

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 26th day of October 1995, by and among the United States of America, acting by and through the Office of the United States Attorney for the District of Massachusetts, the Commonwealth of Massachusetts, acting by and through the Office of the Attorney General for the Commonwealth of Massachusetts, and Lazard Freres & Co. LLC, a New York Limited Liability Company with its principal place of business in New York, New York ("Lazard LLC"), for itself and as successor to Lazard Freres & Co., a New York Limited Partnership ("Lazard").

A. The Investigation -- In 1993, the Office of the United States Attorney for the District of Massachusetts (the "United States Attorney") and the Office of the Attorney General for the Commonwealth of Massachusetts (the "Massachusetts Attorney General") commenced an investigation into alleged wrongdoing in connection with certain municipal finance transactions in which Mark Ferber, a former partner of Lazard, the predecessor firm to Lazard LLC, functioned as a financial advisor to certain municipalities (the "Investigation"). The Investigation has focused on, among other things, (1) whether Mark Ferber improperly solicited financial benefits in the form of additional business from broker-dealer firms; and (2) whether Mark Ferber failed to adequately disclose his solicitations and a contractual relationship between Lazard, acting through Mark Ferber, and Merrill Lynch, Pierce, Fenner & Smith, Incorporated ("Merrill Lynch") that commenced in late 1989 and terminated in January

1993, and Merrill Lynch's payments thereunder, to the Massachusetts Water Resources Authority ("MWRA"), the District of Columbia ("DC"), the United States Postal Service ("USPS"), and the Michigan Department of Transportation ("MDOT"), all of which were public or quasi-public entities that Mark Ferber represented as financial advisor and which engaged in municipal finance transactions with Merrill Lynch during the 1990 to 1992 time period.

Certain conclusions reached by the United States Attorney and Massachusetts Attorney General as a result of the Investigation are set forth in recitals B through O, below. In summary, the Investigation has determined, among other things, that (1) Mark Ferber improperly solicited financial benefits in the form of additional business from broker-dealer firms, but the Investigation has uncovered no evidence that any of Lazard's other partners had knowledge of, participated in, or approved any such misconduct; and (2) Mark Ferber failed to adequately disclose his solicitations and the contractual relationship with Merrill Lynch and Merrill Lynch's payments thereunder to the MWRA, DC, USPS and MDOT, and actively misled his Lazard partners concerning disclosure of the contractual arrangement to certain of Mark Ferber's financial advisory clients. The Investigation has further concluded that Lazard failed to take adequate steps to ensure full disclosure by Mark Ferber of the contractual relationship with Merrill Lynch to Mark Ferber's financial advisory clients, and for that reason Lazard should be held vicariously responsible on a civil basis for Mark Ferber's misconduct.

B. Mark Ferber -- Mark Ferber joined Lazard in April 1988 as a Senior Vice President, and became a partner in January 1990. Mark Ferber remained a partner until he resigned and left Lazard in January 1993.

While at Lazard, Mark Ferber worked within Lazard's Municipal Department, which principally: (i) serves as financial advisor to certain state and local governments and their agencies and instrumentalities with respect to the development of financial plans and strategies; and (ii) acts as underwriter with respect to the issuance of municipal securities by other state and local governments and their agencies and instrumentalities. Mark Ferber established and managed a branch office of Lazard's Municipal Department in Boston, Massachusetts. Mark Ferber negotiated a compensation arrangement with Lazard pursuant to which he received a significant portion of the fees generated by the Boston office. Lazard closed its Boston office when Mark Ferber left in January 1993.

At times relevant to these proceedings, Lazard was a financial advisor to the MWRA, DC, USPS and MDOT. Lazard's financial advisory services to those municipal issuers were provided primarily by Mark Ferber and others under his supervision.

C. Interest Rate Swaps -- On September 27, 1989, in anticipation of a substantial January 1990 bond issuance by the MWRA, which was then a financial advisory client of Mark Ferber's, representatives of Merrill Lynch approached Mark Ferber in an

effort to interest the MWRA in a product called "interest rate swaps." Interest rate swaps are transactions by which an entity may exchange (i.e., "swap") its obligation to make periodic payments based on a particular interest rate or index for the right to receive periodic payments based on a different rate or index (e.g., one may swap the obligation to make variable rate payments for the right to receive fixed rate payments). The September 27, 1989 meeting followed a history, dating back to at least 1988, of improper solicitations by Mark Ferber for financial benefits in the form of additional business from broker-dealer firms, including Merrill Lynch, attempting to engage in financial transactions with the MWRA.

At or about the time of the September 27, 1989 meeting, Merrill Lynch told Mark Ferber about an interest rate swap it was in the process of structuring with one of its long-standing clients in Florida. At that time, Mark Ferber had never worked on an interest rate swap. The Florida swap ultimately closed in November 1989, without Mark Ferber or anyone else at Lazard performing services in connection with it. Mark Ferber was informed by Merrill Lynch that Lazard would be paid approximately \$90,000 for the Florida interest rate swap.

In February 1990, Merrill Lynch sent the \$90,000 payment to Lazard and stated in writing that Mark Ferber had provided assistance in structuring and executing the Florida interest rate swap. Mark Ferber did not inform Lazard of the inaccuracy of the

Merrill Lynch statement; indeed, he actively misled Lazard by stating that he had assisted Merrill Lynch in structuring the Florida interest rate swap. Mark Ferber did not inform the MWRA, which at the time was his most significant financial advisory client, of the \$90,000 payment from Merrill Lynch and the circumstances surrounding that payment.

D. December 5, 1989 Contract -- Merrill Lynch and Lazard, by and through Mark Ferber, entered into a contract, dated December 5, 1989, which provided, among other things, that the firms would participate with each other from time to time in the origination and arrangement of interest rate swaps to be entered into by Merrill Lynch. The contract further provided that Merrill Lynch would pay Lazard a portion of any compensation Merrill Lynch received in connection with the execution of swaps that Lazard helped to originate or arrange. Mark Ferber executed the contract on December 13, 1989. He did not advise the MWRA of the existence of the contract. Mark Ferber told at least one of Lazard's New York partners that this contract had its origin in the Florida interest rate swap. He failed, however, to disclose the circumstances surrounding the \$90,000 payment to any of his Lazard partners.

E. MWRA Interest Rate Swaps -- In May and June of 1990, the MWRA and Merrill Lynch entered into two swaps of a combined notional amount of \$168,000,000. The MWRA decided to execute swaps and to do the swaps with Merrill Lynch, as opposed to any other

entity, without putting out a request for proposals. The MWRA's decisions were based, at least in part, upon the initial recommendation of Mark Ferber in January 1990, and subsequent input and advice from Mark Ferber through the spring of 1990. In connection with these two swaps, the MWRA paid Merrill Lynch an advance fee of \$1.68 million, plus \$31,500 in expenses.

F. The June 26, 1990 Contract -- As early as March 1990 and continuing through June 1990, at the same time that Merrill Lynch was proposing, negotiating and executing the aforementioned interest rate swaps with the MWRA, and Mark Ferber was advising the MWRA of the benefits of Merrill Lynch's interest rate swaps, Mark Ferber and Merrill Lynch were also negotiating a new contract regarding interest rate swaps. The new contract was executed on June 26, 1990. It called for Lazard: (i) to consult generally with Merrill Lynch with respect to the presentation, marketing and sales of municipal interest rate swaps (the "Consulting Provision") and (ii) to participate with Merrill Lynch in originating, negotiating and arranging municipal interest rate swaps (the "Joint Marketing Provision"). The Contract further provided that Merrill Lynch would: (i) pay Lazard a fee, in the amount of \$800,000 for the period June 26, 1990 through December 31, 1990 (the "Periodic Payment"); and (ii) pay Lazard a portion of any compensation received by Merrill Lynch in connection with the successful execution of specific swaps in which Lazard participated (the "Fee Splitting Provision").

Mark Ferber told senior personnel in Lazard's New York headquarters that Lazard's obligations under the new contract would not extend to helping Merrill Lynch market swaps to any of Lazard's municipal financial advisory clients or to participating in any swap transactions Merrill Lynch might propose to enter with Lazard's municipal financial advisory clients. Mark Ferber advised that Lazard would be helping Merrill Lynch to obtain swap business only with Lazard's municipal underwriting clients.

The first draft of the new contract, drafted by outside counsel for Merrill Lynch at the request of the then head of Merrill Lynch's municipal swaps department, provided that Lazard would "not at any time without the express prior consent of Merrill Lynch divulge the existence, substance or text of th[e] Agreement to any other person" (the "Draft Nondisclosure Provision"). Lazard partners in Lazard's New York headquarters who reviewed the first draft sought to have the Draft Nondisclosure Provision amended. One of these Lazard partners expressed the view to Mark Ferber that the draft contract "must be modified to reflect our clear obligation to disclose to our advisory clients who may be considering entering into swap arrangements with [Merrill Lynch] that we have a contract with [Merrill Lynch] and [will be] receiving compensation from them for services rendered, both generally and specifically, for swap activities."

Thereafter, the Draft Nondisclosure Provision was redrafted by Merrill Lynch's outside counsel, with input and

direction from others, including Mark Ferber and the then head of Merrill Lynch's municipal swaps department, to provide that Lazard "will not at any time without the express prior consent of Merrill Lynch divulge the existence, substance or text of this Agreement to any other person, other than the substance of the relationship between [Lazard] and Merrill Lynch [pertaining to the origination, negotiation and arrangement of swaps between Merrill Lynch and issuers identified by Merrill Lynch and Lazard], unless requested or required to do so by subpoena, court investigative demand or similar process"

G. Lazard's Approval of the Contract -- On June 26, 1990, the revised draft, including the revised provisions concerning disclosure, was signed by Merrill Lynch and by Mark Ferber on behalf of Lazard. Prior to signing the June 26, 1990 contract, Mark Ferber advised one of Lazard's New York partners orally and in writing that he had "FULLY disclosed" the arrangements with Merrill Lynch to the MWRA, which was still his most significant financial advisory client, and that the MWRA "had no problem" with it. Senior personnel in Lazard's New York office approved the execution of the June 26, 1990 contract after Mark Ferber falsely stated that he had fully disclosed the contractual relationship with Merrill Lynch to the MWRA and that the MWRA had no problem with it. However, neither the existence of the June 26, 1990 contract, nor the Consulting Provision nor the Periodic Payment was disclosed by Mark Ferber to the MWRA, which did not learn about those matters

until at or about the time the June 26, 1990 contract was disclosed in the press in the Spring of 1993.

H. Renewal of the Contract -- In December 1990, before the June 26, 1990 contract terminated, Lazard, acting through Mark Ferber, and Merrill Lynch renewed the contract in writing to cover calendar year 1991, and subsequently renewed it orally to cover calendar year 1992 (the June 26, 1990 contract, the December 1990 renewal and the later oral renewal are hereinafter referred to collectively as the "Contract"). Commencing in 1991, the Periodic Payment was increased from \$800,000 to \$1,000,000. The Contract effectively remained in place until it was terminated by agreement in January 1993, just before Mark Ferber resigned from Lazard.

I. DC, USPS and MDOT -- During the existence of the Contract, and while Merrill Lynch was making Periodic Payments to Lazard of \$250,000 per quarter, DC, USPS and MDOT became Mark Ferber's municipal financial advisory clients. The MWRA, which had been a financial advisory client of Mark Ferber's since long before he worked at Lazard, remained one of his financial advisory clients throughout the existence of the Contract.

J. Merrill Lynch's Financial Transactions with Mark Ferber's Financial Advisory Clients -- While the Contract was in place, Mark Ferber provided financial advisory services to the MWRA, DC, the USPS and MDOT related to financial transactions involving Merrill Lynch:

- (1) The MWRA, with advice from Mark Ferber, selected Merrill Lynch to serve as the book-running manager on a \$717 million bond issue in March 1992, and negotiated with Merrill Lynch with respect to bond prices and underwriting fees.
- (2) DC, with advice from Mark Ferber, selected Merrill Lynch to execute interest rate swap transactions in September 1991 and March 1992.
- (3) USPS, with advice from Mark Ferber, selected Merrill Lynch in late 1990 as one of two repurchase agents for its bond buy-back program.
- (4) MDOT, with advice from Mark Ferber, selected Merrill Lynch to serve as the book-running manager on a \$518 million bond issue in July 1992, negotiated with Merrill Lynch with respect to bond prices and underwriting fees, and considered whether to select Merrill Lynch to execute interest rate swaps in connection with that transaction.

K. Lazard's Benefits Under the Contract -- Under the Contract, Lazard received the following payments from Merrill Lynch, each of which was received by the Lazard partnership as a whole, but of which Mark Ferber received a substantially greater share than any other Lazard partner:

Periodic Payments

	<u>Date of Check</u>	<u>Amount</u>
1.	9/7/90	\$300,000
2.	9/7/90	\$250,000
3.	3/5/91	\$250,000
4.	3/20/91	\$250,000
5.	7/23/91	\$250,000
6.	10/24/91	\$250,000
7.	3/12/92	\$250,000
8.	4/20/92	\$250,000
9.	7/31/92	\$250,000
10.	11/6/92	\$250,000
		<u>\$250,000</u>
		TOTAL - \$2,550,000

Payments under Fee Splitting Provision (these payments were received only for swaps with entities that were not financial advisory clients of Lazard)

1.	9/28/90	\$931,670
2.	12/15/90	\$249,372
3.	8/19/91	\$672,661
4.	4/15/92	\$ 39,440
5.	9/11/92	\$150,000
6.	9/11/92	\$418,735
7.	9/28/92	\$530,000
8.	10/6/92	\$150,000
		<u>\$150,000</u>
		TOTAL - \$3,141,878

OVERALL TOTAL - \$5,691,878

L. Mark Ferber's Artifice to Defraud and Inadequate Disclosures -- Mark Ferber failed to disclose to any of his financial advisory clients, and failed to disclose to his Lazard partners, that he had improperly used his position as financial advisor to solicit financial benefits in the form of additional business from broker-dealer firms. Mark Ferber also failed, before the execution of the June 26, 1990 contract, to make any disclosure to the MWRA regarding the negotiations pertaining to the Contract, the Consulting Provision or the Periodic Payment. Mark

Ferber further failed, during the life of the Contract, to make any disclosure of the existence of the Contract, the Consulting Provision or the Periodic Payment to the MWRA, DC, USPS or MDOT, while he was giving advice and input concerning whether each of the those entities should engage in underwritings, interest rate swaps, and/or other municipal finance transactions with Merrill Lynch. Moreover, while the Contract was in place, Mark Ferber expressly misrepresented to the MWRA and MDOT that no conflict of interest existed with respect to his services.

M. Lazard's Failure to Ensure Disclosure -- The Contract effectively established an ongoing, continuing relationship between Mark Ferber and Merrill Lynch that resulted in substantial remuneration being paid to Mark Ferber on a routine and regular basis. At the same time the Contract was in place, Mark Ferber was providing advice and input to certain financial advisory clients concerning whether to engage in underwriting, swaps and/or other municipal finance transactions with Merrill Lynch. The ongoing, continuing relationship effectively established by the Contract and the substantial remuneration that was paid on a routine and regular basis gave rise to a risk that Mark Ferber would not provide impartial advice to his financial advisory clients with whom Merrill Lynch was doing or seeking to do municipal finance business. Accordingly, the Contract created at least a potential conflict of interest that should have been disclosed to Mark Ferber's financial advisory clients that were considering, based

upon his advice and input, doing municipal finance business with Merrill Lynch.

While the Investigation has not uncovered any evidence that Lazard's partners in its New York headquarters had knowledge of, participated in or approved Mark Ferber's improper solicitations of broker-dealer firms, the Lazard partners in New York did know of the Contract and facts sufficient to conclude that, under all the circumstances, the Contract created at least a potential conflict of interest for Lazard. The United States Attorney and the Massachusetts Attorney General have concluded that Lazard did not take adequate steps to ensure that Mark Ferber met his obligation to disclose the true nature and extent of the Contract to Mark Ferber's financial advisory clients that were considering, based upon Mark Ferber's advice and input, entering into swap, underwriting and/or other municipal finance transactions with Merrill Lynch.

N. Civil Litigation -- As a consequence of the Investigation, the United States of America, by and through the United States Attorney, has filed a civil Complaint (copy attached) against Lazard LLC in federal court in Boston, and the Commonwealth of Massachusetts has simultaneously filed a civil Complaint (copy attached) against Lazard LLC in Massachusetts state court (collectively, the "Litigation"). In the federal Complaint, the United States Attorney alleges a claim under 18 U.S.C. § 1345. The United States Attorney maintains that Lazard's conduct, as

outlined in recitals B through M above, also gives rise to potential claims under common law and under 31 U.S.C. §§ 3729 - 3733, relating to the USPS, all of which potential claims are released herein in Paragraph 6 below. Lazard and Lazard LLC deny the validity of any such potential claims.

The United States Attorney and the Massachusetts Attorney General have determined that it is appropriate for Lazard LLC to assume vicarious civil liability for certain misconduct of Mark Ferber for at least the following reasons: (i) although the Lazard partners in New York questioned Mark Ferber about his disclosure of the relationship with Merrill Lynch to certain of his financial advisory clients, and received his assurance that disclosure of the relationship had been made, they failed to ensure that Mark Ferber had made full disclosure of the existence of the Contract, the Consulting Provision and the Periodic Payment, and to insist upon written disclosure; (ii) as Mark Ferber was engaged by new financial advisory clients -- including DC, USPS and MDOT -- and those financial advisory clients entered into swaps, underwritings and/or other municipal finance transactions with Merrill Lynch, the Lazard partners in New York did not adequately monitor the disclosure made to such clients by Mark Ferber concerning the existence of the Contract, the Consulting Provision and the Periodic Payment; and (iii) in May 1992, Lazard did not take adequate steps to ensure that Mark Ferber followed Lazard's review process when, in the context of attempting to renew Lazard's financial advisory contract with the MWRA, Mark Ferber represented

in writing to the MWRA that "Lazard Freres & Co. has reviewed all current and/or pending contractual obligations and assignments of its team Members and Key Personnel and there exists no potential for conflict of interest or unfair advantage."

O. Basis for Settlement of Civil Litigation -- The United States Attorney and the Massachusetts Attorney General have determined that settlement of the Litigation on the terms set forth in this Settlement Agreement is warranted for at least the following reasons: (i) Lazard and Lazard LLC have provided valuable cooperation throughout the Investigation, and Lazard LLC has represented and warranted that it will provide such cooperation as the Investigation continues; (ii) prior to and during the term of the Contract, Lazard took certain steps to require disclosure of the contractual relationship to Mark Ferber's financial advisory clients; (iii) Lazard relied upon the word of its former partner, Mark Ferber, who, at least as to the MWRA, expressly advised Lazard in New York that he had fully disclosed the Contract, and who represented as a general matter that the Contract was for wholly legitimate purposes; (iv) although Lazard reviewed the Contract and benefitted from it, the Contract benefitted Mark Ferber substantially more than any other Lazard partner; (v) Lazard LLC has agreed to make payment to the government of benefits Lazard received under the Contract, to make restitution to those former clients which in the view of the United States Attorney and the Massachusetts Attorney General were deprived of proper disclosure, to reimburse the United States of America and the Massachusetts

Attorney General for the costs of the Investigation, and to pay a substantial civil penalty; (vi) to the extent Mark Ferber improperly solicited financial benefits in the form of additional business and intentionally deceived his financial advisory clients, the United States Attorney and Massachusetts Attorney General have not uncovered evidence that Lazard had knowledge of, participated in, or approved Mark Ferber's misconduct; (vii) Mark Ferber's misconduct had no bearing whatsoever upon the overwhelming majority (meaning greater than 95%) of Lazard's business and personnel; and (viii) in response to and as a direct result of the Investigation, Lazard's Municipal Department adopted new compliance policies and procedures which Lazard LLC warrants have been designed to ensure that full disclosure of all contracts with other securities firms is made in writing to all of Lazard and Lazard LLC's municipal financial advisory clients.

NOW, THEREFORE, in consideration of the foregoing and of the terms and conditions set forth hereinafter, Lazard LLC, the United States Attorney and the Massachusetts Attorney General agree as follows:

TERMS AND CONDITIONS

1. Settlement Payment -- Lazard has paid, or Lazard LLC is paying by check, or by electronic funds transfer at the request of any recipient who has provided Lazard LLC with written instructions prior to the date hereof, simultaneously with the execution of this Settlement Agreement, the following amounts:

(a) Restitution in the amount of \$4,280,000, which represents certain financial advisory fees paid to Lazard by Mark Ferber's financial advisory clients, i.e., the MWRA, DC, USPS and MDOT, that engaged in municipal finance business with Merrill Lynch (The recipients of these restitutionary payments are the MWRA, DC, USPS and MDOT);

(b) An administrative payment (not a fine or a penalty) to the United States of America in the amount of \$4,430,000, representing payments from Merrill Lynch to Lazard. (A federal investigative agency that has worked on this matter at the direction of the United States Attorney will dispose of this money through an administrative proceeding);

(c) Reimbursement of \$250,000 to the United States of America and \$50,000 to the Massachusetts Attorney General for certain costs and expenses associated with the Investigation;

(d) A civil penalty of \$2,500,000 to the United States of America and \$500,000 to the Commonwealth of Massachusetts.

2. Representations and Warranties Regarding Remedial Actions Undertaken by Lazard and Lazard LLC -- Lazard LLC represents and warrants that as a direct result of the Investigation, Lazard and Lazard LLC already have undertaken the following substantial remedial actions:

- (a) On October 18, 1993, Lazard promulgated a comprehensive set of compliance policies and procedures for its Municipal Department that address: the proper documentation and disclosure of joint business relationships; the use of outside consultants; and other issues necessary to fulfill Lazard's obligations to its clients. Lazard and Lazard LLC have distributed those policies and procedures to all Municipal Department personnel, and have continued to revise and update them.
- (b) Lazard LLC's Municipal Department compliance policies and procedures include a requirement that Lazard LLC personnel working on financial advisory assignments make written disclosure to their municipal financial advisory clients of the existence and terms of all agreements and arrangements with actual or potential underwriters, financial advisors, consultants and/or swap counterparties that might create even a potential conflict with the interests of Lazard LLC's municipal financial advisory clients.
- (c) Lazard and Lazard LLC have held periodic compliance training sessions that are mandatory for all Municipal Department personnel.

- (d) Lazard established a Municipal Task Force, of which a number of senior partners, including the General Counsel, are members, to ensure that the Municipal Department and its personnel are guided by all appropriate legal and ethical standards. This Task Force has modified Lazard and Lazard LLC's training and compliance systems, its hiring procedures, its use of outside consultants and joint marketing efforts with other firms, its documentation and disclosure practices and its accounting policies.

3. Representations and Warranties Regarding Cooperation Undertaken by Lazard and Lazard LLC -- Lazard LLC represents and warrants that Lazard and Lazard LLC already have performed the following acts of cooperation:

- (a) Lazard ordered an internal investigation and voluntarily notified the United States Attorney and Massachusetts Attorney General as to facts relevant to the Investigation;
- (b) Lazard and Lazard LLC responded promptly to requests for business records, and waived the attorney-client privilege to the extent necessary to permit production of certain otherwise privileged business records created in connection with the negotiation, review and execution of the Contract;

- (c) Lazard and Lazard LLC made numerous Lazard and Lazard LLC personnel available for interviews, and Lazard waived the attorney-client privilege to the extent necessary to permit inquiry into certain otherwise privileged communications occurring in connection with the negotiation, review and execution of the Contract; and
- (d) Lazard prepared and provided the United States Attorney and Massachusetts Attorney General with extensive computer and financial analyses of business records and financial data pertinent to the Investigation.

4. Continuing Cooperation -- Lazard LLC agrees to continue its full cooperation with the Investigation. If testimony of, or information from, any present or former Lazard and Lazard LLC employees is requested, Lazard LLC will use its best efforts to ensure that such individuals are available and will testify truthfully and completely during any investigation, before any grand jury, and at any hearing or trial. Furthermore, without cost to any law enforcement agency, Lazard LLC agrees (i) to preserve and, upon reasonable request and notice, to furnish to the United States Attorney and the Massachusetts Attorney General all nonprivileged documents in its possession, custody, or control that the United States Attorney and the Massachusetts Attorney General deem relevant to the Investigation, (ii) to preserve all privileged documents that may be relevant to the Investigation and provide, upon reasonable request and notice, the United States Attorney and

the Massachusetts Attorney General with a log of those documents, and (iii) to perform, upon reasonable request and notice, searches on its computerized data base of the documents already produced, as well as of all other relevant or potentially relevant documents, and expeditiously to provide the complete results of such searches to the United States Attorney and Massachusetts Attorney General.

5. Dismissal of Litigation -- Subject only to the terms and conditions set forth in paragraphs one through four and six through seven of this section, the United States of America, by and through the United States Attorney, and the Commonwealth of Massachusetts, by and through the Massachusetts Attorney General, will immediately file appropriate Notices of Dismissal in the United States District Court for the District of Massachusetts and in Massachusetts state court dismissing the Litigation with prejudice. Except for the dismissal of the Complaints, Lazard LLC intended to file an answer to each Complaint challenging certain of its factual and legal allegations.

6. Agreement Not to Prosecute -- Subject only to the terms and conditions set forth herein (paragraph 6) and in paragraphs one through four and paragraph seven of this section, the United States of America, by and through the United States Attorney, and the Commonwealth of Massachusetts, by and through the Massachusetts Attorney General and the Secretary of the Commonwealth, Securities Division, agree not to prosecute Lazard or Lazard LLC for or bring any criminal or civil action or proceeding

against Lazard or Lazard LLC, other than the Litigation concerning any matter arising from the subject matter of the Investigation, as further delineated in a letter between the United States Attorney and Lazard LLC dated October 26, 1995, and as to which the United States Attorney or the Massachusetts Attorney General is currently aware (the "Release").

The United States Attorney and the Massachusetts Attorney General also agree not to use this Settlement Agreement against Lazard or Lazard LLC in any criminal or civil case except a case based upon an alleged breach by Lazard LLC of this Settlement Agreement. Notwithstanding anything in this Settlement Agreement to the contrary, the United States Attorney and the Massachusetts Attorney General specifically reserve the right to bring an action, if required, to seek enforcement of this Settlement Agreement.

Lazard LLC understands and agrees that notwithstanding anything in this Settlement Agreement to the contrary, should any of its representations or warranties in this Settlement Agreement turn out to be materially false or misleading, the Release shall be null and void, and the United States of America, by and through the United States Attorney, and the Commonwealth of Massachusetts, by and through the Massachusetts Attorney General, shall have, and specifically reserve, the right to use against Lazard LLC at any trial, hearing, proceeding or sentencing, this Settlement Agreement and any statement made by Lazard or Lazard LLC, and any information, materials, documents or objects provided by Lazard or

Lazard LLC to the United States Attorney and/or the Massachusetts Attorney General in connection with this Settlement Agreement or the Investigation.

Nothing in this Settlement Agreement is intended to or does settle the liability, if any, that Lazard or Lazard LLC have or may have arising under Title 26, United States Code (Internal Revenue Code), or the regulations thereunder. The parties to this Settlement Agreement each represents that as of this date, no such liability relating to this Investigation is known to them.

Nothing in this Settlement Agreement is intended to or does settle the liability, if any, that Lazard or Lazard LLC have or may have to the Massachusetts Department of Revenue. The parties to this Settlement Agreement each represents that as of this date, no such liability relating to this Investigation is known to them.

Lazard and Lazard LLC agree that all costs (as defined in the Federal Acquisition Regulations ("FAR") § 31.205-47) incurred by or on behalf of Lazard and Lazard LLC, and their officers, directors, agents and employees in connection with (1) the matters covered by this Settlement Agreement, (2) the government's audit and investigation(s) of the matters covered by this Settlement Agreement, (3) Lazard and Lazard LLC's investigation and defense of the matters covered by this Settlement Agreement and Lazard and Lazard LLC's corrective actions of the matters covered by this Settlement Agreement, (4) the negotiation of this Settlement

Agreement, and (5) the payments made pursuant to this Settlement Agreement shall be unallowable costs for government contract accounting purposes.

7. Continuing Remedial Measures -- The compliance policies and procedures that Lazard and Lazard LLC have implemented in the Municipal Department will remain in effect and will continue to be enforced. Lazard LLC will also continue to hold periodic compliance training sessions for all of its Municipal Department personnel.

8. Effect of Agreement -- This Agreement shall be binding upon the parties hereto, their respective successors and assigns, and will inure only to the benefit of the parties hereto, and their respective successors and assigns, and no other person shall be entitled to any benefits hereunder.

9. Execution in Counterparts -- This Settlement Agreement may be executed in counterparts each of which shall constitute an original and all of which shall constitute one and the same agreement.

10. Effective Date -- This Settlement Agreement is effective on the date of signature of the last signatory to it.

11. No Admission -- This Settlement Agreement is entered into for the purpose of compromise. Neither the fact of the Settlement Agreement nor any of its provisions shall constitute an admission by Lazard or Lazard LLC of any facts or conclusions set forth herein, or of criminal or civil liability by Lazard or Lazard LLC, or be utilized as such by any person except as otherwise provided in paragraph 6 of this Settlement Agreement.

12. Signatories' Powers -- Each of the signatories to this Settlement Agreement represents that he or she has the full power and has been duly authorized to execute this Settlement Agreement.

13. Entire Agreement -- This writing and the release entered into between USPS and Lazard LLC, and the settlement agreement and release entered into between the MWRA and Lazard LLC, and the letter referenced in paragraph 6 of this Settlement Agreement, constitute the entire agreement of the parties. It may not be modified or amended except by a written agreement

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signed by all the parties and specifically refers to this Settlement Agreement.

ON BEHALF OF THE UNITED STATES
OF AMERICA

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Acting United States Attorney
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BY: _____

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ON BEHALF OF LAZARD FRERES & CO. LLC

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