes decreased $14 million, or 31%, when compared to 2011, and reflected an effective tax rate of 25.1% as compared to 19.1% for 2011. The increase in the effective tax rate was primarily reflective of the geographic mix of earnings (see Note 17 of Notes to Consolidated Financial Statements for additional information).

Net income attributable to noncontrolling interests decreased $7 million in 2012 due to a lower level of income and a decrease in the level of noncontrolling ownership interest.

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.

Financial Advisory

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

	Year Ended December 31,		
	2013	**2012**	**2011**
		($ in thousands)	
M&A and Other Advisory	$ 768,790	$ 792,928	$ 700,539
Capital Raising	78,916	73,403	93,825
Total Strategic Advisory	847,706	866,331	794,364
Restructuring	132,871	182,759	197,743
Net Revenue	980,577	1,049,090	992,107
Operating Expenses (a)	959,668	1,057,620	929,688
Operating Income (Loss)	$ 20,909	$ (8,530)	$ 62,419
Operating Income (Loss), As A Percentage Of Net Revenue	2.1%	(0.8)%	6.3%

(a) Includes, in 2013 and 2012, $47,779 and $77,532, respectively, associated with the implementation of the cost saving initiatives. All years include indirect support costs (including compensation and benefits expense and other operating expenses related thereto).

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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, the industry statistics for global M&A transactions described above reflect a 2% increase in the value of all completed transactions in 2013 as compared to 2012, but a 17% decrease in the number of all completed transactions in 2013 as compared to 2012. For M&A deals with values greater than $500 million, the value of completed transactions in 2013 increased 8% as compared to 2012, while the number of such deals decreased 1% as compared to 2012. Our M&A and Other Advisory revenue (which includes Sovereign and Capital Advisory revenue) decreased 3% in 2013 as compared to 2012.

Certain Lazard fee and transaction statistics are set forth below:

	Year Ended December 31,		
	2013	2012	2011
Lazard Statistics:			
Number of clients with fees greater than $1 million:			
Total Financial Advisory	235	255	241
M&A and Other Advisory	180	190	166
Percentage of total Financial Advisory net revenue from top 10 clients (a)	19%	18%	14%
Number of M&A transactions completed with values greater than $1 billion (b)	44	44	59

(a) No individual client constituted more than 10% of our Financial Advisory segment net revenue in the years ended December 31, 2013, 2012 or 2011.

(b) Source: Dealogic as of January 6, 2014.

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

	Year Ended December 31,		
	2013	2012	2011
United States	61%	58%	55%
Europe	34	34	38
Rest of World	5	8	7
Total	100%	100%	100%

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

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Financial Advisory Results of Operations

Year Ended December 31, 2013 versus December 31, 2012

Total Strategic Advisory net revenue, representing fees from our M&A and Other Advisory and Capital Raising businesses, decreased $19 million, or 2%, and Restructuring revenue decreased $50 million, or 27%, as compared to 2012.

M&A and Other Advisory revenue decreased $24 million, or 3%, while Capital Raising revenue increased by $5 million, or 8%, as compared to 2012. The decrease in M&A and Other Advisory revenue was primarily due to a decrease in the number of M&A and Other Advisory transactions involving fees greater than $1 million. Our major clients, which in the aggregate represented 25% of our M&A and Other Advisory revenue for 2013, included 3G Capital, Ameristar Casinos, Amgen, Anheuser-Busch InBev, Cerberus Capital Management, D.E Master Blenders 1753, EADS, Independent Committee of Independent Non-Executive Directors of Eurasian Natural Resources Corporation, NV Energy, Piraeus Bank, Rockwood and Tenet Healthcare.

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 reflected the closing of several large assignments in 2012. Our major clients, which in the aggregate represented 25% of our revenue in 2013, included Allied Pilots Association, Eastman Kodak and Exide Technologies.

Operating expenses decreased $98 million, or 9%, as compared to 2012, and included a $47 million charge in 2013 and a $78 million charge in 2012 related to the cost saving initiatives. Excluding such charge, operating expenses decreased $68 million, or 7%. The primary contributors to the decrease were lower compensation and benefits expense due to lower operating revenue, headcount reductions related to the cost saving initiatives, reductions in amortization expense associated with deferred compensation awards, decreased travel and communications expense related to the cost saving initiatives and lower deal-related costs as a result of transactions that closed in 2013 as compared to 2012.

Financial Advisory operating income in 2013 was $21 million (including the impact of the $47 million charge related to the cost saving initiatives), an increase of $29 million as compared to operating loss of $9 million (including the impact of the $78 million charge related to the cost saving initiatives) in 2012 and, as a percentage of net revenue, was 2.1% as compared to (0.8)% in 2012. Excluding the impact of such charges in 2013 and 2012, operating income in 2013 was $68 million, or 7% of net revenue, and was substantially unchanged as compared to operating income in 2012.

Year Ended December 31, 2012 versus December 31, 2011

Total Strategic Advisory net revenue, representing fees from M&A and Other Advisory and Capital Raising businesses, increased $72 million, or 9%, and Restructuring revenue decreased $15 million, or 8%, as compared to 2011.

M&A and Other Advisory revenue increased $92 million, or 13%, as compared to 2011. Capital Raising revenue decreased $20 million, or 22%. The increase in M&A and Other Advisory revenue was primarily due to the strong performance of Lazard Middle Market and a higher level of fees earned from our top 10 clients, reflecting the closing of several significant M&A and Sovereign Advisory transactions. Our major clients, which in the aggregate represented 25% of our M&A and Other Advisory revenue for the year, included Aeroporti di Roma, Azur Pharm, BTA Bank JSC, Caisse des Dépôts, Delphi Financial Group, GlaxoSmithKline, Google, Government of Greece, Medco Health Solutions, Pireaus Bank and Progress Energy. The decrease in Capital Raising revenue in 2012 was primarily attributable to a decrease in referral fees from LFCM Holdings and a decrease in private placement activity.

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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 decrease in Restructuring revenue in 2012 was generally in line with the industry-wide low level of corporate restructuring activity. Notable assignments completed in 2012 included assignments for Cemex, Eastman Kodak, Lehman Brothers, NewPage Corporation and Tribune Company.

Operating expenses increased $128 million, or 14%, as compared to 2011. The primary contributors to the increase were a fourth quarter 2012 charge aggregating $78 million related to the cost saving initiatives, as well as higher levels of compensation and benefits expense (see the discussion regarding compensation and benefits expense described above under Operating Results Year Ended December 31, 2012 versus December 31, 2011), transaction-related third party fees specifically related to transactions that closed in 2012 and occupancy costs as a result of our amended lease and associated buildout costs of our Rockefeller Center facility.

Financial Advisory operating loss in 2012 was $9 million (with such amount including the impact of the $78 million charge related to the cost saving initiatives), a decrease of $71 million as compared to operating income of $62 million in 2011 and, as a percentage of net revenue, was (0.8)% as compared to 6.3% in 2011. Excluding the impact of such charge in 2012, operating income in 2012 was $69 million, an increase of $7 million, or 11%, as compared to operating income of $62 million in 2011.

Asset Management

The following table shows the composition of AUM for the Asset Management segment (see Item 1. Business Principal Business Lines Asset Management Investment Strategies):

	As of December 31,		
	2013	**2012**	**2011**
	($ in millions)		
AUM by Asset Class:			
Equity:			
Emerging Markets	$ 47,450	$ 44,623	$ 34,988
Global	35,521	36,247	32,179
Local	31,232	30,890	29,028
Multi-Regional	39,859	26,411	20,167
Total Equity	154,062	138,171	116,362
Fixed Income:			
Emerging Markets	9,048	5,154	1,457
Global	3,164	3,035	2,351
Local	3,507	3,549	3,107
Multi-Regional	11,155	10,980	10,835
Total Fixed Income	26,874	22,718	17,750
Alternative Investments	4,690	4,600	5,349
Private Equity	1,151	1,398	1,486
Cash Management	147	173	92
Total AUM	$ 186,924	$ 167,060	$ 141,039

Total AUM at December 31, 2013 was $187 billion, an increase of $20 billion, or 12%, as compared to total AUM of $167 billion at December 31, 2012, primarily due to market appreciation. Average AUM for the year ended December 31, 2013 was 12% higher than that for 2012.

As of December 31, 2013, approximately 90% of our AUM was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through

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sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors, and approximately 10% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and individuals, and was substantially unchanged from the corresponding percentages at December 31, 2012.

As of December 31, 2013, AUM denominated in foreign currencies represented approximately 63% of our total AUM, as compared to 62% at December 31, 2012. 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.

The following is a summary of changes in AUM by asset class for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 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	$ 26,518	$ (31,597)	$ (5,079)	$ 25,495	$ (4,525)	$ 154,062
Fixed Income	22,718	6,725	(3,318)	3,407	389	360	26,874
Other	6,171	1,063	(1,325)	(262)	270	(191)	5,988
Total	$ 167,060	$ 34,306	$ (36,240)	$ (1,934)	$ 26,154	$ (4,356)	$ 186,924

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

	Year Ended December 31, 2012						
	AUM Beginning Balance	Inflows	Outflows	Net Flows	Market Value Appreciation/ (Depreciation)	Foreign Exchange Appreciation/ (Depreciation)	AUM Ending Balance
	($ in millions)						
Equity	$ 116,362	$ 19,995	$ (19,616)	$ 379	$ 21,475	$ (45)	$ 138,171
Fixed Income	17,750	6,649	(3,033)	3,616	1,058	294	22,718
Other	6,927	699	(1,953)	(1,254)	475	23	6,171
Total	$ 141,039	$ 27,343	$ (24,602)	$ 2,741	$ 23,008	$ 272	$ 167,060

	Year Ended December 31, 2011						
	AUM Beginning Balance	Inflows	Outflows	Net Flows	Market Value Appreciation/ (Depreciation)	Foreign Exchange Appreciation/ (Depreciation)	AUM Ending Balance
	($ in millions)						
Equity	$ 131,300	$ 17,513	$ (19,765)	$ (2,252)	$ (9,932)	$ (2,754)	$ 116,362
Fixed Income	17,144	4,481	(3,664)	817	274	(485)	17,750
Other	6,893	2,120	(1,733)	387	(95)	(258)	6,927
Total	$ 155,337	$ 24,114	$ (25,162)	$ (1,048)	$ (9,753)	$ (3,497)	$ 141,039

As of February 21, 2014, AUM was $185.2 billion, a $1.7 billion decrease since December 31, 2013. The decrease in AUM was due to market and foreign exchange depreciation of $2.8 billion, partially offset by net inflows of $1.1 billion.

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Average AUM for the years ended December 31, 2013, 2012 and 2011 for each significant asset class is set forth below. Average AUM generally represents the average of the monthly ending AUM balances for the period.

	Years Ended December 31,		
	2013	2012	2011
		($ in millions)	
Average AUM by Asset Class:			
Equity	$ 143,923	$ 128,357	$ 126,710
Fixed Income	23,850	20,697	18,069
Alternative Investments	4,569	4,960	5,782
Private Equity	1,232	1,420	1,409
Cash Management	128	115	102
Total Average AUM	$ 173,702	$ 155,549	$ 152,072

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

	Year Ended December 31,		
	2013	2012	2011
		($ in thousands)	
Revenue:			
Management Fees	$ 903,956	$ 806,044	$ 818,038
Incentive Fees	78,342	43,661	26,245
Other Income	56,832	46,555	53,118
Net Revenue	1,039,130	896,260	897,401
Operating Expenses (a)	704,045	659,502	628,945
Operating Income	$ 335,085	$ 236,758	$ 268,456
Operating Income, as a Percentage of Net Revenue	32.2%	26.4%	29.9%

(a) In 2013 and 2012, includes $235 and $12,789, respectively, associated with the implementation of the cost saving initiatives, and in 2013, $12,203 relating to private equity compensation. All years include indirect support costs (including compensation and benefits expense and other operating expenses related thereto).

Our top ten clients accounted for 24%, 23% and 22% of our total AUM at December 31, 2013, 2012 and 2011, respectively, and no individual client constituted more than 10% of our Asset Management segment net revenue during any of the respective years.

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

	Year Ended December 31,		
	2013	2012	2011
United States	62%	63%	60%
Europe	28	26	29
Rest of World	10	11	11

Total	100%	100%	100%

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Asset Management Results of Operations

Year Ended December 31, 2013 versus December 31, 2012

Asset Management net revenue increased $143 million, or 16%, as compared to 2012. Management fees increased $98 million, or 12%, as compared to 2012, reflecting an $18 billion, or 12%, increase in average AUM. Incentive fees increased $35 million, or 79%, as compared to 2012, primarily due to fees related to traditional investment products and to a lesser extent, alternative investment products. Other revenue increased $10 million, or 22%, as compared to 2012, primarily due to higher transaction based commission revenue as a result of increased market activity.

Operating expenses increased $45 million, or 7%, as compared to 2012, primarily due to an increase in compensation and benefits expense related to the increase in operating revenue, an increase in mutual fund servicing fees related to the growth in AUM and increased amortization of intangible assets related to Edgewater.

Asset Management operating income in the 2013 period was $335 million, an increase of $98 million (including the impact of the $0.2 million charge relating to the cost saving initiatives and the $12 million charge pertaining to private equity incentive compensation), or 42%, compared to operating income of $237 million (including the impact of the $13 million charge related to the cost saving initiatives) in 2012 and, as a percentage of net revenue, was 32.2%, compared to 26.4% in 2012. Excluding the impact of such charges, operating income in 2013 was $347 million, an increase of $97 million, or 39%, as compared to operating income of $250 million in 2012.

Year Ended December 31, 2012 versus December 31, 2011

Asset Management net revenue decreased $1 million as compared to 2011. Management fees decreased $12 million, or 1%, as compared to 2011, primarily driven by a change in the product mix of average AUM, partially offset by a 2% increase in average AUM. Incentive fees increased $17 million, or 66%, as compared to 2011, primarily due to fees related to alternative investment products. Other revenue decreased $7 million, or 12%, as compared to 2011, primarily due to a decline in commissions from an unusually strong 2011.

Operating expenses increased $31 million, or 5%, as compared to 2011, due to a fourth quarter 2012 charge aggregating $13 million related to the cost saving initiatives, as well as an increase in compensation and benefits expense (see the discussion regarding compensation and benefits expense described above under Operating Results Year Ended December 31, 2012 versus December 31, 2011) and higher occupancy costs in 2012 associated with our amended lease and build-out costs of our Rockefeller Center facility. These increases were partially offset by lower professional fees and fees for fund administration.

Asset Management operating income in 2012 was $237 million (including the impact of the $13 million charge related to the cost saving initiatives), a decrease of $31 million, or 12%, as compared to operating income of $268 million in 2011 and, as a percentage of net revenue, was 26.4% as compared to 29.9% in 2011. Excluding the impact of such charge in 2012, operating income in 2012 was $250 million, a decrease of $18 million, or 7%, as compared to operating income of $268 million in 2011.

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Corporate

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

	Year Ended December 31, 2013	2012	2011
	($ in thousands)		
Interest Income	$ 3,178	$ 3,714	$ 6,319
Interest Expense	(79,373)	(81,515)	(87,981)
Net Interest (Expense)	(76,195)	(77,801)	(81,662)
Other Revenue	41,840	44,899	21,666
Net Revenue (Expense)	(34,355)	(32,902)	(59,996)
Operating Expenses (a)	104,832	71,441	35,380
Operating Loss	$ (139,187)	$ (104,343)	$ (95,376)

(a) Includes (i) in 2013 and 2012, $16,689 and 12,255, respectively, associated with the implementation of the cost saving initiatives, (ii) in 2013, $54,087 relating to the refinancing of the 2015 Notes and the issuance of the 2020 Notes and (iii) in 2012, $24,659 relating to the staff reductions.

Corporate Results of Operations

Year Ended December 31, 2013 versus December 31, 2012

Net interest expense decreased $2 million, or 2%, compared to 2012, primarily due to the refinancing of the 2015 Notes.

Other revenue decreased $3 million, or 7%, compared to 2012, primarily due to decreased investment income.

Operating expenses increased $33 million, or 47%, compared to 2012, and included (i) in 2013 and 2012, charges of $17 million and $12 million, respectively, associated with the cost saving initiatives, (ii) in 2013, a charge of $54 million pertaining to the refinancing of the 2015 Notes, and (iii) in 2012, a charge of $25 million related to staff reductions. Excluding the impact of such charges in both periods, operating expenses in 2013 remained substantially unchanged compared to 2012.

Year Ended December 31, 2012 versus December 31, 2011

Net interest expense decreased $4 million, or 5%, as compared to 2011.

Other revenue increased $23 million, primarily due to increased net investment gains in 2012, including an increase in the gain in the value of investments held in connection with Lazard Fund Interests of $11 million, partially offset by an $18 million gain in 2011 on the repurchase of the Company s subordinated promissory note.

Operating expenses in 2012 (including the $25 million charge in the first quarter of 2012 relating to staff reductions and a fourth quarter 2012 charge aggregating $12 million related to the cost saving initiatives) increased $36 million. Excluding the impact of such charges, as well as aggregate charges of $11 million in 2011 relating to the Company s leased facilities in the U.K. and the write-off of the capitalized costs relating to the Company s option to acquire the fund management activities of LAI, operating expenses in 2012 increased $11 million, or 42%, as compared to 2011, primarily relating to (i) occupancy costs, as a result of our amended lease and associated build-out costs of our Rockefeller Center facility, (ii) compensation and benefits expense, including an increase in expense associated with Lazard Fund Interests and (iii) technology costs.

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

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managing directors and employees and purchases of Class A common stock. Cash flows also were affected in 2013 by the refinancing of the 2015 Notes and the issuance of the 2020 Notes. M&A and Other Advisory and Asset Management fees are generally collected within 60 days of billing, while Restructuring fee collections may extend beyond 60 days, particularly those that involve bankruptcies with court-ordered holdbacks. Fees from our Private Fund Advisory activities are generally collected over a four-year period from billing and typically include an interest component.

The Company makes cash payments for, or in respect of, a significant portion of its incentive compensation during the first three months of each calendar year with respect to the prior year s results. In addition, during 2013 and 2012, the Company made cash payments, including severance payments, associated with the cost saving initiatives (see Cost Saving Initiatives above and Note 16 of Notes to Consolidated Financial Statements). The Company also paid a special dividend in each of 2013 and 2012 and, in 2012, the Company accelerated the payment of its fourth quarter dividend.

Summary of Cash Flows:

	Year Ended December 31, 2013	2012
	($ in millions)	
Cash Provided By (Used In):		
Operating activities:		
Net income	$ 165.1	$ 92.8
Adjustments to reconcile net income to net cash provided by operating activities (a)	420.1	395.6
Other operating activities (b)	(58.5)	(6.5)
Net cash provided by operating activities	526.7	481.9
Investing activities	(54.5)	(84.9)
Financing activities (c)	(487.1)	(563.2)
Effect of exchange rate changes	6.2	12.6
Net Decrease in Cash and Cash Equivalents	(8.7)	(153.6)
Cash and Cash Equivalents:		
Beginning of Year	850.2	1,003.8
End of Year	$ 841.5	$ 850.2

(a) Consists of the following:

	Year Ended December 31, 2013	2012
	($ in millions)	
Depreciation and amortization of property	$ 34.8	$ 30.9
Amortization of deferred expenses, share based incentive compensation and interest rate hedge	310.0	360.8
Deferred tax provision (benefit)	14.4	(4.5)
Amortization of intangible assets related to acquisitions	10.1	8.4
Loss on extinguishment of debt	50.8	
Total	$ 420.1	$ 395.6

(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, and activity relating to borrowings, including, in 2013, the refinancing of the 2015 Notes and issuance of the 2020 Notes.

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Liquidity and Capital Resources

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

Operating Activities

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

Liquidity is significantly impacted by cash payments for, or in respect of, incentive compensation, a significant portion of which are made during the first three months of the year. As a consequence, cash on hand generally declines in the beginning of the year and gradually builds over the remainder of the year. We also pay certain tax advances during the year on behalf of our managing directors, which serve to reduce their respective incentive compensation payments. We expect this seasonal pattern of cash flow to continue. During 2013 and 2012, liquidity also was impacted by cash payments, including severance payments, associated with the cost saving initiatives (see Cost Saving Initiatives above and Note 16 of Notes to 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 December 31, 2013, Lazard had approximately $841 million of cash, with such amount including approximately $422 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 December 31, 2013, 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 December 31, 2013 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.

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Financing Activities

The table below sets forth our corporate indebtedness as of December 31, 2013 and 2012. The agreements with respect to this indebtedness are discussed in more detail in our consolidated financial statements and related notes included elsewhere in this Form 10-K.

	Maturity Date	As of December 31, 2013	As of December 31, 2012	Increase (Decrease)
		($ in millions)		
Senior Debt:				
7.125%	2015	$	$ 528.5	$ (528.5)
6.85%	2017	548.4	548.4	
4.25%	2020	500.0		500.0
Total Senior Debt		$ 1,048.4	$ 1,076.9	$ (28.5)

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 by issuing the 2020 Notes. The transactions resulted in a total refinancing pre-tax loss of $54 million, including the premium for tender or redemption, the recognition of unamortized issuance costs, the recognition of the unamortized amount of the interest rate hedge related to the 2015 Notes and a loss on an interest rate hedge relating to 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 December 31, 2013, Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 1.63 to 1.00 and its Consolidated Interest Coverage Ratio being 9.51 to 1.00. In any event, no amounts were outstanding under the Credit Facility as of December 31, 2013.

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 December 31, 2013, 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 11 of Notes to Consolidated Financial Statements for additional information regarding senior and subordinated debt.

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Stockholders Equity

At December 31, 2013, total stockholders equity was $630 million, as compared to $652 million and $867 million at December 31, 2012 and 2011, respectively, including $560 million, $570 million and $726 million attributable to Lazard Ltd on the respective dates. A summary of activity in stockholders equity during the years ended December 31, 2013 and 2012 is reflected in the table below:

	Year Ended December 31, 2013	2012
	($ in millions)	
Stockholders Equity Beginning of Year	$ 652	$ 867
Increase (decrease) due to:		
Net income	165	93
Other comprehensive loss	(22)	(19)
Amortization of share-based incentive compensation	236	310
Purchase of Class A common stock	(132)	(354)
Settlement of share-based incentive compensation (a)	(132)	(73)
Class A common stock dividends	(122)	(135)
Distributions to noncontrolling interests, net	(14)	(26)
Other net	(1)	(11)
Stockholders Equity End of Year	$ 630	$ 652

(a) The tax withholding portion of share-based compensation is settled in cash, not shares. The amount of such settlements was $132 million and $45 million for the years ended December 31, 2013 and December 31, 2012, respectively. For the year ended December 31, 2012 this amount includes a conversion of certain share-based awards of $27 million to a liability.

The Board of Directors of the Company 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 Lazard intends to repurchase at least as many shares as it expects to ultimately issue pursuant to such compensation plans in respect of year-end incentive compensation attributable to the prior year. Purchases with respect to such program are set forth in the table below:

	Number of Shares/Common Membership Interests Purchased	Average Price Per Share/Common Membership Interest
Years Ending December 31:		
2011	6,135,189	$ 33.39
2012	12,817,196	$ 27.66
2013	3,488,101	$ 37.98

As of December 31, 2013, a total of $122 million of share repurchase capacity remained available under the authorizations, of which $22 million and $100 million will expire on December 31, 2014 and 2015, respectively.

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 13 and 14 of Notes to Consolidated Financial Statements for additional information regarding Lazard s stockholders equity and incentive plans, respectively.

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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 20 of Notes to 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 this Form 10-K and Note 20 of Notes to Consolidated Financial Statements.

Contractual Obligations

The following table sets forth information relating to Lazard s contractual obligations as of December 31, 2013:

	Contractual Obligations Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	($ in thousands)				
Senior Debt (including interest) (a)	$ 1,328,567	$ 58,812	$ 117,624	$ 609,631	$ 542,500
Operating Leases (exclusive of $155,547 of sublease income) (b)	1,018,126	81,467	151,847	134,762	650,050
Capital Leases (including interest) (b)	18,173	3,221	5,474	9,478	
Investment Capital Funding Commitments (c)	27,135	27,135			
Total (d)	$ 2,392,001	$ 170,635	$ 274,945	$ 753,871	$ 1,192,550

(a) See Note 11 of Notes to Consolidated Financial Statements.
(b) See Note 12 of Notes to Consolidated Financial Statements.
(c) See Note 6 of Notes to Consolidated Financial Statements. These amounts are generally due on demand and therefore are presented in the less than 1 year category.
(d) The table above excludes contingent obligations, as well as any possible payments for uncertain tax positions and payments pursuant to the Company s tax receivable agreement, given the inability to estimate the possible amounts and timing of any such payments. See Notes 12, 14, 15 and 17 of Notes to Consolidated Financial Statements regarding information in connection with commitments, incentive plans, employee benefit plans and income taxes, respectively.

Effect of Inflation

We do not believe inflation will significantly affect our compensation costs as they are substantially variable in nature. However, the rate of inflation may affect certain of our other expenses, such as information technology and occupancy costs. To the extent inflation results in rising interest rates and has other effects upon the securities markets or general macroeconomic conditions, it may adversely affect our financial position and results of operations by reducing AUM, net revenue or otherwise. See Item 1A, Risk Factors Other Business Risks Difficult market conditions can adversely affect our business in many ways, including by reducing the volume of the transactions involving our Financial Advisory business and reducing the value or performance of the assets we manage in our Asset Management business, which, in each case, could materially reduce our revenue or income and adversely affect our financial position.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

- there is persuasive evidence of an arrangement with a client,
- the agreed-upon services have been provided,
- fees are fixed or determinable, and
- collection is probable.

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

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

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

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

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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 years ended December 31, 2013, certain of our tax-paying entities have individually experienced minimal profits on a cumulative basis during such years and losses in 2012, primarily due to permanent differences between net income and taxable income at such entities. Considering the recent operating results of such entities and the other factors listed below, we recorded a valuation allowance of approximately $1.23 billion on our deferred tax assets as of December 31, 2013.

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.

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The table below sets forth our deferred tax assets and liabilities, and the valuation allowance recorded against our deferred tax assets, as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
	($ in thousands)	
Deferred Tax Assets:		
Basis adjustments (primarily as a result of the separation and recapitalization transactions that occurred during 2005 and from secondary offerings)	$ 739,059	$ 820,229
Compensation and benefits	250,413	243,564
Net operating loss and tax credit carryforwards	348,433	308,233
Depreciation and amortization	8,169	3,404
Other	58,273	30,626
Gross deferred tax assets	1,404,347	1,406,056
Valuation allowance	(1,225,305)	(1,238,765)
Total deferred tax assets (net of valuation allowance)	$ 179,042	$ 167,291
Deferred Tax Liabilities:		
Depreciation and amortization	$ 19,296	$ 33,715
Compensation and benefits	30,042	4,292
Goodwill	15,434	15,843
Other	70,394	50,648
Total deferred tax liabilities	$ 135,166	$ 104,498

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.

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

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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 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 6 of Notes to 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.

Data relating to investments is set forth below:

	December 31, 2013	December 31, 2012
	($ in thousands)	
Seed investments by asset class:		
Equities (a)	$ 118,535	$ 121,955
Fixed income	25,231	18,466
Alternative investments	29,920	52,826
Total seed investments	173,686	193,247
Other investments owned:		
Private equity (b)	104,405	100,954
Short-term investments and other	11,644	1,394
Total other investments owned	116,049	102,348
Subtotal	289,735	295,595
Add:		
Equity method (c)	9,488	7,012
Private equity consolidated, not owned (d)	9,787	11,490
Lazard Fund Interests (e)	169,095	100,576
Total investments	$ 478,105	$ 414,673

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(a) At December 31, 2013 and 2012, seed investments in directly owned equity securities were invested as follows:

	December 31, 2013	2012
Percentage invested in:		
Financials	31%	32%
Consumer	29	29
Energy	6	8
Industrial	12	11
Technology	9	7
Other	13	13
Total	100%	100%

(b) Private equity investments include investments related to certain legacy businesses and co-investments in private equity funds managed by our Asset Management business. Co-investments owned were $18 million and $14 million as of December 31, 2013 and 2012, 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 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 both December 31, 2013 and 2012, $116 million of our total investments at a fair value of $469 million and $408 million, respectively, or 25% and 28%, respectively, were classified as Level 3 investments. Substantially all of our Level 3 investments at both dates are priced based on a NAV. During the years ended December 31, 2013 and 2012, gains of approximately $13 million and $16 million, respectively, were recognized in revenue-other on the consolidated statement of operations pertaining to Level 3 investments.

See Notes 5 and 6 of Notes to 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 December 31, 2013 and December 31, 2012, the Company held seed investments of approximately $174 million and $193 million, respectively. Seed investments held in entities in which the Company maintained a controlling interest were $58 million in nine entities as of December 31, 2013, as compared to $59 million in nine entities as of December 31, 2012.

During the year ended 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 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 .

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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 9 of Notes to 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

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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 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 At 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 $134 million. 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 $1.7 million in the carrying value of such investments, including the effect of the hedging transactions.

Interest Rate/Credit Spread Risk At 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 $48 million. 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 $0.9 million in the carrying value of such investments, including the effect of the hedging transactions.

Foreign Exchange Rate Risk At 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 $85 million. 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 $1.4 million in the carrying value of such investments, 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 to certain legacy businesses. At December 31, 2013, the Company s exposure to changes in fair value of such investments was approximately $104 million. The Company estimates that a hypothetical 10% adverse change in fair value would result in a decrease of approximately $10.4 million in the carrying value of such investments.

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 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 December 31, 2012, total receivables amounted to $478 million, net of an allowance for doubtful accounts of $23 million. As of that date, Financial Advisory and Asset Management fees, and customer and related party receivables comprised 84%, 11% and 5% of total receivables, respectively. At December 31, 2013 and 2012, the Company had receivables past due or deemed uncollectible of approximately $39 million and $26 million, respectively. See also Critical Accounting Policies and Estimates Revenue Recognition above and Note 4 of Notes to Consolidated Financial Statements for additional information regarding receivables.

LFB engages in lending activities, including commitments to extend credit. At December 31, 2013 and 2012, customer receivables included $15 million and $14 million of LFB loans, respectively. Such loans are closely monitored for counterparty creditworthiness to help minimize exposure. In addition, as of December 31, 2013, 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 December 31, 2013 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 foreign currency exchange contracts to hedge exposures to interest rates and currency exchange rates and uses equity and fixed income swap contracts 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 $1 million at both December 31, 2013 and 2012, 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 $2 million and $5 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 $162 million and $98 million at December 31, 2013 and 2012, 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 December 31, 2013, 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.

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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 December 31, 2013, Lazard estimates that its annual operating income relating to cash and short-term investments and corporate indebtedness would increase by approximately $8 million in the event interest rates were to increase by 1% and decrease by approximately $2 million if rates were to decrease by 1%.

As of December 31, 2013, the Company s cash and cash equivalents totaled approximately $841 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 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 programs designed to protect the Company against accidental loss and losses, which 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 3 of Notes to Consolidated Financial Statements.

Item 7A. 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.

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Item 8. Financial Statements and Supplementary Data

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lazard Ltd and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Company s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of the Company s management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992).* Based on management s assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2013.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s independent registered public accounting firm, Deloitte & Touche LLP, audited the Company s internal control over financial reporting as of December 31, 2013, as stated in their report which appears under Report of Independent Registered Public Accounting Firm.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lazard Ltd:

We have audited the internal control over financial reporting of Lazard Ltd and subsidiaries (the Company) as of December 31, 2013 based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report On Internal Control Over Financial Reporting . Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as listed in the Index at Item 8 as of and for the year ended December 31, 2013 of the Company, and our report dated February 27, 2014, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Lazard Ltd:

We have audited the accompanying consolidated statements of financial condition of Lazard Ltd and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows, and changes in stockholders equity for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 8. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Lazard Ltd and subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2014 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2014

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LAZARD LTD

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2013 and 2012

(dollars in thousands, except for per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 841,482	$ 850,190
Deposits with banks	244,879	292,494
Cash deposited with clearing organizations and other segregated cash	62,046	65,232
Receivables (net of allowance for doubtful accounts of $28,777 and $23,017 at December 31, 2013 and 2012, respectively):		
Fees	452,535	400,529
Customers and other	52,220	53,713
Related parties	7,920	23,801
	512,675	478,043
Investments	478,105	414,673
Property (net of accumulated amortization and depreciation of $253,930 and $225,861 at December 31, 2013 and 2012, respectively)	248,796	225,033
Goodwill and other intangible assets (net of accumulated amortization of $45,379 and $35,281 at December 31, 2013 and 2012, respectively)	363,877	392,822
Other assets	259,277	268,406
Total Assets	$ 3,011,137	$ 2,986,893

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2013 and 2012

(dollars in thousands, except for per share data)

	December 31, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits and other customer payables	$ 275,434	$ 269,763
Accrued compensation and benefits	523,063	467,578
Senior debt	1,048,350	1,076,850
Capital lease obligations	15,834	17,863
Related party payables	5,031	3,648
Other liabilities	513,427	499,651
Total Liabilities	2,381,139	2,335,353
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share; 15,000,000 shares authorized:		
Series A - 7,921 shares issued and outstanding at December 31, 2013 and 2012		
Series B - no shares issued and outstanding		
Common stock:		
Class A, par value $.01 per share (500,000,000 shares authorized; 129,056,081 and 128,216,423 shares issued at December 31, 2013 and 2012, respectively, including shares held by subsidiaries as indicated below)	1,291	1,282
Class B, par value $.01 per share (1 share authorized, issued and outstanding at December 31, 2013 and 2012)		
Additional paid-in-capital	737,899	846,050
Retained earnings	203,236	182,647
Accumulated other comprehensive loss, net of tax	(133,004)	(110,541)
	809,422	919,438
Class A common stock held by subsidiaries, at cost (8,317,065 and 12,802,938 shares at December 31, 2013 and 2012, respectively)	(249,213)	(349,782)
Total Lazard Ltd Stockholders Equity	560,209	569,656
Noncontrolling interests	69,789	81,884
Total Stockholders Equity	629,998	651,540
Total Liabilities and Stockholders Equity	$ 3,011,137	$ 2,986,893

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(dollars in thousands, except for per share data)

	Year Ended December 31,		
	2013	**2012**	**2011**
REVENUE			
Investment banking and other advisory fees	$ 972,533	$ 1,039,188	$ 970,167
Money management fees	994,707	858,834	859,996
Interest income	4,705	6,008	14,609
Other	92,788	89,983	74,866
Total revenue	2,064,733	1,994,013	1,919,638
Interest expense	79,381	81,565	90,126
Net revenue	1,985,352	1,912,448	1,829,512
OPERATING EXPENSES			
Compensation and benefits	1,278,534	1,351,129	1,168,945
Occupancy and equipment	122,926	113,163	100,698
Marketing and business development	84,214	95,573	88,411
Technology and information services	89,289	86,892	83,212
Professional services	42,663	43,958	48,324
Fund administration and outsourced services	59,298	51,390	52,793
Amortization of intangible assets related to acquisitions	10,114	8,359	11,915
Other	81,507	38,099	39,715
Total operating expenses	1,768,545	1,788,563	1,594,013
OPERATING INCOME	216,807	123,885	235,499
Provision for income taxes	51,693	31,100	44,940
NET INCOME	165,114	92,785	190,559
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,902	8,476	15,642
NET INCOME ATTRIBUTABLE TO LAZARD LTD	$ 160,212	$ 84,309	$ 174,917
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:			
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:			
Basic	120,854,267	116,953,989	118,032,020
Diluted	133,737,079	129,325,622	137,629,525
NET INCOME PER SHARE OF COMMON STOCK:			
Basic	$1.33	$0.72	$1.48
Diluted	$1.21	$0.65	$1.36

DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$1.00	$1.16	$0.605

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(dollars in thousands)

	Year Ended December 31, 2013	2012	2011
NET INCOME	$ 165,114	$ 92,785	$ 190,559
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Currency translation adjustments	(15,536)	15,686	(9,474)
Amortization of interest rate hedge	2,502	1,055	1,054
Employee benefit plans:			
Actuarial loss (net of tax benefit of $6,388, $12,950 and $12,526 for the years ended December 31, 2013, 2012 and 2011, respectively)	(13,500)	(40,298)	(38,248)
Adjustments for items reclassified to earnings (net of tax expense of $1,929, $1,145 and $1,031 for the years ended December 31, 2013, 2012 and 2011, respectively)	4,605	4,399	2,206
OTHER COMPREHENSIVE LOSS, NET OF TAX	(21,929)	(19,158)	(44,462)
COMPREHENSIVE INCOME	143,185	73,627	146,097
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,769	8,315	13,105
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD	$ 138,416	$ 65,312	$ 132,992

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(dollars in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 165,114	$ 92,785	$ 190,559
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property	34,750	30,855	24,580
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	310,036	360,751	300,286
Amortization of intangible assets related to acquisitions	10,114	8,359	11,915
Deferred tax provision (benefit)	14,454	(4,457)	7,214
Loss (gain) on extinguishment of debt	50,757		(18,171)
(Increase) decrease in operating assets:			
Deposits with banks	58,570	(806)	63,639
Cash deposited with clearing organizations and other segregated cash	4,811	11,613	16,408
Receivables-net	(30,126)	31,157	61,153
Investments	(61,502)	(30,096)	31,543
Other assets	(60,731)	(62,683)	(61,648)
Increase (decrease) in operating liabilities:			
Deposits and other payables	(4,779)	(26,576)	(63,141)
Accrued compensation and benefits and other liabilities	35,229	71,006	(166,535)
Net cash provided by operating activities	526,697	481,908	397,802
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property	(60,964)	(89,301)	(46,438)
Disposals of property	6,411	4,368	1,161
Net cash used in investing activities	(54,553)	(84,933)	(45,277)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from:			
Contribution from noncontrolling interests	832	1,741	17,505
Issuance of senior debt, net of expenses	493,398		
Excess tax benefits from share-based incentive compensation	1,108		1,386
Payments for:			
Senior and subordinated debt	(578,464)		(131,829)
Capital lease obligations	(2,659)	(2,519)	(2,322)
Distributions to noncontrolling interests	(14,367)	(27,767)	(33,734)
Repurchase of common membership interests from members of LAZ-MD Holdings			(794)
Purchase of Class A common stock	(132,477)	(354,464)	(204,835)
Class A common stock dividends	(121,620)	(135,108)	(70,572)
Settlement of vested share-based incentive compensation	(132,533)	(44,883)	(93,750)
Other financing activities	(290)	(220)	(33,414)
Net cash used in financing activities	(487,072)	(563,220)	(552,359)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	6,220	12,644	(6,070)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,708)	(153,601)	(205,904)
CASH AND CASH EQUIVALENTS January 1	850,190	1,003,791	1,209,695

CASH AND CASH EQUIVALENTS December 31	$ 841,482	$ 850,190	$ 1,003,791
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Supplemental investing non-cash transaction:			
Class A common stock issued/issuable in connection with business acquisitions	$	$	$ 39,654
Cash paid during the year for:			
Interest	$ 78,671	$ 78,441	$ 92,702
Income taxes, net of refunds	$ 22,623	$ 23,267	$ 35,038

See notes to consolidated financial statements.

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(dollars in thousands)

	Series A Preferred Stock		Common Stock				Accumulated Other Comprehensive Income (Loss),	Class A Common Stock Held By Subsidiaries		Total Lazard		
	Shares	$	Shares(*)	$	Additional Paid-In-Capital	Retained Earnings	Net of Tax	Shares	$	Ltd Stockholders Equity	Noncontrolling Interests	Total Stockholders Equity
Balance January 1, 2011	**22,021**	**$**	**119,697,937**	**$ 1,197**	**$ 758,841**	**$ 166,468**	**$ (46,158)**	**6,847,508**	**$ (227,950)**	**$ 652,398**	**$ 143,719**	**$ 796,117**
Comprehensive income (loss):												
Net income						174,917				174,917	15,642	190,559
Other comprehensive loss - net of tax							(41,925)			(41,925)	(2,537)	(44,462)
Business acquisitions and related equity transactions:												
Class A common stock issuable (including related amortization)					41,800					41,800	3,056	44,856
Conversion of Series A preferred stock into Class A common stock	(14,100)		2,434,561	24	(24)							
Delivery of Class A common stock					(126,812)			(3,515,362)	123,411	(3,401)		(3,401)
Amortization of share-based incentive compensation					260,816					260,816	14,326	275,142
Dividend-equivalents					12,092	(12,167)				(75)	(4)	(79)
Class A common stock dividends						(70,572)				(70,572)		(70,572)
Purchase of Class A common stock								6,135,189	(204,835)	(204,835)		(204,835)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefits of $972					(297,779)			(5,975,318)	204,992	(92,787)	9	(92,778)
Repurchase of common membership interests from LAZ-MD Holdings					(753)					(753)	(41)	(794)
Class A common stock issued in exchange for Lazard Group common membership interests			876,814	9	(9)							
Adjustment related to the change in Lazard Ltd s ownership in Lazard Group					(1,580)					(1,580)		(1,580)
Distributions to noncontrolling interests, net											(21,317)	(21,317)
Adjustments related to noncontrolling interests					12,421		(281)			12,140	(12,140)	
Balance December 31, 2011	**7,921**	**$**	**123,009,312**	**$ 1,230**	**$ 659,013**	**$ 258,646**	**$ (88,364)**	**3,492,017**	**$ (104,382)**	**$ 726,143**	**$ 140,713**	**$ 866,856**

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(dollars in thousands)

	Series A Preferred Stock		Common Stock				Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries				
	Shares	$	Shares(*)	$	Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Shares	$	Total Lazard Ltd Stockholders Equity	Noncontrolling Interests	Total Stockholders Equity
Balance January 1, 2012	**7,921**	**$**	**123,009,312**	**$ 1,230**	**$ 659,013**	**$ 258,646**	**$ (88,364)**	**3,492,017**	**$ (104,382)**	**$ 726,143**	**$ 140,713**	**$ 866,856**
Comprehensive income (loss):												
Net income						84,309				84,309	8,476	92,785
Other comprehensive loss - net of tax							(18,997)			(18,997)	(161)	(19,158)
Business acquisitions and related equity transactions:												
Class A common stock issuable (including related amortization)					4,030					4,030	49	4,079
Delivery of Class A common stock					(1,633)			(57,287)	1,633			
Amortization of share-based incentive compensation					306,642					306,642	3,706	310,348
Dividend-equivalents					24,990	(25,200)				(210)	(2)	(212)
Class A common stock dividends						(135,108)				(135,108)		(135,108)
Purchase of Class A common stock								12,817,196	(354,464)	(354,464)		(354,464)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax expense of $972					(153,274)			(3,448,988)	107,431	(45,843)	(12)	(45,855)
Modification of equity incentive compensation award					(26,601)					(26,601)	(321)	(26,922)
Class A common stock issued in exchange for Lazard Group common membership interests			5,207,112	52	(52)							
Distributions to noncontrolling interests, net											(26,026)	(26,026)
Deconsolidation of investment companies											(14,783)	(14,783)
Adjustments related to noncontrolling interests					32,935		(3,180)			29,755	(29,755)	

Balance December 31, 2012	**7,921**	**$ 128,216,424**	**$ 1,282**	**$ 846,050**	**$ 182,647**	**$ (110,541)**	**12,802,938**	**$ (349,782)**	**$ 569,656**	**$ 81,884**	**$ 651,540**

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LAZARD LTD

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(dollars in thousands)

	Series A Preferred Stock		Common Stock				Accumulated Other Comprehensive Income (Loss),	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd		Total
	Shares	$	Shares(*)	$	Additional Paid-In-Capital	Retained Earnings	Net of Tax	Shares	$	Stockholders Equity	Noncontrolling Interests	Stockholders Equity
Balance January 1, 2013	**7,921**	**$**	**128,216,424**	**$ 1,282**	**$ 846,050**	**$ 182,647**	**$ (110,541)**	**12,802,938**	**$ (349,782)**	**$ 569,656**	**$ 81,884**	**$ 651,540**
Comprehensive income (loss):												
Net income						160,212				160,212	4,902	165,114
Other comprehensive loss - net of tax							(21,796)			(21,796)	(133)	(21,929)
Business acquisitions and related equity transactions:												
Class A common stock issuable (including related amortization)					786					786	4	790
Delivery of Class A common stock (including dividend-equivalents)					(6,893)	(179)		(228,275)	7,072			
Amortization of share-based incentive compensation					234,608					234,608	1,290	235,898
Dividend-equivalents					16,927	(17,215)				(288)	(2)	(290)
Class A common stock dividends						(121,620)				(121,620)		(121,620)
Purchase of Class A common stock								3,488,101	(132,477)	(132,477)		(132,477)
Delivery of Class A common stock in connection with shared-based incentive compensation and related tax benefit of $40					(357,858)	(609)		(7,745,699)	225,974	(132,493)		(132,493)
Class A common stock issued in exchange for Lazard Group common membership interests			839,658	9	(9)							
Distributions to noncontrolling interests, net											(13,535)	(13,535)
Adjustments related to noncontrolling interests					4,288		(667)			3,621	(4,621)	(1,000)
Balance December 31, 2013	**7,921**	**$**	**129,056,082**	**$ 1,291**	**$ 737,899**	**$ 203,236**	**$ (133,004)**	**8,317,065**	**$ (249,213)**	**$ 560,209**	**$ 69,789**	**$ 629,998**

(*) Includes 123,009,311, 128,216,423 and 129,056,081 shares of the Company s Class A common stock issued at December 31, 2011, 2012 and 2013, respectively, and 1 share of the Company s Class B common stock issued at each such date.

See notes to consolidated financial statements.

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LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

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

Lazard Ltd indirectly held approximately 99.5% and 98.8% of all outstanding Lazard Group common membership interests as of December 31, 2013 and 2012, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group, which is governed by an Operating Agreement dated as of May 10, 2005, as amended (the Operating Agreement). LAZ-MD Holdings LLC (LAZ-MD Holdings), an entity owned by Lazard Group s current and former managing directors, held approximately 0.5% and 1.2% of the outstanding Lazard Group common membership interests as of December 31, 2013 and 2012, respectively. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd s Class B common stock (the Class B common stock) which provided LAZ-MD Holdings with approximately 0.5% and 1.2% of the voting power but no economic rights in the Company as of December 31, 2013 and 2012, respectively. Subject to certain limitations, LAZ-MD Holdings interests in Lazard Group are exchangeable for Lazard Ltd Class A common stock, par value $0.01 per share (Class A common stock).

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

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

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

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

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

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). 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

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 the 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.

The 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below relate to reported amounts and disclosures in the consolidated financial statements.

Foreign Currency Translation The consolidated financial statements are presented in U.S. Dollars. Many of the Company 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 year-end 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 to U.S. Dollars are reported in accumulated other comprehensive income (loss), net of tax (AOCI). Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of operations. Net foreign currency remeasurement gains (losses) amounted to $(2,887), $(761) and $1,406, respectively, for the years ended December 31, 2013, 2012 and 2011, and are included in revenue-other on the respective consolidated statements of operations.

Use of Estimates In preparing the consolidated financial statements, management makes estimates and assumptions regarding:

- valuations of assets and liabilities requiring fair value estimates including, but not limited to, investments, derivatives, securities sold, not yet purchased and assumptions used to value pension and other post-retirement plans;
- the adequacy of the allowance for doubtful accounts;
- the realization of deferred taxes and adequacy of tax reserves for uncertain tax positions;
- the outcome of litigation;
- the carrying amount of goodwill and other intangible assets;

the amortization period of intangible assets;

the valuation of shares issued or issuable that contain transfer restrictions;

the vesting of share-based and other deferred compensation plan awards, and

other matters that affect the reported amounts and disclosure of contingencies in the consolidated financial statements.

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the consolidated financial statements.

Cash and Cash Equivalents The Company defines cash equivalents as short-term, highly liquid securities and cash deposits with original maturities of 90 days or less when purchased.

Deposits with Banks Represents LFB s short-term deposits, principally with the Banque de France. The level of these deposits may be driven by the level of LFB customer and bank-related interest-bearing time and demand deposits (which can fluctuate significantly on a daily basis) and by changes in asset allocation.

Cash Deposited with Clearing Organizations and Other Segregated Cash Primarily represents restricted cash deposits made by the Company, including those to satisfy the requirements of clearing organizations.

Allowance for Doubtful Accounts We maintain an allowance for bad debts to provide for estimated losses relating to fees and customer receivables. We determine the adequacy of the allowance by estimating the probability of loss based on management s analysis of the client s creditworthiness and specifically reserve against exposures where we determine the receivables may be 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 interest-bearing financing receivables) following the invoice date or may be subject to court approval (as is the case with bankruptcy-related restructuring assignments). 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 collectable. 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.

See Note 4 of Notes to Consolidated Financial Statements for additional information regarding receivables.

Investments Investments in debt and marketable equity securities held either directly, or indirectly through asset management funds, at the Company s broker-dealer subsidiaries are accounted for at fair value, with any increase or decrease in fair value recorded in earnings in accordance with standard industry practices. Such amounts are reflected in revenue-other in the consolidated statements of operations.

Investments in debt and marketable equity securities held at the Company s non broker-dealer subsidiaries are considered trading securities and are accounted for at fair value, with any increase or decrease in fair value reflected in revenue-other in the consolidated statements of operations.

Investments also include interests in alternative investment funds and private equity funds, each accounted for at fair value, as well as investments accounted for under the equity method of accounting. Any increases or decreases in the carrying value of those investments accounted for at fair value and the Company s share of net income or losses pertaining to its equity method investments are reflected in revenue-other in the consolidated statements of operations.

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Dividend income is reflected in revenue-other on the consolidated statements of operations. Interest income includes accretion or amortization of any discount or premium arising at acquisition of the related debt security. Securities transactions and the related revenue and expenses are recorded on a trade date basis.

See Notes 5 and 6 of Notes to Consolidated Financial Statements for additional information regarding the Company s investments.

Property-net Property is stated at cost or, in the case of property under capital leases, the present value of the future minimum lease payments, less accumulated depreciation and amortization. Buildings represent owned property and amounts recorded pursuant to capital leases (see Notes 8 and 12 of Notes to Consolidated Financial Statements), with the related obligations recorded as capital lease obligations. Such buildings are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are capitalized and are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Depreciation of furniture and equipment, including computer hardware and software, is determined on a straight-line basis using estimated useful lives. Depreciation and amortization expense aggregating $34,750, $30,855 and $24,580 for the years ended December 31, 2013, 2012 and 2011, respectively, is included on the respective consolidated statements of operations in occupancy and equipment or technology and information services , depending on the nature of the underlying asset. Repairs and maintenance are expensed as incurred.

Goodwill and Other Intangible Assets As goodwill has an indefinite life, it is required to be tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. For years prior to 2011, the Company assessed whether any goodwill recorded by its applicable reporting units was impaired by comparing the fair value of each reporting unit with its respective carrying amount. In this process, Lazard used its best judgment and information available to it at the time to perform this review and utilized various valuation techniques in order to determine the applicable fair values. Commencing in 2011, as permitted under an amendment issued by the Financial Accounting Standards Board (the FASB), 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 goodwill impairment testing from December 31 to November 1. This change is preferable because it provides the Company with additional time to complete the annual goodwill impairment test in advance of its year-end reporting. The Company will continue to perform interim impairment testing should circumstances or events require. This change does not result in a delay, acceleration, or avoidance of an impairment charge. This change will be applied prospectively because it is impracticable to apply it retrospectively due to the difficulty in making estimates and assumptions without using hindsight. The Company completed its annual goodwill review as of November 1, 2013 and determined that no impairment existed.

Intangible assets that are not deemed to have an indefinite life are amortized over their estimated useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The pattern of amortization reflects the timing of the realization of the economic benefits of such intangible assets. For acquired customer contracts, the period of realization is deemed to be the period when the related revenue is recognized. This analysis is performed by comparing the carrying value of the intangible asset being reviewed for impairment to the current and expected future cash flows expected to be generated from such asset on an undiscounted basis, including eventual disposition. An impairment loss would be measured for the amount by which the carrying amount of the intangible asset exceeds its fair value.

See Note 9 of Notes to Consolidated Financial Statements with respect to goodwill and other intangible assets.

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Instruments A derivative is typically defined as an instrument whose value is derived from underlying assets, indices or reference rates, such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (*e.g.*, interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (*e.g.*, options to buy or sell securities or currencies).

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, equity and fixed income swaps and other derivative contracts to 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, in 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 (Lazard Fund Interests) 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 and other similar deferred compensation arrangements, which are reported in revenue-other in the consolidated statements of operations. For information regarding Lazard Fund Interests and other similar deferred compensation arrangements, see Notes 5, 7 and 14 of Notes to Consolidated Financial Statements.

Deposits and Other Customer Payables Principally relates to LFB customer-related demand and time deposits, both interest-bearing and non-interest bearing, short-term inter-bank borrowings and amounts due on short-term collateralized borrowing activities. Collateralized borrowing activities amounted to $13,854 at December 31, 2012 and were fully collateralized with pledged assets of equal or greater value (no such collateralized borrowing activities existed at December 31, 2013).

Securities Sold, Not Yet Purchased Securities sold, not yet purchased represents liabilities for securities sold for which payment has been received and the obligations to deliver such securities are included within other liabilities in the consolidated statements of financial condition. These securities are accounted for at fair value, with any increase or decrease in fair value recorded in earnings in accordance with standard securities industry practices. Such gains and losses are reflected in revenue-other in the consolidated statements of operations.

Fair Value of Financial Assets and Liabilities The majority of the Company s financial assets and liabilities are recorded at fair value or at amounts that approximate fair value. Such assets and liabilities include cash and cash equivalents, deposits with banks, cash deposited with clearing organizations and other segregated cash, receivables, investments (excluding investments accounted for at amortized cost, interest-bearing deposits or using the equity method of accounting), derivative instruments, deposits and other customer payables.

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LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenue Recognition

Investment Banking and Other Advisory Fees Fees for M&A and Other Advisory services and Restructuring advisory services are recorded when earned, which is generally the date the related transactions are consummated. Expenses that are directly related to such transactions and billable to clients are deferred to match revenue recognition. Investment banking and other advisory fees on the Company s consolidated statements of operations are presented net of client reimbursements of expenses. The amount of expenses reimbursed by clients for the years ended December 31, 2013, 2012 and 2011 are $18,327, $24,762 and $18,942, respectively.

Money Management and Incentive Fees Money management fees are derived from fees for investment management and advisory services provided to clients. Revenue is recorded on an accrual basis primarily based on a percentage of client assets managed. Fees vary with the type of assets managed, with higher fees earned on equity assets, alternative investment (such as hedge funds) and private equity funds, and lower fees earned on fixed income and money market 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 generally are subject to loss carryforward provisions in which losses incurred by the hedge funds in any year are