CAMBIUM LEARNING GROUP, INC.
Form DEFM14C
November 19, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of the

Securities Exchange Act of 1934

Check the appropriate box:

Preliminary Information Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

Definitive Information Statement

CAMBIUM LEARNING GROUP, INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed below per Exchange Act Rules 14c-5(g) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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CAMBIUM LEARNING GROUP, INC.

17855 Dallas Parkway, Suite 400

Dallas, Texas 75287

NOTICE OF WRITTEN CONSENT

AND

INFORMATION STATEMENT

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED

NOT TO SEND US A PROXY.

To our Stockholders:

This notice of written consent and the accompanying information statement are being furnished to the holders of common stock, par value $0.001 per share (the Common Stock), of Cambium Learning Group, Inc., a Delaware corporation (the Company), in connection with the Agreement and Plan of Merger, dated as of October 12, 2018 (the Merger Agreement), by and among Campus Holding Corp., a Delaware Corporation (Parent), Campus Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent (Merger Sub), and the Company, pursuant to which Merger Sub will merge with and into the Company with the Company surviving the merger as a wholly-owned subsidiary of Parent (the Merger). Parent is an affiliate of Veritas Capital Fund Management, L.L.C. and was formed specifically for the purpose of serving as the intended holding company for the Company upon completion of the Merger.

Pursuant to the Merger Agreement, upon completion of the Merger, each share of Common Stock (other than Cancelled Shares (as defined in the Merger Agreement) and Dissenting Shares (as defined in the Merger Agreement)) outstanding immediately prior to the effective time of the Merger (the Effective Time) will be converted into the right to receive a cash payment equal to $14.50 per share, without interest (the Merger Consideration).

The board of directors of the Company unanimously (i) determined that the terms and provisions of the Merger Agreement and the transaction contemplated thereby, including the Merger, are fair to, advisable and in the best interests of the Company and its stockholders, (ii) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Merger, (iii) resolved to recommend to the stockholders of the Company that such holders adopt the Merger Agreement, and (iv) directed that the Merger Agreement be submitted to the holders of Common Stock, including the Cambium Majority Stockholder (as defined below), for adoption.

The adoption of the Merger Agreement by the Company s stockholders required the affirmative vote or written consent of the holders of at least a majority of the outstanding shares of Common Stock under applicable Delaware law and the Company s certificate of incorporation. As of October 12, 2018, there were 47,300,262 shares of our Common Stock outstanding and VSS-Cambium Holdings III, LLC (VSS-Cambium or the Cambium Majority Stockholder), which is wholly-owned by VSS-Cambium Holdco LLC and an affiliate of Veronis Suhler Stevenson LLC (VSS), owned 32,334,595 shares of Common Stock, or approximately 68.4% of the voting power of the outstanding shares of capital stock of the Company entitled to vote on the adoption of the Merger Agreement on such date. On October 12, 2018, VSS-Cambium delivered a written consent adopting the Merger Agreement and authorizing the transactions

contemplated thereby, including the Merger. As a result, no further action by any stockholder of the Company is required under applicable law, the Company s certificate of incorporation, the Listing Rules of the Nasdaq Stock Exchange or the Merger Agreement to adopt the Merger Agreement or to approve the Merger. The Company is not soliciting your vote for the adoption of the Merger Agreement or approval of the Merger and will not call a stockholders meeting for purposes of voting on the adoption of the Merger Agreement or approval of the Merger.

In addition, on May 17, 2018, as previously disclosed by the Company, the Company entered into a Stock Purchase Agreement (as amended from time to time, the VKidz Purchase Agreement) with Edcity Holding

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Inc., a Florida corporation (Edcity), VSS VKidZ LLC, a Delaware limited liability company (VSS-VKidZ and together with Edcity, the VKidz Sellers), VKidz Holdings Inc., a Delaware corporation (VKidz), and VSS-VKidZ, solely in its capacity as Representative (as defined in the VKidz Purchase Agreement), pursuant to which the Company agreed, on the terms and subject to the conditions stated therein, to acquire from the VKidz Sellers all of the issued and outstanding capital stock of VKidz (the VKidz Acquisition). VSS-VKidZ (the VKidz Majority Stockholder) holds 3,000,000 shares of VKidz common stock, comprising a majority of the outstanding shares of common stock of VKidz, and is an affiliate of VSS. The Vkidz Acquisition does not require the approval of the Company s stockholders under Delaware law, the Company s certificate of incorporation or the Listing Rules of the Nasdaq Stock Exchange. Immediately following the Effective Time, the Company will consummate the VKidz Acquisition.

Pursuant to Section 262 of the Delaware General Corporation Law (DGCL), if the Merger is completed, holders of shares of Common Stock, other than VSS-Cambium, and any other holder of Common Stock who has waived appraisal rights, will have the right to seek an appraisal for, and be paid the fair value of, their shares of Common Stock (as determined by the Court of Chancery of the State of Delaware) instead of receiving the Merger Consideration. To exercise your appraisal rights, you must submit a written demand for an appraisal no later than twenty (20) days after the mailing of the accompanying information statement, or December 9, 2018, and comply precisely with the procedures set forth in Section 262 of the DGCL. The DGCL requirements for exercising appraisal rights are described in further detail in the accompanying information statement, and a copy of Section 262 of the DGCL regarding appraisal rights is reproduced in its entirety and attached as **Annex C** to the accompanying information statement. You are encouraged to read the full text of Section 262 attached as **Annex C**.

NOTICE IS HEREBY GIVEN pursuant to Section 228(e) and Section 262(d)(2) of the DGCL that the holders of a majority of the issued and outstanding shares of Common Stock adopted the Merger Agreement by written consent to an action without a meeting. Pursuant to Section 228(e) of the DGCL, this Notice is being mailed on or about November 19, 2018 to the persons (other than VSS-Cambium), who were stockholders of the Company on October 12, 2018, the date that written consent signed by VSS-Cambium, holding approximately 68.4% of the outstanding shares of Common Stock, to adopt the Merger Agreement was delivered to the Company. This Notice of Stockholder Action by Written Consent affords the notice to stockholders (other than VSS-Cambium) required by Section 228(e) of the DGCL. In addition, pursuant to Section 262(d)(2) of the DGCL, this Notice is being sent to all stockholders of record of the Company as of the close of business on November 18, 2018 who are entitled to appraisal rights. This Notice constitutes the notice required by Section 262(d)(2) of the DGCL and a copy of Section 262 of the DGCL is attached as Annex C to the accompanying information statement.

We urge you to read the entire accompanying information statement and the annexes thereto carefully. Please do not send in your stock certificates at this time. If the Merger is completed, you will receive instructions regarding surrender of your certificate or certificates, if any, or book-entry shares in exchange for the Merger Consideration to which you are entitled under the Merger Agreement.

BY ORDER OF THE BOARD OF DIRECTORS,

John Campbell, Chief Executive Officer

Neither the U.S. Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the Merger, passed upon the merits or fairness of the Merger or passed upon the adequacy or accuracy of the disclosures in this notice or the accompanying information statement. Any representation to the contrary is a criminal offense.

This information statement is dated November 19, 2018 and is first being mailed to stockholders on or about November 19, 2018.

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SUMMARY

The following summary highlights selected information from this information statement and may not contain all of the information that is important to you. Accordingly, we encourage you to read carefully this entire information statement, its annexes and the documents referred to, or incorporated by reference in this information statement. Each item in this summary includes a page reference directing you to a more complete description of that item in this information statement. You may obtain the information incorporated by reference into this information statement by following the instructions under Where You Can Find Additional Information beginning on page 81.

Summary of the Merger

All references in this information statement to Company, we, our and us refer to Cambium Learning Group, Inc. All references to Parent refer to Campus Holding Corp., a Delaware corporation and all references to Merger Sub refer to Campus Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent. We refer to VKidz Holdings Inc. as VKidz. We refer to Veronis Suhler Stevenson LLC as VSS, we refer to VSS-Cambium Holdco LLC as VSS-Cambium Holdco and we refer to VSS-Cambium Holdings III, LLC as VSS-Cambium or the Cambium Majority Stockholder, and we refer to VSS VKidZ LLC as VSS-VKidZ or the VKidz Majority Stockholder. In this information statement, all references to the Merger Agreement refer to the Agreement and Plan of Merger, dated as of October 12, 2018, by and among Parent, Merger Sub and the Company, a copy of which is attached as **Annex A** to this information statement and incorporated by reference herein. All references to the Merger refer to the merger of Merger Sub with and into the Company, with the Company surviving as a wholly-owned subsidiary of Parent, as contemplated by the Merger Agreement. We refer to the Company s board of directors as the Board.

The Parties to the Merger Agreement (page 18)

The Company. The Company is a Delaware corporation that is an award-winning educational technology solutions leader dedicated to helping all students reach their full potential through individualized and differentiated instruction. Using a research-based, personalized approach, the Company delivers software as a service (SaaS) resources and instructional products that engage students and support teachers in fun, positive, safe and scalable environments. The Company s principal executive offices are located at 17855 Dallas Parkway, Suite 400, Dallas, Texas 75287, and its telephone number is (888) 399-1995. The Company s website is *www.cambiumlearning.com*. Shares of our common stock, par value $0.001 per share (the Common Stock) are traded on the Nasdaq Capital Market (Nasdaq) under the symbol ABCD. Additional information about the Company is included in the documents incorporated by reference into this information statement. See the section entitled Where You Can Find Additional Information beginning on page 81.

Parent. Parent is a Delaware corporation and an affiliate of Veritas Capital Fund Management, L.L.C. (Veritas). Parent was formed specifically for the purpose of serving as the holding company for the Company upon completion of the Merger and has not carried on any activities to date, except for activities incidental to its formation, activities undertaken in connection with the Merger and the other transactions contemplated by the Merger Agreement. Parent s principal executive offices are located at c/o Veritas Capital Fund Management, L.L.C., 9 West 57th Street, 29th Floor, New York, New York 10019, and its telephone number is (212) 415-6700.

Merger Sub. Merger Sub is a Delaware corporation that was formed by Parent solely for the purpose of completing the Merger with the Company. Merger Sub is a wholly-owned subsidiary of Parent and has not engaged in any business to date, except for activities incidental to its incorporation and activities undertaken in connection with the Merger and the other transactions contemplated by the Merger Agreement. Merger Sub s principal executive offices are located at c/o Veritas Capital Fund Management, L.L.C., 9 West 57th Street, 29th Floor, New York, New York

10019, and its telephone number is (212) 415-6700.

The Merger (page 19)

On October 12, 2018, the Company entered into the Merger Agreement with Parent and Merger Sub. Upon the terms and subject to the conditions of the Merger Agreement, upon consummation of the Merger, Merger Sub will merge with and into the Company, with the Company surviving as a wholly-owned subsidiary of Parent.

Upon consummation of the Merger, each share of Common Stock (other than Cancelled Shares (as defined in the Merger Agreement) and Dissenting Shares (as defined in the Merger Agreement)) of the Company outstanding immediately prior to the effective time of the Merger (the Effective Time) will be converted into the right to receive a cash payment equal to $14.50, without interest (the Merger Consideration).

We encourage you to read the Merger Agreement, which is attached as **Annex A** to this information statement, because it is the legal document that governs the Merger and affects your rights as a stockholder of the Company.

Reasons for the Merger (page 27)

After consideration of various factors as discussed under The Merger Reasons for the Merger beginning on page 27, and consultation with the Company s independent legal and financial advisors, the Board unanimously determined that the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement were fair to and in the best interests of the Company and its stockholders.

For a discussion of the material factors considered by the Board in reaching its determination, see The Merger Reasons for the Merger beginning on page 27.

Required Stockholder Approval for the Merger

The adoption of the Merger Agreement by the Company s stockholders requires, under applicable Delaware law and our certificate of incorporation, the affirmative vote or written consent of the holders of at least a majority of the outstanding shares of Common Stock.

As of October 12, 2018, there were 47,300,262 shares of our Common Stock outstanding and VSS-Cambium, which is wholly-owned by VSS-Cambium Holdco and an affiliate of VSS, owned 32,334,595 shares of Common Stock, or approximately 68.4% of the voting power of the outstanding shares of capital stock of the Company entitled to vote on the adoption of the Merger Agreement on such date.

On such date, VSS-Cambium delivered a written consent adopting the Merger Agreement and authorizing the transactions contemplated thereby, including the Merger (the Stockholder Written Consent).

As a result of delivery of the Stockholder Written Consent, no further action by any stockholder of the Company is required under applicable law, our certificate of incorporation, the Listing Rules of the Nasdaq Stock Exchange or the Merger Agreement to adopt the Merger Agreement or approve the Merger. Consequently, the Company is not soliciting your vote for the adoption of the Merger Agreement or approval of the Merger and will not call a stockholders meeting for purposes of voting on the adoption of the Merger Agreement or approval of the Merger.

No action by the equity holders of Parent is required to complete the Merger.

When actions are taken by written consent of less than all of the stockholders entitled to vote on such actions, Delaware law requires delivery of notice of the actions to those stockholders of record who did not

consent in writing and who, if the actions had been taken at a meeting, would have been entitled to notice of the meeting if the record date for notice of such meeting had been the date that sufficient written consents were delivered to the corporation. This information statement constitutes notice to you of action by written consent as required by Delaware law.

Opinion of the Company s Financial Advisor (page 30 and Annex B)

On October 12, 2018, the Company s financial advisor, Macquarie Capital (USA) Inc. (which we refer to as Macquarie), rendered its oral opinion to the Board (which was subsequently confirmed in writing by the delivery of Macquarie s written opinion addressed to the Board dated the same date) as to, as of October 12, 2018, the fairness, from a financial point of view, to the holders of our Common Stock, other than the Excluded Holders (as defined below), of the Merger Consideration to be received by such stockholders in the Merger, pursuant to the Merger Agreement after giving effect to but without addressing the VKidz Acquisition (as defined below). For purposes of Macquarie s analyses and opinion, the term Excluded Holders was defined as the sellers of VKidz together with the other persons identified as Specified Stockholders in the Merger Agreement; the Specified Stockholders are holders of options to purchase shares of VKidz capital stock.

Macquarie s opinion was directed to the Board (in its capacity as such), and only addressed the fairness, from a financial point of view, to the holders of our Common Stock, other than the Excluded Holders, of the Merger Consideration to be received by such stockholders in the Merger pursuant to the Merger Agreement after giving effect to but without addressing the Vkidz Acquisition (as defined below) and did not address any other aspect or implication of the Merger. The summary of Macquarie s opinion in this information statement is qualified in its entirety by reference to the full text of its written opinion, which is included as **Annex B** to this information statement, and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Macquarie in preparing its opinion. However, neither Macquarie s written opinion nor the summary of its opinion and the related analyses set forth in this information statement are intended to be, and they do not constitute, a recommendation to any holder of our Common Stock as to how such stockholder should vote (if such stockholder was requested to vote) or act on any matter relating to the Merger.

Financing (page 36)

Parent has obtained debt financing commitments for (i) the transaction contemplated by the Merger Agreement, the proceeds of which will be used in part by Parent to pay the aggregate Merger Consideration and all related fees and expenses (the Transactions) and (ii) specified other transactions.

Royal Bank of Canada (Royal Bank), RBC Capital Markets (RBCCM), Deutsche Bank AG New York Branch (DBNY), Deutsche Bank Securities Inc. (DBSI and, together with DBNY and such of its and DBSI s branches or affiliates as they deem appropriate, DB), Barclays Bank PLC (Barclays), Bank of Montreal (BMO), BMO Capital Markets Corp. (BMOCM,), Chain Bridge Opportunistic Funding, LLC (Chain Bridge and, together with Royal Bank, DB, Barclays and BMO, the Commitment Parties), committed to provide a $320 million first lien secured term loan facility, a $50 million senior secured revolving credit facility, and a $130 million second lien secured term loan facility, of which an amount to be agreed to in the definitive documentation will be available on the closing date to finance the Transactions contemplated by the Merger Agreement on the terms and subject to the conditions set forth in an amended and restated debt commitment letter dated October 24, 2018 (which we refer to as the Debt Commitment Letter), between the Commitment Parties and Parent and Merger Sub. RBCM, DBSI, Barclays and BMOC will act as the lead arrangers and book manager for the first lien secured term loan facility and the second lien secured term loan facility (in such capacities, collectively, the Lead Arrangers). Royal Bank (or an affiliate, designee or sub-agent thereof) will act as administrative agent for the first lien secured facilities and the second lien secured term loan

facility (in

such capacities, the Administrative Agent). The obligation of the Commitment Parties to provide the debt financing under the Debt Commitment Letter is subject to certain customary conditions.

Parent has entered into an equity commitment letter (the Equity Commitment Letter) with The Veritas Capital Fund VI, L.P. (the Equity Investor), dated October 12, 2018, pursuant to which the Equity Investor has agreed to provide committed equity financing of no less than $431,000,000 to Parent as a source of a portion of the funds required to consummate the transactions contemplated by the Merger Agreement. The obligations of the Equity Investor to provide the equity financing on the terms outlined in the Equity Commitment Letter are subject to certain customary conditions.

A more detailed description of the financing is provided in The Merger Financing beginning on page 36.

The obligations of Parent and Merger Sub to complete the Merger under the Merger Agreement are not subject to any financing condition.

The Merger Agreement (page 50 and Annex A)

When the Merger Becomes Effective (page 50)

We expect to complete the Merger by the end of the fourth quarter of 2018 or in the first quarter of 2019. However, the Merger is subject to customary conditions and it is possible that factors outside the control of the parties could result in the Merger being completed at a later time, or not at all.

Conditions to Completion of the Merger (page 66)

The obligation of each of the Company, Parent and Merger Sub to consummate the Merger is subject to the satisfaction or, to the extent permitted by applicable law, waiver of the following conditions:

- the affirmative written consent of the holder(s) of a majority of the outstanding Common Stock in favor of adoption of the Merger Agreement, which consent was delivered to the Company and Parent on October 12, 2018, as described above, thereby satisfying this condition;

- the delivery to the Company s stockholders of this information statement at least twenty (20) calendar days prior to the closing of the Merger, and the consummation of the Merger being permitted by Regulation 14C of the Securities Exchange Act of 1934, as amended (the Exchange Act);

- the absence of any law, order of law, injunction, judgment or ruling by any court of competent jurisdiction or governmental entity that would enjoin, prohibit, restrain or, make illegal, enjoin or otherwise prohibit the consummation of the Merger;

- the absence of any action or proceeding by any governmental entity challenging or seeking to make illegal, to delay materially or otherwise restrain or prohibit the consummation of the Merger; and

the expiration or termination of all waiting periods applicable to the Merger under the HSR Act (as defined below), which applicable waiting period was terminated on November 2, 2018.

In addition, the obligation of each of Parent and Merger Sub to consummate the Merger is subject to the satisfaction or, to the extent permitted by applicable law, waiver of the following conditions:

the accuracy of the representations and warranties of the Company (in certain cases, subject to materiality, material adverse effect and other qualifications specified in the Merger Agreement);

the Company s performance of and compliance with its obligations and covenants under the Merger Agreement in all material respects;

- delivery by the Company of an officer s certificate certifying that each of the conditions listed in the first and second bullet points immediately above has been satisfied;
- delivery by the Company of a certificate under Section 1445 of the Internal Revenue Code of 1986, as amended (the Code);
- the termination of certain agreements between the Company and the Cambium Majority Stockholder, and VKidz and the VKidz Majority Stockholder;
- the consummation of the VKidz Acquisition (which condition the parties have confirmed will be satisfied upon the occurrence of certain events prior to the Effective Time of the Merger related to the consummation of the VKidz Acquisition immediately after the Effective Time of the Merger); and
- since October 12, 2018, there shall not have occurred a material adverse effect with respect to the Company and its subsidiaries, taken as a whole.

In addition, the obligation of the Company to consummate the Merger is subject to the satisfaction or, to the extent permitted by applicable law, waiver of the following conditions:

- the accuracy of the representations and warranties of Parent and Merger Sub in the Merger Agreement, subject to material adverse effect qualifications specified in the Merger Agreement;
- each of Parent s and Merger Sub s performance of and compliance with their obligations and covenants under the Merger Agreement in all material respects; and
- delivery by Parent and Merger Sub of an officer s certificate certifying that each of the conditions listed in the first and second bullet points immediately above has been satisfied.

No Solicitation (page 58)

Following the execution of the Merger Agreement, except as permitted by the Merger Agreement, the Company and its subsidiaries, and their respective representatives are not permitted to solicit alternative acquisition proposals from third parties, including by:

- soliciting, initiating or knowingly encouraging or knowingly facilitating any inquiry, proposal or offer regarding the making of any proposal or offer that constitutes a Company Takeover Proposal (as defined on page 59);
- engaging in, continuing or otherwise participating in any discussions or negotiations regarding, or furnishing to any other person any non-public information for the purposes of encouraging or facilitating any inquiry, proposal

or offer that constitutes a Company Takeover Proposal; and

approving, endorsing, recommending or entering into, or publically proposing to approve, endorse, recommend or enter into any Company Takeover Proposal.

Under the terms of the Merger Agreement, the Company has agreed to immediately (1) cease and cause to be terminated any negotiations with any persons (other than Parent and Merger Sub and their representatives) that may be ongoing with respect to a Company Takeover Proposal and (2) cease providing any information to any such person or its representatives and terminate all access granted to any such person and its representatives to any physical or electronic data room, in each case with respect a Company Takeover Proposal.

As a result of the execution and delivery of the Stockholder Written Consent on October 12, 2018, the requisite stockholder approval has been obtained; therefore, the Board has no ability to change its recommendation, and the Company is prohibited from responding to unsolicited proposals and terminating the Merger Agreement to accept a superior proposal.

Termination (page 67)

The Merger Agreement may be terminated before the completion of the Merger in certain circumstances. See The Merger Agreement Termination beginning on page 67.

As a result of the execution and delivery of the Stockholder Written Consent on October 12, 2018, the requisite stockholder approval has been obtained; therefore, the Company is prohibited from terminating the Merger Agreement to accept a superior proposal.

Termination Fee (page 68)

The Merger Agreement provides that the Company will pay Parent a termination fee in an amount of $22 million and Parent will pay the Company a termination fee in an amount of $57 million, as applicable, in certain situations. Additionally, the Company will reimburse Parent s expenses up to a maximum of $4 million in specified circumstances. For more information about the circumstances in which the Company or Parent must pay a termination fee and/or expense reimbursement, see The Merger Agreement Termination Fee beginning on page 68.

Remedies (page 71)

Subject to the limitations described in The Merger Agreement Limitations on Remedies (page 70), the parties are entitled to an injunction, specific performance and other equitable relief to prevent breaches of the Merger Agreement and to enforce specifically the terms of the Merger Agreement, in addition to any other remedy to which they are entitled at law or in equity, unless they are able under the circumstances to elect to, and do elect to, pursue payment of the termination fee and, if applicable, expense reimbursement.

Regulatory and Other Governmental Approvals (page 63)

Under the Merger Agreement, the Merger cannot be completed until the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), expires or has been terminated. The Company and Parent and its affiliates originally filed their respective HSR Act notifications on October 26, 2018, and on November 2, 2018, the Company and Parent received early termination of the waiting period under the HSR Act in connection with the Merger. Except as have been obtained, there are no other federal or state regulatory requirements or approvals that must be complied with or obtained that are conditions to the consummation of the Merger.

Interests of Our Directors and Officers and Certain Stockholders in the Merger (page 39)

You should be aware that the Company s directors and executive officers and certain stockholders may be deemed to have interests in the Merger that may be different from or in addition to the interests of the Company s stockholders generally, and that may present actual or potential conflicts of interest. These interests include, among others:

- VSS and related affiliates are entitled to certain fees, plus reimbursement and expenses, in connection with the Merger and the VKidz Acquisition, payable by the Company and VKidz, respectively, in an aggregate amount equal to approximately $7,876,000, subject to adjustment. Certain of our Board members are affiliated with VSS (Messrs. Jeffrey T. Stevenson and David F. Bainbridge);

VSS-VKidZ, an affiliate of VSS, is the VKidz Majority Stockholder and holds 3,000,000 shares of VKidz common stock and, in connection with the consummation of the VKidz Acquisition, is entitled to receive cash consideration in an aggregate amount of approximately $46,519,800, subject to adjustment as set forth in the VKidz Purchase Agreement (as defined below) and plus repayment of certain debt obligations;

On April 30, 2013, the Company entered into an employment agreement with Joe Walsh, to serve as our Executive Chairman of the Board. For his services as Executive Chairman of the Board, on June 17, 2013, Mr. Walsh was granted certain profits interests in VSS-Cambium Holdco, the Parent of the Cambium Majority Stockholder, that would entitle him to a portion of the realized return on the investment in the Company made by VSS-affiliated funds equal to approximately $11,370,000, payable in connection with the consummation of the Merger. Mr. Walsh is no longer an employee of the Company, but remains Chairman of the Board; and

continued indemnification and insurance coverage for our current and former directors and officers for six (6) years following the Effective Time of the Merger.

These interests are discussed in more detail in The Merger Interests of our Directors and Officers and Certain Stockholders in the Merger beginning on page 39. The Board was aware of these interests and considered that such interests may be different from or in addition to the interests of the Company s stockholders generally, among other matters, in making its determination and recommendation in connection with the Merger Agreement and the transactions contemplated thereby, including the Merger.

Material U.S. Federal Income Tax Consequences of the Merger to Holders of Common Stock (page 46)

The exchange of shares of Common Stock for cash in the Merger will be a taxable transaction to U.S. holders for U.S. federal income tax purposes. In general, a U.S. holder whose shares of Common Stock are converted into the right to receive cash in the Merger will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between the amount of cash received with respect to such shares (determined before the deduction of any required withholding taxes) and its adjusted tax basis in such shares. Backup withholding may also apply to the cash payments made pursuant to the Merger unless the U.S. holder or other payee provides a taxpayer identification number, certifies that such number is correct and otherwise complies with the backup withholding rules. With certain exceptions, payments made to a non-U.S. holder with respect to shares of Common Stock exchanged for cash pursuant to the Merger will generally be exempt from U.S. federal income tax. A non-U.S. holder may, however, be subject to backup withholding with respect to the cash payments made pursuant to the Merger, unless the holder certifies that it is not a United States person or otherwise establishes a valid exemption from backup withholding tax. See Material U.S. Federal Income Tax Consequences of the Merger to Holders of Common Stock beginning on page 46 for definitions of U.S. holder and non-U.S. holder and for a more detailed discussion of the U.S. federal income tax consequences of the Merger. Tax matters can be complicated, and the tax consequences of the Merger to you will depend on your particular tax situation. The Company urges you to consult your tax advisor on how specific tax consequences of the Merger apply to you in light of your own particular circumstances, including U.S. federal estate, gift and other non-income tax consequences, and tax consequences under state, local or foreign tax laws.

Holders of shares of Common Stock are urged to consult their tax advisors about the

United States federal, state, local and foreign tax consequences of the Merger.

Treatment of the Company s Outstanding Options to Purchase Common Stock (page 51)

Each compensatory option to purchase shares of Common Stock (Company Options), whether vested or unvested, at the Effective Time of the Merger, will be cancelled without any action required on the part of the holder in consideration for the right to receive a cash payment equal to the product of (a) the number of shares of Common Stock subject to such Company Options immediately prior to the Effective Time and (b) the excess, if any, of the Merger Consideration over the exercise price per share of Common Stock subject to such Company Option. The Board has unanimously resolved that all unvested Company Options outstanding immediately prior to the Effective

Time will accelerate at the Effective Time.

Market Price of Our Common Stock (page 72)

The Common Stock is quoted and traded on Nasdaq under the trading symbol ABCD. The closing sale price of the Common Stock on October 12, 2018, which was the last trading day prior to the announcement of the Merger Agreement, was $12.07 per share. The closing sale price of our Common Stock on November 16, 2018, which is the most recent practicable date before this information statement was mailed to our stockholders, was $14.41 per share.

Appraisal Rights (page 73)

If the Merger is completed, holders of Common Stock, other than VSS-Cambium, and any other holder of Common Stock who has waived appraisal rights, may elect to pursue their appraisal rights under the Delaware General Corporation Law (DGCL) to receive, in lieu of the Merger Consideration, the fair value of their shares, as determined by the Court of Chancery of the State of Delaware, but only if such holders comply with the procedures set forth in Sections 262 of the DGCL. To exercise these rights, you must make a written demand for appraisal on or prior to December 9, 2018, which is the date that is 20 days following the mailing of this information statement, and otherwise comply precisely with the procedures set forth in Section 262 of the DGCL for exercising appraisal rights. For a summary of these procedures, see Appraisal Rights beginning on page 73. A copy of Section 262 of the DGCL is reproduced in its entirety and included as **Annex C** to this information statement. Failure to follow the procedures set forth in Section 262 of the DGCL will result in the loss of appraisal rights.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following questions and answers are intended to briefly address some questions you may have regarding the Merger Agreement and the Merger. These questions and answers may not address all questions that may be important to you as a stockholder of the Company. Please refer to the more detailed information contained elsewhere in this information statement, the annexes to this information statement and the documents referred to or incorporated by reference in this information statement, each of which you should read carefully. You may obtain information incorporated by reference in this information statement without charge by following the instructions under Where You Can Find Additional Information beginning on page 81.

Q: What is the proposed transaction and what effects will it have on the Company?

A: The proposed transaction is the acquisition of the Company by an affiliate of Veritas. Upon the terms and subject to satisfaction or waiver of the conditions under the Merger Agreement, Merger Sub, a wholly-owned subsidiary of Parent, which itself is an affiliate of Veritas, will merge with and into the Company, with the Company surviving the Merger as a wholly-owned subsidiary of Parent and an affiliate of Veritas. In addition, as previously disclosed, the Company entered into a Stock Purchase Agreement (as amended from time to time, the VKidz Purchase Agreement) with Edcity Holding Inc., a Florida corporation (Edcity), VSS VKidZ LLC (VSS VKidZ , and together with Edcity, the VKidz Sellers), VKidz, and VSS-VKidZ, solely in its capacity as Representative (as defined in the VKidz Purchase Agreement), pursuant to which the Company agreed, on the terms and subject to the conditions stated therein, to acquire from the VKidz Sellers all of the issued and outstanding capital stock of VKidz (the VKidz Acquisition). The Company will consummate the VKidz Acquisition immediately after the Effective Time.

Q: What will I be entitled to receive in the Merger?

A: If the Merger is completed, your shares of Common Stock that are outstanding immediately prior to the Effective Time will be automatically converted into the right to receive a cash payment equal to $14.50 per share, without interest. You will not be entitled to receive shares of the surviving corporation or of Parent or any of their respective affiliates.

Q: What will option holders receive in the Merger?

A: If the Merger is completed, each Company Option, whether vested or unvested, that is outstanding and unexercised immediately prior to the Effective Time will be cancelled by virtue of the Merger without any action required on the part of the holder in consideration for the right to receive a cash payment equal to the product of (a) the number of shares of Common Stock subject to such Company Options immediately prior to the Effective Time and (b) the excess, if any, of the Merger Consideration over the exercise price per share of Common Stock subject to such Company Option. If the exercise price of a Company Option is more than or equal to $14.50, then no consideration will be paid for that Company Option, and it will be cancelled in the Merger.

Q: When do you expect the Merger to be completed?

A: We are working to complete the Merger as soon as possible. We currently expect to complete the Merger promptly after all of the conditions to the Merger have been satisfied or waived. Completion of the Merger is expected to occur either in the fourth quarter of 2018 or the first quarter of 2019. However, the Merger is subject to various closing conditions and it is possible that the failure to promptly meet these closing conditions or other factors outside of the Company s control could require the Company to complete the Merger at a later time or not at all.

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Q: What happens if the Merger is not completed?

A: If the Merger is not completed for any reason, the holders of our Common Stock will not receive any payment for their shares in connection with the Merger and your shares will not be canceled. Instead, our Common Stock will remain outstanding and continue to be quoted and traded on Nasdaq. Under specified circumstances, the Company may be required to pay Parent a termination fee of approximately $22 million, plus up to $4 million of expense reimbursement, or Parent may be required to pay the Company a termination fee of approximately $57 million. See The Merger Agreement Termination Fee beginning on page 68.

Q: What happens if a third party makes an offer to acquire the Company before the Merger is completed?

A: As a result of the execution and delivery of the Stockholder Written Consent on October 12, 2018, the requisite stockholder approval has been obtained, and the Company has no further ability to negotiate unsolicited alternative acquisition proposals or to terminate the Merger Agreement to enter into a superior proposal. See The Merger Agreement No Solicitation beginning on page 58.

Q: Why am I not being asked to vote on the Merger?

A: Applicable Delaware law, our certificate of incorporation and the Merger Agreement require the adoption of the Merger Agreement by the holders of at least a majority of the outstanding shares of Common Stock to approve the Merger. The required stockholder approval was obtained when the Stockholder Written Consent was executed and delivered on October 12, 2018 after the Merger Agreement was executed by VSS-Cambium, the Cambium Majority Stockholder. Therefore, your vote is not required and is not being sought. We are not asking you for a proxy and you are requested not to send us a proxy or your stock certificates at this time.

Q: Why did I receive this information statement?

A: You are receiving this information statement because you owned shares of the Company s Common Stock on the close of business on October 12, 2018, which is the record date for determining stockholders to receive this information statement. Applicable law and securities regulations require the Company to provide you with information regarding the Merger, even though your vote or consent is neither required nor requested to authorize and adopt the Merger Agreement or complete the Merger. This information statement also constitutes notice to you of the availability of appraisal rights under Section 262 of the DGCL, a copy of which is attached to this information statement as **Annex C**. Upon completion of the Merger, the Company will send a second notice to the persons entitled thereto setting forth the effective date of the Merger as may be required by Section 262(d)(2) of the DGCL.

Q: Did the Board approve and recommend the Merger Agreement?

A: Yes. The Board unanimously voted to approve the Merger Agreement and recommend the adoption of the Merger Agreement by the Company s stockholders. To review the Board s reasons for recommending the authorization and adoption of the Merger Agreement, see The Merger Reasons for the Merger beginning on page 27.

Q: Do any of the Company s directors or executive officers have interests in the Merger that may differ from those of the Company stockholders generally?

A: You should be aware that the Company s directors and executive officers may have interests in the Merger that may be different from, or in addition to, the interests of the Company s stockholders generally. These

interests are described in more detail in the section entitled The Merger Interests of Our Directors and Officers and Certain Stockholders in the Merger beginning on page 39. The Board was aware of these interests and considered them, among other matters, in evaluating, recommending and approving the Merger Agreement and recommending the adoption of the Merger Agreement by the Company s stockholders.

Q: Should I send in my Company stock certificates now?

A: No. You will be sent a letter of transmittal with related instructions after completion of the Merger, describing how you may surrender your certificate(s) formerly representing your shares of Common Stock that were outstanding immediately prior to the Effective Time in exchange for the Merger Consideration. **Please do NOT return your stock certificate(s) to the Company at this time.** Holders of uncertificated shares of Common Stock (i.e., holders whose shares are held in book-entry form) will receive instructions from their bank, brokerage firm or other nominee as to how to effect the surrender of their uncertificated shares of Common Stock in exchange for the Merger Consideration.

Q: What happens if I sell or otherwise transfer my shares before completion of the Merger?

A: If you sell or otherwise transfer your shares of Common Stock before completion of the Merger, you will have transferred to the person that acquires your shares of Common Stock the right to receive the Merger Consideration to be received in the Merger and you will lose your appraisal rights. To receive the Merger Consideration or exercise your appraisal rights, you must hold your shares through completion of the Merger.

Q: Is the Merger subject to the fulfillment of certain conditions?

A: Yes. Before the Merger can be completed, the Company, Parent and Merger Sub must fulfill or, if permissible, waive, several closing conditions. If these conditions are not satisfied or waived, the Merger will not be completed. See The Merger Agreement Conditions to the Merger beginning on page 66.

Q: If I did not consent to the adoption of the Merger Agreement, am I entitled to appraisal rights?

A: Yes. If the Merger is consummated and you did not consent to the adoption of the Merger Agreement or waive your appraisal rights, you are entitled to seek appraisal of the fair value of your shares of Common Stock under Section 262 of the DGCL, a copy of which is attached to this information statement as **Annex C**, in connection with the Merger, provided that you comply precisely with the procedures set forth in Section 262 of the DGCL, which are described in this information statement in Appraisal Rights beginning on page 73.

Q: What are the U.S. federal income tax consequences of the Merger?

A: The Merger will be a taxable transaction for U.S. holders of shares of our Common Stock. As a result, any gain recognized by a U.S. holder as a result of the Merger will be subject to U.S. federal income tax and also may be taxed under applicable state, local or other tax laws. With certain exceptions, non-U.S. holders will generally not be subject to U.S. federal income tax on any gain they recognize as a result of the Merger. See Material U.S. Federal Income Tax Consequences of the Merger to Holders of Common Stock beginning on page 46.

We urge you to consult your tax advisor on the tax consequences to you of the Merger.

Q: Where can I find more information about the Company?

A: The Company files periodic reports and other information with the Securities and Exchange Commission (SEC). You may read and copy this information at the SEC s public reference facilities. Please call the

SEC at (800) SEC-0330 for information about these facilities. This information is also available on the website maintained by the SEC at *www.sec.gov*. For a more detailed description of the available information, please refer to the section entitled Where You Can Find Additional Information beginning on page 81.

Q: Who can help answer my other questions?

A: If you have more questions about the Merger, please contact Alliance Advisors at 200 Broadacres Drive, 3rd Floor, Bloomfield, NJ 07003, info@allianceadvisorsllc.com, (833)782-7146. If your broker holds your shares of Common Stock, you should call your broker for additional information.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This information statement and the documents to which we refer you in this information statement contain various forward-looking statements, as defined by federal securities laws, which are based on the current expectations and assumptions of, and information currently available to, the Company s management. When used in this report, the words believe, expect, estimate, project, predict, forecast, plan, anticipate, target, outlook, envis will, or should, and similar expressions or words, or the negatives of those words, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof, and readers should be aware that the Company s actual results could differ materially from those described in the forward-looking statements due to a number of factors, including, without limitation:

- uncertainties as to the timing of the Merger;
- the possibility that various closing conditions, including receipt of regulatory approvals, to the Merger may not be satisfied or waived;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement, including a termination under circumstances that could require us to pay Parent a termination fee or reimburse certain expenses;
- the failure to close or delay in consummating the Merger for any other reason, which may adversely affect our business and the price of our Common Stock;
- risks related to the financing of the Merger;
- the outcome of any legal proceedings that have been or may be instituted against the Company and others related to the Merger Agreement;
- the effects of disruption caused by the transactions contemplated by the Merger Agreement making it more difficult to maintain relationships with or retain employees, customers, suppliers, licensees, other business partners or governmental entities;
- the amount of costs, fees, expenses and charges related to the Merger;
- the potential adverse effect on our business, properties or operations because of certain covenants we agreed to in the Merger Agreement;

- the diversion of management s attention from ongoing business concerns as a result of the Merger;

- the risk that the Merger disrupts current plans and operations as a result of the announcement and consummation of the Merger; and

- such other factors, including the impact of legislative, regulatory and competitive changes and other risk factors relating to the industries in which the Company operates, as are set forth in the risk factors detailed from time to time in the Company s periodic reports and registration statements filed with the SEC including, without limitation, the risk factors detailed in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, as such risk factors may have been updated by the Company s subsequent filings with the SEC.

See Where You Can Find Additional Information beginning on page 81. Any forward-looking statements should be considered in light of these factors. Unless otherwise required by law, the Company undertakes no obligation, and expressly disclaims any obligation, to update or publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, or otherwise.

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THE PARTIES TO THE MERGER AGREEMENT

Company

Cambium Learning Group, Inc.

17855 Dallas Parkway, Suite 400

Dallas, Texas 75287

Phone: (888) 399-1995

The Company, a Delaware corporation, is an award-winning educational technology solutions leader dedicated to helping all students reach their full potential through individualized and differentiated instruction. Using a research-based, personalized approach, Cambium Learning Group delivers software as a service (SaaS) resources and instructional products that engage students and support teachers in fun, positive, safe and scalable environments. These solutions are provided through Learning A-Z® (LAZ) (online differentiated instruction for elementary school reading, writing and science), ExploreLearning® (EL) (online interactive math and science simulations and a math fact fluency solution) and Voyager Sopris Learning® (VSL) (blended solutions that accelerate struggling learners to achieve in literacy and math and professional development for teachers).

For more information about the Company, please visit the Company s website at *https://www.cambiumlearning.com/*. The information on the Company s website, other than securities filings that are otherwise incorporated herein by reference, is not incorporated into, and does not form a part of, this information statement. Detailed descriptions of the Company s business and financial results are contained in our Annual Report on Form 10-K for the year ended December 31, 2018, which is incorporated in this information statement by reference. See Where You Can Find Additional Information beginning on page 81.

Parent

Campus Holding Corp.

c/o Veritas Capital Fund Management, L.L.C.

9 West 57th Street, 29th Floor

New York, New York 10019

Phone: (212) 415-6700

Parent is a Delaware corporation and an affiliate of Veritas, a leading private equity firm that invests in companies that provide critical products and services, primarily technology and technology-enabled solutions, to government and commercial customers worldwide, including those operating in the aerospace and defense, healthcare, technology, national security, communications, energy, government services and education industries. Veritas seeks to create value by strategically transforming the companies in which it invests through organic and inorganic means. For more information on Veritas and its current and past investments, visit www.veritascapital.com. The information on Parent s website is not incorporated into, and does not form a part of, this information statement.

Merger Sub

Campus Merger Sub Inc.

c/o Veritas Capital Fund Management, L.L.C.

9 West 57th Street, 29th Floor

New York, New York 10019

Phone: (212) 415-6700

Merger Sub is a Delaware corporation that was formed by Parent solely for the purpose of completing the Merger with the Company. Merger Sub is a wholly-owned subsidiary of Parent and has not engaged in any business to date, except for activities incidental to its incorporation and activities undertaken in connection with the Merger and the other transactions contemplated by the Merger Agreement.

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THE MERGER

The following is a description of the material aspects of the Merger. For additional information, please refer to the Merger Agreement, which is attached to this information statement as ***Annex A****. We encourage you to read carefully this entire information statement for a more complete understanding of the Merger.*

Background of the Merger

The following chronology summarizes the key meetings and events that led to the signing of the Merger Agreement by the Company. In this process, management, members of the Board and other representatives of the Company held many conversations, both by telephone and in-person, about the potential transaction and alternatives. The description below covers only the key events leading up to the execution of the Merger Agreement and does not purport to catalogue every related conversation involving, among or between such representatives.

Beginning in January 2018, certain members of the Board affiliated with the Cambium Majority Stockholder began preliminary discussions with representatives of Macquarie regarding potential strategic alternatives available to the Company, including a possible sale of the Company. The Company approached Macquarie based on the Company s prior experience with certain representatives of Macquarie who the Company believed were knowledgeable about the education industry and had the requisite experience to assist the Company in evaluating strategic alternatives.

On January 31, 2018, representatives from Macquarie met with certain Board members affiliated with the Cambium Majority Stockholder (Messrs. Jeffrey T. Stevenson and David F. Bainbridge) and other representatives from the Cambium Majority Stockholder, for a high level discussion regarding, among other things, a review of potential strategic alternatives available to the Company based on publicly available information about the Company. On February 7, 2018, February 15, 2018 and February 27, 2018, Mr. Bainbridge, along with other representatives from the Cambium Majority Stockholder and its affiliates, met with representatives of Macquarie to further discuss matters relating to a potential sale and potential buyers. During the month of March 2018, Barbara Benson, Chief Financial Officer of the Company, discussed with representatives from Macquarie the terms of a potential engagement. On March 28, 2018, the Company executed an engagement letter engaging Macquarie as its financial advisor in connection with potential strategic alternatives, including a possible sale of the Company (collectively known to the Board as Project Campus); the engagement did not include Macquarie providing any advice to the Board with respect to the VKidz Acquisition described below. On April 11, 2018, the Board held an in-person meeting in Tucson, Arizona. In attendance were certain key members of the Company s management. During the meeting, Mr. Bainbridge led the Board in a strategic discussion regarding present market opportunity for Project Campus .

During the April 11, 2018 Board meeting, Mr. Bainbridge also provided an overview of the strategic fit between VKidz and the Company including their complementary product offerings and operational strengths. Mr. Bainbridge next summarized the benefit resulting from the strategic fit including increased scale, increased percentage of digital subscription revenue, faster growth rate, broader addressable market, as well as achievable cost and revenue synergies and management talent. Mr. John Edelson, the President of VKidz, also presented the Board with an overview of the VKidz business. The Board determined that it was advisable to form a special committee of the Board (the Special Committee), composed entirely of independent and disinterested directors, for purposes of reviewing a possible transaction involving VKidz. The Special Committee consisted of Messrs. Clifford K. Chiu, Walter G. Bumphus and Thomas Kalinske, and engaged independent professional advisors to assist it in evaluating the VKidz Acquisition.

On May 10, 2018, the Special Committee, together with the Audit Committee of the Board, unanimously issued their approvals, in accordance with their respective mandate and charter, regarding the VKidz Acquisition pursuant to the VKidz Purchase Agreement, among the Company, the VKidz Sellers, VKidz and VSS-VKidZ,

solely in its capacity as Representative thereunder, whereby the Company would acquire all of the issued and outstanding capital stock of VKidz pursuant to the terms therein.

On May 14, 2018, the Company publicly announced that it initiated a review of strategic alternatives to maximize shareholder value and that such strategic alternatives could include a sale of the Company or a sale of a division or divisions thereof, a strategic merger, a business combination or continuing as a standalone entity executing on its business plan. It also disclosed that it had entered into the VKidz Purchase Agreement, pursuant to which the Company agreed to acquire from the VKidz Sellers all of the issued and outstanding capital stock of VKidz on the terms and subject to the conditions stated therein, including, among others, consummation of a Purchaser Change of Control Transaction (as defined in the VKidz Purchase Agreement, which includes the Merger) and the Company s right to terminate the agreement if it determines that consummation of the VKidz Acquisition would interfere in any way with the consummation of a Purchaser Change of Control Transaction. The Company believed there are important synergies and product extensions to be achieved from the combination of the two companies that would ultimately benefit the Company s stockholders.

On June 1, 2018, at the request of the Board, Macquarie began contacting a total of 99 parties to solicit their interest in a potential acquisition of the Company with a focus as to a transaction, with or without VKidz, that would generate the highest price per share of our Common Stock. Of these parties, 20 were potential strategic buyers and 79 were potential financial buyers.

On June 14, 2018, the Board held a telephonic meeting that, at the request of the Board, was also attended by certain members of the Company s management (namely, Scott McWhorter, General Counsel, and Barbara Benson, Chief Financial Officer), as well as representatives from Macquarie, the Cambium Majority Stockholder and its affiliates, and the Company s outside counsel, Lowenstein Sandler LLP (Lowenstein Sandler). The Board discussed the review of strategic alternatives. Among other things, the representatives of Macquarie reviewed and discussed recent M&A activity in the education market and the proposed sale process for the Company.

During the months of June and early July 2018, the Company executed non-disclosure agreements (NDAs) with 61 potential buyers. Most of the NDAs included a customary standstill provision designed to provide the Board with control over the bid review process, as well as public disclosures with respect to such process, and afforded the Board the ability to maximize stockholder value with respect to proposals received during the course of such process.

On June 25, 2018, at the request of the Company, Macquarie began providing potential buyers that had signed NDAs with certain information regarding the Company prepared or approved by the Company, including the Confidential Information Memorandum (the CIM), which, among other things, contained non-public information and internal management projections regarding the Company, which included certain projections relating to VKidz where noted. The CIM was shared with 59 parties.

On July 2, 2018, at the request of the Board, Macquarie solicited non-binding indications of interest from the potential buyers that received the CIM. In the letter describing the first-round of the sales process, potential buyers were instructed that their indications should clearly state if their indication of interest contemplated the acquisition of VKidz together with the Company, or not. Bidders were informed that the Company had pursued the VKidz Acquisition because it believed, and continued to believe, there are important synergies and product extensions to be achieved from the combination of the two companies. The letter requested initial indications of interest by 12:00 pm ET on July 23, 2018.

Over the next few weeks of July 2018, the Company, with the assistance of Macquarie, responded to questions and requests for information regarding the Company and the sale process from potential buyers. The Company then

initiated in-person fireside chats in New York City with 15 potential buyers during the week of July 16, 2018. John Campbell, the Chief Executive Officer of the Company, and Ms. Benson also met in-person

or telephonically with the 15 potential buyers to discuss the Company. Of the 15 that the Company had direct communication with, two were potential strategic buyers and the rest were potential financial buyers.

On July 23, 2018, the Company received non-binding written indications of interest from 11 potential buyers, each of which contemplated the Company s prior or contemporaneous acquisition of VKidz. Of the 11 that submitted written indications of interest, two were potential strategic buyers and the rest were potential financial buyers. The price per share offers ranged from $10.50 per share to $15.00 per share of our Common Stock.

On July 24, 2018, the Board held a telephonic meeting that was also attended by certain members of the Company s management (namely, Mr. McWhorter and Ms. Benson), as well as representatives from Macquarie, the Cambium Majority Stockholder and its affiliates and Lowenstein Sandler. Macquarie provided the Board with an update on the sale process including a summary of the indications received from potential buyers in the first round. Following the discussion, the Board directed Mr. Campbell, Ms. Benson, Mr. Paul Fonte, Chief Technology Officer, Mr. Patrick Marcotte, President of LAZ, Mr. David Shuster, President of EL, and Mr. Aaron Ingold, President of VSL, and requested Mr. Edelson to engage in further discussions and diligence with ten of the potential buyers that had provided initial indications (an eleventh bidder was dropped from consideration based on its comparatively lower offer price).

On August 1, 2018, a draft of the Company s proposed form of merger agreement, prepared by Lowenstein Sandler in consultation with Company management, was provided to the Board.

From the end of July 2018 through early August 2018, management presentations commenced with each of the ten potential buyers that requested them. Three of the ten management presentations were followed by an accompanying dinner with the Company s management. The parties were also given access to a virtual data room and received third party diligence reports, including the accounting due diligence report prepared by FTI Consulting, the Company s quality of earnings consulting firm (FTI) and the market due diligence report prepared by Oliver Wyman, who was previously engaged by the Company to conduct market research.

On August 9, 2018, at the request of the Company, Macquarie requested revised non-binding indications of interest from the ten potential buyers that had advanced to the second round of the bidding process. The potential buyers were instructed to provide revised indications by 12:00 pm ET on September 6, 2018, and that the revised indications should specify a per share value (not a valuation range). The potential buyers were further informed that they would soon receive an auction draft of the Company s preferred form of merger agreement and requested issues memoranda regarding such form of merger agreement.

One week later, on August 14, 2018, the auction draft of the Company s proposed form of merger agreement was provided to the ten potential buyers.

Throughout August 2018, the Company s management, led by Ms. Benson, held telephonic meetings with nine potential buyers that requested them, providing them with financial reports and trends. Some of the potential buyers requested follow-up calls regarding the Company s financials. Two potential buyers requested a separate call to address the tax implications of the transaction.

In the latter half of August 2018, the Company provided extensive product demonstrations to the potential buyers, including its LAZ, EL and VSL product lines, as well as regarding VKidz s product lines. Some of these meetings were held online through WebX while others were in-person, including an in-person meeting with Parent on August 29, 2018 in New York City.

On August 24, 2018, three of the potential buyers requested a work paper review, attended by the Company s auditor and their respective auditors.

In August and September of 2018, the Company arranged for FTI to participate on diligence calls with four of the potential buyers, so that FTI could provide an overview of its quality of earnings reports and respond to other detailed questions. Also during this time, Oliver Wyman provided market presentations to four potential buyers.

On August 30, 2018, Parent s counsel, Schulte Roth & Zabel LLP (Schulte) had a telephonic conference with Lowenstein Sandler to discuss high-level issues anticipated for Schulte s issues memorandum with respect to the auction bid draft of the merger agreement.

On September 4 and 13, 2018, the Company engaged in legal diligence calls with two of the potential buyers. Also on September 4, 2018, Mr. Campbell held telephonic meetings with another two of the parties.

During this same time, the Company began to hold in-person technology meetings in Ann Arbor, Michigan. The meetings were attended by the potential buyers and the Company and their respective technology advisors and consultants.

At the conclusion of the second round of the process, on September 6, 2018, the Company received revised indications of interest from six potential buyers, one of which was a potential strategic buyer. Of the ten parties that had advanced after submitting initial indications, four had declined to continue their participation as of the second round bid deadline. The price per share offers ranged from $10.58 per share to $13.50 per share. Of note, the bidders that offered $15.00 per share (or a range that went up to $15.00 per share) in the previous round had revised their offer prices in this round, indicating that their bids were uncompetitive compared to others received in this second round. All of the potential buyers advised that they would like to include the VKidz Acquisition. Only Parent requested exclusivity at this time, which was declined by the Company.

On September 10, 2018, the Board held a telephonic meeting to review the revised indications of interest received in the second round of the process. The meeting was also attended by certain members of the Company s management (namely, Mr. McWhorter and Ms. Benson), as well as representatives from Macquarie, the Cambium Majority Stockholder and its affiliates and Lowenstein Sandler. At the Board s request, representatives of Macquarie summarized the revised indications of interest received from the six potential buyers, one of which was a potential strategic buyer, and Lowenstein Sandler summarized the issues memoranda received from those potential buyers as to the proposed form of merger agreement. Following discussion and deliberation with the assistance of its legal and financial advisors, the Board resolved to advance the potential buyers with the top three revised indications to the final round of bidding, as this would still allow for a competitive process, but would not be unwieldy or dissuade the potential buyers from continued engagement in the process: Parent, Participant 1 and Participant 2. Parent had submitted an offer price of $12.35 per share, Participant 1 had submitted an offer price of $13.50 per share and Participant 2 had submitted an offer price at a range of $12.50 to $13.25 per share. Parent and Participant 2 were financial sponsors, while Participant 1 was considered to be a strategic buyer.

On September 13, 2018, Schulte conducted a lengthy legal diligence call with the Company. Schulte

followed up on such call, by conducting an antitrust diligence call with the Company and Lowenstein Sandler on September 26, 2018.

On September 14, 2018, Schulte had a telephonic conference with Lowenstein Sandler to discuss its issues list on behalf of Parent regarding the auction draft of the merger agreement. On the same date, counsel to Participant 1 had a telephonic conference with Lowenstein Sandler to discuss its issues list regarding the auction draft of the merger agreement.

Participant 1 held on-site product strategy and sales sessions concerning LAZ, EL and VSL throughout the week of September 17, 2018. Each of the respective LAZ, EL and VSL product teams attended these sessions. Participant 1 also held telephonic meetings with Ms. Lin Feinberg, Chief Financial Officer of VKidz, regarding VKidz tax and finance questions. During this same time, Participant 2 met with Ms. Benson, Ms. Feinberg,

Mr. Fonte, Mr. Scott Halphen, the Company s Chief Accounting Officer, and Mr. Brad Keith, the Company s Controller, to discuss VKidz synergies and shared services. Participant 2 also engaged in EL, VSL and VKidz business and technology diligence sessions with each of their respective management teams.

On September 17, 2018, Schulte had a telephonic conference with Lowenstein Sandler regarding legal diligence. On that date, the Company also signed a clean team confidentiality agreement with the potential strategic buyer, Participant 1. On the same day, counsel for Participant 2 had a telephonic conference with Lowenstein Sandler to discuss their comments on the merger agreement (as Participant 2 had provided a full markup of the merger agreement in the second round of the process, rather than the abbreviated issues memorandum that had been requested by, and provided by the other potential buyers to, the Company).

On September 20, 2018, counsel for Participant 1 had a lengthy legal diligence call with the Company.

On September 20, 2018, at the request of the Company, Macquarie requested that Parent, Participant 1 and Participant 2 submit final written binding letters of intent. The instructions as to the final-round process advised that the final bids should be submitted by 12:00 pm ET on October 10, 2018, and that final bids must provide a specific per share value (not a valuation range). The bidders were also instructed that they should provide, by no later than 12:00 pm ET on September 28, 2018, redlined transaction documents (the merger agreement, accompanying disclosure schedules, limited guarantee, equity commitment letter and any other documents that would be required at the time of execution of the Merger Agreement (collectively, the Bid Transaction Documents)) that they would be prepared to execute on such date.

During the week of September 24, 2018, representatives from Parent met with Mr. Edelson and Ms. Feinberg. Parent also commenced EL and VKidz business and technology diligence sessions with each of their respective management teams. Later in the week, Mr. McWhorter held telephonic meetings with Parent regarding human resources and potential tax issues.

On September 24, 2018, Schulte conducted a legal due diligence call with the management of VKidz, and on September 27, 2018, Schulte conducted a legal due diligence call with the management of VKidz regarding employment matters. On September 26, 2018, counsel for Participant 1 conducted a legal due diligence call with the management of VKidz.

On September 28, 2018, counsel for Participant 1 conducted a legal due diligence call with the Company and Lowenstein Sandler. Between September 26 and 28, 2018, Macquarie, at the request of the Company, contacted each bidder telephonically to remind them, when developing their final bids, that Cambium s goal is to maximize the value of the per share consideration for Cambium s stockholders.

On September 28, 2018, the Company received markups of the Bid Transaction Documents from the three potential buyers. On October 2, 2018, the Company received further markups of the equity commitment letter and limited guarantee from Parent.

From September 28 until October 3, 2018, Lowenstein Sandler worked with members of Company management to review, and provide responsive markups on, each of the three potential buyer s Bid Transaction Documents. During such time, Lowenstein Sandler engaged with counsel for the potential buyers via telephone conferences to provide feedback on the Bid Transaction Documents received by them.

On October 1, 2018, Lowenstein Sandler on behalf of the Company requested that representatives of Macquarie inform potential buyers that they should submit bids producing the highest price per share of our Common Stock,

regardless of whether it included the VKidz Acquisition. In accordance with such instructions, Macquarie informed each potential buyer that the Board remained focused on achieving the highest per share price for our Common Stock; their bids were not required to include the Company s prior or contemporaneous

acquisition of VKidz; their bid would not be considered advantaged or disadvantaged if it included or excluded the Company s prior or contemporaneous acquisition of VKidz; the bid process required that each potential bidder expresses its bid as a per share price for our Common Stock with an indication if such price includes or excludes the Company s prior or contemporaneous acquisition of VKidz; and, if they chose to premise their bid on the Company s prior or contemporaneous acquisition of VKidz, they were free to express their bid in any manner that would convey the highest value for the shares of our Common Stock.

On October 3 and October 4, 2018, Lowenstein Sandler provided responsive markups of the merger agreements to counsel for each of Parent, Participant 1 and Participant 2, each redlined against their respective markup and the auction bid draft. On October 4, 2018, Lowenstein Sandler provided responsive markups of the guarantee and equity commitment letter to counsel for each of Participant 1 and Participant 2 and a responsive markup of Parent s equity commitment letter to Schulte, each redlined against their respective markup and the Company s initial proposed forms. On October 5, 2018, Lowenstein Sandler provided responsive markups of the disclosure schedules to counsel for each of Parent, Participant 1 and Participant 2, each redlined against their respective markup and the Company s initial proposed form. Also on that date, Lowenstein also provided a responsive markup of the guarantee with Parent to Schulte, redlined against its markup and the Company s initial proposed form.

During the first two weeks of October 2018, the Company, with the assistance of Macquarie and Lowenstein Sandler, continued to actively respond to informational requests from the three potential buyers. During the first week, Parent, Participant 1 and Participant 2 each met with Mr. Campbell, Ms. Benson and representatives of LAZ and VSL for a third quarter and year-to-date performance update. Parent attended dinner meetings with Messrs. Campbell and Edelson on October 4 and October 9, 2018, respectively. On October 4, 2018, Schulte had a legal diligence call with the Company and Lowenstein Sandler, as well as a call with just Lowenstein Sandler to discuss its responsive markup of the Bid Transaction Documents, particularly the merger agreement, provided by Schulte during the final round. On October 5, 2018, counsel and the tax advisor for Participant 1 had a diligence call with Lowenstein Sandler to discuss certain tax matters. On October 8, 2018, counsel for Participant 2 had a legal diligence call with Lowenstein Sandler and the Company s management. On the same date and then again on October 9, 2018, Schulte and Lowenstein Sandler had another call to discuss the Company s position, and Lowenstein Sandler s responsive markup, with respect to the merger agreement.

On October 10, 2018, Parent, Participant 1 and Participant 2 submitted their final bids consisting of bid cover letters, final, executable Bid Transaction Documents, and draft debt commitment papers. Of the three bids, proposals from both Parent and Participant 2 included the acquisition of VKidz, and the proposal from Participant 1 did not include VKidz.

On October 11, 2018, the Board held a telephonic meeting attended by all Board members, as well as, at the request of the Board, certain members of the Company s management, and representatives from Macquarie, the Cambium Majority Stockholder and its affiliates, Lowenstein Sandler and Richards Layton & Finger, P.A., Delaware counsel to the Company, to review the final round of proposals. Prior to the meeting, the Board received an agenda, materials summarizing the sale process to date and the three bid proposals, Lowenstein Sandler s markups of the Bid Transaction Documents received from Parent and Participant 1 (the two highest bid proposals), a comparison chart of the final proposed terms of each merger agreement prepared by Lowenstein Sandler and draft Board resolutions. At the request of the Board, Macquarie reviewed the process to date and the proposals received from the three remaining potential buyers. In addition, at the request of the Board, Macquarie reviewed and discussed its preliminary financial analyses with respect to the Company, as discussed further below. A representative of Lowenstein Sandler provided an overview of the process and proposed Bid Transaction Documents from the potential buyers. A representative of Lowenstein Sandler also provided a presentation to the Board regarding its fiduciary duties with respect to the bid selection process, during which representatives from Macquarie were excused from the meeting.

During the meeting, the Board discussed the three bid proposals. Parent offered all cash merger consideration of $13.00 per share and also included the VKidz Acquisition. (Parent had previously offered

$12.35 per share in the second round, assuming the VKidz Acquisition). Parent also advised that they would work with the Company s management to ensure proper programs would be in place to provide incentives to employees. Parent advised that it was prepared to execute definitive Bid Transaction Documents immediately. Participant 1 offered all cash merger consideration of $13.50 per share but did not include the VKidz Acquisition. (Participant 1 had previously offered $13.50 per share in the second round, assuming the VKidz Acquisition). Participant 1 also conveyed that it was prepared to execute definitive Bid Transaction Documents immediately. Participant 2 offered all cash merger consideration of $12.50 per share and included the VKidz Acquisition. (Participant 2 had previously offered a range of $12.50-$13.25 per share at the conclusion of the second round of the process, assuming the VKidz Acquisition). Participant 2 advised that they would be able to work with the Company to finalize Bid Transaction Documents, including amending and restating the VKidz Purchase Agreement to provide for cash consideration, by October 14, 2018, if not sooner. Participant 2 requested a brief period of exclusivity otherwise its bid proposal would terminate at 5:00 pm ET on October 12, 2018.

The Board also reviewed and compared the Bid Transaction Documents that Parent and Participant 1 represented they were prepared to execute immediately. Parent s merger agreement provided greater certainty around antitrust approval and its commitment to pursue the same, as well as greater certainty around financing and its commitment to pursue the same. Participant 1 s merger agreement provided only limited certainty relating to antitrust approval, limited certainty relating to financing, and required a minimum 60 day period before which, even if all other conditions were satisfied, closing could occur.

At the conclusion of the meeting, the Board instructed Macquarie and Lowenstein Sandler to request best and final offers from Parent and Participant 1.

After the Board meeting concluded, Lowenstein Sandler provided further markups of the Bid Transaction Documents, including markups of draft debt commitment papers, to counsel for Parent and Participant 1. As instructed by the Board, representatives of Macquarie informed the two remaining potential buyers to provide their best and final per share price offer and executable documents by 10:30 am ET on the following day, October 12, 2018. As previously instructed, Macquarie reminded the two final bidders that the Board was focused on achieving the highest per share price for our Common Stock; there was no requirement to include the VKidz Acquisition in their bids; a bid would not be considered advantaged or disadvantaged if a potential buyer chose to include or exclude the VKidz Acquisition in its bid; and, if a potential buyer chose to include the VKidz Acquisition, such potential buyer was free to express its bid in any manner that conveys the highest value per share of our Common Stock.

In the late evening of October 11, 2018 and early morning of October 12, 2018, Lowenstein engaged with Schulte and counsel for Participant 1 regarding open points of discussion in the Bid Transaction Documents, particularly the Merger Agreement.

The Company received final bids from Parent and Participant 1 in the late morning of October 12, 2018. Participant 1 proposed a price of $14.00 per share, which did not include consummating the VKidz Acquisition. Parent proposed a per share offer price of $14.50 to the Company s stockholders, and a price of $11.50 per share for our Common Stock to be issued as consideration in connection with the VKidz Acquisition. The Bid Transaction Documents received from Parent also included a proposed draft amendment to the VKidz Purchase Agreement to, among other things, provide Parent with the ability to seek representation and warranty insurance, and to have the sellers of VKidz waive their appraisal rights in connection with the Merger.

Parent s proposed amendment to the VKidz Purchase Agreement was shared with Edcity and Mr. Edelson, and their counsel, Perlman, Bajandas, Yevoli & Albright, P.L. (PBYA). Lowenstein Sandler also confidentially shared the draft merger agreement proposed by Parent with PBYA. It was confirmed that the VKidz Sellers would waive their

appraisal rights in connection with the Merger, pursuant to the terms of the proposed amendment to the VKidz Purchase Agreement.

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In the early afternoon on October 12, 2018, the Board held a telephonic meeting attended by the full Board, certain members of the Company s management, and representatives of Macquarie and Lowenstein Sandler, in order to review the final two offers.

Later in the afternoon on October 12, 2018, the Special Committee of the Board, which on May 10, 2018, had previously declared advisable, fair to and in the best interests of the Company s stockholders for the Company to enter into the VKidz Purchase Agreement and consummate the VKidz Acquisition pursuant to the terms therein, reconvened to discuss the draft second amendment to the VKidz Purchase Agreement proposed by Parent with its final Bid Transaction Documents. The Special Committee, who was advised by its own advisors, unanimously approved and declared advisable, fair to and in the best interests of the Company s stockholders, the proposed second amendment to the VKidz Purchase Agreement.

In the early evening on October 12, 2018, after the close of trading on Nasdaq, the Board again reconvened by telephone to discuss the final two offers. Prior to the meeting, the Board received a revised draft of Board resolutions. At the meeting, Macquarie reviewed and discussed its financial analyses with respect to the Company and the proposed Merger. Thereafter, at the request of the Board, Macquarie rendered its oral opinion to the Board (which was subsequently confirmed in writing by delivery of Macquarie s written opinion addressed to the Board dated as of the same date), as to, as of October 12, 2018, the fairness, from a financial point of view, to the holders of our Common Stock, other than the Excluded Holders, of the Merger Consideration to be received by such holders in the Merger pursuant to the Merger Agreement after giving effect to but without addressing the proposed VKidz Acquisition. The Board also took into consideration that the proposed Merger would trigger certain previously negotiated and previously disclosed transaction fees, plus reimbursement of related expenses, payable by the Company to VSS or its designee and that the VKidz Acquisition would trigger certain previously negotiated transaction fees, plus reimbursement of related expenses, payable by VKidz to VSS-VKidZ or its affiliated designee. The aggregate amount of such transactions fees from both the Merger and the VKidz Acquisition payable to VSS and its related affiliates is equal to approximately $7,876,000, subject to adjustment. After further discussion, on motions duly made and seconded, the Board unanimously (i) determined that the terms and provisions of the Merger Agreement and the transaction contemplated thereby, including the Merger, are fair to, advisable and in the best interests of the Company and its stockholders, (ii) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Merger, (iii) resolved to recommend to the stockholders of the Company that such holders adopt the Merger Agreement, and (iv) directed that the Merger Agreement be submitted to the holders of Common Stock, including the Cambium Majority Stockholder for adoption. The Board also resolved to take the following actions: (x) exercise its right to accelerate the outstanding Company Options immediately prior to the Merger; and (y) affirmatively determine that Parent and Merger Sub are each to be deemed an Exempt Person under the terms of the Company s Tax Asset Protection Rights Agreement, dated as of September 21, 2016 (the Rights Agreement), with Equiniti Trust Company (successor of interest of Wells Fargo Bank, National Association), as Rights Agent thereunder.

Bid Transaction Documents were executed with Parent and its Merger Sub, as of October 12, 2018, and an executed Debt Commitment Letter was delivered to the Company. The Company, VKidz and the VKidz Sellers also executed and delivered the second amendment to the VKidz Purchase Agreement. The Cambium Majority Stockholder executed and delivered to Parent its agreement as to its post-closing non-solicitation and no-hire covenant.

In accordance with the terms of the Merger Agreement stating that the Cambium Majority Stockholder s written consent to the Merger would be delivered no later than 8:30 pm ET on the date immediately following the date of execution and delivery of the Merger Agreement, the Cambium Majority Stockholder delivered its executed written consent at approximately 10:00 pm ET on October 12, 2018.

A press release announcing the Merger was disseminated on October 15, 2018 at approximately 6:15 am ET and the Company filed disclosure of the Merger on a Current Report on Form 8-K shortly thereafter.

On November 1, 2018, the Special Committee and the Audit Committee reconvened to consider a proposed third amendment to the VKidz Purchase Agreement with the other parties thereto (the Amendment). The Amendment changes the form, but not the amount, of consideration to be issued by the Company to the VKidz Sellers from shares of Common Stock to cash, for the purpose of simplifying the closing mechanics of the VKidz Purchase Agreement. Pursuant to the terms of the Amendment, in lieu of shares of Common Stock, the Excluded Holders would receive an aggregate cash payment in the amount of $77,533,000, which is the product of (i) 6,742,000 shares of Common Stock that were to be issued to the VKidz Sellers prior to the Amendment and (ii) the fixed per share price of $11.50, which represents the per share consideration the VKidz Sellers would have received under the Merger Agreement had they been issued Common Stock. On November 1, 2018, the Special Committee voted unanimously to recommend that the Company adopt and enter into the Amendment and the Audit Committee unanimously voted to adopt the recommendations of the Special Committee. On November 8, 2018, the Company and the other parties to the VKidz Purchase Agreement entered into the Amendment. In addition, on November 8, 2018, the Company, Parent and Merger Sub confirmed their intention and agreement to consummate the VKidz Acquisition immediately after the Effective Time. As a result, the Excluded Holders will receive as consideration an aggregate cash payment in the amount of $77,533,000, and will neither beneficially own, immediately prior to the Effective Time, any shares of Common Stock, nor receive any Merger Consideration pursuant to the Merger Agreement, rather, the Excluded Holders will receive the consideration, in the form of cash, as set forth in the VKidz Purchase Agreement.

Reasons for the Merger

In evaluating the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, the Board consulted with senior management of the Company, as well as representatives of Macquarie and Lowenstein Sandler. In the course of making the determination that the Merger and the other transactions contemplated by the Merger Agreement are fair to, and in the best interests of, the Company and its stockholders, approving and declaring advisable the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement and recommending that the holders of our Common Stock vote in favor of the adoption of the Merger Agreement, the Board considered numerous factors, including the following material factors and benefits of the Merger:

The fact that the price proposed by Parent reflected extensive negotiations between the parties and their respective advisors, and represented the highest bona fide per share price (supported by committed financing) that the Company was offered for the shares of our Common Stock after a broad competitive solicitation of interest and the Company s belief that the agreed price was the highest price per share Parent was willing to agree to;

The fact that the Board, with the assistance of the senior management of the Company, as well as representatives of Macquarie and Lowenstein Sandler, conducted a broad, lengthy and thorough sale process, after publicly announcing that the Company commenced a process for exploring strategic alternatives, that sought offers to purchase from an initial global group of 99 potential parties, including financial and strategic investors, 61 of whom elected to enter into NDAs and received information related to the Company, and that, following extensive due diligence and negotiations, the Board believed that the Merger Consideration to be paid by Parent reflected the highest per share value reasonably available for the Company s stockholders. The bidding process is more fully described under The Merger Background of the Merger beginning on page 19 of this information statement;

The fact that the Board believed that there were no other potential buyers that would be reasonably likely to engage in a transaction in the near term at a price per share greater than the price being offered by Parent and on other acceptable terms. After the Company announced that it was seeking strategic alternatives when it filed a Current Report on Form 8-K with the SEC on May 17, 2018 and after a long, robust auction process, the Board believed that Parent was the most viable party left in the sale process. In contrast with Parent, the Board believed that Participant 1 could not agree to the same level of commitment relating to antitrust approval and financing in order to provide the Company with

assurance of a timely and more certain closing of the Merger. The bidding process is more fully described under The Merger Background of the Merger beginning on page 19 of this information statement;

The fact that the Merger Consideration of $14.50 per share to be received by the Company stockholders in the Merger represents a significant premium over the historical market prices at which shares of our Common Stock traded prior to the Company s announcement that it commencing a process to explore strategic alternatives on May 14, 2018, when the Common Stock traded at $10.50 per share, or when first and second round bids were due during the sale process, when trading of the Common Stock closed at $12.20 per share on July 23, 2018 and $12.61 per share on September 6, 2018, respectively, or at the close of markets on October 12, 2018 when it was $12.07 per share;

The fact that the Merger Consideration is all cash, which provides liquidity and certainty of value to the Company s stockholders, enabling them to realize value that had been created pursuant to the recent increase in the Company s stock price, while eliminating long-term business and execution risk;

The Company s current and historical financial condition, results of operations, competitive position, strategic options and prospects, as well as the financial plan and prospects if the Company were to remain an independent public company and the potential impact of those factors on the trading price of our Common Stock (which cannot be quantified numerically);

The prospective risks to the Company as an independent public company, including the risks and uncertainties with respect to:

Achieving the Company s growth plans in light of the current and foreseeable market conditions, including the risks and uncertainties in the U.S. and global economy generally,

Competing with the Company s competitors in a market with increasing industry consolidation and the risk that potential opportunities could diminish in the future as the Company s competitors continue to pursue acquisitions, and

The other risk factors set forth in the Company s Form 10-K for the fiscal year ended December 31, 2017;

The support of the Cambium Majority Stockholder, which controlled approximately 68.4% of the aggregate outstanding shares of our Common Stock as of October 12, 2018, who will be receiving the same form and amount of Merger Consideration for its shares of our Common Stock as all other stockholders;

The financial analyses reviewed and discussed with the Board by representatives of Macquarie, as well as the oral opinion of Macquarie rendered to the Board on October 12, 2018 (which was subsequently

confirmed in writing by delivery of Macquarie s written opinion addressed to the Board dated the same date), as to, as of October 12, 2018, the fairness, from a financial point of view, to the holders of our Common Stock, other than the Excluded Holders, of the Merger Consideration to be received by such holders in the Merger pursuant to the Merger Agreement after giving effect to but without addressing the proposed VKidz Acquisition;

The fact that the Merger Agreement contains customary terms and was the product of arm s-length negotiations;

The availability of appraisal rights to our stockholders who properly exercise their statutory rights under Section 262 of the DGCL (see Appraisal Rights beginning on page 73);

The experience and reputation of Parent s affiliate, Veritas; and

The definitive agreements between Parent and The Veritas Capital Fund VI, L.P. of committed equity financing, and the Debt Commitment Letter from Royal Bank of Canada, Deutsche Bank AG New York Branch, Deutsche Bank Securities Inc., Barclays Bank Plc, Bank of Montreal, BMO Capital Markets Corp., Chain Bridge Opportunistic Funding, LLC to provide debt financing.

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The Board also considered and balanced the potentially positive factors against a number of potentially negative factors concerning the Merger, including the following factors:

The fact that following the completion of the Merger, the Company will no longer exist as an independent public company and that the Company s existing stockholders will not be able to participate in any future earnings or growth of the Company, or in any future appreciation in value of shares of our Common Stock;

The fact that, while the Merger is expected to be completed, there are no assurances that all conditions to the parties obligations to complete the Merger will be satisfied or waived, and as a result, it is possible that the Merger might not be completed, including as a result of a failure by Parent to obtain the financing or regulatory clearance to the standards set forth in the Merger Agreement, as described under The Merger Agreement Conditions to Completion of the Merger beginning on page 66;

That, as a condition to paying the Merger Consideration, Parent insisted that the terms of the Merger Agreement: (i) require the Company to deliver a written consent, executed by the Cambium Majority Stockholder, that constitutes the stockholder approval necessary to consummate the Merger not later than 8:30 p.m. local time, New York, New York on the date immediately following the execution and delivery of the Merger Agreement and (ii) prohibit the Company and its representatives from engaging in discussions regarding unsolicited proposals and terminating the Merger Agreement in favor of a superior proposal following the receipt of the Stockholder Written Consent. As discussed above, however, the Board believed that there were no other potential purchasers that would be reasonably likely to engage in a transaction in the near term at a price per share greater than the price being offered by Parent;

The fact that the Merger Consideration consists of cash and will therefore be taxable to the Company stockholders for U.S. federal income tax purposes;

The risk that the debt financing contemplated by the Debt Commitment Letter (or any alternative financing) might not be obtained, resulting in Parent potentially not having sufficient funds to complete the Merger, and while the Company may seek specific performance, such specific performance may only be sought if debt financing is available to Parent;

The fact that the applicable reverse termination fee is not available in all instances where the Merger Agreement may be terminated and may be the Company s only recourse in respect of termination when it is available;

The fact that the guarantors monetary damages under the Guarantee cannot exceed the amount of the reverse termination fee payable by Parent and Merger Sub;

- The possibility of disruption to the Company s business that could result from the announcement of the Merger and the resulting distraction of management s attention from day-to-day operations of the business and its ability to attract and retain key employees during the pendency of the Merger;

- The fact that the Company has incurred and will incur substantial expenses related to the transactions contemplated by the Merger Agreement, regardless of whether the Merger is consummated; and

- The fact that the Merger Agreement prohibits the Company from taking a number of actions relating to the conduct of its business prior to the closing without the prior written consent of Parent, which may delay or prevent the Company from undertaking business opportunities that may arise during the pendency of the Merger, whether or not the Merger is completed.

During its consideration of the transaction with Parent, the Board was also aware of and considered that the Company s directors and executive officers may have interests in the Merger that may differ from, or be in addition to, their interests as stockholders of the Company generally, including certain previously negotiated fees payable to VSS and its affiliates in connection with consummation of the Merger and the VKidz Acquisition, as described under The Merger Interests of Our Directors and Officers and Certain Stockholders in the Merger beginning on page 39.

After taking into account all of the factors set forth above, as well as others, the Board unanimously determined that the potentially positive factors outweighed the potentially negative factors. The foregoing discussion of the factors considered by the Board is not intended to be exhaustive, but summarizes the material information and factors considered by the Board in its consideration of the Merger. The Board reached the decision to unanimously recommend and approve the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, in light of the factors described above and other factors the Board felt were appropriate.

In view of the variety of factors and the quality and amount of information considered, the Board did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination, and individual members of the Board may have given different weights to different factors. The Board conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, management of the Company, Macquarie, as financial advisor, and Lowenstein Sandler, as legal advisor, and considered the factors overall to be favorable to, and to support, its determinations. It should be noted that this explanation of the reasoning of the Board and certain information presented in this section is forward-looking in nature and should be read in light of the factors set forth in Cautionary Statement Regarding Forward-Looking Statements beginning on page 17.

Opinion of the Company s Financial Advisor

On October 12, 2018, Macquarie rendered its oral opinion to the Board (which was subsequently confirmed in writing by the delivery of Macquarie s written opinion addressed to the Board dated the same date) as to, as of October 12, 2018, the fairness, from a financial point of view, to the holders of the shares of Common Stock, other than the Excluded Holders, of the Merger Consideration to be received by such stockholders in the Merger pursuant to the Merger Agreement after giving effect to but without addressing the VKidz Acquisition.

Macquarie s opinion was directed to the Board (in its capacity as such), and only addressed the fairness, from a financial point of view, to the holders of Common Stock, other than the Excluded Holders, of the Merger Consideration to be received by such stockholders in the Merger pursuant to the Merger Agreement after giving effect to but without addressing the Vkidz Acquisition and did not address any other aspect or implication of the Merger. With the Company s agreement, Macquarie s financial analyses and opinion did not address the VKidz Purchase Agreement or the VKidz Acquisition. The summary of Macquarie s opinion in this information statement is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex B to this information statement, and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Macquarie in preparing its opinion. However, neither Macquarie s written opinion nor the summary of its opinion and the related analyses set forth in this information statement are intended to be, and they do not constitute, a recommendation to any holder of Common Stock as to how such stockholder should vote or act on any matter relating to the Merger.

In arriving at its opinion, Macquarie, among other things:

(i) reviewed a draft, dated October 12, 2018, of the Merger Agreement;

(ii) reviewed certain publicly available business and financial information regarding the Company;

(iii) reviewed certain other financial and operating information relating to the Company furnished by the management of the Company, including financial projections prepared by the management of the Company relating to the Company for the fiscal years ending December 31, 2018 through December 31, 2022 (the Company Projections);

(iv) discussed the Merger and our business, operations, financial condition and prospects with members of the management of the Company;

(v) reviewed certain financial and stock market data with respect to the Company and compared that data with similar data for other companies with publicly traded equity securities that Macquarie deemed relevant; and

(vi) performed such other financial analyses and considered such other information and factors that Macquarie deemed appropriate for purposes of its opinion.

Macquarie did not undertake any responsibility for independently verifying, and did not independently verify, any of the foregoing information, and Macquarie assumed and relied upon the accuracy and completeness of all such information. Management of the Company advised Macquarie, and Macquarie assumed, that the Company Projections were reasonably prepared in good faith on bases reflecting such management s best currently available estimates and judgments as to the future financial performance and condition of the Company. The Company advised Macquarie, and Macquarie assumed, that the Company Projections were a reasonable basis on which to evaluate the Company and the Merger and, at the Company s direction, Macquarie used and relied upon the Company Projections for purposes of its analyses and opinion. Macquarie expressed no view or opinion as to the Company Projections or the assumptions upon which they were based. Further, Macquarie relied upon and assumed, without independent verification, that there had been no change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company since the respective dates of the most recent financial statements and other information, financial or otherwise, provided to Macquarie that would be material to its analysis or opinion, and that there was no information or any facts that would make any of the information reviewed by Macquarie incomplete or misleading. In connection with its opinion, Macquarie did not make, or assume any responsibility for making, any physical inspection, independent evaluation of or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company, nor was Macquarie furnished with any such evaluations or appraisals.

Macquarie relied upon and assumed that, except as would not be material to its analysis or opinion, the representations and warranties of each party in the Merger Agreement were true and correct, each party would perform all of the covenants and agreements required to be performed by it under the Merger Agreement, all of the conditions to the consummation of the Merger would be satisfied, and the Merger would be consummated in accordance with the terms set forth in the Merger Agreement without waiver, modification or amendment of any terms or provisions thereof. Macquarie further assumed, with the Company s consent, that, except as would not be material to its analysis or opinion, the Merger would be consummated in a manner that complies in all respects with all applicable federal and state statutes, rules and regulations and that, except as would not be material to its analysis or opinion, all governmental, regulatory, third-party and other consents, approvals or releases necessary for the consummation of the Merger would be obtained without undue delay, limitation, restriction or condition (including the disposition of businesses or assets). In addition, Macquarie assumed that, except as would not be material to its analysis or opinion, the final form of the Merger Agreement would not differ from the draft of the Merger Agreement reviewed by it.

Macquarie s opinion did not address the underlying business decision of the Board or the Company to effect the Merger or the relative merits of the Merger as compared to any alternative business strategies or transactions available to the Company. Macquarie s opinion was necessarily based on information made available to Macquarie as of the date of the opinion and financial, economic, market and other conditions as they existed and could be evaluated on the date of the opinion. Macquarie expressed no opinion or view as to the potential effects of the unusual volatility being experienced in the credit, financial and stock markets on the Company or the Merger. Macquarie did not have any obligation to update, revise, reaffirm or withdraw its opinion or to otherwise comment on or consider events occurring or coming to its attention after the date of its opinion.

Macquarie s opinion only addressed the fairness, from a financial point of view, to holders of Common Stock, other than the Excluded Holders, of the Merger Consideration to be received by such stockholders in the Merger pursuant to the Merger Agreement after giving effect to but without addressing the VKidz Acquisition and did not address any

other aspect or implication of the Merger or any consent, agreement, arrangement or

understanding provided or entered into in connection therewith or otherwise including, without limitation, (i) the VKidz Acquisition, (ii) the form or structure of the Merger, or any portion thereof, and (iii) the fairness of the amount or nature of, or any other aspect relating to, any compensation or Merger Consideration to be paid or payable to any officers, directors or employees of any parties to the Merger (in their respective capacities as such), or any class of such persons, relative to the Merger Consideration or otherwise. Macquarie s opinion did not address the individual circumstances of any specific holder of Common Stock with respect to the tax consequences of the Merger or any control, voting or any other rights, aspects or relationships which may distinguish such holders, including without limitation whether any such holder might otherwise seek or be able to obtain a control premium for their shares. Macquarie did not provide any advice or opinion as to matters that require legal, regulatory, accounting, insurance, executive compensation, tax or other similar professional advice. Macquarie assumed that the Company had obtained or would obtain such advice or opinions from appropriate professional sources. Furthermore, Macquarie relied upon the accuracy and completeness of the assessments by the Company and its advisors with respect to all legal, regulatory, accounting, insurance, executive compensation and tax matters. Macquarie did not express any opinion as to whether or not the Company, Parent, its security holders or any other party was receiving or paying reasonably equivalent value in the Merger, the solvency, creditworthiness or fair value of the Company, Parent or any other participant in the Merger, or any of their respective assets, under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters.

Macquarie s opinion is for the information and use of the Board (in its capacity as such) in connection with its consideration of the Merger. Macquarie s opinion does not constitute a recommendation to the Board, the Company, the holders of Common Stock or any other person as to how to act or vote with respect to any matter relating to the Merger.

Under the terms of its engagement, neither Macquarie s opinion nor any other advice or services rendered by it in connection with the Merger or otherwise, should be construed as creating, and Macquarie will not be deemed to have, any fiduciary, agency or similar duty to the Board, the Company, Parent, any security holder or creditor of the Company, or any other person, regardless of any prior or ongoing advice or relationships. Under the terms of its engagement, Macquarie was retained by the Company as an independent contractor and the opinion and other advice rendered by Macquarie were provided solely for the use and benefit of the Board (in its capacity as such) in connection with its consideration of the Merger. As a matter of state law, Macquarie believes the opinion and other advice of Macquarie may not be used or relied upon by any other person without its prior written consent. *See, e.g., Joyce v. Morgan Stanley,* 538 F.3d 797 (7th Cir. 2008), *HA2003 Liquidating Trust v. Credit Suisse Secs. (USA) LLC,* 517 F.3d 454 (7th Cir. 2008) and *Collins v. Morgan Stanley Dean Witter,* 224 F.3d 496 (5th Cir. 2000). By limiting the foregoing statement to matters of state law, Macquarie is not, and should not be deemed to be, admitting that Macquarie has any liability to any persons with respect to its advice or opinion under the federal securities laws. Furthermore such statement is not intended to affect the rights and responsibilities of the Board under governing state law or the federal securities laws. Any claims under the federal securities laws against Macquarie or the Board will be subject to adjudication by a court of competent jurisdiction.

Summary of Material Financial Analyses

The following is a summary of the material financial analyses reviewed by Macquarie with the Board in connection with the rendering of its opinion to the Board on October 12, 2018. The summary does not contain all of the financial data holders of the shares of the Common Stock may want or need for purposes of making an independent determination of fair value. Holders of the Common Stock are encouraged to consult with their own financial and other advisors before making an investment decision in connection with the proposed Merger. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description

of the analyses, as well as the methodologies underlying, and the assumptions, qualifications and limitations affecting, each analysis, could create a misleading or incomplete view of Macquarie s analyses.

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For purposes of its analyses, Macquarie reviewed a number of financial metrics including:

Enterprise Value generally the value as of a specified date of the relevant company s outstanding equity securities (taking into account its options and other outstanding convertible securities) plus the value as of such date of its net debt (the value of its outstanding indebtedness, preferred stock and capital lease obligations less the amount of cash on its balance sheet).

Adjusted EBITDA generally the amount of the relevant company s earnings before interest, taxes, depreciation and amortization for a specific time period, as adjusted for certain non-recurring items.

Cash Income generally the amount of the relevant company s Adjusted EBITDA reduced by capitalized expenditures, and further adjusted to ***remove*** the timing differences for recognition of deferred revenues and related deferred costs for a specific time period.

Unless the context indicates otherwise, (1) share prices for the selected companies used in the selected companies analysis described below were as of October 11, 2018, (2) estimates of financial performance for the selected companies listed below were based on publicly available research analyst estimates for those companies, and (3) estimates of future financial performance of the Company were based on the Company Projections.

Selected Companies Analysis

Macquarie considered certain financial data for the Company and selected companies with publicly traded equity securities Macquarie deemed relevant. The financial data reviewed included:

Enterprise Value as a multiple of Adjusted EBITDA for the last twelve months, or LTM Adjusted EBITDA ;

Enterprise Value as a multiple of estimated Adjusted EBITDA for the calendar year ended December 31, 2018, or CY 2018E Adjusted EBITDA ;

Enterprise Value as a multiple of estimated Adjusted EBITDA for the calendar year ended December 31, 2019, or CY 2019E Adjusted EBITDA ; and

Enterprise Value as a multiple of Cash Income for the last twelve months, or LTM Cash Income .

The selected companies and resulting mean and median data were:

Pearson PLC

Scholastic Corporation

Houghton Mifflin Harcourt Company

K12 Inc.

Cengage Learning Holdings

School Specialty, Inc.

	Enterprise Value/Adjusted EBITDA			Enterprise Value / LTM Cash Income
	LTM	CY2018E	CY2019E	
Mean	7.0x	6.9x	6.1x	10.7x
Median	7.3x	7.4x	5.9x	11.3x

Taking into account the results of the selected companies analysis, Macquarie applied selected multiple ranges of 3.8x to 8.9x to the Company s LTM Adjusted EBITDA, 3.7x to 9.7x to the Company s estimated CY

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2018E Adjusted EBITDA, 3.5x to 8.9x to the Company s estimated CY 2019E Adjusted EBITDA and 7.9x to 13.0x to the Company s LTM Cash Income. The selected companies analysis indicated implied reference ranges per common share of $3.69 to $8.82 based on LTM Adjusted EBITDA, $3.59 to $9.72 based on estimated CY 2018E Adjusted EBITDA, $4.06 to $10.57 based on estimated CY 2019E Adjusted EBITDA and $6.81 to $11.43 based on LTM Cash Income, as compared to the Merger Consideration of $14.50 per common share in the Merger pursuant to the Merger Agreement.

Discounted Cash Flow Analysis

Macquarie performed a discounted cash flow analysis of the Company based on the Company Projections. Macquarie applied a range of terminal value multiples of 6.0x to 10.0x to the Company s LTM 2022E Adjusted EBITDA and discount rates ranging from 7.5% to 9.5%. The discounted cash flow analysis indicated implied value reference ranges per common share of $11.86 to $18.96, as compared to the Merger Consideration of $14.50 per common share in the Merger pursuant to the Merger Agreement.

Other Matters

Macquarie acted as financial advisor to the Company in connection with the Merger and became entitled to a fee of $1,000,000 upon the delivery of its opinion. Macquarie will also receive a transaction fee for its services upon consummation of the Merger based on the value of the transaction, which fee is currently estimated to be approximately $7.1 million. The transaction fee will be reduced by the amount of the opinion fee to the extent previously paid. In addition, the Company agreed to reimburse certain of Macquarie s expenses and to indemnify Macquarie and certain related parties against certain liabilities arising out of its engagement. In the ordinary course of business, Macquarie and its affiliates may acquire, hold, sell or trade debt, equity and other securities and financial instruments (including derivatives, loans and other obligations) of the Company, Parent, any other company that may be involved in the Merger and their respective affiliates (including Veritas and its affiliated investment funds and portfolio companies), for its and their own accounts and for the accounts of its and their customers and, accordingly, may at any time hold a long or short position in such securities or financial instruments. Macquarie and its affiliates provide a wide range of investment banking advice and services, including financial advisory services, securities underwritings and placements, securities sales and trading, brokerage advice and services, and loans. Macquarie and its affiliates have in the past provided investment banking advice and services to affiliates of Parent (including Veritas and its affiliated investment funds and portfolio companies) for which Macquarie or its affiliates have received compensation including, during the last two years, having acted as financial advisor to an affiliate of Parent in connection with its acquisition of the government information technology services business of Harris Corporation in April 2017, having acted as financial advisor to Alion Science and Technology Corporation, an affiliate of Parent, in connection with its acquisition of MacAulay-Brown, Inc. in August 2018 and having participated in offerings of debt securities by certain of affiliates of Parent for which advice and services Macquarie and its affiliates have received aggregate fees of approximately $25 million during such period. Macquarie and its affiliates may in the future provide investment banking advice and services, and may otherwise seek to expand its business and commercial relationships with, the Company, Veritas, Parent and their respective affiliates for which Macquarie would expect to receive compensation. Macquarie and/or its affiliates are also lenders to or participants in one or more of the credit facilities of certain affiliates of Veritas.

Certain Company Forecasts

The Company does not, as a matter of general practice, publicly disclose long-term forecasts or internal projections of its future performance, revenues, earnings, financial condition or other results due to, among other things, the uncertainty underlying assumptions and estimates. However, as part of the preparation for the Board s strategic review

process, Company management developed certain financial forecasts in January 2018 that included Company projections through fiscal year 2022 and incorporated the Company s 2018 fiscal year budget; these projections were updated in the second quarter of 2018 to reflect a revised 2018 projected revenue and

EBITDA forecast of the Company (the Company Forecasts). The updated forecast projected 2018 revenue of $167.1 million which was in-line with the Company s 2018 fiscal year budget. The 2018 Adjusted EBITDA projection was $50.6 million, which was also in-line with the 2018 budget. The Company Forecasts included projections of the Company only and did not give any effect to the consummation of the VKidz Acquisition.

The Company Forecasts were made available to the Board and the Company s financial advisors, and were made available to, and discussed with, Parent in connection with the process resulting in the execution of the Merger Agreement. The portions of the Company Forecasts set forth below are included in this information statement only because this information was used at the Board s direction by Macquarie in connection with their financial analysis of the proposed transaction. However, the inclusion of such information should not be regarded as an indication that any party considered, or now considers, any of the Company Forecasts to be a reliable prediction of future results. No person has made or makes any representation or warranty to any stockholder of the Company or any other person regarding the information included in the Company Forecasts.

The Company Forecasts are subjective in many respects and are susceptible to multiple interpretations and periodic revisions based on actual experience and business developments. Although presented with numerical specificity, the Company Forecasts are based upon and reflect numerous judgments, estimates and assumptions made by the Company s management with respect to industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to the Company s business, all of which are difficult to predict and many of which are beyond the Company s control. As such, the Company Forecasts constitute forward-looking statements and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, including the factors described under Cautionary Statement Regarding Forward-Looking Statements . As a result, we cannot assure you that the estimates and assumptions made in preparing the Company Forecasts will prove accurate, that the projected results will be realized or that actual results will not be significantly higher or lower than projected results. In addition, the Company Forecasts cover multiple years and such information by its nature becomes less reliable with each successive year.

Some or all of the assumptions that have been made regarding, among other things, the occurrence or the timing of certain events or impacts have changed since the date the Company Forecasts were made, and the portions of the Company Forecasts set forth below do not take into account any circumstances or events occurring after the date the applicable forecast was prepared, including the announcement of the Merger and transaction-related expenses. The Company Forecasts do not take into account the effect of any failure of the Merger to occur and should not be viewed as accurate in that context.

The unaudited prospective financial information was not prepared with a view toward complying with Generally Accepted Accounting Principles (GAAP), the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants with respect to the preparation or presentation of prospective financial information. Certain of the unaudited prospective financial information presents financial metrics that were not prepared in accordance with GAAP including EBITDA, Adjusted EBITDA and Cash Income. EBITDA is earnings from operations before interest, income taxes, and depreciation and amortization, Adjusted EBITDA is EBITDA excluding non-operational, non-cash items such as stock-based compensation, merger, acquisition and disposition activities, certain impairment charges, and restructuring charges. Cash Income reduces Adjusted EBITDA for capital expenditures and removes the timing differences for recognition of deferred revenues and related deferred costs. These non-GAAP financial measures may be different from non-GAAP financial measures used by other companies. The Company has not prepared, and neither the Board nor the Company s financial advisors have considered, a reconciliation of these non-GAAP financial measures to applicable GAAP financial measures.

Except to the extent required by applicable federal securities laws, we do not intend, and expressly disclaim any responsibility, to update or otherwise revise the Company Forecasts to reflect circumstances existing after

the date when the Company prepared the Company Forecasts or to reflect the occurrence of future events or changes in general economic or industry conditions, even in the event that any of the assumptions underlying the Company Forecasts are shown to be in error.

(in thousands) FYE 12/31	2017	LTM 6/30/18	LTM 9/30/18	2018E	2019E	2020E	2021E	2022E
Revenue	$ 158,184	$ 159,455	$ 160,656	$ 167,110	$ 188,252	$ 217,616	$ 250,293	$ 291,777
% growth	*3.8%*			*5.6%*	*12.7%*	*15.6%*	*15.0%*	*16.6%*
EBITDA	$ 41,369	$ 39,897	$ 40,552	$ 48,967	$ 59,989	$ 73,848	$ 87,584	$ 103,882
% margin	*26%*	*25%*	*25%*	*29%*	*32%*	*34%*	*35%*	*36%*
D&A	$ 20,766	$ 20,380	$ 19,956	$ 20,302	$ 20,900	$ 23,400	$ 25,500	$ 25,500
% of Revenue	*13%*	*13%*	*12%*	*12%*	*11%*	*11%*	*10%*	*9%*
EBIT	$ 20,603	$ 19,517	$ 20,596	$ 28,665	$ 39,089	$ 50,448	$ 62,084	$ 78,382
% margin	*13%*	*12%*	*13%*	*17%*	*21%*	*23%*	*25%*	*27%*
Capital Expenditures	($ 18,160)	($ 17,332)	($ 16,276)	($ 19,416)	($ 21,722)	($ 23,405)	($ 24,283)	($ 25,058)
% of Revenue	*11%*	*11%*	*10%*	*12%*	*12%*	*11%*	*10%*	*9%*
Change in Deferred Revenue	$ 6,195	$ 8,800	$ 11,536	$ 14,491	$ 17,719	$ 19,807	$ 27,534	$ 33,056
Change in Deferred Costs	($ 936)	($ 1,078)	($ 1,490)	($ 3,495)	($ 1,650)	($ 2,098)	($ 3,362)	($ 4,270)
Adjusted EBITDA	$ 48,965	$ 48,608	$ 50,216	$ 50,605	$ 59,789	$ 73,648	$ 87,384	$ 103,682
% margin	*31%*	*30%*	*31%*	*30%*	*32%*	*34%*	*35%*	*36%*

The Company s stockholders are urged to review the Company s most recent SEC filings for a description of the Company s reported results of operations, financial condition and capital resources as of, and for the fiscal year ended, December 31, 2017, and as of, and for the nine months ended, September 30, 2018. See Where You Can Find Additional Information beginning on page 81.

For the foregoing reasons, as well as the bases and assumptions on which the unaudited prospective financial information was compiled, the inclusion of the Company s unaudited prospective financial information in this information statement should not be regarded as an indication that such information will be predictive of future results or events nor construed as financial guidance, and it should not be relied on as such or for any other purpose whatsoever.

THE COMPANY HAS NOT UPDATED AND DOES NOT INTEND TO UPDATE OR OTHERWISE REVISE THE PROSPECTIVE FINANCIAL INFORMATION SET FORTH ABOVE, INCLUDING, WITHOUT LIMITATION, TO REFLECT CIRCUMSTANCES EXISTING AFTER THE DATE SUCH INFORMATION WAS PREPARED OR TO REFLECT THE OCCURRENCE OF FUTURE EVENTS, INCLUDING, WITHOUT LIMITATION, CHANGES IN GENERAL ECONOMIC, REGULATORY OR INDUSTRY CONDITIONS, EVEN IN THE EVENT THAT ANY OR ALL OF THE ASSUMPTIONS

UNDERLYING THE PROSPECTIVE FINANCIAL INFORMATION ARE NO LONGER APPROPRIATE.

Financing

Parent estimates the total amount of funds necessary to complete the Merger and the related transactions to be approximately $881 million, which includes approximately $708 million to be paid to Company stockholders and holders of other equity-based interests in the Company, with the remainder to be applied to refinancing the Company s debt, satisfying certain of the Company s obligations and to pay related fees and expenses in connection with the Merger, the financing arrangements and the related transactions. Parent has received equity financing commitments from the Equity Investor and debt financing commitments from the Commitment Parties. Notwithstanding such arrangements, the obligations of Parent and Merger Sub under the Merger Agreement are not subject to any financing condition.

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Equity Financing

Parent has entered into an Equity Commitment Letter with the Equity Investor, dated October 12, 2018, pursuant to which the Equity Investor has agreed to provide committed equity financing of no less than $431,000,000 to Parent as a source of a portion of the funds required to consummate the transactions contemplated by the Merger Agreement. The obligations of the Equity Investor to provide the equity financing on the terms outlined in the Equity Commitment Letter are subject to consummation of the debt financing described below and the substantially simultaneous consummation of the Merger on the terms set forth in the Merger Agreement, among other conditions. See The Merger Agreement Conditions to Completion of the Merger beginning on page 66.

Debt Financing

Parent has received the debt financing commitments made by the Commitment Parties under the Debt Commitment Letter pursuant to which the Commitment Parties have committed to provide a $320 million first lien secured term loan facility (the First Lien Term Facility), a $50 million senior secured revolving facility (the Revolving Credit Facility) and a $130 million second lien secured term loan facility (the Second Lien Term Facility, together with the First Lien Term Facility, the Term Loan Facilities, and collectively with the Revolving Credit Facility, the Facilities), of which an amount to be agreed in the definitive documentation (the Company Financing) will be available on the closing date to finance the Transactions, contemplated by the Merger Agreement, which is to be provided by a syndicate of lenders (the Lenders) to be arranged by the Commitment Parties.

The obligation of the Commitment Parties to provide the Company Financing on the terms outlined in the Debt Commitment Letter is subject to the satisfaction (or waiver) of the following conditions, among others:

the payment of all fees payable pursuant to an amended and restated fee letter, dated October 24, 2018, between the Commitment Parties and Parent and Merger Sub, and reasonable and documented out-of-pocket expenses required to be paid pursuant to the Debt Commitment Letter to the extent invoiced at least three business days prior to the consummation of the Merger;

Merger Sub and the Company and their subsidiaries acquired in the Merger shall have provided to Lenders the documentation and other information theretofore requested in writing by such Lenders at least ten (10) business days prior to the closing date that is required by regulatory authorities under applicable know your customer and anti-money laundering rules and regulations, including, without limitation, the PATRIOT Act and a certification regarding beneficial ownership required by the Beneficial Ownership Regulation;

the making of certain Merger Agreement representations and credit facility representations consistent with the Debt Commitment Letter;

the preparation, negotiation, execution and delivery by Merger Sub and its subsidiaries of definitive documentation with respect to the Facilities consistent with the Debt Commitment Letter;

the Commitment Parties shall have received the following: (i) customary legal opinions, (ii) customary officer certificates, (iii) good standing certificates (to the extent applicable) in the respective jurisdictions of organization of the borrower and the guarantors, (iv) a solvency certificate, substantially in the form attached thereto certifying that the borrower and its subsidiaries, on a consolidated basis after giving effect to the transaction contemplated hereby, are solvent, (v) resolutions of the borrower and the guarantors, (vi) certificated charter documents of the borrower and the guarantors and (vii) evidence of insurance;

the consummation of the Merger substantially and concurrently with the initial borrowing under the Facilities in all material respects in accordance with the terms of the Merger Agreement and all other related documentation (without amendment, modification or express waiver thereof or consent thereto that is materially adverse to the initial lenders under and as defined in the Debt Commitment Letter without the consent of the Lead Arrangers under the Debt Commitment Letter);

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the absence of any fact, circumstance, occurrence, effect, change, event or development since October 12, 2018, that has had or would reasonably be expected to have a Company Material Adverse Effect (as defined in the Merger Agreement);

the Commitment Parties shall have received the following financial statements for the acquired business: (i) audited financial statement of income and cash flows for the acquired business for the fiscal year ended December 31, 2017, (ii) combined audited balance sheet for the acquired business for the fiscal year ended December 31, 2017, (iii) unaudited statements of income, balance sheet and cash flows for the acquired business for each fiscal quarter subsequent to December 31, 2017 and ended at least forty five (45) days prior to the closing date, and (iv) a *pro forma* combined consolidated balance sheet and related *pro forma* combined consolidated statement of income of holdings as of and for the twelve (12) month period ending on the latest balance sheet date described in the foregoing clause (iii), prepared after giving effect to the Merger and other Transactions as if the Transactions had occurred as of such date (in the case of such balance sheet) or at the beginning of such period (in the case of the statement of income) which need not be prepared in compliance with Regulation S-X of the Securities Act of 1933, as amended (the Securities Act), or include adjustments for purchase accounting (including adjustments of the type contemplated by Financial Accounting Standard Board Accounting Standards Codification 805, *Business Combinations* (formerly SFAS 141R)). Notwithstanding the foregoing, the obligations in clause (i), (ii) or (iii) may be satisfied with respect to financial information of the acquired business by furnishing to the Commitment Parties the acquired business s Form 10-K or 10-Q, as applicable, filed with the SEC, in each case, for the time periods specified in such paragraphs and to the extent such information is contained in such filed Form 10-K or 10-Q, as applicable; and

the Lead Arrangers shall have been afforded a period of at least fifteen (15) consecutive business days following receipt of the financial statements described above to market the Facilities, subject to certain customary blackout periods.

Although the debt financing described in this information statement is not subject to the Commitment Parties , Lead Arrangers or Lenders satisfaction with their due diligence, such financing might not be funded on the scheduled closing date of the Merger because of failure to meet the closing conditions to the Company Financing. As of the date of this information statement, no alternative financing arrangements or alternative financing plans have been made for the purpose of consummating the Merger. The definitive documentation governing the debt financing facilities has not been finalized, and accordingly, the actual terms may differ from those described in this information statement.

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Interests of Our Directors and Officers and Certain Stockholders in the Merger

Stock held by our Directors and Named Executive Officers

As of November 16, 2018, our directors and named executive officers and their affiliates beneficially owned approximately 68.7% of our outstanding Common Stock, excluding shares that may be acquired through the exercise of Company Options. The following table summarizes the shares of Common Stock beneficially owned as of November 16, 2018 by our named executive officers and directors (excluding shares that may be acquired through the exercise of Company Options, which are summarized below) and the consideration that each of them will receive pursuant to the Merger Agreement in connection with the ownership of their shares.

	Shares of Common Stock Owned (#)	Resulting Consideration to be Paid at Completion of Merger ($)
Named Executive Officers:		
John Campbell	2,704	39,208
Barbara Benson		
Joe Walsh		
Directors:		
David F. Bainbridge[(1)]	32,334,595	468,851,628
Walter G. Bumphus	29,358	425,691
Clifford K. Chiu	53,000	768,500
Carolyn Getridge	1,439	20,866
Thomas Kalinske	64,030	928,435
Jeffrey T. Stevenson[(1)]	32,334,595	468,851,628

(1) By virtue of their positions within VSS and by virtue of VSS equity interest in VSS-Cambium, Messrs. Stevenson and Bainbridge each may be deemed to share investment and voting control with respect to the 32,334,595 shares of Common Stock owned by VSS-Cambium.

Relationships with VSS/the Cambium Majority Stockholder

Messrs. Stevenson and Bainbridge are members of our Board, and serve as Managing Partner and Managing Director, respectively, of VSS. VSS-Cambium, the Cambium Majority Stockholder, and VSS-VKidZ, the VKidz Majority Stockholder, are affiliates of VSS. VSS-Cambium is the beneficial owner of 32,334,595 shares of Common Stock, and VSS-VKidZ is the beneficial owner of 3,000,000 shares of VKidz common stock.

Consummation of the Merger triggers certain previously negotiated transaction fees, plus reimbursement of related expenses, payable by the Company to VSS or its designee, and consummation of the VKidz Acquisition triggers certain previously negotiated transaction fees, plus reimbursement of related expenses, payable by VKidz to VSS-VKidZ or its affiliated designee. The aggregate amount of such transactions fees from both the Merger and the VKidz Acquisition payable to VSS and its related affiliates is equal to approximately $7,876,000, subject to adjustment.

In connection with the consummation of the VKidz Acquisition, VSS-VKidZ is entitled to receive consideration in an aggregate amount of approximately $46,519,800, subject to adjustment as set forth in the VKidz Purchase Agreement and plus repayment of certain debt obligations.

For his services as Executive Chairman of the Board, on June 17, 2013, Mr. Walsh was granted certain profits interests in VSS-Cambium Holdco that would entitle him to a portion of the realized return on the investment in the Company made by VSS-affiliated funds equal to approximately $11,370,000, payable by VSS-Cambium Holdco upon consummation of the Merger. Mr. Walsh is no longer an employee of the Company, but remains Chairman of the Board.

Arrangements with Parent

As of the date of this information statement, none of our executive officers has entered into any agreement with Parent or any of its affiliates regarding employment with, or the right to purchase or participate in the equity of, the Company, as the surviving corporation of the Merger (the Surviving Corporation) or one or more of its affiliates. Prior to or following the closing of the Merger certain of our executive officers may have discussions, or may enter into agreements with, Parent, Merger Sub, the Surviving Corporation or their respective affiliates regarding employment with the Surviving Corporation or one or more of its affiliates. Additionally, prior to or following the closing of the Merger, certain of our executives may have discussions regarding the potential opportunity to purchase a portion of the equity of an affiliate of Parent following the closing of the Merger.

Indemnification; Insurance

The Merger Agreement provides that, following the Effective Time, the surviving corporation and Parent will indemnify and hold harmless and advance expenses to all past and present directors, officers and employees of the Company or any of its subsidiaries as set forth in, and in no event on terms less favorable than, those contained in the organizational documents of the Company or its applicable subsidiary in effect as of October 12, 2018, subject to applicable law, for acts or omissions occurring at or prior to the Effective Time, or in connection with the process resulting in and the adoption of the Merger Agreement.

For a period of six (6) years after the Effective Time, except as required by applicable law, the certificate of incorporation and bylaws of the surviving corporation shall contain provisions no less favorable with respect to exculpation, indemnification of and advancement of expenses for periods at or prior to the Effective Time than were set forth in the Company organizational documents as of October 12, 2018. Following the Effective Time, the indemnification agreements, if any, in existence on the date hereof with any of the directors, officers or employees of the Company or any of its subsidiaries shall be assumed by the surviving corporation, without any further action, and shall continue in full force and effect in accordance with their terms.

In addition, for a period of six (6) years after the Effective Time, Parent will or will cause the surviving corporation to maintain for the benefit of the past and present directors and officers of the Company and its subsidiaries an insurance and indemnification policy that provides coverage for events occurring prior to the Effective Time that is substantially equivalent to and in any event not less favorable in the aggregate than the existing policies of the Company and its subsidiaries; provided, however, that Parent and the surviving corporation will not be required to pay an aggregate premium in excess of 300% of the annual premiums currently paid by the Company. The provisions of the immediately preceding sentence shall be deemed to have been satisfied if prepaid tail directors and officers liability insurance policies have been obtained prior to the Effective Time which policies provide coverage to each person currently covered by the Company s and the Company s subsidiaries directors and officers liability insurance coverage in effect on October 12, 2018 on terms that are no less favorable than those of the Company s and the Company s subsidiaries directors and officers insurance coverage in effect on October 12, 2018 for an aggregate period of at least six (6) years from and after the Effective Time with respect to claims arising from actions and omissions that occurred on or before the Effective Time, including in respect of the transactions contemplated by this Agreement.

Treatment of Equity-Based Awards

At the Effective Time of the Merger, each Company Option to acquire shares of our Common Stock that is outstanding immediately prior to the Effective Time of the Merger, whether or not then vested or exercisable, will be cancelled and converted into the right to receive, as promptly as practicable (but no later than five (5) business days) after the Effective Time, an amount in cash, without interest and less such amounts as are required to be deducted

under applicable tax law with respect to making such payments, equal to the product of (x) the aggregate number of shares of our Common Stock subject to such Company Option and (y) the excess, if any, of the Merger Consideration over the per-share exercise price under such option.

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The following table summarizes the aggregate number of Company Options held by our directors and named executive officers as of November 16, 2018, and the consideration that each of them will receive pursuant to the Merger Agreement in connection with the ownership of such Company Options.

	Number of Shares Underlying Stock Options (#)[1]	Exercise Price of Options ($)	Resulting Consideration to be Paid at Completion of Merger ($)
Named Executive Officers			
John Campbell	250,000	1.30	3,300,000
	100,000	2.14	1,236,000
	35,000	4.50	350,000
	25,000	5.00	237,500
	100,000	6.31	819,000
Barbara Benson	32,000	1.30	422,400
	10,000	2.14	123,600
	13,400	2.96	154,636
	20,000	4.50	200,000
	4,000	4.77	38,920
	10,000	5.00	95,000
	10,000	5.42	90,800
	10,000	9.16	53,400
Joe Walsh			
Non-Employee Directors			
David F. Bainbridge			
Walter G. Bumphus			
Clifford K. Chiu			
Carolyn Getridge	100,000	1.30	1,320,000
Thomas Kalinske			
Jeffrey T. Stevenson			

(1) Each Company Option, whether vested or unvested, at the Effective Time of the Merger, will be cancelled without any action required on the part of the holder in consideration for the right to receive a cash payment equal to the product of (a) the number of shares of Common Stock subject to such Company Options immediately prior to the Effective Time and (b) the excess, if any, of the Merger Consideration over the exercise price per share of Common Stock subject to such Company Option. The Board has unanimously resolved that all unvested Company Options outstanding immediately prior to the Effective Time will accelerate at the Effective Time.

Severance

The Company previously entered into an employment agreement with each of Mr. Campbell and Ms. Benson. Under each of their employment agreements, in the event of a termination of employment without Cause (other than due to death or disability), as set forth in their respective employment agreements, Ms. Benson and Mr. Campbell are entitled

to (i) receive an amount equal to six (6) months and twelve (12) months, respectively, of then-current salary, payable in equal installments in accordance with the Company s regular payroll schedule subject to execution and non-revocation of a release of claims, and commencing on the first regularly scheduled payroll date following the date the release of claims is no longer subject to revocation, and subject to a dollar for dollar reduction, if, and in the amount which, Ms. Benson or Mr. Campbell, as applicable, receives compensation or other remuneration from employment or the performance of service during the period of such salary continuation, and (ii) subject to payment of required premiums, continued participation in all medical, dental and vision plans which cover Ms. Benson or Mr. Campbell, as

applicable (including his or her eligible dependents) as of the date of termination of employment for six (6) months or twelve (12) months, respectively, following the effective date of such termination (or earlier if he or she becomes eligible for coverage from a new employer) upon the same terms and conditions in effect for active employees. To the extent such COBRA coverage cannot be provided at active employee rates, the Company shall reimburse Ms. Benson or Mr. Campbell, as applicable, for any costs paid in excess of the active employee rate.

Receipt of severance benefits under the applicable employment agreement is in lieu of any other severance benefits that Mr. Campbell or Ms. Benson would have been eligible to receive from the Company or its affiliates. The Company can recover any such severance benefits in the event the Company ever determines that any action or inaction by the applicable individual constituted grounds for termination for Cause.

Mr. Campbell and Ms. Benson are required to comply with certain post-employment restrictive covenants, including an indefinite confidentiality obligation and twelve (12) month post-termination non-competition and non-solicitation of employees and business covenants. Failure to comply with the foregoing will result in cessation of severance payments and benefits.

Cause means, in general, for each of Mr. Campbell and Ms. Benson, (i) any act of theft, fraud or misappropriation of funds or property of the Company or any of its affiliates; (ii) conviction of, or pleading of guilty to, a felony or any crime involving moral turpitude; (iii) any willful misconduct or gross negligence by the applicable individual that is materially injurious, directly or indirectly, in any respect to the Company or any of its subsidiaries; (iv) any material violation of the applicable individual s obligations under his or her confidentiality agreement with the Company; or (v) any breach by the applicable individual of his or her employment agreement, including, without limitation, failure to resign from all offices and positions held at the Company and/or its affiliates if employment with the Company terminates for any reason. Cause shall not be deemed to exist under clause (iii) above unless the Company shall, to the extent such act or omission can be rescinded or cured (as determined by the Company), have given written notice to the applicable individual specifying in reasonable detail his or her acts or omissions that the Company alleges would constitute Cause and the applicable individual has failed to rescind any such act or cure any such omission within ten (10) days after delivery of the notice.

Golden Parachute Compensation

In accordance with Item 402(t) of Regulation S-K, the table below entitled Golden Parachute Compensation sets forth the estimated amounts of compensation that are based on or otherwise relate to the Merger that may become payable to each of our named executive officers.

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The amounts indicated below are estimates of the amounts that would be payable assuming, solely for purposes of this table, that (i) the Merger Consideration is $14.50 per share, (ii) except as otherwise indicated below, the closing date of the Merger is November 16, 2018, the latest practicable date prior to the filing of this information statement, and (iii) the employment of each of the named executive officers is terminated by the Company without cause immediately following consummation of the Merger. In addition, these estimates are based on certain other assumptions that are described in the footnotes accompanying the table below. Accordingly, the ultimate values to be received by a named executive officer in connection with the Merger may materially differ from the amounts set forth below.

Golden Parachute Compensation

Name/Position[(a)]	Cash ($)[(b)]	Equity ($)[(c)]	Perquisites /Benefits ($)[(d)]	Other ($)	Total ($)
John Campbell *Chief Executive Officer*	440,000	1,061,969	8,468		1,510,437
Barbara Benson *Chief Financial Officer*	120,010	225,154	4,234		349,398
Joe Walsh *Executive Chairman*					

(a) Mr. Walsh resigned from his position as an employee of the Company and our Executive Chairman on February 2, 2018, but remains Chairman of the Board.

(b) The dollar amounts in this column represent the estimated maximum amount of cash severance payable by the Company to each of our named executive officers assuming (A) each is terminated without cause (other than due to death or disability) immediately following consummation of the Merger and (B) such severance is continued for six or twelve months for Ms. Benson and Mr. Campbell, respectively, without any reduction for compensation or other remuneration from any employment or the performance of services during the period of such salary continuation payments. These cash severance amounts are not required to be quantified in the table above by Item 402(t) of Regulation S-K because such payments are triggered solely by a termination of employment, regardless of the occurrence of a change in control, and therefore they are not based on and do not relate to the Merger. However, we have quantified such severance payments in the above table for purposes of completeness. For more information, see Interests of our Directors and Officers and Certain Stockholders in the Merger Severance beginning on page 41.

(c) The amounts in this column represent the aggregate dollar amount payable with respect to Company Options held by our named executive officers in connection with the Merger. Outstanding Company Options will, pursuant to the Merger Agreement, accelerate and be cancelled and converted into the right to receive a cash payment (less applicable withholdings) equal to the excess, if any, of the Merger Consideration over the exercise price per share subject to such option less the employee portion of any applicable taxes required to be withheld or paid with respect thereto. Mr. Campbell holds 510,000 options and Ms. Benson holds 109,400 options. Under the terms of a stock option agreement evidencing 100,000 of Mr. Campbell s options, the proceeds with respect to 25,000 of such options would be placed in a deposit account to be established and paid for by VSS-Cambium or a designee of VSS-Cambium and would be payable to Mr. Campbell (without interest thereon) within five (5) business days after the later of (i) either (A) the one year anniversary of consummation of the Merger, subject to Mr. Campbell s

continued employment with the Company (or a parent or subsidiary of the Company) through such date or (B) termination of Mr. Campbell s employment without Cause, by Mr. Campbell for Good Reason , or due to Mr. Campbell s death or Disability , as set forth in the grant agreement evidencing such options prior to such date, and (ii) Mr. Campbell s execution and delivery to VSS-Cambium of a general release in favor of VSS-Cambium and its affiliates, general, limited and other partners, officers, managers, employees and agents and their respective successors and assigns, in form and substance acceptable to VSS-Cambium.

Such 25,000 options are referred to herein as the Contingent Options. Notwithstanding the foregoing, the Contingent Options will accelerate as of the time of the Merger and be cancelled and converted into the right to receive a cash payment (less applicable withholdings) equal to the excess, if any, of the Merger

Consideration over the exercise price per share subject to such option less the employee portion of any applicable taxes required to be withheld or paid with respect thereto. within five (5) business days of the closing. Amounts payable with respect to stock options held by our named executive officers, including the Contingent Options, may be characterized as single trigger because they are payable upon the closing of the Merger. Had the amounts payable with respect to the Contingent Options not been accelerated, such amounts should have been characterized as dual trigger to the extent payment would have been triggered by a termination without Cause or resignation for Good Reason following the closing of the Merger. For more information, see Interests of our Directors and Executive Officers in the Merger Treatment of Equity-Based Awards beginning on page 40.

(d) The dollar amounts in this column represent the estimated maximum cost to the Company of continuation of medical benefits to Mr. Campbell and Ms. Benson, assuming (i) each is terminated without cause (other than due to death or disability) immediately following consummation of the Merger, and (ii) such medical benefits are continued for six (6) or twelve (12) months for Ms. Benson and Mr. Campbell, respectively. These benefits are not required to be quantified in the table above by Item 402(t) of Regulation S-K because such payments are triggered solely by a termination of employment, regardless of the occurrence of a change in control, and therefore they are not based on and do not relate to the Merger. However, we have quantified such benefits in the above table for purposes of completeness. For more information, see Interests of our Directors and Officers in the Merger Severance beginning on page 41.

Appraisal Rights

If the Merger is completed, holders of Common Stock, other than VSS-Cambium or any other holder of Common Stock who has waived appraisal rights, may elect to pursue their appraisal rights under the DGCL to receive, in lieu of the Merger Consideration, the fair value of their shares, as determined by the Court of Chancery of the State of Delaware, but only if such holders comply with the procedures set forth in Section 262 of the DGCL. The fair value of shares of Common Stock, as determined in accordance with Delaware law, may be more or less than, or the same as, the Merger Consideration to be paid to non-dissenting stockholders in the Merger. To exercise these rights, stockholders must make a written demand for appraisal on or prior to December 9, 2018, which is the date that is 20 days following the mailing of this information statement, and otherwise comply precisely with the procedures set forth in Section 262 of the DGCL. Failure to follow the procedures set forth in Section 262 of the DGCL will result in the loss of appraisal rights. These procedures are described in this information statement, and a copy of Section 262 of the DGCL is reproduced in its entirety and included as **Annex C** to this information statement. See Appraisal Rights beginning on page 73.

Delisting and Deregistration of Common Stock

If the Merger is completed, our Common Stock will be delisted from Nasdaq and deregistered under the Exchange Act, and we will no longer file periodic reports with the SEC on account of the Common Stock.

Regulatory and Other Governmental Approvals

Under the HSR Act and related rules, certain acquisitions of voting securities or assets may not be consummated unless certain information has been furnished to the Federal Trade Commission (the FTC) and the Antitrust Division of the Department of Justice (the Antitrust Division), and after furnishing such information, the applicable waiting period requirements have been satisfied. Completion of the Merger is subject to the expiration or termination of the applicable waiting period (and any extension thereof) under the HSR Act. On October 26, 2018, both the Company and Parent filed their respective HSR Notification and Report Forms with the Antitrust Division and the FTC. On November 2, 2018, the Company and Parent received early termination of the waiting period under the HSR Act in connection with the Merger.

In addition, non-U.S. regulatory bodies and U.S. state attorneys general could take action under the antitrust laws as they deem necessary or desirable in the public interest, including, without limitation, seeking to enjoin

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the completion of the Merger or permitting completion subject to regulatory conditions. Private parties may also seek to take legal action under the antitrust laws under some circumstances. Although neither the Company nor Parent believes that the Merger will violate the antitrust laws, there can be no assurance that a challenge to the Merger on antitrust grounds will not be made or, if such a challenge is made, that it would not be successful.

If necessary to obtain the requisite antitrust clearances, Parent has agreed to use its reasonable best efforts to (i) propose, negotiate, commit to, effect and agree to, by consent decree, hold separate order, or otherwise, the sale, divestiture, license, holding separate and other disposition of and restriction on the businesses, assets, properties, product lines, and equity interests of, or changes to the conduct of business of, the Company, Parent and their respective affiliates (including the surviving corporation), (ii) create, terminate, or divest relationships, ventures, contractual rights or obligations of the Company or Parent or their respective affiliates, and (iii) otherwise take or commit to take any action that would limit Parent s freedom of action with respect to, or its ability to retain or hold, directly or indirectly, any businesses, assets, equity interests, product lines or properties of, Parent or the Company (including any of their respective affiliates).

Except as have been obtained, there are no other federal or state regulatory requirements or approvals that must be complied with or obtained that are conditions to the consummation of the Merger.

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MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO HOLDERS OF COMMON STOCK

The following discussion is a summary of material United States federal income tax consequences to beneficial owners of shares of Common Stock exchanged for cash pursuant to the Merger. This summary is general in nature and does not discuss all aspects of U.S. federal income taxation that may be relevant to a stockholder in light of its particular circumstances. In addition, this summary does not describe any tax consequences arising under the laws of any state, local or foreign jurisdiction and does not consider any aspects of U.S federal tax law other than income taxation. This summary deals only with shares of Common Stock held as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment), and does not address tax considerations applicable to any holder of shares of Common Stock that may be subject to special treatment under the U.S. federal income tax laws, including:

- a bank or other financial institution;
- a tax-exempt organization;
- a retirement plan or other tax-deferred account;
- a partnership, an S corporation or other pass-through entity (or an investor in a partnership, S corporation or other pass-through entity);
- an insurance company;
- a mutual fund;
- a real estate investment trust;
- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market method of tax accounting;
- a stockholder subject to the alternative minimum tax provisions of the Code;

- a stockholder that received shares through the exercise of an employee stock option, through a tax qualified retirement plan or otherwise as compensation;
- a person that is subject to Section 1061 of the Code;
- a person that has a functional currency other than the U.S. dollar;
- a person that holds the shares of Common Stock as part of a hedge, straddle, constructive sale, conversion or other integrated transaction;
- certain former U.S. citizens or long-term residents;
- any holder of shares of Common Stock that entered into a non-tender and support agreement as part of the transactions described in this information statement; or
- any holder of shares of Common Stock that beneficially owns, actually or constructively, or at some time during the 5-year period ending on the date of the Merger has beneficially owned, actually or constructively, more than 5% of the total fair market value of the shares of Common Stock.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds shares of Common Stock, the tax treatment of a holder that is a partner in the partnership generally will depend upon the status of the partner and the activities of the partner and the partnership. Such holders should consult their own tax advisors regarding the tax consequences of exchanging the shares of Common Stock pursuant to the Merger.

This summary is based on the Code, the Treasury regulations promulgated under the Code, and rulings and judicial decisions, all as in effect as of the date of this information statement, and all of which are subject to

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change or differing interpretations at any time, with possible retroactive effect. We have not sought, and do not intend to seek, any ruling from the U.S. Internal Revenue Service (the IRS) with respect to the statements made and the conclusions reached in the following summary, and no assurance can be given that the IRS will agree with the views expressed herein, or that a court will not sustain any challenge by the IRS in the event of litigation. This discussion does not address the U.S. federal income tax consequences to holders of shares of Common Stock who exercise appraisal rights under Delaware law.

THE DISCUSSION SET OUT HEREIN IS INTENDED ONLY AS A SUMMARY OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO A HOLDER OF SHARES OF COMMON STOCK. WE URGE YOU TO CONSULT YOUR OWN TAX ADVISOR WITH RESPECT TO THE SPECIFIC TAX CONSEQUENCES TO YOU IN CONNECTION WITH THE MERGER IN LIGHT OF YOUR OWN PARTICULAR CIRCUMSTANCES, INCLUDING U.S. FEDERAL ESTATE, GIFT AND OTHER NON-INCOME TAX CONSEQUENCES, AND TAX CONSEQUENCES UNDER STATE, LOCAL OR FOREIGN TAX LAWS.

U.S. Holders

For purposes of this discussion, the term U.S. holder means a beneficial owner of shares of Common Stock that is, for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (or any other entity or arrangement treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) the trust has validly elected to be treated as a United States person under applicable Treasury regulations.

Payments with Respect to Shares of Common Stock

The exchange of shares of Common Stock for cash pursuant to the Merger will be a taxable transaction for U.S. federal income tax purposes, and a U.S. holder who receives cash for shares of Common Stock pursuant to the Merger generally will recognize gain or loss, if any, equal to the difference between the amount of cash received (determined before the deduction of any applicable withholding taxes, as described below under Backup Withholding Tax) and the holder s adjusted tax basis in the shares of Common Stock exchanged therefor. A U.S. holder s adjusted tax basis will generally equal the price the U.S. holder paid for such shares. Gain or loss generally will be determined separately for each block of shares of Common Stock (i.e., shares of Common Stock acquired at the same cost in a single transaction) held by such U.S. holder. Such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if such U.S. holder s holding period for the shares of Common Stock is more than one year at the

time of the exchange. Long-term capital gain recognized by a non-corporate U.S. holder generally is eligible for reduced rates of taxation. There are limitations on the deductibility of capital losses. In addition, a 3.8% tax is imposed on all or a portion of the net investment income (within the meaning of the Code) of certain individuals and on the undistributed net investment income of certain estates and trusts. The 3.8% tax generally is imposed on the lesser of (1) the U.S. holder s net investment income for the relevant taxable year and (2) the excess of the U.S. holder s modified adjusted gross income for the taxable year above a certain threshold. A U.S. holder s net investment income generally will include any gain recognized on the receipt of cash for shares pursuant to the Merger. U.S. holders that are individuals, estates or trusts should consult their tax advisors regarding the applicability of the net investment income tax to their gain from the disposition of shares of Common Stock.

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Backup Withholding Tax

Proceeds from the exchange of shares of Common Stock pursuant to the Merger generally will be subject to backup withholding tax at the applicable rate (currently, 24%) unless the applicable U.S. holder or other payee provides a valid taxpayer identification number and complies with certain certification procedures (generally, by providing a properly completed IRS Form W-9) or otherwise establishes an exemption from backup withholding tax. Any amounts withheld under the backup withholding tax rules from a payment to a U.S. holder will be allowed as a credit against that holder s U.S. federal income tax liability and may entitle the holder to a refund from the IRS, provided that the required information is timely furnished to the IRS. Each U.S. holder should complete and sign the IRS Form W-9, which will be included with the letter of transmittal to be returned to the transfer agent, to provide the information and certification necessary to avoid backup withholding tax, unless an exemption applies and is established in a manner satisfactory to the transfer agent.

Non-U.S. Holders

The following is a summary of material U.S. federal income tax consequences that will apply to you if you are a non-U.S. holder of shares of Common Stock. The term non-U.S. holder means a beneficial owner of shares of Common Stock that is not a U.S. holder (as described above). Non-U.S. holders generally include nonresident alien individuals, foreign corporations and foreign estates and trusts. Special rules, not discussed herein, may apply to certain non-U.S. holders, such as:

- certain former citizens or residents of the United States;
- controlled foreign corporations;
- passive foreign investment companies;
- corporations that accumulate earnings to avoid U.S. federal income tax;
- investors in pass-through entities that are subject to special treatment under the Code; and
- non-U.S. holders that are engaged in the conduct of a trade or business in the United States.

Payments with Respect to Shares of Common Stock

Payments made to a non-U.S. holder with respect to shares of Common Stock exchanged for cash pursuant to the Merger generally will be exempt from U.S. federal income tax unless:

- the non-U.S. holder is an individual who was present in the United States for 183 days or more during the taxable year of the Merger and certain other conditions are satisfied;

- the gain is effectively connected with the non-U.S. holder s conduct of a trade or business in the United States, and, if required by an applicable tax treaty, attributable to a permanent establishment maintained by the holder in the United States; or

- the Company is or has been a United States real property holding corporation, or a USRPHC, for U.S. federal income tax purposes at any time during the shorter of the 5-year period ending on the date of exchange of the shares of Common Stock or the period that the non-U.S. holder held the shares of Common Stock, and the non-U.S. holder held (directly or indirectly), at any time within the five-year period preceding the Merger, more than 5% of the Common Stock.

Gain described in the first bullet point above generally will be subject to tax at a flat rate of 30% (or such lower rate as may be specified under an applicable income tax treaty) on any gain from the exchange of the shares of Common Stock, which may be offset by applicable U.S.-source losses from sales or exchanges of other capital assets recognized by the holder during the year, even though the individual is not considered a resident of the United States, provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses. Unless a tax treaty provides otherwise, gain described in the second bullet point above will be

subject to U.S. federal income tax on a net income basis in the same manner as if the non-U.S. holder were a resident of the United States. Non-U.S. holders that are foreign corporations also may be subject to a 30% (or applicable lower treaty rate) branch profits tax on effectively connected earnings and profits, as adjusted for certain items. Non-U.S. holders are urged to consult any applicable tax treaties that may provide for different rules.

With respect to the third bullet point above, the determination whether the Company is a USRPHC depends on the fair market value of its United States real property interests relative to the fair market value of its other trade or business assets and its foreign real property interests. If the exception described in the third bullet point above applies, a non-U.S. holder may be subject to regular U.S. federal income tax with respect to its gain in the same manner as U.S. holders, as described above under U.S. Holders, and payments to such stockholder pursuant to the Merger may be subject to withholding at a 15% rate. The Company does not believe that it is a USRPHC, but it may have been a USRPHC within the 5-year period ending on the date of the Merger. Even if the Company were to be treated as a USRPHC, because the Common Stock is regularly traded on an established securities market, a non-U.S. holder would not be subject to regular U.S. federal income tax with respect to its gain under the third bullet point above unless the non-U.S. holder actually or constructively owned more than 5% of the Common Stock at any time during the past five years.

Backup Withholding Tax

A non-U.S. holder may be subject to backup withholding tax with respect to the proceeds from the disposition of shares of Common Stock pursuant to the Merger, unless, generally, the non-U.S. holder certifies under penalties of perjury on an appropriate IRS Form W-8 that such non-U.S. holder is not a United States person, or the non-U.S. holder otherwise establishes an exemption in a manner satisfactory to the transfer agent. Non-U.S. holders should consult with their own tax advisors regarding the certification requirements for non-United States persons.

Any amounts withheld under the backup withholding tax rules generally will be allowed as a refund from the IRS or a credit against the non-U.S. holder s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND ON YOUR INDIVIDUAL FACTS AND CIRCUMSTANCES. YOU ARE STRONGLY URGED TO CONSULT YOUR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THE MERGER TO YOU.

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THE MERGER AGREEMENT

This section describes the material terms of the Merger Agreement. For additional information, please refer to the complete text of the Merger Agreement, a copy of which is attached as **Annex A** and is incorporated by reference into this information statement. The Company encourages you to read the Merger Agreement carefully and in its entirety. This section is not intended to provide you with any factual information about the Company. Such information can be found elsewhere in this information statement and in the public filings the Company makes with the SEC, as described in the section entitled, Where You Can Find Additional Information beginning on page 81.

Explanatory Note Regarding the Merger Agreement

The following summary of the Merger Agreement, and the copy of the Merger Agreement attached as **Annex A** to this information statement, are intended to provide information regarding the terms of the Merger Agreement and are not intended to provide any factual information about Company or modify or supplement any factual disclosures about Company in its public reports filed with the SEC. In particular, the Merger Agreement and the related summary are not intended to be, and should not be relied upon as, disclosures regarding any facts and circumstances relating to the Company. The Merger Agreement contains representations and warranties by and covenants of the Company, Parent and Merger Sub which were made only for purposes of that agreement and as of specified dates. The representations, warranties and covenants in the Merger Agreement were made solely for the benefit of the parties to the Merger Agreement, may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures made for the purposes of allocating contractual risk between the parties to the Merger Agreement instead of establishing these matters as facts, and may be subject to contractual standards of materiality or material adverse effect applicable to the contracting parties that generally differ from those applicable to investors. In addition, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in the Company s public disclosures. The representations, warranties and covenants in the Merger Agreement and any descriptions thereof should be read in conjunction with the disclosures in the Company s periodic and current reports, information statements and other documents filed with the SEC. See Where You Can Find Additional Information beginning on page 81. Moreover, the description of the Merger Agreement below does not purport to describe all of the terms of such agreement and is qualified in its entirety by reference to the full text of such agreement, a copy of which is attached hereto as **Annex A** and is incorporated herein by reference.

Additional information about the Company may be found elsewhere in this information statement and the Company s other public filings. See Where You Can Find Additional Information beginning on page 81.

Structure of the Merger; Certificate of Incorporation; Bylaws; Directors and Officers

At the Effective Time, Merger Sub will merge with and into the Company, and the separate corporate existence of Merger Sub will cease. The Company will be the surviving corporation in the Merger and will continue its corporate existence as a Delaware corporation and as a wholly-owned subsidiary of Parent.

The certificate of incorporation and bylaws of the Company shall be amended and restated in their entirety to read in the form attached to the Merger Agreement as Exhibits A and B, respectively. The individuals serving as directors of Merger Sub immediately prior to the Effective Time will become the initial directors of the surviving corporation, and the individuals holding positions as officers of the Company immediately prior to the Effective Time will become the initial officers of the surviving corporation.

When the Merger Becomes Effective

The closing of the Merger will take place at the offices of Lowenstein Sandler LLP, 1251 Avenue of the Americas, New York, New York 10020 at 10:00 a.m., local time, on (a) the second business day after the

satisfaction or waiver (to the extent permitted by applicable law) of the conditions set forth in the Merger Agreement (other than those conditions that by their nature are to be satisfied at the closing of the Merger, but subject to the satisfaction or waiver of such conditions at the closing), provided that if the marketing period has not ended by that time, the closing shall occur instead, following the satisfaction or waiver of the conditions set forth in the Merger, on the earlier of (1) any business day during or before the expiration of the marketing period as Parent may specify in writing to the Company on not less than two (2) business days notice, subject to the satisfaction or waiver of the conditions to the completion of the Merger and (2) the second (2nd) business day after the expiration of the marketing period, or (b) at such other place (or by means of remote communication), date and time as the Company and Parent may agree in writing.

On the closing date, the Company and Merger Sub will file a certificate of merger with the Secretary of State of the State of Delaware. The Merger will become effective at such time as the certificate of merger has been filed with the Secretary of State of the State of Delaware, or at such time as is agreed between the Company and Parent and specified in the certificate of merger.

As of the date of this information statement, we expect to complete the Merger in the fourth quarter of 2018 or the first quarter of 2019. However, completion of the Merger is subject to the satisfaction or waiver of the conditions to the completion of the Merger, which are described below, and it is possible that factors outside the control of the Company or Parent could delay the completion of the Merger, or prevent it from being completed at all. We expect to complete the Merger promptly following the receipt of all required approvals.

Effect of the Merger on Our Common Stock

At the Effective Time, each share of Common Stock issued and outstanding immediately before the Effective Time (other than Cancelled Shares (as defined below) and dissenting shares) will be automatically converted into the right to receive $14.50 in cash per share, without interest.

At the Effective Time, each share of Common Stock outstanding immediately before the Effective Time that is owned or held in treasury by the Company and each share of Common Stock owned or held by (A) any wholly-owned subsidiary of the Company or (B) Parent or any of its wholly-owned subsidiaries (including Merger Sub) (such shares, Cancelled Shares), will be cancelled, and no consideration will be delivered in exchange for such cancellation.

At the Effective Time, each share of common stock, par value $0.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time will be automatically converted into and become one validly issued, fully paid and nonassessable share of common stock, par value $0.01 per share, of the surviving corporation, and such shares will constitute the only outstanding shares of capital stock of the surviving corporation.

Treatment of Company Options

At the Effective Time, each Company Option that is outstanding as of immediately prior to the Effective Time, whether vested or unvested, will be cancelled by virtue of the Merger and without any action on the part of the holder thereof, in consideration for the right to receive, as promptly as practicable (but no later than five (5) business days) following the Effective Time, a cash payment (without interest and less such amounts as are required to be withheld or deducted) with respect thereto equal to the product of (a) the number of shares of Common Stock subject to such Company Option immediately prior to the Effective Time and (b) the excess, if any, of the Merger Consideration over the exercise price per share of Common Stock subject to such Company Option as of the Effective Time; provided that the surviving corporation shall pay all charges and expenses in connection with such payment.

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Payment for Common Stock in the Merger

Prior to, or as promptly as possible following, the Effective Time, Parent will deposit, or cause to be deposited, with a paying agent (reasonably acceptable to the Company), in trust for the benefit of the holders of Common Stock, cash sufficient to pay the aggregate Merger Consideration (but not any Merger Consideration of any dissenting shares) (such aggregate merger consideration, the Payment Fund). If for any reason (including if any dissenting shares cease to be dissenting shares) the Payment Fund is inadequate to pay the amounts to which holders of shares of Common Stock shall be entitled, Parent shall take all steps necessary to promptly deposit, or cause to be deposited, additional cash with the paying agent sufficient to make all payments required.

As promptly as practicable (and no later than the second (2nd) business day) after the Effective Time, Parent shall cause the paying agent to mail to each record holder of Common Stock whose Common Stock was converted into the right to receive the Merger Consideration a letter of transmittal, in the form agreed between Parent and the Company (the Letter of Transmittal) and instructions for use in effecting the surrender of certificates or book-entry shares in exchange for payment of the Merger Consideration.

Upon (i) surrender of certificates to the paying agent together with the Letter of Transmittal, duly completed and validly executed, or (ii) in respect of book-entry shares receipt of an agent s message by the paying agent (provided that receipt of an agent s message shall be deemed to be an express acknowledgement that the holder of such book-entry shares has received and agrees to be bound by the terms of the Letter of Transmittal (and shall be deemed to have delivered and executed a copy thereof)), in each case, together with such other documents as may reasonably be required by the paying agent, the holder of such certificates or book-entry shares will be entitled to receive the Merger Consideration.

Representations and Warranties

The Merger Agreement contains representations and warranties of the Company and its subsidiaries (not including VKidz, for the avoidance of doubt), subject to certain exceptions and qualifications in the Merger Agreement, in the disclosure schedules (the Disclosure Schedules) delivered in connection with the Merger Agreement and in the Company s public filings, as to, among other things:

- the Company s and its subsidiaries organization, good standing and qualification to do business;
- ownership of the Company s subsidiaries;
- authorization, issuance and ownership of capital stock;
- corporate authority, consents and approvals relating to the execution, delivery and performance of the Merger Agreement;
- the execution and delivery of the Merger Agreement does not violate the Company s organization documents or violate or conflict with any laws, and does not require any consents or approval or result in any detriment

to any of the Company s or its subsidiaries properties or assets;

the reports, forms, documents, certifications and financial statements of the Company required by the SEC;

no joint ventures or off-balance sheet partnerships, or similar agreements;

the establishment and maintenance of certain disclosure controls and procedures and internal control over financial reporting;

the absence of undisclosed liabilities;

compliance with applicable laws and permits;

the absence of liabilities pertaining to environmental laws and the Company s compliance with such laws;

employee and employee benefit plan matters;

the absence of any changes, occurrences or developments that has had, or would reasonably be expected to have, a material adverse effect with respect to the Company;

absence of material litigation or orders;

the accuracy and completion of the information supplied for the purposes of this information statement;

certain details pertaining to the Company s and its subsidiaries tax returns, filings and other tax matters;

certain details with respect to the Company s and its subsidiaries employee relations, labor matters and compliance with workplace safety and workers compensation laws;

real property;

certain details pertaining to the Company s and its subsidiaries intellectual property and protection thereof, data security and information technology;

the receipt by the Board of the opinion from each of Macquarie as to the fairness, from a financial point of view, as of the date of each such opinion, of the consideration to be received by the holders of shares of Common Stock pursuant to the Merger;

material contracts;

regulatory matters;

broker s and finder s fees;

absence of state takeover statutes and anti-takeover contractual provisions;

full force and effect of insurance policies;

- affiliate transactions and majority stockholder agreements (between (a) the Company or any of its subsidiaries, on the one hand, and the Cambium Majority Stockholder or any of its affiliates (other than the Company and its subsidiaries), on the other hand, and (b) VKidz, on the one hand, and the VKidz Majority Stockholder or any of its affiliates (other than VKidz), on the other hand) (Majority Stockholder Agreements);

- absence of disputes with, or threat of termination of relationship with, the Company s top customers and suppliers; and

- the Company and the Board will comply with the Rights Agreement and have taken all actions necessary so that the execution of the Merger Agreement will not cause the grant of any new rights under thereunder and the exercise of any previously granted rights, including, an affirmative determination by the Board that each of Parent and Merger Sub is an Exempt Person thereunder.

The Merger Agreement also contains representations and warranties of Parent and Merger Sub, subject to certain exceptions and qualifications in the Merger Agreement, in the Disclosure Schedules delivered in connection with the Merger Agreement, as to, among other things:

- organization, good standing and qualification to do business;

- corporate authority, consents and approvals relating to the execution, delivery and performance of the Merger Agreement;

- the execution and delivery of the Merger Agreement does not violate the Parent s or Merger Sub s organization documents or violate or conflict with any laws, and does not require any consents or approval or result in any detriment to any of the Parent s or Merger Sub s properties or assets;

- the absence of material litigation or orders;

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- the accuracy and completion of the information supplied for the purposes of this information statement;
- brokers and finders;
- the delivery to the Company by Parent of evidence of debt and equity commitments for the financing required to consummate the transaction and the effectiveness and enforceability of such commitments;
- solvency;
- the delivery and effectiveness of that certain guarantee entered into by the Equity Investor;
- the ownership and operations of Merger Sub;
- the absence of agreements between Parent, Merger Sub, the Equity Investor and their affiliates on the one hand, and any beneficial owner of more than one percent (1%) of the Common Stock, or any member of the Board on the other hand;
- no ownership of Common Stock;
- independent investigation of the Company and its subsidiaries; and
- non-reliance on Company representations.

Some of the representations and warranties in the Merger Agreement are qualified by materiality qualifications or a material adverse effect qualification with respect to the Company, Parent or Merger Sub, as discussed below.

For purposes of the Merger Agreement, a material adverse effect with respect to the Company means any change, effect, event, occurrence, development, circumstance, condition, or effect (each, an Effect) that, individually or in the aggregate, (x) has, or would reasonably be expected to prevent or materially impair or delay the ability of the Company to consummate the transaction contemplated by the Merger Agreement or (y) has had or would reasonably be expected to have a material adverse effect on the business, operations or financial condition of the Company and its subsidiaries, taken as a whole. However, for the purposes of clause (y) above, a material adverse effect is not deemed to include the impact of:

- any changes or developments in domestic, foreign or global markets or domestic, foreign or global economic conditions generally, including (1) any changes or developments in or affecting the domestic or any foreign securities, equity, credit or financial markets or (2) any changes or developments in or affecting domestic or any foreign interest or exchange rates;

changes in GAAP or any official interpretation or enforcement thereof;

changes in domestic, foreign or global political conditions (including the outbreak or escalation of war, military actions or acts of terrorism), including any material worsening of such conditions following October 12, 2018;

changes in applicable laws;

changes or developments in the business or regulatory conditions affecting the industries in which the Company or any of its subsidiaries operate;

the announcement or the existence of, compliance with or performance under, the Merger Agreement or the transactions contemplated thereby, including the impact thereof on the relationship, contractual or otherwise of the Company or any of its subsidiaries with employees, labor unions, financing sources, customers, suppliers or partners;

other acts of God (including storms, earthquakes, tornadoes, floods or other natural disasters);

a decline in the trading price or trading volume of Common Stock or any change in the ratings or ratings outlook for the Company or any of its subsidiaries (provided that the underlying causes thereof may be considered in determining whether a material adverse effect has occurred if not otherwise excluded for purposes of determining whether a material adverse effect has occurred);

- the failure to meet any projections, guidance, budgets, forecasts or estimates (provided that the underlying causes thereof may be considered in determining whether a material adverse effect has occurred if not otherwise excluded for purposes of determining whether a material adverse effect has occurred);

- any action taken or omitted to be taken by the Company or any of its subsidiaries at the prior written request of Parent;

- any proceedings threatened, made or brought by any of the current or former stockholders of the Company (or on their behalf or on behalf of the Company) against the Company or any of its directors, officers or employees arising out of the Merger Agreement, including the Merger; and

- any changes in legislation or law that directly or indirectly affect the purchasing or selling of products or services sold or provided by the Company or its subsidiaries,

however, with respect to the matters described in the foregoing first through fourth, seventh and twelfth bullet points above, such impact will be taken into account to the extent that it is disproportionately adverse to the Company and its subsidiaries, taken as a whole, relative to others in the industry or industries in which the Company and its subsidiaries operate.

For the purpose of the Merger Agreement, a material adverse effect with respect to Parent or Merger Sub means any Effect that has had or would reasonably be expected to prevent or materially impair or delay Parent s ability to consummate the transactions contemplated by the Merger Agreement (including the Merger and the financing) (a Parent Material Adverse Effect).

Conduct of Business Pending the Merger

The Merger Agreement provides that, during the period beginning October 12, 2018, until the earlier of the termination of the Merger Agreement in accordance with its terms and the Effective Time, except (1) as may be required by applicable law, (2) with Parent s prior written consent (which will not be unreasonably withheld, conditioned or delayed), (3) as permitted, contemplated or required by the Merger Agreement or (4) as set forth in the Disclosure Schedules, the Company will, and will cause each of its subsidiaries (excluding, for the avoidance of doubt VKidz) to use commercially reasonable efforts to conduct its business in all material respects in the ordinary course of business.

In addition, during the period from October 12, 2018, until the earlier of the termination of the Merger Agreement in accordance with its terms and the Effective Time, except (1) as may be required by applicable law, (2) with Parent s prior written consent (which will not be unreasonably withheld, conditioned or delayed), (3) as permitted, contemplated or required by the Merger Agreement, (4) as required by the terms and conditions of the VKidz Purchase Agreement, including without limitation, with respect to consummation of the transactions contemplated thereby or (5) as set forth in the Disclosure Schedules, the Company will not, and will not permit any of its subsidiaries to take any of the following actions:

- amend, supplement or otherwise modify any its organizational documents;

split, combine or reclassify any of its capital stock, voting securities or other equity interests;

make, declare, set aside or pay any dividend, or make any other distribution on, redeem, purchase or otherwise acquire (or authorize any of the foregoing), any shares of its capital stock or other equity interests, or any other securities or obligations convertible (whether currently convertible or convertible only after the passage of time or the occurrence of certain events) into or exchangeable for any shares of its capital stock or other equity interests, except for (1) any such transactions solely among the Company and its wholly-owned subsidiaries or among the Company s wholly-owned subsidiaries, (2) the acceptance of shares of Common Stock as payment for the exercise price of Company Options outstanding as of the date hereof, (3) the acceptance of shares of Common Stock, or withholding of

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shares of Common Stock otherwise deliverable, to satisfy withholding taxes incurred in connection with the exercise, vesting and/or settlement of Company equity awards outstanding as of the date hereof or (4) purchases, redemptions or other acquisitions of any shares of its capital stock, other equity interests or any other securities required by the terms of any company benefit plan or any Company options;

grant any Company Options or other equity-based awards or interests, or grant any individual, corporation or other entity any right to acquire any shares of its capital stock or other equity interests;

issue, sell, transfer, pledge, authorize, encumber, dispose of or otherwise permit to become outstanding (or authorize any of the foregoing) any additional shares of its capital stock or securities convertible or exchangeable into, or exercisable for, any shares of its capital stock or any options, warrants or other rights of any kind to acquire any shares of Company capital stock, except pursuant to the due exercise, vesting and/or settlement of Company Options outstanding as of the date hereof in accordance with their terms or in transactions solely among the Company and its subsidiaries or among the Company s subsidiaries;

adopt a plan, contract or resolutions providing for complete or partial liquidation, dissolution, merger, consolidation or other reorganization, other than the Merger;

incur, assume, endorse, guarantee or otherwise become liable for or modify in any material respects the terms of any indebtedness for borrowed money or issue or sell any debt securities or any rights to acquire any debt securities, except for (1) any indebtedness for borrowed money solely among the Company and its subsidiaries or solely among the subsidiaries, (2) guarantees by the Company of indebtedness for borrowed money of its wholly-owned subsidiaries or guarantees by the Company s subsidiaries of indebtedness for borrowed money of the subsidiaries, in each case, outstanding on October 12, 2018, (3) indebtedness for commercial paper or indebtedness incurred pursuant to contracts set forth in the Disclosure Schedules to the Merger Agreement or (4) additional indebtedness for borrowed money incurred by the Company or any of its subsidiaries in the ordinary course of business that does not exceed $500,000 in aggregate principal amount outstanding;

other than in accordance with contracts in effect as of October 12, 2018 or in the ordinary course of business, sell, transfer, mortgage, encumber, license, sublicense, lease, sublease, pledge, abandon, otherwise make subject to any lien (other than permitted liens) or otherwise dispose of any of its properties or assets having a value in excess of $300,000 individually or $500,000 in the aggregate to any person, whether by merger or consolidation, acquisition of stock or assets or by formation of a joint venture or otherwise (other than to the Company or a wholly-owned subsidiary);

other than in accordance with contracts in effect as of October 12, 2018 or in the ordinary course of business, acquire for cash consideration any asset or any other person or business of any other person (whether by merger or consolidation, acquisition of stock or assets or by formation of a joint venture or otherwise) or make any investment in any person (in each case, other than a wholly-owned subsidiary of the Company or any assets thereof), in excess of $300,000 individually or $500,000 in the aggregate;

(1) establish, adopt, materially amend or terminate any material Company plan or create or enter into any plan, agreement, program, policy, trust, fund or other arrangement that would be a material Company plan if it were in existence as of October 12, 2018, except for adoptions, amendments or terminations in the ordinary course of business that do not materially increase costs, (2) accelerate any rights or benefits under any Company plan or (3) accelerate the time of vesting or payment of any award under any Company plan, in each case except as required by terms of the Merger Agreement or as required by applicable law or the terms of a Company plan or contract or agreement in effect as of October 12, 2018;

except as required pursuant to the terms of any Company plan in effect as of October 12, 2018, or as otherwise required by law (1) increase in any manner the compensation or consulting fees, bonus, pension, or other material benefits of any current or former employee, officer, director or natural

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person, independent contractor or consultant of the Company, except (x) in connection with annual promotion-related or merit-related increases for employees that are not executive officers of the Company, in the ordinary course of business or (y) increases in compensation in the ordinary course of business; (2) become a party to, establish, adopt, amend, commence participation in or terminate any Company benefit plan; (3) take any action to accelerate rights under any Company benefit plan; or (4) enter into any contract (x) for employment (other than at-will employment) with the Company or any of its subsidiaries or (y) that provides for severance or termination benefits that are inconsistent with the Company s standard policy related thereto, in each case, that provides compensation and/or benefits (including severance pay or benefits) in an amount, or having a value in excess of $200,000 per year with respect to any such contract;

unless required by applicable law, (1) become a party to, establish, adopt, amend, extend, commence participation in or terminate any collective bargaining agreement or other agreement or arrangement with a labor union, labor organization or other employee-representative body or (2) recognize or certify any labor union, labor organization or other employee-representative body as the bargaining representative for any employees of the Company or any of its subsidiaries;

(1) make, change or rescind any express or deemed election relating to taxes, or take any action to deny the availability of any election relating to taxes, except, in each case, in the ordinary course of business; (2) settle or compromise any material proceeding relating to taxes or surrender any right to obtain a material tax refund or credit, offset or other reduction in tax liability; (3) enter into any closing agreement with respect to any material taxes; (4) file any material amended tax return; (5) change any method of reporting income or deductions (including, without limitation, any method of accounting) for federal income tax purposes from those employed in the preparation of its federal income tax returns for the taxable year ending December 31, 2017; except, in each case, as is required by applicable law or GAAP; (6) extend or waive the application of any statute of limitations relating to the collection or assessment or any tax (except with respect to routine extensions relating to the initial filing of a tax return); (7) apply for or pursue any tax ruling; or (8) execute any power of attorney in respect of any material tax matter; except, in each case, as is required by applicable law or GAAP;

subject to further provisions of the Merger Agreement, waive, amend or otherwise modify any material terms or conditions with respect to consummation of the transactions contemplated by the VKidz Purchase Agreement;

change the Company s present financial accounting methods, or principles in any material respect, except as required by GAAP or applicable law;

enter into any contract that would be required to be disclosed under Item 404(a) of Regulation S-K promulgated under the Exchange Act;

make or enter into any commitment for capital expenditures in excess of $250,000 individually;

make any loans, advances or capital contributions to, or material investments in, any other person, other than (1) any loans, advances or capital contributions in an amount less than $300,000 individually or $500,000 in the aggregate or (2) loans, advances or capital contributions to, or investments in, the subsidiaries of the Company;

sell, assign, transfer or exclusively license any material intellectual property, or permit the lapse of any right, title or interest to any material intellectual property, including any material Company registered intellectual property, or terminate, cancel or amend any material Company intellectual property contract, in each case, other than in the ordinary course of business;

settle, compromise or otherwise resolve any proceedings (excluding any audit, claim or other proceeding in respect of taxes) in a manner resulting in liability for, or restrictions on the conduct of business by, the Company or any of its subsidiaries, other than settlements of, compromises for or resolutions of any proceedings (1) funded solely, subject to payment of a deductible, by insurance

coverage maintained by the Company or any of its subsidiaries or (2) for payment of less than $300,000 (after taking into account insurance coverage maintained by the Company or any of its subsidiaries) in the aggregate beyond the amounts reserved on the consolidated financial statements of the Company;

amend, modify, supplement or waive any provision under the Rights Agreement (other than as set forth in the Merger Agreement);

other than in the ordinary course of business (1) amend, modify, terminate (partially or completely), grant a waiver under, cancel, or take (or fail to take) any action that would reasonably be expected to cause or result in a material breach of, or a material default under, any company material contract or (2) enter into or assume any contract that would have constituted a Company material contract had it been in effect as of October 12, 2018; or

agree or commit in writing to do any of the foregoing.

Access

Subject to certain exceptions and limitations, during the period from October 12, 2018, until the earlier of the termination of the Merger Agreement in accordance with its terms and the Effective Time, the Company shall afford Parent and its representatives, reasonable access during normal business hours to the Company s and its subsidiaries personnel, properties, contracts, commitments, books and records and such other information concerning its business, properties and personnel (other than certain highly confidential information or information that would jeopardize the attorney-client privilege or conflict with any law or contract to which the Company or its subsidiaries are bound), provided that the Company shall not be obligated to provide or give access to any minutes of meetings or resolutions of the Board or any sub-committees or any other business records or reports of or communication with any of its advisors relating to the evaluation or negotiation of the Merger Agreement or any alternative thereto.

No Solicitation

Except as permitted by the Merger Agreement, the Company may not, and must cause its subsidiaries and representatives, not to:

solicit, initiate, or knowingly encourage or knowingly facilitate (including by way of furnishing any non-public information) any proposal or offer or any inquiries regarding the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, a Company Takeover Proposal (as defined below);

engage in, continue or otherwise participate in any discussions or negotiations regarding, or furnish non-public information for the purpose of encouraging or facilitating, any inquiry, proposal or offer that constitutes, or would reasonably be expected to lead to, a Company Takeover Proposal (other than, in response to an unsolicited inquiry, proposal or offer, the Board may take such action to ascertain facts from the person making such inquiry, proposal or offer for the sole purpose of informing itself about such proposal);

approve, endorse, recommend or enter into, or publically propose to approve, endorse, recommend or enter into, any commitment or agreement in principle with respect to any Company Takeover Proposal; and

except with respect to Parent, Merger Sub, the Merger Agreement, the Merger, and in any case, in a manner reasonably satisfactory to Parent, unless the Merger Agreement has been validly terminated, the Company shall not (x) terminate (or permit the termination of), waive or amend any provision of the Rights Agreement (other than as set forth in the Merger Agreement), (y) redeem any rights under the Rights Agreement or (z) take any action with respect to, or make any determination under, the Rights Agreement that would interfere with the consummation of the Merger or otherwise to be adverse to Parent and Merger Sub.

Pursuant to the Merger Agreement, a Company Takeover Proposal means any *bona fide* proposal, offer or similar indication of interest made by any person or group of related persons (other than Parent and its subsidiaries and affiliates), and whether involving a transaction or series of related transactions, directly or indirectly, for (1) a merger, reorganization, share exchange, consolidation, business combination, dissolution, liquidation, joint venture, recapitalization or similar transaction involving the Company or any of its subsidiaries, (2) the acquisition (whether by purchase, lease, exchange, transfer or other disposition) by any person or group of related persons (other than Parent and its affiliates) of more than twenty-five percent (25%) of the assets (measured by the market value thereof), revenue or net income of the Company and its subsidiaries, on a consolidated basis (in each case, including securities of the subsidiaries of the Company) or (3) the direct or indirect acquisition by, or issuance to, any person or group of related persons (other than Parent and its affiliates) of more than twenty-five percent (25%) of any class of voting or equity interests of the of Company then issued and outstanding, following such acquisition or issuance, or any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in any person beneficially owning more than twenty-five percent (25%) of any class of outstanding voting or equity interests of the Company.

Existing Discussions or Negotiations

Under the terms of the Merger Agreement, the Company has agreed to immediately (1) cease and cause to be terminated any negotiations with any persons (other than Parent and Merger Sub and their representatives) that may be ongoing with respect to a Company Takeover Proposal and (2) cease providing any information to any such person or its representatives and terminate all access granted to any such person and its representatives to any physical or electronic data room, in each case with respect a Company Takeover Proposal.

Receipt of Company Takeover Proposals

Notwithstanding the provisions of the Merger Agreement described above, if, and only if, at any time after October 12, 2018 and prior to obtaining the Stockholder Written Consent (which was received on October 12, 2018), the Company had received a Company Takeover Proposal from a third party (that did not result from a willful breach of the non-solicitation provisions of the Merger Agreement), and if the Board had determined in good faith, after consultation with its independent financial advisors and outside legal counsel, (a) that such Company Takeover Proposal constituted or would reasonably be expected to have led to a Superior Proposal (as defined below) and (b) that the failure to have taken such action would have been inconsistent with the fiduciary duties of the members of the Board under applicable law then the Company and its representatives could have taken the following actions:

- entered into and accepted an acceptable confidentiality agreement with the person that has made the Company Takeover Proposal;

- furnished, pursuant to an acceptable confidentiality agreement, information (including non-public information) with respect to the Company and its subsidiaries to such third party that made such Company Takeover Proposal and its representatives (and the Company must have substantially and concurrently provide to Parent any such non-public information concerning the Company or any of its subsidiaries, unless such non-public information has been previously provided to or made available Parent); and

- engaged in or otherwise participated in discussions or negotiations with such person making the Company Takeover Proposal and its representatives regarding such Company Takeover Proposal.

The Company must have promptly (and in any event prior to, (x) if any such action is taken prior to the consent deadline (8:30 p.m. local time in New York, New York on October 13, 2018) (the Consent Deadline), the Consent Deadline, and (y) if any such action is taken subsequent to the Consent Deadline, twenty four (24) hours following the taking of any such action) notified Parent in writing if the Company had taken any of the above actions.

Pursuant to the Merger Agreement, a Superior Proposal means a written Company Takeover Proposal, i.e. any *bona fide* proposal, offer or similar indication of interest made by any person or group of related persons

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(other than Parent and its subsidiaries), and whether involving a transaction or series of related transactions, directly or indirectly, for (1) a merger, reorganization, share exchange, consolidation, business combination, dONT SIZE="1"> **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.

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	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

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	Year Ended December 31, 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.

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

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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	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 .

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

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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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	**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	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.

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		Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders Equity	Noncontrolling Interests	Total Stockholders Equity
	Shares	$	Shares(*)	$				Shares	$			
Balance January 1, 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		Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders Equity	Noncontrolling Interests	Total Stockholders Equity
	Shares	$	Shares(*)	$				Shares	$			
Balance January 1, 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.

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.

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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.

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 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 interests 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.

Receivables relating to money management and incentive fees are reported in fees receivable on the consolidated statements of financial condition.

Soft Dollar Arrangements The Company s Asset Management business obtains research and other services through soft dollar arrangements. Consistent with the soft dollar safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Asset Management business does not have any contractual obligation or arrangement requiring it to pay for research and other services obtained through soft dollar arrangements with brokers. Instead, the provider is obligated to pay for the services. Consequently, the Company does not incur any liability and does not accrue any expenses in connection with any research or other services obtained by the Asset Management business pursuant to such soft dollar arrangements. If the use of soft dollars is limited or prohibited in the future by regulation, we may have to bear the costs of such research and other services.

Equity-Based Incentive Compensation Awards Equity-based incentive compensation awards that do not require future service are expensed immediately. Equity-based compensation awards that require future service are

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

amortized over the applicable vesting period, or requisite service period, based on the fair value of the Company s Class A common stock on the date of grant. Equity-based incentive compensation is recognized in compensation and benefits expense.

Costs-Saving Initiatives and Staff Reductions Charges associated with management-approved cost-saving plans or staff reductions can include severance costs, charges to vacate facilities and contract cancellation costs. Severance costs are generally accrued on the date that employees are notified of their benefits and other costs are generally accrued as the Company ceases to use facilities or cancels contracts. The Company records severance-related liabilities in accrued compensation and benefits and other types of liabilities in other liabilities in the consolidated statements of financial condition.

Income Taxes Lazard Ltd, through certain of its subsidiaries, is subject to U.S. corporate federal income tax on its allocable share of the results of operations of Lazard Group, and certain non-U.S. subsidiaries of the Company are subject to income taxes in their local jurisdictions. In addition, the Company is subject to New York City Unincorporated Business Taxes (UBT) attributable to Lazard Group s operations apportioned to New York City.

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

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Such temporary differences are reflected as deferred tax assets and liabilities and are included in other assets and other liabilities , respectively, on the consolidated statements of financial condition. 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.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, a valuation allowance is established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the following possible sources of taxable income when assessing the realization of deferred tax assets:

- 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 positive and negative evidence, including, but not limited to, the following:

nature, frequency, and magnitude of any recent 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.

LAZARD LTD

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

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.

The Company recognizes interest and/or penalties related to unrecognized tax benefits in income tax expense . See Note 17 of Notes to Consolidated Financial Statements for additional information relating to income taxes.

The amount of cash paid during the year for income taxes shown on the consolidated statements of cash flows for the years ended December 31, 2012 and 2011 has been conformed to the current year presentation, which is net of refunds.

3. RECENT ACCOUNTING DEVELOPMENTS

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

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

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

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. RECEIVABLES

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

Receivables are stated net of an estimated allowance for doubtful accounts, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. Activity in the allowance for doubtful accounts for the years ended December 31, 2013, 2012 and 2011 was as follows:

	Year Ended December 31,		
	2013	2012	2011
Balance, January 1	$ 23,017	$ 19,450	$ 15,017
Bad debt expense	4,395	6,579	7,952
Charge-offs, foreign currency translation and other adjustments	1,365	(3,012)	(3,519)
Balance, December 31	$ 28,777	$ 23,017	$ 19,450

At December 31, 2013 and 2012, the Company had receivables past due or deemed uncollectible of $39,341 and $25,604, respectively.

Of the Company s fee receivables at December 31, 2013 and 2012, $69,464 and $76,481, respectively, represented interest-bearing financing receivables. Based upon our historical loss experience, the credit quality of the counterparties, and the lack of past due or uncollectible amounts, there was no allowance for doubtful accounts required at those dates related to such receivables.

The aggregate carrying amount of our non-interest bearing receivables of $443,211 and $401,562 at December 31, 2013 and 2012, respectively, approximates fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. INVESTMENTS

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

	December 31,	
	2013	**2012**
Debt (including interest-bearing deposits of $516 and $578, respectively)	$ 8,529	$ 5,948
Equities	59,394	44,992
Funds:		
Alternative investments (a)	37,030	57,890
Debt (a)	58,769	32,077
Equity (a)	190,702	154,310
Private equity	114,193	112,444
	400,694	356,721
Equity method	9,488	7,012
Total investments	478,105	414,673
Less:		
Interest-bearing deposits	516	578
Equity method	9,488	7,012
Investments, at fair value	$ 468,101	$ 407,083
Securities sold, not yet purchased, at fair value (included in other liabilities)	$ 4,045	$ 2,755

(a) Interests in alternative investment funds, debt funds and equity funds include investments with fair values of $7,099, $31,515 and $130,481, respectively, at December 31, 2013 and $5,054, $18,615 and $76,907, respectively, at December 31, 2012, held in order to satisfy the Company s liability upon vesting of previously granted Lazard Fund Interests and other similar deferred compensation arrangements. Lazard Fund Interests represent grants by the Company to eligible employees of actual or notional interests in a number of Lazard-managed funds (see Notes 7 and 14 of Notes to Consolidated Financial Statements).

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

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

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

Debt funds primarily consist of seed investments in funds related to our Asset Management business, which invest in debt securities, and amounts related to Lazard Fund Interests discussed above.

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

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

Private equity investments consolidated but not owned by Lazard relate to the economic interests that are owned by the management team and other investors in the Edgewater Funds (Edgewater) which totaled $9,787 and $11,490 at December 31, 2013 and 2012, respectively (see Note 12 of Notes to Consolidated Financial Statements).

During the years ended December 31, 2013, 2012 and 2011, the Company reported in revenue-other on its consolidated statements of operations gross unrealized investment gains and losses pertaining to trading securities as follows:

	Year Ended December 31,		
	2013	2012	2011
Gross unrealized investment gains	$ 19,465	$ 23,024	$ 2,180
Gross unrealized investment losses	$ 2,995	$ 697	$ 12,844

6. FAIR VALUE MEASUREMENTS

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

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

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

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

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

LAZARD LTD

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

The fair value of investments in alternative investment funds is classified as either Level 2 or Level 3 depending on the time frame of any applicable redemption restriction, and is valued at NAV or its equivalent, which is primarily determined based on information provided by external fund administrators.

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

The fair value of investments in equity funds is classified as Level 1, 2 or 3 as follows: publicly traded asset management funds are classified as Level 1 and are valued based on the reported closing price for the fund; investments in asset management funds redeemable in the near term are classified as Level 2 and are valued at NAV or its equivalent, which is primarily determined based on information provided by external fund administrators; and funds valued based on NAV or its equivalent that are not redeemable within the near term are classified as Level 3.

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

The fair values of derivatives entered into by the Company are classified as Level 2 and are based on the values of the related underlying assets, indices or reference rates as follows - the fair value of forward foreign currency exchange rate contracts is a function of the spot rate and the interest rate differential of the two currencies from the trade date to settlement date; the fair value of equity and fixed income swaps is based on the change in fair values of the related underlying equity security, financial instrument or index and a specified notional holding; the fair value of interest rate swaps is based on the interest rate yield curve; and the fair value of derivative liabilities related to Lazard Fund Interests and other similar deferred compensation arrangements is based on the value of the underlying investments, adjusted for forfeitures. See Note 7 of Notes to Consolidated Financial Statements.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Investments:				
Debt (excluding interest-bearing deposits)	$ 1,681	$ 6,332	$	$ 8,013
Equities	58,054		1,340	59,394
Funds:				
Alternative investments		37,030		37,030
Debt	58,765	4		58,769
Equity	190,660	42		190,702
Private equity			114,193	114,193
Derivatives		682		682
Total	$ 309,160	$ 44,090	$ 115,533	$ 468,783
Liabilities:				
Securities sold, not yet purchased	$ 4,045	$	$	$ 4,045
Derivatives		164,001		164,001
Total	$ 4,045	$ 164,001	$	$ 168,046

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

Derivatives		102,492		102,492
Total	$ 2,696	$ 102,551	$	$ 105,247

There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy during the years ended December 31, 2013 and 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following tables provide a summary of changes in fair value of the Company s Level 3 assets for the years ended December 31, 2013, 2012 and 2011:

	Year Ended December 31, 2013					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a)	Purchases/ Acquisitions	Sales/ Disposition	Foreign Currency Translation Adjustments	Ending Balance
Investments:						
Equities	$ 190	$ 11	$ 1,095	$	$ 44	$ 1,340
Alternative investment funds	3,457	117		(3,574)		
Equity funds	10			(10)		
Private equity funds	112,444	13,245	6,166	(19,231)	1,569	114,193
Total Level 3 Assets	$ 116,101	$ 13,373	$ 7,261	$ (22,815)	$ 1,613	$ 115,533

	Year Ended December 31, 2012					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a)	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending Balance
Investments:						
Equities	$ 211	$ 5	$	$ (30)	$ 4	$ 190
Alternative investment funds	10,171	130		(6,844)		3,457
Equity funds			10			10
Private equity funds	122,718	15,983	8,589	(35,796)	950	112,444
Total Level 3 Assets	$ 133,100	$ 16,118	$ 8,599	$ (42,670)	$ 954	$ 116,101

	Year Ended December 31, 2011					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a)	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending Balance

Investments:						
Equities	$ 316	$ 72	$ 25	$ (195)	$ (7)	$ 211
Alternative investment funds		(169)	10,340			10,171
Private equity funds	163,482	(3,319)	33,117	(69,218)(b)	(1,344)	122,718
Total Level 3 Assets	$ 163,798	$ (3,416)	$ 43,482	$ (69,413)	$ (1,351)	$ 133,100

(a) Earnings for the years ended December 31, 2013, 2012 and 2011 include net unrealized gains (losses) of $6,032, $12,910 and $(3,268), respectively.

(b) Sales/dispositions of private equity fund investments for the year ended December 31, 2011 include $49,500 in connection with a reduction of interests in a fund which ceased to be consolidated by the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Financial Instruments Not Measured at Fair Value The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments as of December 31, 2013 and 2012 that are not measured at fair value in the Company s consolidated statement of financial condition, and excludes certain financial instruments such as equity method investments.

			December 31, 2013		
			Fair Value Measurements Using:		
	Carrying Value	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets:					
Cash and cash equivalents	$ 841,482	$ 841,482	$841,482	$	$
Deposits with banks	244,879	244,879	244,879		
Cash deposited with clearing organizations and other segregated cash	62,046	62,046	62,046		
Interest-bearing financing receivables	69,464	71,433			71,433
Interest-bearing deposits (included within investments)	516	516	516		
Financial Liabilities:					
Deposits and other customer payables	$ 275,434	$ 275,434	$275,434	$	$
Senior debt	1,048,350	1,117,247		1,117,247	

			December 31, 2012		
			Fair Value Measurements Using:		
	Carrying Value	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets:					
Cash and cash equivalents	$ 850,190	$ 850,190	$ 850,190	$	$
Deposits with banks	292,494	292,494	292,494		
Cash deposited with clearing organizations and other segregated cash	65,232	65,232	65,232		
Interest-bearing financing receivables	76,481	78,493			78,493
Interest-bearing deposits (included within investments)	578	578	578		
Financial Liabilities:					
Deposits and other customer payables	$ 269,763	$ 269,763	$ 269,763	$	$

Senior debt	1,076,850	1,207,227	1,207,227

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Cash and cash equivalents are carried at either cost or amortized cost that approximates fair value due to their short-term maturities. Money market funds are valued through the use of quoted market prices, or $1.00 per share, which generally is the NAV of the fund.

The carrying value of deposits with banks, and cash deposited with clearing organizations and other segregated cash, approximates fair value because of the relatively short period of time between their origination and expected maturity.

Fair values of interest-bearing financing receivables were generally determined by discounting both principal and interest cash flows expected to be collected, using a discount rate approximating current market interest rates for comparable financial instruments and based on unobservable inputs.

The carrying value of deposits and other customer payables and investments accounted for at amortized cost, such as interest-bearing deposits, approximate fair value due to their short-term nature.

The Company s senior debt is carried at historical amounts. The fair value of the Company s senior debt is based on market quotations.

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

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

(a) weekly (17%), monthly (65%) and quarterly (18%)
(b) monthly (95%) and quarterly (5%)
(c) daily (7%), weekly (1%) and monthly (92%)
(d) daily (100%)
(e) daily (13%), monthly (58%) and quarterly (29%)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	December 31, 2012							
				Estimated Liquidation Period of Investments Not Redeemable			Investments Redeemable	
	Fair value	Unfunded Commitments	% of Fair Value Not Redeemable	% Next 5 Years	% 5-10 Years	% Thereafter	Redemption Frequency	Redemption Notice Period
Alternative investment funds:								
Hedge funds	$ 25,110	$	NA	NA	NA	NA	(a)	<30-90 days
Funds of funds	23,252		NA	NA	NA	NA	(b)	<30-120 days
Other	9,528		NA	NA	NA	NA	(c)	<30-60 days
Debt funds	4		NA	NA	NA	NA	(d)	30 days
Equity funds	9,079		2%	%	%	2%	(e)	30-120 days
Private equity funds:								
Equity growth	71,068	31,482	100%	21%	61%	18%	NA	NA
Mezzanine debt	41,376		100%			100%	NA	NA
Total	$ 179,417	$ 31,482						

Redemption frequency as follows:

(a) weekly (20%), monthly (73%) and quarterly (7%)
(b) monthly (2%) and quarterly (98%)
(c) daily (60%), weekly (1%) and monthly (39%)
(d) daily (100%)
(e) daily (37%) and monthly (61%)

See Note 5 of Notes to Consolidated Financial Statements for discussion of significant investment strategies for investments with value based on NAV.

Investment Capital Funding Commitments At December 31, 2013, the Company s maximum unfunded commitments for capital contributions to investment funds arose from (i) commitments to CP II, which amounted to $1,940 for potential follow-on investments and/or for fund expenses through the earlier of February 25, 2017 or the liquidation of the fund, (ii) commitments to EGCP III, which amounted to $18,501, through the earlier of October 12, 2016 (*i.e.*, the end of the investment period) for investments and/or expenses (with a portion of the undrawn amount of such commitments as of that date remaining committed until October 12, 2023 in respect of follow-on investments and/or fund expenses) or the liquidation of the fund and (iii) commitments to COF2, which amounted to $6,694, through the earlier of November 11, 2016 (*i.e.*, the end of the investment period) for investments and/or fund expenses (with a portion of the undrawn amount of such commitments as of that date remaining committed until November 11, 2019 in respect of follow-on investments and/or fund expenses) or the liquidation of the fund.

The commitment regarding EGCP III described above reflects a March 1, 2012 reduction of $17,400 from the Company s original commitment of $50,000 that an investor group, owned by current and former managing directors, including certain of our executive officers, assumed from the Company. In connection with their assumption of this assumed commitment, each investor received a right to collect a portion of the Company s carried interest arising from EGCP III, to the extent any such carried interest is actually received by the Company, equal to 20% of the profit earned by such investor on his or her investment.

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7. DERIVATIVES

The tables below present the fair values of the Company s derivative instruments reported within other assets and other liabilities and the fair value of the Company s derivative liabilities relating to its obligation pertaining to Lazard Fund Interests and other similar deferred compensation arrangements (see Note 14 of Notes to Consolidated Financial Statements) on the accompanying consolidated statements of financial condition as of December 31, 2013 and 2012:

	December 31,	
	2013	**2012**
Derivative Assets:		
Forward foreign currency exchange rate contracts	$ 250	$ 893
Equity and fixed income swaps and other (a)	432	40
	$ 682	$ 933
Derivative Liabilities:		
Forward foreign currency exchange rate contracts	$ 1,579	$ 322
Interest rate swaps		235
Equity and fixed income swaps (a)		4,342
Lazard Fund Interests and other similar deferred compensation arrangements	162,422	97,593
	$ 164,001	$ 102,492

(a) For equity and fixed income swaps, amounts represent the netting of gross derivative assets and liabilities of $2,019 and $1,587 as of December 31, 2013, respectively, and $0 and $4,342 as of December 31, 2012, respectively, for contracts with the same counterparty under legally enforceable master netting agreements. Such amounts are recorded net in other assets , with receivables for net cash collateral under such contracts of $11,384 and $15,304 as of December 31, 2013 and 2012, respectively.

Net gains (losses) with respect to derivative instruments (predominantly reflected in revenue-other) and the Company s derivative liabilities relating to its obligations pertaining to Lazard Fund Interests and other similar deferred compensation arrangements (included in compensation and benefits expense) as reflected on the accompanying consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011, were as follows:

	Year Ended December 31,		
	2013	**2012**	**2011**
Forward foreign currency exchange rate contracts	$ (3,162)	$ (1,844)	$ 2,422
Lazard Fund Interests and other similar deferred compensation arrangements	(14,099)	(7,557)	3,024
Equity and fixed income swaps and other	(10,931)	(18,327)	4,276
	$ (28,192)	$ (27,728)	$ 9,722

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

8. PROPERTY

At December 31, 2013 and 2012, property consists of the following:

	Estimated Depreciable Life in Years	December 31, 2013	2012
Buildings	33	$ 173,772	$ 166,560
Leasehold improvements	3-20	175,600	143,408
Furniture and equipment	3-10	149,598	122,125
Construction in progress		3,756	18,801
Total		502,726	450,894
Less - Accumulated depreciation and amortization		253,930	225,861
Property		$ 248,796	$ 225,033

9. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	December 31, 2013	2012
Goodwill	$ 345,453	$ 364,328
Other intangible assets (net of accumulated amortization)	18,424	28,494
	$ 363,877	$ 392,822

At December 31, 2013 and 2012, goodwill of $280,912 and $299,787, respectively, was attributable to the Company s Financial Advisory segment and, at each such respective date, $64,541 of goodwill was attributable to the Company s Asset Management segment.

Changes in the carrying amount of goodwill for the years ended December 31, 2013, 2012 and 2011 are as follows:

	Year Ended December 31, 2013	2012	2011
Balance, January 1	$ 364,328	$ 356,657	$ 313,229
Business acquisitions, including, in the 2011 period, additional contingent consideration earned relating to a prior year business acquisition	1,748	4,272	42,566
Foreign currency translation adjustments	(20,623)	3,399	862

Balance, December 31	$ 345,453	$ 364,328	$ 356,657

The Company evaluates goodwill for impairment annually or more frequently if circumstances indicate that impairment may have occurred. During the fourth quarter of 2013, the Company changed its annual impairment evaluation date from December 31 to November 1. Pursuant to the Company s goodwill impairment review for the years ended December 31, 2013, 2012 and 2011, the Company determined that no impairment existed.

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

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

	December 31, 2013			December 31, 2012		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	$ 30,740	$ 17,173	$ 13,567	$ 30,740	$ 10,678	$ 20,062
Management fees, customer relationships and non-compete agreements	33,063	28,206	4,857	33,035	24,603	8,432
	$ 63,803	$ 45,379	$ 18,424	$ 63,775	$ 35,281	$ 28,494

Amortization expense of intangible assets for the years ended December 31, 2013, 2012 and 2011 was $10,114, $8,359 and $11,915, respectively. Estimated future amortization expense is as follows:

Year Ending December 31,	Amortization Expense (a)
2014	$ 6,810
2015	6,433
2016	5,181
Total amortization expense	$ 18,424

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

10. OTHER ASSETS AND OTHER LIABILITIES

The following table sets forth the Company s other assets, by type, as of December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Current tax receivables and deferred tax assets (net of valuation allowance) and other taxes	$ 110,014	$ 137,394
Prepaid compensation (see Note 14)	60,433	47,445
Other advances and prepayments	33,526	33,401
Deferred debt issuance costs	9,188	4,902
Other	46,116	45,264

Total	$ 259,277	$ 268,406

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The following table sets forth the Company s other liabilities, by type, as of December 31, 2013 and 2012:

	December 31,	
	2013	2012
Accrued expenses	$ 136,677	$ 147,194
Current and deferred income taxes and other taxes	119,940	121,854
Employee benefit-related liabilities	104,013	83,629
Deferred lease incentives	84,897	74,880
Unclaimed funds at LFB	26,626	28,716
Abandoned leased space (principally in the U.K.)	12,855	8,475
Securities sold, not yet purchased	4,045	2,755
Other	24,374	32,148
Total	$ 513,427	$ 499,651

11. SENIOR AND SUBORDINATED DEBT

Senior Debt Senior debt is comprised of the following as of December 31, 2013 and 2012:

	Initial Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As Of December 31,	
				2013	2012
Lazard Group 7.125% Senior Notes (a)	$ 550,000	5/15/15	7.125%	$	$ 528,500
Lazard Group 6.85% Senior Notes	600,000	6/15/17	6.85%	548,350	548,350
Lazard Group 4.25% Senior Notes (b)	500,000	11/14/20	4.25%	500,000	
Lazard Group Credit Facility	150,000	9/25/15	0.79%		
Total				$ 1,048,350	$ 1,076,850

(a) On November 6, 2013, the Company launched a tender for all of the outstanding 7.125% senior notes maturing on May 15, 2015 (the 2015 Notes) and simultaneously announced a redemption notice for any notes not tendered. As a result, the outstanding 2015 Notes of $528,500 were extinguished in the fourth quarter of 2013, which resulted in a pre-tax loss on extinguishment of $50,757, including the recognition of unamortized issuance costs. As a result of the extinguishment, the unamortized amount of the interest rate hedge related to the 2015 Notes was also recognized, which resulted in a loss of $1,563. Both the loss on extinguishment and the loss related to the interest rate hedge were recorded in operating expenses other in the consolidated statement of operations.

(b) On November 14, 2013, and in connection with the redemption of the 2015 Notes, Lazard Group issued $500,000 aggregate principal amount of 4.25% senior notes maturing on November 14, 2020 (the 2020 Notes). Interest on the 2020 Notes is payable semi-annually on May 14 and November 14 of each year commencing on May 14, 2014. In connection with the issuance of the 2020 Notes, the Company entered into and settled an interest rate forward agreement and recognized a related loss of $ 1,767. The loss was recorded in operating

expenses other in the consolidated statements of operations.

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

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applicable margin. As of December 31, 2013, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 0.79%. At December 31, 2013 and 2012, no amounts were outstanding under the Credit Facility or the prior revolving credit facility, respectively.

The Credit Facility contains customary terms and conditions, including certain financial covenants. In addition, the Credit Facility, the indenture and the supplemental indentures relating to Lazard Group s senior notes contain certain covenants, events of default and other customary provisions, including a customary make-whole provision in the event of early redemption, where applicable. As of December 31, 2013, the Company was in compliance with such provisions. All of the Company s senior debt obligations are unsecured.

Debt maturities relating to senior borrowings outstanding at December 31, 2013 for each of the five years in the period ending December 31, 2018 and thereafter are set forth in the table below.

Year Ending December 31,	
2014-2016	$
2017	548,350
2018	
Thereafter	500,000
Total	$ 1,048,350

The Company s senior debt at December 31, 2013 and 2012 is carried at historical amounts. See Note 6 of Notes to Consolidated Financial Statements for information regarding the fair value and fair value hierarchy category of the Company s senior debt.

As of December 31, 2013, the Company had approximately $258,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately $48,000 (at December 31, 2013 exchange rates) and Edgewater of $55,000. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

Subordinated Debt On July 22, 2011, the Company repurchased its then outstanding $150,000 subordinated promissory note, at a cost, excluding accrued interest, of $131,829. Such repurchase resulted in a pre-tax gain of $18,171, which was recognized by the Company in the third quarter of 2011 and included in revenue-other on the accompanying consolidated statement of operations.

12. COMMITMENTS AND CONTINGENCIES

Leases The Company leases office space and equipment under non-cancelable lease agreements, which expire on various dates through 2033.

Operating lease agreements, in addition to base rentals, generally are subject to escalation provisions based on certain costs incurred by the landlord. For the years ended December 31, 2013, 2012 and 2011, aggregate rental expense relating to operating leases amounted to $86,504, $80,888 and $76,718, respectively, and is included in occupancy and equipment or technology and information services on the consolidated statements of operations, depending on the nature of the underlying asset. The Company subleases office space under agreements, which expire on various dates through 2033. Sublease income from such agreements was $11,404, $9,613 and $10,967 for the years ended December 31, 2013, 2012 and 2011, respectively, which includes sublease income of $4,136, $3,290 and $2,192, respectively, from an affiliate of LFCM Holdings, LLC (LFCM Holdings).

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Capital lease obligations recorded under sale/leaseback transactions are payable through 2017 at a weighted average interest rate of approximately 6.2%. Such obligations are collateralized primarily by certain buildings with a net book value of approximately $19,876 and $21,932 at December 31, 2013 and 2012, respectively. The net book value of all assets recorded under capital leases aggregated $20,806 and $23,486 at December 31, 2013 and 2012, respectively.

At December 31, 2013, minimum rental commitments under non-cancelable leases, net of sublease income, are approximately as follows:

	Minimum Rental Commitments	
Year Ending December 31,	**Capital**	**Operating**
2014	$ 3,221	$ 81,467
2015	2,895	77,427
2016	2,579	74,420
2017	9,478	69,530
2018		65,232
Thereafter		650,050
Total minimum lease payments	18,173	1,018,126
Less amount representing interest	2,339	
Present value of capital lease commitments	$ 15,834	
Less sublease proceeds		155,547
Net lease payments		$ 862,579

With respect to abandoned leased facilities in the U.K., at December 31, 2013 and 2012, the Company has recognized liabilities of $11,203 and $7,516, respectively, which are included in other liabilities on the consolidated statements of financial condition. Payments toward the liabilities continue through the remaining term of the leases. Such liabilities are based on the discounted future commitment, net of expected sublease income.

Guarantees In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At December 31, 2013, LFB had $5,897 of such indemnifications and held $4,993 of collateral/counter-guarantees to secure these commitments. The Company believes the likelihood of loss with respect to these indemnities is remote. Accordingly, no liability is recorded in the consolidated statement of financial condition.

Certain Business Transactions On September 25, 2008, the Company, LAM and LAZ Sub I, LLC, a then newly-formed subsidiary of LFNY, completed the merger of LAZ Sub I, LLC with and into LAM (the LAM Merger). Prior to the LAM Merger, the common equity interests of LAM were held by LFNY, and certain other equity interests of LAM, representing contingent payments should certain specified fundamental transactions occur, were held by present and former employees of LAM. Following the LAM Merger, all equity interests of LAM are owned directly or indirectly by LFNY.

The aggregate non-contingent consideration relating to the equity interests of LAM held by present and former employees of LAM and its subsidiaries consisted of (i) cash payments made from the closing of the LAM Merger through January 2, 2009 of approximately $60,000, (ii) a cash payment made on October 31, 2011 of approximately $90,000, (iii) the delivery on October 31, 2011 of 2,210,520 shares of Class A common stock and (iv) the satisfaction

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of Lazard s minimum statutory tax withholding requirements for certain employees in lieu of delivering 68,384 shares of Class A common stock on October 31, 2011. In addition, with respect to certain former employees of LAM and its subsidiaries, as of December 31, 2013 and 2012, additional cash payments of $961 and additional issuances of 24,537 shares of Class A common stock are subject to delayed payment/issuance until the eighth anniversary of the closing of the LAM Merger because the applicable employees were no longer employed by Lazard or its affiliates on October 31, 2011, subject to certain exceptions.

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

The aggregate fair value of the consideration recognized by the Company at the acquisition date was $61,624. Such consideration consisted of (i) a one-time cash payment, (ii) 1,142,857 shares of Class A common stock (the Initial Shares) and (iii) up to 1,142,857 additional shares of Class A common stock (the Earnout Shares) that are subject to earnout criteria and payable over time. The Initial Shares are subject to forfeiture provisions that lapse only upon the achievement of certain performance thresholds and transfer restrictions during the four year period ending December 2014. The Earnout Shares will be issued only if certain performance thresholds are met. As of December 31, 2013 and 2012, 1,371,992 and 1,209,154 shares, respectively, have been earned because applicable performance thresholds have been satisfied. Such shares are no longer subject to any contingencies. As of December 31, 2013 and 2012, 1,029,006 and 686,004, respectively, of such shares have been settled.

Contingent Consideration Relating To Other Business Acquisitions For a business acquired in 2013, the Company was obligated to issue a maximum of 107,617 shares of Class A common stock if certain performance thresholds were achieved. The Company is no longer obligated to issue such shares.

For a business acquired in 2012, at December 31, 2012, 170,988 shares of Class A common stock (including dividend equivalent shares) were issuable on a non-contingent basis. Such shares were delivered in the first quarter of 2013. The Company is obligated to issue a maximum of 202,650 additional shares of Class A common stock if certain performance thresholds are achieved.

For a business acquired in 2011, the Company was obligated to pay earnout consideration if certain performance thresholds were achieved. The maximum potential earnout consideration payable by the Company could not exceed $7,000. For the years ended December 31, 2013 and 2012, no cash payments relating to the earnout consideration were required. As the performance thresholds ultimately were not achieved, the Company is no longer obligated to pay the earnout consideration.

Other Commitments In the normal course of business, LFB enters into commitments to extend credit, predominately at variable interest rates. These commitments have varying expiration dates, are fully collateralized and generally contain requirements for the counterparty to maintain a minimum collateral level. These commitments may not represent future cash requirements as they may expire without being drawn upon. At December 31, 2013, these commitments were not material.

See Notes 6 and 15 of Notes to Consolidated Financial Statements for information regarding commitments relating to investment capital funding commitments and obligations to fund our pension plans, respectively.

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The Company has various other contractual commitments arising in the ordinary course of business. In addition, from time to time, LFB enters into underwriting commitments in which it participates as a joint underwriter. The settlement of such transactions are not expected to have a material adverse effect on the Company s consolidated financial position or results of operations. At December 31, 2013, LFB had no such underwriting commitments.

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

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

13. STOCKHOLDERS EQUITY

Issuance of Class A Common Shares During the year ended December 31, 2011, the Company issued an aggregate of 2,434,561 shares of Class A common stock and delivered 3,515,362 shares from Class A common stock held by its subsidiaries in connection with the LAM Merger (as described in Note 12 of Notes to Consolidated Financial Statements) and certain prior year business acquisitions.

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

During the years ended December 31, 2013, 2012 and 2011, Lazard Group distributed the following amounts to LAZ-MD Holdings and the subsidiaries of Lazard Ltd:

	Year Ended December 31,		
	2013	2012	2011
Tax distributions:			
LAZ-MD Holdings	$ 80	$	$ 699
Subsidiaries of Lazard Ltd	2,896		16,800
	$ 2,976	$	$ 17,499
Other distributions:			
LAZ-MD Holdings	$ 920	$ 5,170	$ 4,383
Subsidiaries of Lazard Ltd	121,620	135,108	70,572
	$ 122,540	$ 140,278	$ 74,955

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

Exchange of Lazard Group Common Membership Interests During the years ended December 31, 2013, 2012 and 2011, Lazard Ltd issued 839,658, 5,207,112 and 876,814 shares of Class A common stock, respectively, in connection with the exchange of a like number of Lazard Group common membership interests (received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests).

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

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

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

The Company expects that the share repurchase program, with respect to the Class A common stock, will primarily be used to offset a portion of the shares that have been or will be issued under the Lazard Ltd 2005 Equity Incentive Plan (the 2005 Plan) and the Lazard Ltd 2008 Incentive Compensation Plan (the 2008 Plan). Pursuant to such authorizations, purchases have been made in the open market or through privately negotiated transactions. Purchases with respect to such program are set forth in the table below:

	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 a result of the delivery of shares of Class A common stock through December 31, 2013 relating to (i) the settlement of vested restricted stock units (RSUs) and deferred stock units (DSUs), (ii) the incentive plan share awards of shares of restricted Class A common stock, (iii) the delivery of shares of restricted Class A common stock in exchange for RSUs and (iv) the delivery of shares of Class A common stock in connection with business acquisitions and the LAM Merger, there were 8,317,065 and 12,802,938 shares of Class A common stock held by our subsidiaries at December 31, 2013 and 2012, respectively. Such shares of Class A common stock are reported, at cost, as Class A common stock held by subsidiaries on the accompanying consolidated statements of financial condition.

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As of December 31, 2013, a total of $121,589 of share repurchase capacity remained available under the Company s share repurchase authorizations, of which $21,589 and $100,000 will expire on December 31, 2014 and 2015, respectively.

Preferred Stock Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value $0.01 per share, inclusive of its Series A and Series B preferred stock. Series A and Series B preferred shares were issued in connection with certain prior year business acquisitions and are each non-participating securities convertible into Class A common stock, and have no voting or dividend rights. During the year ended December 31, 2011, 14,100 shares of Series A preferred stock was converted into shares of Class A common stock, resulting in the issuance of 2,434,561 shares of Class A common stock. As of both December 31, 2013 and 2012, 7,921 shares of Series A preferred stock were outstanding, and no shares of Series B preferred stock were outstanding. At December 31, 2013 and 2012, no shares of Series A preferred stock were convertible into shares of Class A common stock on a contingent or a non-contingent basis.

Accumulated Other Comprehensive Income (Loss), Net of Tax The table below reflects the components of AOCI at December 31, 2013 and activity during the year then ended:

	Currency Translation Adjustments	Interest Rate Hedge	Employee Benefit Plans	Total AOCI	Amount Attributable to Noncontrolling Interests	Total Lazard Ltd AOCI
Balance, January 1, 2013	$ 19,405	$ (2,502)	$ (128,536)	$ (111,633)	$ (1,092)	$ (110,541)
Activity January 1 to December 31, 2013:						
Other comprehensive gain (loss) before reclassifications	(15,536)		(13,500)	(29,036)	495	(29,531)
Adjustments for items reclassified to earnings, net of tax		2,502	4,605	7,107	39	7,068
Net other comprehensive income (loss)	(15,536)	2,502	(8,895)	(21,929)	534	(22,463)
Balance, December 31, 2013	$ 3,869	$	$ (137,431)	$ (133,562)	$ (558)	$ (133,004)

The table below reflects adjustments for items reclassified out of AOCI, by component, for the year ended December 31, 2013:

Amortization of interest rate hedge	$ 2,502(a)
Amortization relating to employee benefit plans	6,534(b)
Less related income taxes	1,929
Net of tax	4,605
Total reclassifications, net of tax	$ 7,107

(a) Included in interest expense and operating expenses other in the amounts of $939 and $1,563, respectively, on the consolidated statements of operations.

(b) Included in the computation of net periodic benefit cost (see Note 15 of Notes to Consolidated Financial Statements). Such amount is included in compensation and benefits expense on the consolidated statement of operations.

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

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

	Lazard Ltd		LAZ-MD Holdings		
As of December 31:	**Common Membership Interests**	**% Ownership**	**Common Membership Interests**	**% Ownership**	**Total Lazard Group Common Membership Interests**
2011	123,009,311	94.8%	6,756,779	5.2%	129,766,090
2012	128,216,423	98.8%	1,549,667	1.2%	129,766,090
2013	129,056,081	99.5%	710,009	0.5%	129,766,090

The change in Lazard Ltd s ownership in Lazard Group in the years ended December 31, 2013, 2012 and 2011 did not materially impact Lazard Ltd s stockholders equity.

The tables below summarize net income (loss) attributable to noncontrolling interests for the years ended December 31, 2013, 2012 and 2011 and noncontrolling interests as of December 31, 2013 and 2012 in the Company s consolidated financial statements:

	Net Income (Loss) Attributable to Noncontrolling Interests Year Ended December 31,		
	2013	**2012**	**2011**
Edgewater	$ 3,913	$ 3,491	$ 4,130
LAZ-MD Holdings	1,198	5,114	11,964
Other	(209)	(129)	(452)
Total	$ 4,902	$ 8,476	$ 15,642

	Noncontrolling Interests As Of December 31,	
	2013	**2012**
Edgewater	$ 66,641	$ 75,262
LAZ-MD Holdings	2,566	5,405
Other	582	1,217
Total	$ 69,789	$ 81,884

Dividends Declared, December 2013 and January 29, 2014 On December 10, 2013, the Board of Directors of Lazard Ltd (i) declared a special dividend of $0.25 per share on its Class A common stock payable on December 27, 2013 to stockholders of record on December 20, 2013 and (ii) 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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14. INCENTIVE PLANS
Share-Based Incentive Plan Awards

A description of Lazard Ltd s 2005 Plan and 2008 Plan and activity with respect thereto during the years ended December 31, 2013, 2012 and 2011, is presented below.

Shares Available Under the 2005 Plan and 2008 Plan

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

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

The following reflects the amortization expense recorded with respect to share-based incentive plans within compensation and benefits expense (with respect to RSUs, performance-based restricted stock units (PRSUs) and restricted stock awards) and professional services expense (with respect to DSUs) within the Company s accompanying consolidated statements of operations:

	Year Ended December 31,		
	2013	**2012**	**2011**
Share-based incentive awards:			
RSUs (a)	$ 209,974	$ 298,809	$ 264,110
PRSUs	12,934		
Restricted Stock (b)	11,374	10,003	9,767
DSUs	1,616	1,536	1,265
Total	$ 235,898	$ 310,348	$ 275,142

(a) Includes charges relating to the cost saving initiatives and staff reductions, as applicable, for the years ended December 31, 2013 and 2012, aggregating $9,099 and $26,158, respectively (see Note 16 of Notes to Consolidated Financial Statements).
(b) Includes charges relating to the cost saving initiatives for the years ended December 31, 2013 and 2012, of $247 and $713, respectively.

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

For purposes of calculating diluted net income per share, RSU and restricted stock awards are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. PRSUs are included in the diluted weighted average shares of Class A

common stock outstanding to the extent the performance conditions are met at the end of the reporting period, also using the treasury stock method.

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The Company s incentive plans are described below.

RSUs and DSUs

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

RSUs generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any dividends paid on Class A common stock during such period. During the years ended December 31, 2013, 2012 and 2011, issuances of RSUs pertaining to such dividend participation rights and respective charges to retained earnings , net of estimated forfeitures, (with corresponding credits to additional paid-in-capital) consisted of the following:

	Year Ended December 31,		
	2013	**2012**	**2011**
Number of RSUs issued	442,242	920,791	389,846
Charges to retained earnings, net of estimated forfeitures	$ 16,476	$ 24,990	$ 11,120

Non-executive members of the Board of Directors receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs, which resulted in 39,315, 53,239 and 26,859 DSUs granted during the years ended December 31, 2013, 2012 and 2011, respectively. Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Directors Fee Deferral Unit Plan described below. DSUs are convertible into Class A common stock at the time of cessation of service to the Board and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the years ended December 31, 2013, 2012 and 2011.

The Company s Directors Fee Deferral Unit Plan permits its Non-Executive Directors to elect to receive additional DSUs pursuant to the 2005 Plan in lieu of some or all of their cash fees. The number of DSUs that shall be granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date on which the foregone cash fees would otherwise have been paid. During the years ended December 31, 2013, 2012 and 2011, 7,623, 10,597 and 8,184 DSUs, respectively, had been granted pursuant to such Plan.

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

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The following is a summary of activity relating to RSUs and DSUs during the three-year period ended December 31, 2013:

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2011	22,108,635	$ 35.67	121,737	$ 34.46
Granted (including 389,846 RSUs relating to dividend participation)	7,002,736	$ 43.21	35,043	$ 36.09
Forfeited	(305,155)	$ 37.83		
Vested	(8,054,387)	$ 39.13	(16,120)	$ 34.76
Balance, December 31, 2011	20,751,829	$ 36.84	140,660	$ 34.83
Granted (including 920,791 RSUs relating to dividend participation)	8,594,744	$ 27.68	63,836	$ 24.06
Forfeited	(581,411)	$ 35.59		
Vested/Exchanged	(7,284,031)	$ 34.71		
Balance, December 31, 2012	21,481,131	$ 33.92	204,496	$ 31.47
Granted (including 442,242 RSUs relating to dividend participation)	5,174,810	$ 37.21	46,938	$ 34.42
Forfeited	(268,900)	$ 34.47		
Vested	(9,768,849)	$ 34.65		
Balance, December 31, 2013	16,618,192	$ 34.51	251,434	$ 32.02

During the years ended December 31, 2013, 2012 and 2011, 9,768,849, 7,284,031 and 8,054,387 RSUs vested or were exchanged, respectively (including, in 2012, 1,523,642 RSUs that were exchanged for shares of restricted Class A common stock and 958,213 RSUs that were modified through forward purchase agreements into a liability award of $28,612). As of the modification date in 2012, the Company recorded a liability in accrued compensation and benefits of $26,922 related to such liability award and an offsetting reduction to additional paid-in-capital . Such liability awards were settled on March 1, 2013 for $28,612. During the year ended December 31, 2013, compensation expense of $1,690 was recorded for such liability awards. In connection with the vested RSUs, the Company satisfied its minimum statutory tax withholding requirements in lieu of issuing 3,651,050, 1,471,814 and 2,353,561 shares of Class A common stock in the years ended December 31, 2013, 2012 and 2011, respectively. Accordingly, 6,117,799, 3,330,362, and 5,700,826 shares of Class A common stock held by the Company were delivered during the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately $156,537, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.0 years subsequent to December 31, 2013.

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Restricted Stock

The following is a summary of activity related to shares of restricted Class A common stock associated with compensation arrangements during the three-year period ended December 31, 2013:

	Restricted Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2011	95,332	$ 37.63
Granted	327,238	$ 43.70
Vested	(327,238)	$ 43.70
Balance, December 31, 2011	95,332	$ 37.63
Granted/Exchanged (a)	2,100,965	$ 34.34
Forfeited	(21,178)	$ 29.51
Vested	(202,510)	$ 31.43
Balance, December 31, 2012	1,972,609	$ 34.85
Granted	368,736	$ 36.74
Forfeited	(37,782)	$ 33.37
Vested	(1,728,509)	$ 36.00
Balance, December 31, 2013	575,054	$ 32.72

(a) Includes, during the year ended December 31, 2012, as described above, 1,523,642 shares of restricted Class A common stock issued in exchange for 1,523,642 previously granted RSUs at a grant date fair value of $35.95 per share. The vesting terms of such restricted Class A common stock issued were substantially the same as those of the original awards exchanged. There was no incremental compensation cost incurred as a result of the exchanges.

As mentioned above, during 2012, the Company exchanged 1,523,642 RSUs for shares of restricted Class A common stock.

In connection with shares of restricted Class A common stock that vested during the years ended December 31, 2013 and 2012, the Company satisfied its minimum statutory tax withholding requirements in lieu of delivering 18,599 and 28,129 shares of Class A common stock during such respective years. Accordingly, 1,709,910 and 174,381 shares of Class A common stock held by the Company were delivered during the years ended December 31, 2013 and 2012, respectively.

The awards include a cash dividend participation right equivalent to any dividends paid on Class A common stock during the period, which will vest concurrently with the underlying restricted stock award. At December 31, 2013, unrecognized restricted stock expense was approximately $7,361, with such expense to be recognized over a weighted average period of approximately 1.2 years subsequent to December 31, 2013.

PRSUs

During the year ended December 31, 2013, the Company granted 448,128 PRSUs. The PRSUs are subject to both performance-based and service-based vesting conditions. The number of shares of Class A common stock that a recipient will receive upon vesting of a PRSU will be calculated by reference to certain performance metrics that relate to the Company s performance over the three-year period beginning on January 1, 2012 and ending on December 31,

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2014. The target number of shares of Class A common stock subject to each PRSU is one; however, based on the achievement of the performance criteria, the number of shares of Class A common stock that may be received in connection with each PRSU can range from zero to two times the target number (or, for the PRSUs granted in 2013, three times the target number in the event of a substantial increase in 2014 in our revenue (adjusted for certain items)). The PRSUs granted in 2013 will vest 33% in March 2015 and 67% in March 2016, provided the applicable service and performance conditions are satisfied. In addition, the performance metrics applicable to each PRSU will be evaluated on an annual basis at the end of each fiscal year during the performance period and, if the Company has achieved a threshold level of performance with respect to the fiscal year, 25% of the target number of shares of Class A common stock subject to each PRSU will no longer be at risk of forfeiture based on the achievement of performance criteria. PRSUs generally include dividend participation rights. In October 2013, the Company modified the outstanding PRSUs that may vest above the level of two times target to add incremental performance criteria. Pursuant to the modification, in addition to the previously applicable performance criteria, the Company would also have to achieve a particular level of fiscal year 2014 revenue (adjusted for certain items) in order for the PRSUs to vest between a level of two to three times the target level.

Compensation expense recognized for PRSU awards is determined by multiplying the number of shares of Class A common stock underlying such awards that, based on the Company s estimate, are considered probable of vesting, by the grant date fair value of $36.11 per share. As of December 31, 2013, the total estimated unrecognized compensation expense for PRSUs granted in 2013 was approximately $19,430, and the Company expects to amortize such expense over a weighted-average period of approximately 1.4 years.

Lazard Fund Interests and Other Similar Deferred Compensation Arrangements

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

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The following is a summary of activity relating to Lazard Fund Interests and other similar deferred compensation arrangements during the years ended December 31, 2013 and 2012:

	Prepaid Compensation Asset	Compensation Liability
Balance, January 1, 2013	$ 47,445	$ 97,593
Granted	72,217	72,217
Settled		(24,006)
Forfeited	(1,075)	(1,544)
Amortization	(58,023)	
Change in fair value related to:		
Increase in fair value of underlying investments		14,099
Adjustment for estimated forfeitures		4,643
Other	(131)	(580)
Balance, December 31, 2013	$ 60,433	$ 162,422

	Prepaid Compensation	Compensation Liability
Balance, January 1, 2012	$ 17,783	$ 29,900
Granted	64,679	64,679
Settled		(10,646)
Forfeited	(1,603)	(1,711)
Amortization	(33,476)	
Change in fair value related to:		
Increase in fair value of underlying investments		7,557
Adjustment for estimated forfeitures		7,841
Other	62	(27)
Balance, December 31, 2012	$ 47,445	$ 97,593

The amortization of the prepaid compensation asset will generally be recognized over a weighted average period of approximately 1.5 years subsequent to December 31, 2013.

The following is a summary of the impact of Lazard Fund Interests and other similar deferred compensation arrangements on compensation and benefits expense within the accompanying consolidated statements of operations for the years ended December 31, 2013 and 2012:

	Year Ended December 31,		
	2013	2012	2011
Amortization, net of forfeitures (a)	$ 62,197	$ 41,209	$ 14,551
Change in the fair value of underlying investments	14,099	7,557	(3,024)

Total	$ 76,296	$ 48,766	$ 11,527

(a) Includes charges relating to the cost saving initiatives for the years ended December 31, 2013 and 2012, of $2,665 and $3,495, respectively.

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Incentive Awards Granted In February 2014

In February 2014, the Company granted approximately $275,000 of deferred incentive awards (excluding PRSUs) to eligible employees. These grants included: RSUs or shares of restricted Class A common stock; deferred incentive awards that allow eligible employees the choice of receiving a portion of their award in a combination of (i) Lazard Fund Interests and (ii) additional RSUs or shares of restricted Class A common stock; deferred cash awards; and a portion of fund managers year-end incentive compensation that is reinvested in certain asset management funds. In addition, the Company granted approximately $16,000 of PRSUs (valued at the target payout level).

The RSUs, restricted Class A common stock and Lazard Fund Interests granted each provide for one-third vesting on March 1, 2016 and the remaining two-thirds vesting on March 1, 2017. The PRSUs granted provide for cliff vesting in March 2017, provided that the applicable service and performance conditions are satisfied, and will convert into Class A common stock within a range equal to zero to two times the target number of shares of Class A common stock subject to the awards. Compensation expense with respect to such incentive awards will generally be recognized over the vesting period, with such compensation expense to be recognized over a weighted average period of approximately 2.7 years.

15. EMPLOYEE BENEFIT PLANS

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

Employer Contributions to Pension Plans The Company s funding policy for its U.S. and non-U.S. pension plans is to fund when required or when applicable upon an agreement with the plans Trustees. Management also evaluates from time to time whether to make voluntary contributions to the plans. The Company did not make a contribution to the U.S. pension plans during the year ended December 31, 2013. The Company does not expect to make a contribution to the U.S. pension plans during the year ending December 31, 2014.

On April 30, 2012, the Company and the Trustees of the U.K. pension plans concluded the December 31, 2010 triennial valuations of the plans. In connection with such valuations and a previously negotiated agreement with the Trustees, the Company and the Trustees agreed upon pension funding terms (the agreement) (which superseded the terms of an agreement reached in June 2009 with respect to the previous triennial valuation as of December 31, 2007) whereby the Company: (i) made a contribution in December 2011 to the plans of 2.3 million British pounds ($3,687 at December 31, 2011 exchange rates) from a previously established escrow account, (ii) agreed to make contributions of 1 million British pounds during each year from 2012 through 2020 inclusive and (iii) amended the previous escrow arrangement into an account security arrangement covering 10.2 million British pounds, committing to make annual contributions of 1 million British pounds into such account security arrangement during each year from 2014 through 2020 inclusive. It was further agreed that, to the extent that the value of the plans assets falls short of the funding target for June 1, 2020 that has been agreed upon with the Trustees, the assets from the account security arrangement would be released into the plans at that date. Additionally, the Company agreed to fund the expenses of administering the plans, including certain regulator levies and the cost of other professional advisors to the plans. The terms of the agreement are subject to adjustment based on the results of subsequent triennial valuations. The aggregate amount in the account security arrangement was approximately $16,900 and

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$16,500 at December 31, 2013 and 2012 and has been recorded in cash deposited with clearing organizations and other segregated cash on the accompanying consolidated statements of financial condition. Income on the account security arrangement accretes to the Company and is recorded in interest income.

During the year ended December 31, 2013, the Company contributed 1.4 million British pounds to these U.K. pension plans and expects to contribute a similar amount during the year ending December 31, 2014. Additionally, during the year ended December 31, 2013, no contributions were made to other non-U.S. pension plans. The Company expects to contribute approximately $4,800 to these other non-U.S. pension plans during the year ending December 31, 2014.

The following table summarizes the changes in the benefit obligations, the fair value of the assets, the funded status and amounts recognized in the consolidated statements of financial condition for the post-retirement plans. The Company uses December 31 as the measurement date for its post-retirement plans.

	Pension Plans		Medical Plan	
	2013	**2012**	**2013**	**2012**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 656,025	$ 575,031	$ 5,668	$ 5,362
Service cost	940	670	53	60
Interest cost	27,219	27,636	182	211
Actuarial (gain) loss	32,329	57,057	(647)	310
Benefits paid	(23,258)	(26,420)	(176)	(275)
Foreign currency translation and other adjustments	16,595	22,051		
Benefit obligation at end of year	709,850	656,025	5,080	5,668
Change in plan assets				
Fair value of plan assets at beginning of year	607,705	568,911		
Actual return on plan assets	41,353	33,882		
Employer contributions	2,274	8,221	176	275
Benefits paid	(23,258)	(26,420)	(176)	(275)
Foreign currency translation and other adjustments	15,770	23,111		
Fair value of plan assets at end of year	643,844	607,705		
Funded (deficit) at end of year	$ (66,006)	$ (48,320)	$ (5,080)	$ (5,668)
Amounts recognized in the consolidated statements of financial condition at December 31, 2013 and 2012 consist of:				
Prepaid pension asset (included in other assets)	$ 148	$ 2,659		
Accrued benefit liability (included in other liabilities)	(66,154)	(50,979)	$ (5,080)	$ (5,668)
Net amount recognized	$ (66,006)	$ (48,320)	$ (5,080)	$ (5,668)

Amounts recognized in AOCI (excluding tax benefits of $30,448 and $25,989 at December 31, 2013 and 2012, respectively) consist of:				
Actuarial net loss (gain)	$ 159,575	$ 143,133	$ (597)	$ 50
Prior service cost	8,901	11,342		
Net amount recognized	$ 168,476	$ 154,475	$ (597)	$ 50

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The following table summarizes the fair value of plan assets, the accumulated benefit obligation and the projected benefit obligation at December 31, 2013 and 2012:

	U.S. Pension Plans As Of December 31,		Non-U.S. Pension Plans As Of December 31,		Total As Of December 31,	
	2013	2012	2013	2012	2013	2012
Fair value of plan assets	$ 26,200	$ 25,231	$ 617,644	$ 582,474	$ 643,844	$ 607,705
Accumulated benefit obligation	$ 29,427	$ 35,276	$ 680,423	$ 620,749	$ 709,850	$ 656,025
Projected benefit obligation	$ 29,427	$ 35,276	$ 680,423	$ 620,749	$ 709,850	$ 656,025

The following table summarizes the components of net periodic benefit cost (credit), the return on plan assets, benefits paid, contributions and other amounts recognized in AOCI for the years ended December 31, 2013, 2012 and 2011:

	Pension Plans For The Years Ended December 31,			Medical Plan For The Years Ended December 31,		
	2013	2012	2011	2013	2012	2011
Components of Net Periodic Benefit Cost (Credit):						
Service cost	$ 940	$ 670	$ 651	$ 53	$ 60	$ 69
Interest cost	27,219	27,636	28,266	182	211	278
Expected return on plan assets	(27,078)	(26,657)	(30,490)			
Amortization of:						
Prior service cost	2,843	2,751	2,979			
Net actuarial loss	3,691	1,658	258			
Settlement loss (a)		1,135				
Net periodic benefit cost	$ 7,615	$ 7,193	$ 1,664	$ 235	$ 271	$ 347
Actual return on plan assets	$ 41,353	$ 33,882	$ 29,870	$		
Employer contributions	$ 2,274	$ 8,221	$ 8,689	$ 176	$ 275	$ 347
Benefits paid	$ 23,258	$ 26,420	$ 21,718	$ 176	$ 275	$ 347
Other changes in plan assets and benefit obligations recognized in AOCI (excluding tax benefit of $4,459, $11,805 and $11,495 during the years ended December 31, 2013, 2012 and 2011, respectively):						
Net actuarial (gain) loss	$ 17,251	$ 50,209	$ 51,703	$ (647)	$ 310	$ (438)
Reclassification of prior service (cost) credit to earnings	(2,843)	(2,751)	(2,979)			
Reclassification of actuarial loss to earnings	(3,691)	(2,793)	(258)			
Currency translation and other adjustments	3,284	2,729	(491)			
Total recognized in AOCI	$ 14,001	$ 47,394	$ 47,975	$ (647)	$ 310	$ (438)
Net amount recognized in total periodic benefit cost and AOCI	$ 21,616	$ 54,587	$ 49,639	$ (412)	$ 581	$ (91)

(a) During the year ended December 31, 2012, the Company s pension plans in the U.S. made lump sum benefit payments in excess of the plans annual service and interest costs, which, under U.S. GAAP, requires that

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the plans obligations and assets be remeasured. The remeasurement of the plans resulted in the recognition of actuarial losses totaling $2,167 recorded in other comprehensive income (loss), net of tax (OCI), which, combined with a settlement loss of $1,135 recognized in compensation and benefits expense, resulted in a net charge to OCI of $1,032.

The amounts in AOCI on the consolidated statement of financial condition as of December 31, 2013 that are expected to be recognized as components of net periodic benefit cost (credit) for the year ending December 31, 2014 are as follows:

	Pension Plans	Medical Plan	Total
Prior service cost	$ 2,954	$	$ 2,954
Net actuarial loss (gain)	$ 4,451	$ (90)	$ 4,361

The assumptions used to develop actuarial present value of the projected benefit obligation and net periodic pension cost as of or for the years ended December 31, 2013, 2012 and 2011 are set forth below:

	Pension Plans December 31,			Medical Plan December 31,		
	2013	2012	2011	2013	2012	2011
Weighted average assumptions used to determine benefit obligations:						
Discount rate	4.3%	4.6%	4.8%	4.3%	3.4%	4.1%
Weighted average assumptions used to determine net periodic benefit cost:						
Discount rate	3.3%	3.2%	4.7%	3.4%	4.1%	5.0%
Expected long-term rate of return on plan assets	4.7%	4.7%	5.4%			
Healthcare cost trend rates used to determine net periodic benefit cost:						
Initial				8.0%	8.0%	8.0%
Ultimate				5.0%	6.0%	6.0%
Year ultimate trend rate achieved				2019	2016	2015

Generally, the Company determined the discount rates for its defined benefit plans by utilizing indices for long-term, high-quality bonds and ensuring that the discount rate does not exceed the yield reported for those indices after adjustment for the duration of the plans liabilities.

In selecting the expected long-term rate of return on plan assets, the Company considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan, giving consideration to expected returns on different asset classes held by the plans in light of prevailing economic conditions as well as historic returns. This basis is consistent for all years presented.

The assumed cost of healthcare has an effect on the amounts reported for the Company s medical plan. A 1% change in the assumed healthcare cost trend rate would increase (decrease) our cost and obligation as follows:

	1% Increase		1% Decrease	
	2013	2012	2013	2012
Cost	$ 33	$ 44	$ (24)	$ (31)
Obligation	$ 675	$ 880	$ (494)	$ (610)

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Expected Benefit Payments The following table summarizes the expected benefit payments for the Company s post-retirement plans for each of the next five fiscal years and in the aggregate for the five fiscal years thereafter:

	Pension Plans	Medical Plan
2014	$ 23,736	$ 397
2015	25,095	398
2016	26,473	395
2017	26,721	392
2018	28,761	391
2019-2023	163,107	1,894

Plan Assets The following tables present the categorization of our pension plans assets as of December 31, 2013 and 2012, measured at fair value, into a fair value hierarchy in accordance with fair value measurement disclosure requirements:

	As of December 31, 2013			
	Level 1	Level 2	Level 3	Total
Asset Category				
Cash	$ 5,835	$	$	$ 5,835
Debt	43,764			43,764
Equities	27,762			27,762
Funds:				
Alternative investments	907	43,123	698	44,728
Debt	11,942	323,812	2,222	337,976
Equity	183,779			183,779
Total	$ 273,989	$ 366,935	$ 2,920	$ 643,844

	As of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Asset Category				
Cash	$ 10,714	$	$	$ 10,714
Debt	47,298			47,298
Equities	29,337			29,337
Funds:				
Alternative investments		39,930	404	40,334
Debt	12,430	307,695	2,024	322,149
Equity	157,873			157,873
Total	$ 257,652	$ 347,625	$ 2,428	$ 607,705

Activity in the fair value of the pension plans Level 3 debt and alternative investment funds for the years ended December 31, 2013 and 2012 consisted of net unrealized/realized gains of $434 and $443, respectively, favorable foreign currency translation adjustments of $58 and $77,

respectively, and in 2012, purchases of $131.

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Included in Level 1 equity funds are $81,633 and $106,873 as of December 31, 2013 and 2012, respectively, that are invested in funds managed by LAM.

Consistent with the plans investment strategies, at December 31, 2013 and 2012, the Company s U.S. pension plan had 54% and 51%, respectively, of the plans assets invested in Level 1 equity funds and 46% and 49%, respectively, invested in Level 1 debt funds. The Company s non-U.S. pension plans at December 31, 2013 and 2012 had 32% and 30%, respectively, of the plans assets invested in equities and equity funds that are primarily Level 1 assets; 60% and 61%, respectively of the plans assets invested in debt and debt funds that are primarily Level 2 assets, and 8% and 9%, respectively, of the plans assets invested in cash, which is a Level 1 asset, or in alternative investment funds that are primarily Level 2 assets.

Investment Policies and Strategies The primary investment goal is to ensure that the plans remain well funded, taking account of the likely future risks to investment returns and contributions. As a result, a portfolio of assets is maintained with appropriate liquidity and diversification that can be expected to generate long-term future returns that minimize the long-term costs of the pension plans without exposing the trust to an unacceptable risk of under-funding. The Company s likely future ability to pay such contributions as are required to maintain the funded status of the plans over a reasonable time period is considered when determining the level of risk that is appropriate. The fair value of plan investments classified as Level 1 assets are based on market quotes. The fair value of plan assets classified as Level 2 assets are primarily valued based on inputs other than quoted prices that are directly observable or derived principally from, or corroborated by, market data. The fair value of plan investments classified as Level 3 assets are primarily based on NAV determined based on information provided by external fund administrators.

Defined Contribution Plans Pursuant to certain matching contributions, the Company contributes to employer sponsored defined contribution plans. Such contributions amounted to $11,778, $13,070 and $10,944 for the years ended December 31, 2013, 2012 and 2011, respectively, which are included in compensation and benefits expense on the consolidated statements of operations.

16. COST SAVING INITIATIVES

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

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Expenses associated with the implementation of the Cost Saving Initiatives were completed during the year ended December 31, 2013. The Company incurred these expenses, by segment, as reflected in the tables below:

	Financial Advisory	Asset Management	Corporate	Total
Year Ended December 31, 2013:				
Compensation and benefits	$ 45,746	$ 236	$ 5,417	$ 51,399
Other	2,033	(1)	11,272	13,304
Total	$ 47,779	$ 235	$ 16,689	$ 64,703

	Financial Advisory	Asset Management	Corporate	Total
Cumulative October 2012 Through December 31, 2013:				
Compensation and benefits	$ 121,879	$ 12,292	$ 17,215	$ 151,386
Other	3,432	732	11,729	15,893
Total	$ 125,311	$ 13,024	$ 28,944	$ 167,279

Activity related to the obligations pursuant to the Cost Saving Initiatives during 2013 was as follows:

	Accrued Compensation and Benefits	Other Liabilities	Total
Balance, January 1, 2013	$ 46,128	$ 1,714	$ 47,842
New charges	51,399	13,304	64,703
Less:			
Non-cash charges	(12,007)	(3,387)	(15,394)
Settlements	(73,660)	(6,275)	(79,935)
Balance, December 31, 2013	$ 11,860	$ 5,356	$ 17,216

17. INCOME TAXES

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

that are subject to local income taxes.

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

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The components of the Company s provision (benefit) for income taxes for the years ended December 31, 2013, 2012 and 2011, and a reconciliation of the U.S. federal statutory income tax rate to the Company s effective tax rates for such years, are shown below.

	Year Ended December 31,		
	2013	2012	2011
Current:			
Federal	$ (3,678)	$ 2,094	$ (501)
Foreign	41,084	27,650	35,885
State and local (primarily UBT)	(167)	5,813	2,342
Total current	37,239	35,557	37,726
Deferred:			
Federal	19,934	(3,330)	16,167
Foreign	(4,520)	(1,127)	(2,832)
State and local (primarily UBT)	(960)		(6,121)
Total deferred	14,454	(4,457)	7,214
Total	$ 51,693	$ 31,100	$ 44,940

	Year Ended December 31,		
	2013	2012	2011
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Income of noncontrolling interests	(0.8)	(2.4)	(2.0)
Share-based incentive compensation		7.4	
Foreign source income not subject to U.S. income tax	(12.7)	(34.6)	(13.8)
Foreign taxes	14.1	13.5	8.3
State and local taxes (primarily UBT)	2.6	3.4	0.9
Change in U.S. federal valuation allowance	(14.9)	1.4	(8.3)
Other, net	0.5	1.4	(1.0)
Effective income tax rate	23.8%	25.1%	19.1%

See Note 21 of Notes to Consolidated Financial Statements regarding operating income (loss) by geographic region.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated statements of financial condition. These temporary differences result in taxable or deductible amounts in future years. Details of the Company s deferred tax assets and liabilities, which are included in other assets and other liabilities , respectively, on the consolidated statements of financial condition, are as follows:

	December 31,	
	2013	**2012**
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)
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
Deferred tax liabilities	$ 135,166	$ 104,498

The basis adjustments recorded as of December 31, 2013 and 2012 are the result of:

purchases and redemptions of historical and working member interests consummated in connection with the separation and recapitalization of the Company, which resulted in deferred tax assets of $123,027 and $158,459 at December 31, 2013 and 2012, respectively,

tax basis step-ups resulting from the exchange of LAZ-MD exchangeable interests and from secondary offerings, and associated with the LAM Merger, which in the aggregate resulted in deferred tax assets of $603,552 and $638,993 at December 31, 2013 and 2012, respectively,

tax basis step-up for U.S. income tax purposes on certain U.K. assets, which resulted in deferred tax assets of $6,538 and $16,083 at December 31, 2013 and 2012, respectively, and

tax basis step-up for payments made under the tax receivable agreement of $5,942 and $6,694 at December 31, 2013 and 2012, respectively.

Although we have been profitable on a consolidated basis in the last three years, certain of our tax-paying entities have individually experienced minimal profits on a cumulative three-year basis 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, we have recorded valuation allowances on our deferred tax assets of $1,225,305 and $1,238,765 as of December 31, 2013 and December 31, 2012, respectively. The valuation allowance at December 31, 2013 reflects a net decrease of $13,460 from the balance of $1,238,765 at December 31, 2012. This net decrease in the valuation allowance for the year ended December 31, 2013 consists of additions of $13,375 and $22,010 for the amounts charged to income tax expense and stockholders equity, respectively, and a deduction of $48,845 which was credited to income tax expense.

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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.

The Company had net operating loss and tax credit carryforwards for which related deferred tax assets were recorded at December 31, 2013 primarily relating to:

(i) indefinite-lived carryforwards (subject to various limitations) of approximately $74,619, primarily in the U.K., France, Australia, Italy, Germany, Singapore and Italy; and

(ii) certain carryforwards of approximately $266,243 in the U.S., which begin expiring in 2029.

As a result of certain realization requirements regarding share-based incentive plan awards, certain deferred tax assets pertaining to tax deductions related to equity compensation in excess of compensation recognized for financial reporting that would otherwise have been recognized at December 31, 2013 and 2012 of $30,200 and $19,900 are not included in the table above. The impact of such excess tax deductions will be recorded in stockholders equity if and when such deferred tax assets are ultimately realized.

With few exceptions, the Company is no longer subject to income tax examination by foreign tax authorities and by U.S. federal, state and local tax authorities for years prior to 2009. While we are under examination in various tax jurisdictions with respect to certain open years, the Company does not expect that the result of any final determination related to these examinations will have a material impact on its financial statements. Developments with respect to such examinations are monitored on an ongoing basis and adjustments to tax liabilities are made as appropriate.

A reconciliation of the beginning to the ending amount of gross unrecognized tax benefits (excluding interest and penalties) for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Year Ended December 31,		
	2013	**2012**	**2011**
Balance, January 1 (excluding interest and penalties of $14,799, $8,454 and $7,099, respectively)	$ 55,947	$ 62,200	$ 58,605
Increases in gross unrecognized tax benefits relating to tax positions taken during:			
Prior years	417	1,393	1,081
Current year	17,596	19,690	16,928
Decreases in gross unrecognized tax benefits relating to:			
Tax positions taken during prior years	(385)	(5,397)	(5,133)
Settlements with tax authorities	(5,587)	(12,077)	
Lapse of the applicable statute of limitations	(5,083)	(9,862)	(9,281)
	$ 62,905	$ 55,947	$ 62,200

Balance, December 31 (excluding interest and penalties of $12,200, $14,799 and $8,454, respectively)

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Additional information with respect to unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2013	2012	2011
Unrecognized tax benefits at the end of the year that, if recognized, would favorably affect the effective tax rate (includes interest and penalties of $12,200, $14,799 and $8,454, respectively)	$ 36,272	$ 44,452	$ 44,545
Offset to deferred tax assets for unrecognized tax benefits that, if recognized, would not affect the effective tax rate	$ 38,833	$ 26,294	$ 26,109
Interest and penalties recognized in current income tax expense (after giving effect to the reversal of interest and penalties of $7,326, $3,130 and $1,785, respectively)	$ (2,599)	$ 6,345	$ 1,355

The Company anticipates that it is reasonably possible that approximately $8,600 of unrecognized tax benefits recorded at December 31, 2013 may be recognized within 12 months as a result of the lapse of the statute of limitations in various tax jurisdictions.

Tax Receivable Agreement

The redemption of historical partner interests in connection with the Company s separation and recapitalization that occurred in May 2005 and the subsequent exchanges through December 31, 2013 of LAZ-MD Holdings exchangeable interests for shares of Class A common stock have resulted, and future exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, in increases in the tax basis of the tangible and/or intangible assets of Lazard Group. Included in our deferred tax assets as of December 31, 2013 are approximately $652,000 related to certain basis step-up assets and approximately $257,000 of net operating losses generated by the amortization of such step-up assets, all of which are subject to the tax receivable agreement dated as of May 10, 2005 with LFCM Holdings. The tax receivable agreement requires the Company to pay LFCM Holdings 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of these increases in tax basis. The Company records provisions for payments under the tax receivable agreement to the extent they are probable and estimable. During the years ended December 31, 2013 and 2011, the Company recorded a provision pursuant to tax receivable agreement of $1,249 and $429, respectively, in operating expenses other on the consolidated statements of operations (no provision was required for the year ended December 31, 2012).

18. NET INCOME PER SHARE OF CLASS A COMMON STOCK

The Company s basic and diluted net income per share calculations for the years ended December 31, 2013, 2012 and 2011 are computed as described below.

Basic Net Income Per Share

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

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

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

Diluted Net Income Per Share

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

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

The calculations of the Company s basic and diluted net income per share and weighted average shares outstanding for the years ended December 31, 2013, 2012 and 2011 are presented below:

	Year Ended December 31,		
	2013	**2012**	**2011**
Net income attributable to Lazard Ltd	$ 160,212	$84,309	$174,917
Add (deduct) - adjustment associated with Class A common stock issuable on a non-contingent basis		7	284
Net income attributable to Lazard Ltd - basic	160,212	84,316	175,201
Add - dilutive effect, as applicable, of:			
Adjustments to income relating to interest expense and changes in net income attributable to noncontrolling interests resulting from assumed Class A common stock issuances in connection with share-based incentive compensation, convertible debt, convertible preferred stock and exchangeable interests, net of tax	1,065	371	12,512
Net income attributable to Lazard Ltd - diluted	$161,277	$84,687	$187,713
Weighted average number of shares of Class A common stock outstanding	120,096,305	116,163,821	115,005,676
Add - adjustment for shares of Class A common stock issuable on a non-contingent basis	757,962	790,168	3,026,344
Weighted average number of shares of Class A common stock outstanding - basic	120,854,267	116,953,989	118,032,020
Add - dilutive effect, as applicable, of:			
Weighted average number of incremental shares of Class A common stock issuable from share-based incentive compensation, convertible debt, convertible preferred stock and exchangeable interests	12,882,812	12,371,633	19,597,505
	133,737,079	129,325,622	137,629,525

Weighted average number of shares of Class A common stock outstanding - diluted			
Net income attributable to Lazard Ltd per share of Class A common stock:			
Basic	$1.33	$0.72	$1.48
Diluted	$1.21	$0.65	$1.36

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19. RELATED PARTIES

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

	December 31,	
	2013	2012
Receivables		
LFCM Holdings	$ 7,794	$ 20,529
Other	126	3,272
Total	$ 7,920	$ 23,801
Payables		
LFCM Holdings	$ 4,300	$ 2,943
Other	731	705
Total	$ 5,031	$ 3,648

LFCM Holdings

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

Under the employee benefits agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings, LFCM Holdings generally assumed, as of the completion of the separation and recapitalization transactions, all outstanding and future liabilities in respect of the former and current employees of the separated businesses. The Company retained all accrued liabilities under, and assets of, the pension plans in the U.S. and the U.K. as well as the 401(k) plan accounts of the inactive employees of LFCM Holdings and its subsidiaries.

Pursuant to the administrative services agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings, LFCM Holdings and Lazard Group, Lazard Group provides selected administrative and support services to LAZ-MD Holdings and LFCM Holdings, such as cash management and debt service administration, accounting and financing activities, tax, payroll, human resources administration, financial transaction support, information technology, public communications, data processing, procurement, real estate management and other general administrative functions. Lazard Group charges for these services based on Lazard Group s cost allocation methodology.

The services provided pursuant to the administrative services agreement by Lazard Group to LFCM Holdings, and by LFCM Holdings to Lazard Group, are subject to automatic annual renewal, unless either party gives 180 days notice of termination. LFCM Holdings and Lazard Group have a right to terminate the services

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earlier if there is a change of control of either party or the business alliance provided in the business alliance agreement entered into on May 10, 2005, by and among LAZ-MD Holdings, LFCM Holdings and Lazard Group (described below) expires or is terminated. The party receiving a service may also terminate a service earlier upon 180 days notice as long as the receiving party pays the service provider an additional three months of service fee for the terminated service.

The business alliance agreement provides, among other matters, that Lazard Group will refer to LFCM Holdings selected opportunities for underwriting and distribution of securities. In addition, Lazard Group will provide assistance in the execution of any such referred business. In exchange for the referral obligation and assistance, Lazard Group will receive a referral fee from LFCM Holdings equal to approximately one-half of the revenue obtained by LFCM Holdings in respect of any underwriting or distribution opportunity. In addition, LFCM Holdings will refer opportunities in the Financial Advisory and Asset Management businesses to Lazard Group. In exchange for this referral, LFCM Holdings will be entitled to a customary finders fee from Lazard Group. The business alliance agreement further provides that, during the term of the business alliance, LFNY and Lazard Asset Management Securities LLC, an indirect wholly-owned subsidiary of LFNY, will introduce execution and settlement transactions to broker-dealer entities affiliated with LFCM Holdings. The business alliance agreement is subject to periodic automatic renewal, unless Lazard Group or LFCM Holdings elects to terminate the agreement in connection with any such renewal or elects to terminate on account of a change of control of the other party. As of December 31, 2013, the date by which either party was required to provide notice of non-renewal had been tolled, and neither party had given notice of non-renewal or termination.

For the years ended December 31, 2013, 2012 and 2011, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $1,456, $7,637 and $10,277, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $(1,646), $5,947 and $18,862, respectively. Amounts relating to the administrative services agreement are reported as reductions to operating expenses. Net referral fees for underwriting transactions under the business alliance agreement are reported in revenue-other . Net referral fees for private placement, M&A and restructuring transactions under the business alliance agreement are reported in advisory fee revenue.

Receivables from LFCM Holdings and its subsidiaries as of December 31, 2013 and 2012 include $3,112 and $14,299, respectively, related to administrative and support services and other receivables which include sublease income and reimbursement of expenses incurred on behalf of LFCM Holdings, and $4,682 and $6,230, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at December 31, 2013 and 2012 include $3,051 and $2,943, respectively, primarily relating to referral fees for Financial Advisory transactions, and, at December 31, 2013, $1,249 related to obligations pursuant to the tax receivable agreement (see Note 17 of Notes to Consolidated Financial Statements).

Other

For the years ended December 31, 2013, 2012 and 2011, amounts recorded by Lazard Group relating to referral fees for restructuring and M&A transactions and fee sharing with MBA Lazard Holdings S.A. and its affiliates (MBA), an Argentina-based group in which the Company has a 50% ownership interest, amounted to $(2,221), $1,506 and $1,866, respectively, and are reported in advisory fee revenue.

Other receivables and payables at December 31, 2013 and 2012 primarily relate to referral fees for M&A and restructuring transactions with MBA and at December 31, 2012 a related party loan.

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LAZ-MD Holdings

Lazard Group provides certain administrative and support services to LAZ-MD Holdings through the administrative services agreement as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group s cost allocation methodology and, for the years ended December 31, 2013, 2012 and 2011, such charges amounted to $1,000, $1,000 and $750, respectively.

Lazard Alternative Investments

The business alliance agreement, among other things, granted Lazard Group the option to acquire the North American and European fund management activities of Lazard Alternative Investments Holdings LLC (LAI), the subsidiary of LFCM Holdings that owns and operates LFCM Holdings alternative investment (including private equity) activities, for an aggregate purchase price of $8,000 and $2,000, respectively. On December 15, 2009, Lazard Group exercised its option to acquire the European fund management activities of LAI for a purchase price of $2,000. Through February 2009, the Company had prepaid $5,500 of the option exercise price related to the North American business of LAI. The remaining option to purchase the North American fund management activities is currently exercisable at any time prior to May 10, 2014, for a purchase price of $2,500.

During the fourth quarter of 2011, the Company determined that it was unlikely to exercise the North American option. Accordingly, during such period the Company wrote-off the $5,500 previously capitalized cost associated with the prepayment of the option which is included within other operating expenses on the consolidated statement of operations.

20. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage (6 $^{2}/_{3}$%) of total aggregate indebtedness recorded in LFNY s Financial and Operational Combined Uniform Single (FOCUS) report filed with the Financial Industry Regulatory Authority (FINRA), or $100, whichever is greater. At December 31, 2013, LFNY s regulatory net capital was $110,317, which exceeded the minimum requirement by $106,944.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries) are regulated by the Financial Conduct Authority. At December 31, 2013, the aggregate regulatory net capital of the U.K. Subsidiaries was $77,786, which exceeded the minimum requirement by $63,349.

CFLF, under which asset management and commercial banking activities are carried out in France, is subject to regulation by the ACPR for its banking activities conducted through its subsidiary, LFB. The investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), also are subject to regulation and supervision by the Autorité des Marchés Financiers. At December 31, 2013, the consolidated regulatory net capital of CFLF was $196,109, which exceeded the minimum requirement set for regulatory capital levels by $162,915. 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

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certain other non-financial advisory European subsidiaries of the Company (referred to herein, on a combined basis, as the combined European regulated group) under such rules. Under this new supervision, the combined European regulated group is required to comply with periodic financial, regulatory net capital and other reporting obligations. Additionally, the combined European regulated group, together with our European financial advisory entities, is required to perform an annual risk assessment and provide certain other information on a periodic basis, including financial reports and information relating to financial performance, balance sheet data and capital structure (which is similar to the information that the Company had already been providing informally). This new supervision under, and provision of information to, the ACPR became effective December 31, 2013.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At December 31, 2013, for those subsidiaries with regulatory capital requirements, their aggregate net capital was $113,118, which exceeded the minimum required capital by $78,848.

At December 31, 2013, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

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

21. SEGMENT INFORMATION

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

The Company s segment information for the years ended December 31, 2013, 2012 and 2011 is prepared using the following methodology:

- Revenue and expenses directly associated with each segment are included in determining operating income.

- Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.

- Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

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

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

tax, legal, facilities management and senior management activities.

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For the years ended December 31, 2013, 2012 and 2011, no individual client constituted more than 10% of the net revenue of any of the Company s business segments.

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

		As Of Or For The Year Ended December 31,		
		2013(b)	**2012(b)**	**2011**
Financial Advisory	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
	Total Assets	$ 714,708	$ 793,007	$ 767,699
Asset Management	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
	Total Assets	$ 612,018	$ 566,677	$ 583,524
Corporate	Net Revenue	$ (34,355)	$ (32,902)	$ (59,996)
	Operating Expenses (a)	104,832	71,441	35,380
	Operating Loss	$ (139,187)	$ (104,343)	$ (95,376)
	Total Assets	$ 1,684,411	$ 1,627,209	$ 1,730,713
Total	Net Revenue	$ 1,985,352	$ 1,912,448	$ 1,829,512
	Operating Expenses (a)	1,768,545	1,788,563	1,594,013
	Operating Income	$ 216,807	$ 123,885	$ 235,499
	Total Assets	$ 3,011,137	$ 2,986,893	$ 3,081,936

(a) Operating expenses include depreciation and amortization of property as set forth in table below.

Year Ended December 31,

	2013	2012	2011
Financial Advisory	$ 5,256	$ 5,710	$ 6,739
Asset Management	2,556	3,250	3,502
Corporate	26,938	21,895	14,339
Total	$ 34,750	$ 30,855	$ 24,580

(b) See Note 16 of Notes to Consolidated Financial Statements for information regarding the Cost Saving Initiatives announced by the Company in 2013 and 2012, and the impact on each of the Company s business segments.

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Geographic Information

Due to the highly integrated nature of international financial markets, the Company manages its business based on the profitability of the enterprise as a whole. Accordingly, management believes that profitability by geographic region is not necessarily meaningful. The Company s revenue and identifiable assets are generally allocated based on the country or domicile of the legal entity providing the service.

The following table sets forth the net revenue from, and identifiable assets for, the Company and its consolidated subsidiaries by geographic region allocated on the basis described above.

	As Of Or For The Year Ended December 31,		
	2013	2012	2011
Net Revenue:			
United States	$ 1,217,014	$ 1,172,566	$ 1,083,457
United Kingdom	205,695	180,784	190,307
France	281,740	265,523	234,441
Other Western Europe	123,975	132,754	174,284
Rest of World	156,928	160,821	147,023
Total	$ 1,985,352	$ 1,912,448	$ 1,829,512
Operating Income (Loss):			
United States	$ 234,247	$ 169,111	$ 209,236
United Kingdom	(6,474)	(37,329)	(18,074)
France	14,845	8,332	8,262
Other Western Europe	(8,260)	(20,812)	27,276
Rest of World	(17,551)	4,583	8,799
Total	$ 216,807	$ 123,885	$ 235,499
Identifiable Assets:			
United States	$ 1,529,695	$ 1,507,331	$ 1,630,547
United Kingdom	239,606	226,578	253,365
France	824,712	808,655	773,196
Other Western Europe	118,939	114,763	116,682
Rest of World	298,185	329,566	308,146
Total	$ 3,011,137	$ 2,986,893	$ 3,081,936

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SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY RESULTS (UNAUDITED)

The following represents the Company s unaudited quarterly results for the years ended December 31, 2013 and 2012. These quarterly results were prepared in conformity with generally accepted accounting principles and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal recurring nature.

	2013 Fiscal Quarter				
	First(a)	Second(a)	Third	Fourth(b)	Year
	(dollars in thousands, except per share data)				
Net revenue	$ 401,903	$ 490,405	$ 480,354	$ 612,690	$ 1,985,352
Operating expenses	380,306	449,467	399,236	539,536	1,768,545
Operating income	$ 21,597	$ 40,938	$ 81,118	$ 73,154	$ 216,807
Net income	$ 17,649	$ 31,921	$ 62,748	$ 52,796	$ 165,114
Less - net income (loss) attributable to noncontrolling interests	2,289	568	2,466	(421)	4,902
Net income attributable to Lazard Ltd	$ 15,360	$ 31,353	$ 60,282	$ 53,217	$ 160,212
Attributable to Lazard Ltd Class A common stockholders:					
Net income per share of common stock:					
Basic	$0.13	$0.26	$0.49	$0.44	$1.33
Diluted	$0.12	$0.24	$0.45	$0.40	$1.21
Dividends declared per share of common stock		$0.25	$0.25	$0.50	$1.00

(a) See Note 16 of Notes to Consolidated Financial Statements for information regarding the Cost Saving Initiatives.
(b) See Note 11 of Notes to Consolidated Financial Statements for information regarding the debt refinancing.

	2012 Fiscal Quarter				
	First	Second	Third	Fourth(a)	Year
	(dollars in thousands, except per share data)				
Net revenue	$ 486,039	$ 436,910	$ 428,806	$ 560,693	$ 1,912,448
Operating expenses	448,216	392,377	382,080	565,890	1,788,563
Operating income (loss)	$ 37,823	$ 44,533	$ 46,726	$ (5,197)	$ 123,885
Net income (loss)	$ 29,056	$ 34,162	$ 33,673	$ (4,106)	$ 92,785
Less - net income attributable to noncontrolling interests	3,504	3,341	372	1,259	8,476
Net income (loss) attributable to Lazard Ltd	$ 25,552	$ 30,821	$ 33,301	$ (5,365)	$ 84,309
Attributable to Lazard Ltd Class A common stockholders:					
Net income (loss) per share of common stock:					
Basic	$0.21	$0.26	$0.29	$(0.05)	$0.72
Diluted	$0.20	$0.24	$0.26	$(0.05)	$0.65
Dividends declared per share of common stock	$0.16	$0.20	$0.20	$ 0.60	$1.16

(a) See Note 16 of Notes to Consolidated Financial Statements for information regarding the Cost Saving Initiatives announced in the fourth quarter of 2012.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last two fiscal years.

Item 9A. Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of December 31, 2013 (the end of the period covered by this Annual Report on Form 10-K). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

Management s Report on Internal Controls Over Financial Reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), and the related report of our independent registered public accounting firm, are set forth in Part II, Item 8 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding members of the Board of Directors, including its audit committee and audit committee financial experts, as well as information regarding our Code of Business Conduct and Ethics that applies to our Chief Executive Officer and senior financial officers, will be presented in Lazard Ltd s definitive proxy statement for its 2014 annual general meeting of shareholders, which will be held in April 2014, and is incorporated herein by reference. Information regarding our executive officers is included in Part I of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in Lazard Ltd s definitive proxy statement for its 2014 annual general meeting of shareholders, and is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding executive officer and director compensation will be presented in Lazard Ltd s definitive proxy statement for its 2014 annual general meeting of shareholders, which will be held in April 2014, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will be presented in Lazard Ltd s definitive proxy statement for its 2014 annual general meeting of shareholders, which will be held in April 2014, and is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2013 regarding securities issued under our 2005 Equity Incentive Plan and 2008 Incentive Compensation Plan.

	Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Second Column)
Equity compensation plans approved by security holders	2008 Incentive Compensation Plan[1]	18,760,475	[4]	20,169,352
Equity compensation plans not approved by security holders	2005 Equity Incentive Plan[2]	40,405[3]	[4]	6,825,575[5]
Total		18,800,880[3]		26,994,927

(1) Our 2008 Incentive Compensation Plan was approved by the stockholders of Lazard Ltd on May 6, 2008. The number of shares of Lazard Ltd Class A common stock available for issuance under the 2008 Incentive Compensation Plan is determined by a formula, which generally provides that the aggregate number of

shares subject to outstanding awards under the 2008 Incentive Compensation Plan may not exceed 30% of the aggregate number of then-outstanding shares of Lazard Ltd Class A common stock (treating, for this purpose, the then-outstanding LAZ-MD Holdings exchangeable interests as shares of Lazard Ltd Class A common stock on an as-if-fully exchanged basis in accordance with the Master Separation Agreement).

(2) Our 2005 Equity Incentive Plan was established prior to our equity public offering in May 2005 and, as a result, did not require approval by security holders.

(3) Represents outstanding stock unit awards, after giving effect to forfeitures, as of December 31, 2013. As of that date, the only grants made under the 2005 Equity Incentive Plan and 2008 Incentive Compensation Plan have been in the form of stock unit awards and restricted stock awards. See Note 14 of Notes to Consolidated Financial Statements for a description of the plans.

(4) Each stock unit awarded under our 2005 Equity Incentive Plan and 2008 Incentive Compensation Plan was granted at no cost to the persons receiving them and represents the contingent right to receive the equivalent number of shares of Lazard Ltd Class A common stock.

(5) Gives effect to the number of securities remaining available for future issuance, after considering the impact of vested RSUs not delivered as a result of withholding taxes.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence, will be presented in Lazard Ltd s definitive proxy statement for its 2014 annual general meeting of shareholders, which will be held in April 2014, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accountant fees and services will be presented in Lazard Ltd s definitive proxy statement for its 2014 annual general meeting of shareholders, which will be held in April 2014, and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in the Annual Report on Form 10-K are listed on page F-1 hereof and in Part II, Item 8 hereof.

2. Financial Statement Schedule

The financial statement schedule required in the Annual Report on Form 10-K is listed on page F-1 hereof. The required schedule appears on pages F-2 through F-6 hereof.

3. Exhibits

2.1	Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
2.2	Amendment No. 1, dated as of November 6, 2006, to the Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
2.3	Second Amendment, dated as of May 7, 2008, to the Master Separation Agreement, dated as of May 10, 2005, as amended, by and among Lazard Ltd, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 9, 2008).
2.4	Class B-1 and Class C Members Transaction Agreement (incorporated by reference to Exhibit 2.2 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1 filed on December 17, 2004).
3.1	Certificate of Incorporation and Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
3.2	Certificate of Incorporation in Change of Name of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
3.3	Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.3 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
3.4	First Amendment to Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.4 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008).
3.5	Second Amendment to the Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.5 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010).

4.1	Form of Specimen Certificate for Class A common stock (incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).

4.2	Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to Lazard Group LLC s Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
4.3	First Supplemental Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.2 to Lazard Group LLC s Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
4.4	Fourth Supplemental Indenture, dated as of June 21, 2007, between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007).
4.5	Fifth Supplemental Indenture, dated as of November 14, 2013, between Lazard Group LLC and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on November 14, 2013).
4.6	Form of Senior Note (included in Exhibits 4.3, 4.4 and 4.5).
10.1	Amended and Restated Stockholders Agreement, dated as of November 6, 2006, by and among LAZ-MD Holdings LLC, the Registrant and certain members of LAZ-MD Holdings LLC (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
10.2	First Amendment, dated as of May 7, 2008, to the Amended and Restated Stockholders Agreement dated as of November 6, 2006, between LAZ-MD Holdings LLC and Lazard Ltd (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008).
10.3	Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.4	Amendment No. 1 to the Operating Agreement of Lazard Group LLC, dated as of December 19, 2005 (incorporated by reference to Exhibit 3.01 to Lazard Group LLC s Current Report on Form 8-K (File No. 333-126751) filed on December 19, 2005).
10.5	Amendment No. 2, dated as of May 9, 2008, to the Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 8, 2008).
10.6	Amendment No. 3, dated as of April 27, 2010, to the Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010).
10.7	Tax Receivable Agreement, dated as of May 10, 2005, by and among Ltd Sub A, Ltd Sub B and LFCM Holdings LLC (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.8	Employee Benefits Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.9	Insurance Matters Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.10	License Agreement, dated as of May 10, 2005, by and among Lazard Strategic Coordination Company LLC, Lazard Frères & Co. LLC, Lazard Frères S.A.S., Lazard & Co., Holdings Limited and LFCM Holdings LLC (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.11	Administrative Services Agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings LLC, LFCM Holdings LLC and Lazard Group LLC (incorporated by reference to Exhibit 10.7 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).

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10.12	Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.8 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.13	Amendment and Consent, dated February 9, 2009, to the Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.12 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).
10.14	Amended and Restated Operating Agreement of Lazard Strategic Coordination Company LLC, dated as of January 1, 2002 (incorporated by reference to Exhibit 10.16 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.15	Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.19 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.16	Amendment dated as of February 16, 2011, by and among RCPI Landmark Properties, L.L.C. (as the successor in interest to Rockefeller Center Properties), RCPI 30 Rock 22234849, L.L.C. and Lazard Group LLC (as the successor in interest to Lazard Frères & Co. LLC), to the Lease dated as of January 27, 1994, by and among Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.16 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011).
10.17	Occupational Lease, dated as of August 9, 2002, by and among Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.18*	2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005).
10.19*	Lazard Ltd s 2008 Incentive Compensation Plan (incorporated by reference to Annex B to the Registrant s Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 24, 2008).
10.20*	2005 Bonus Plan (incorporated by reference to Exhibit 10.23 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
10.21*	Form of Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, applicable to, and related Schedule I for, Scott D. Hoffman (incorporated by reference to Exhibit 10.26 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.22*	Form of First Amendment, dated as of May 7, 2008, to Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, for Scott D. Hoffman (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on May 9, 2008).
10.23*	Amendment, dated as of February 23, 2011, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005 and amended as of May 7, 2008, for Scott D. Hoffman (incorporated by reference to Exhibit 10.25 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011).
10.24*	Form of Agreement Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to the Registrant s Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).

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

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10.38*	Form of Agreement evidencing a grant of Deferred Cash Award to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.42 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).
10.39*	Directors Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006).
10.40*	First Amended Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.43 to the Registrant s Annual Report (File No. 001-32492) on Form 10-K filed on March 1, 2007).
10.41	Agreement and Plan of Merger, dated as of August 14, 2008, by and among Lazard Ltd, LAZ Sub I, Lazard Asset Management LLC and Lazard Asset Management Limited (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K (File No. 001-32492) filed on August 15, 2008).
10.42	Senior Revolving Credit Agreement, dated as of September 25, 2012, among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.47 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 1, 2012).
10.43*	Form of Agreement evidencing a grant of Restricted Stock under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010).
10.44*	Form of Agreement evidencing a grant of Lazard Fund Interests under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.55 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 29, 2011).
10.45*	Form of Agreement evidencing a grant of Restricted Stock Units and Restricted Stock to Executive Officers who are or may become eligible for retirement under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.53 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 2, 2012).
10.46*	First Amendment, dated as of August 2, 2011, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 15, 2005, between Lazard Group LLC and Ashish Bhutani (incorporated by reference to Exhibit 10.56 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on August 4, 2011).
10.47*	Second Amendment, dated as of October 24, 2012, to the Agreement relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005 and amended on March 23, 2010, among the Registrant, Lazard Group LLC and Kenneth M. Jacobs (incorporated by reference to Exhibit 10.52 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 1, 2012).
10.48*	Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of March 15, 2005 and amended on August 2, 2011, among the Registrant, Lazard Group LLC and Ashish Bhutani (incorporated by reference to Exhibit 10.50 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013).
10.49*	Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of October 4, 2004 and amended on April 1, 2011, among the Registrant, Lazard Group LLC and Matthieu Bucaille (incorporated by reference to Exhibit 10.51 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013).
10.50*	Second Amendment, dated as of March 14, 2013, to the Agreement Relating to Retention and Noncompetition and Other Covenants dated as of May 4, 2005 and amended on May 7, 2008 and February 23, 2011, among the Registrant, Lazard Group LLC and Scott D. Hoffman (incorporated by reference to Exhibit 10.52 to the Registrant s Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2013).

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

* Management contract or compensatory plan or arrangement.

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LAZARD LTD

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Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2013 AND 2012

(dollars in thousands, except per share data)

	December 31,	
	2013	2012
ASSETS		
Cash and cash equivalents	$ 688	$ 298
Investments in subsidiaries, equity method	(1,818,211)	(1,852,072)
Due from subsidiaries	2,379,308	2,421,780
Other assets	4	
Total assets	$ 561,789	$ 570,006
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Due to subsidiaries	$ 1,488	$ 254
Other liabilities	92	96
Total liabilities	1,580	350
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 stockholders equity	560,209	569,656
Total liabilities and stockholders equity	$ 561,789	$ 570,006

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

CONDENSED STATEMENTS OF OPERATIONS

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

(dollars in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
REVENUE			
Equity in earnings of subsidiaries	$ 103,769	$ 20,598	$ 109,294
Interest and other income	58,227	65,319	67,042
Total revenue	161,996	85,917	176,336
OPERATING EXPENSES			
Professional services	1,662	1,477	1,276
Other	122	131	143
Total operating expenses	1,784	1,608	1,419
NET INCOME	$ 160,212	$ 84,309	$ 174,917

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

CONDENSED 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	$ 160,212	$ 84,309	$ 174,917
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Currency translation adjustments	(15,438)	15,431	(8,760)
Amortization of interest rate hedge	2,488	1,042	1,000
Employee benefit plans:			
Actuarial loss (net of tax benefit of $6,353, $12,796 and $11,874 for the years ended December 31, 2013, 2012 and 2011, respectively)	(13,426)	(39,817)	(36,256)
Adjustments for items reclassified to earnings (net of tax expense of $1,918, $1,131 and $977 for the years ended December 31, 2013, 2012 and 2011, respectively)	4,580	4,347	2,091
OTHER COMPREHENSIVE LOSS, NET OF TAX	(21,796)	(18,997)	(41,925)
COMPREHENSIVE INCOME	$ 138,416	$ 65,312	$ 132,992

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

CONDENSED 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	$ 160,212	$ 84,309	$ 174,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Noncash items included in net income:			
Equity in earnings of subsidiaries	(103,769)	(20,598)	(109,294)
Changes in due to/from subsidiaries	65,574	71,566	4,945
Changes in other operating assets and liabilities	(7)	(89)	12
Net cash provided by operating activities	122,010	135,188	70,580
CASH FLOWS FROM FINANCING ACTIVITIES:			
Class A common stock dividends	(121,620)	(135,108)	(70,572)
Net cash used in financing activities	(121,620)	(135,108)	(70,572)
Net increase in cash and cash equivalents	390	80	8
Cash and cash equivalents, January 1	298	218	210
Cash and cash equivalents, December 31	$ 688	$ 298	$ 218
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Supplemental investing non-cash transaction:			
Class A common stock issued/issuable in connection with business acquisitions	$	$	$ 39,654

See notes to condensed financial statements.

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LAZARD LTD

(parent company only)

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying Lazard Ltd condensed financial statements (the Parent Company Financial Statements), including the notes thereto, should be read in conjunction with the consolidated financial statements of Lazard Ltd and its subsidiaries (the Company) and the notes thereto.

The Parent Company Financial Statements as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and the disclosures in the condensed financial statements. Management believes that the estimates utilized in the preparation of the condensed financial statements are reasonable. Actual results could differ materially from these estimates.

The Parent Company Financial Statements include investments in subsidiaries, accounted for under the equity method.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 27, 2014

LAZARD LTD

By: /s/ Kenneth M. Jacobs

Kenneth M. Jacobs
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Kenneth M. Jacobs	Chairman, Chief Executive Officer and Director	February 27, 2014
Kenneth M. Jacobs	(*Principal Executive Officer*)	
/s/ Matthieu Bucaille	Chief Financial Officer	February 27, 2014
Matthieu Bucaille	(*Principal Financial Officer*)	
/s/ Dominick Ragone	Chief Accounting Officer	February 27, 2014
Dominick Ragone		
/s/ Andrew M. Alper	Director	February 27, 2014
Andrew M. Alper		
/s/ Ashish Bhutani	Director	February 27, 2014
Ashish Bhutani		
/s/ Steven J. Heyer	Director	February 27, 2014
Steven J. Heyer		
/s/ Sylvia Jay	Director	February 27, 2014
Sylvia Jay		
/s/ Philip A. Laskawy	Director	February 27, 2014
Philip A. Laskawy		
/s/ Laurent Mignon	Director	February 27, 2014
Laurent Mignon		

/s/ Richard D. Parsons	Director	February 27, 2014
Richard D. Parsons		
/s/ Hal S. Scott	Director	February 27, 2014
Hal S. Scott		
/s/ Michael J. Turner	Director	February 27, 2014
Michael J. Turner		