

Lazard Ltd  
Form 10-Q  
August 04, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-32492

(Commission File Number)

# LAZARD LTD

(Exact name of registrant as specified in its charter)

**Bermuda**  
(State or Other Jurisdiction of Incorporation  
or Organization)

**98-0437848**  
(I.R.S. Employer Identification No.)

**Clarendon House**

**2 Church Street**

**Hamilton HM11, Bermuda**

(Address of principal executive offices)

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

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

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

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

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

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

As of July 25, 2011, there were 120,426,321 shares of the Registrant's Class A common stock (including 4,339,875 shares held by a subsidiary) and one share of the Registrant's Class B common stock outstanding.

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*When we use the terms "Lazard", "we", "us", "our" and "the Company", we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ("Lazard Group"), that is the current holding company for our businesses. Lazard Ltd has no operating assets other than indirect ownership as of June 30, 2011 of approximately 94.6% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

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**PART I. FINANCIAL INFORMATION**

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

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**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****JUNE 30, 2011 AND DECEMBER 31, 2010****(UNAUDITED)****(dollars in thousands, except for per share data)**

|                                                                                                                                                      | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------|
| <b>ASSETS</b>                                                                                                                                        |                          |                              |
| Cash and cash equivalents                                                                                                                            | \$ 984,012               | \$1,209,695                  |
| Deposits with banks                                                                                                                                  | 248,944                  | 356,539                      |
| Cash deposited with clearing organizations and other segregated cash                                                                                 | 100,162                  | 92,911                       |
| Receivables-net:                                                                                                                                     |                          |                              |
| Fees                                                                                                                                                 | 418,126                  | 480,340                      |
| Customers and other                                                                                                                                  | 100,513                  | 63,490                       |
| Related parties                                                                                                                                      | 13,502                   | 24,874                       |
|                                                                                                                                                      | 532,141                  | 568,704                      |
| Investments                                                                                                                                          | 435,139                  | 417,410                      |
| Property (net of accumulated amortization and depreciation of \$272,369 and \$250,898 at June 30, 2011 and December 31, 2010, respectively)          | 153,006                  | 150,524                      |
| Goodwill and other intangible assets (net of accumulated amortization of \$18,187 and \$15,007 at June 30, 2011 and December 31, 2010, respectively) | 365,441                  | 361,439                      |
| Other assets                                                                                                                                         | 262,169                  | 265,310                      |
| <b>Total assets</b>                                                                                                                                  | <b>\$ 3,081,014</b>      | <b>\$ 3,422,532</b>          |

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****JUNE 30, 2011 AND DECEMBER 31, 2010****(UNAUDITED)****(dollars in thousands, except for per share data)**

|                                                                                                                                                                                                                              | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                                                                                                   |                          |                              |
| Liabilities:                                                                                                                                                                                                                 |                          |                              |
| Deposits and other customer payables                                                                                                                                                                                         | \$ 273,465               | \$ 361,553                   |
| Accrued compensation and benefits                                                                                                                                                                                            | 183,660                  | 498,880                      |
| Senior debt                                                                                                                                                                                                                  | 1,076,850                | 1,076,850                    |
| Capital lease obligations                                                                                                                                                                                                    | 23,101                   | 22,903                       |
| Related party payables                                                                                                                                                                                                       | 3,464                    | 2,819                        |
| Other liabilities                                                                                                                                                                                                            | 512,682                  | 513,410                      |
| Subordinated debt                                                                                                                                                                                                            | 150,000                  | 150,000                      |
| Total liabilities                                                                                                                                                                                                            | 2,223,222                | 2,626,415                    |
| Commitments and contingencies                                                                                                                                                                                                |                          |                              |
| <b>STOCKHOLDERS EQUITY</b>                                                                                                                                                                                                   |                          |                              |
| Preferred stock, par value \$.01 per share; 15,000,000 shares authorized:                                                                                                                                                    |                          |                              |
| Series A - 22,021 shares issued and outstanding at June 30, 2011 and December 31, 2010                                                                                                                                       |                          |                              |
| Series B - no shares issued and outstanding                                                                                                                                                                                  |                          |                              |
| Common stock:                                                                                                                                                                                                                |                          |                              |
| Class A, par value \$.01 per share (500,000,000 shares authorized; 120,426,321 and 119,697,936 shares issued at June 30, 2011 and December 31, 2010, respectively, including shares held by a subsidiary as indicated below) | 1,204                    | 1,197                        |
| Class B, par value \$.01 per share (1 share authorized, issued and outstanding at June 30, 2011 and December 31, 2010)                                                                                                       |                          |                              |
| Additional paid-in-capital                                                                                                                                                                                                   | 642,269                  | 758,841                      |
| Retained earnings                                                                                                                                                                                                            | 244,633                  | 166,468                      |
| Accumulated other comprehensive loss, net of tax                                                                                                                                                                             | (17,827)                 | (46,158)                     |
|                                                                                                                                                                                                                              | 870,279                  | 880,348                      |
| Class A common stock held by a subsidiary, at cost (4,339,875 and 6,847,508 shares at June 30, 2011 and December 31, 2010, respectively)                                                                                     | (159,763)                | (227,950)                    |
| Total Lazard Ltd stockholders equity                                                                                                                                                                                         | 710,516                  | 652,398                      |
| Noncontrolling interests                                                                                                                                                                                                     | 147,276                  | 143,719                      |
| Total stockholders equity                                                                                                                                                                                                    | 857,792                  | 796,117                      |
| Total liabilities and stockholders equity                                                                                                                                                                                    | \$ 3,081,014             | \$ 3,422,532                 |

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See notes to condensed consolidated financial statements.



Table of Contents**LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2011 AND 2010****(UNAUDITED)****(dollars in thousands, except for per share data)**

|                                                                   | <b>Three Months Ended<br/>June 30,</b> |                  | <b>Six Months Ended<br/>June 30,</b> |                  |
|-------------------------------------------------------------------|----------------------------------------|------------------|--------------------------------------|------------------|
|                                                                   | <b>2011</b>                            | <b>2010</b>      | <b>2011</b>                          | <b>2010</b>      |
| <b>REVENUE</b>                                                    |                                        |                  |                                      |                  |
| Investment banking and other advisory fees                        | \$243,096                              | \$245,282        | \$463,423                            | \$514,491        |
| Money management fees                                             | 230,906                                | 180,899          | 445,598                              | 358,002          |
| Interest income                                                   | 4,363                                  | 5,500            | 7,855                                | 10,607           |
| Other                                                             | 22,240                                 | 11,472           | 45,070                               | 23,861           |
| Total revenue                                                     | 500,605                                | 443,153          | 961,946                              | 906,961          |
| Interest expense                                                  | 23,313                                 | 24,118           | 46,631                               | 49,715           |
| Net revenue                                                       | 477,292                                | 419,035          | 915,315                              | 857,246          |
| <b>OPERATING EXPENSES</b>                                         |                                        |                  |                                      |                  |
| Compensation and benefits                                         | 286,480                                | 263,021          | 556,479                              | 563,398          |
| Occupancy and equipment                                           | 22,977                                 | 21,320           | 45,685                               | 42,590           |
| Marketing and business development                                | 20,879                                 | 18,252           | 38,990                               | 33,855           |
| Technology and information services                               | 20,582                                 | 16,996           | 40,149                               | 34,648           |
| Professional services                                             | 13,120                                 | 10,814           | 22,961                               | 18,985           |
| Fund administration and outsourced services                       | 13,507                                 | 10,996           | 26,758                               | 22,370           |
| Amortization of intangible assets related to acquisitions         | 1,706                                  | 1,769            | 3,180                                | 3,539            |
| Restructuring                                                     |                                        |                  |                                      | 87,108           |
| Other                                                             | 8,839                                  | 8,816            | 18,465                               | 18,183           |
| Total operating expenses                                          | 388,090                                | 351,984          | 752,667                              | 824,676          |
| <b>OPERATING INCOME</b>                                           | <b>89,202</b>                          | <b>67,051</b>    | <b>162,648</b>                       | <b>32,570</b>    |
| Provision for income taxes                                        | 17,636                                 | 13,523           | 31,099                               | 19,936           |
| <b>NET INCOME</b>                                                 | <b>71,566</b>                          | <b>53,528</b>    | <b>131,549</b>                       | <b>12,634</b>    |
| <b>LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b> | <b>9,562</b>                           | <b>8,956</b>     | <b>14,538</b>                        | <b>1,596</b>     |
| <b>NET INCOME ATTRIBUTABLE TO LAZARD LTD</b>                      | <b>\$ 62,004</b>                       | <b>\$ 44,572</b> | <b>\$117,011</b>                     | <b>\$ 11,038</b> |

**ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:****WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:**

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|                                                     |             |             |             |             |
|-----------------------------------------------------|-------------|-------------|-------------|-------------|
| Basic                                               | 119,107,386 | 103,527,014 | 117,221,070 | 96,631,576  |
| Diluted                                             | 139,347,933 | 139,944,310 | 138,969,263 | 108,995,837 |
| <b>NET INCOME PER SHARE OF COMMON STOCK:</b>        |             |             |             |             |
| Basic                                               | \$0.52      | \$0.43      | \$1.00      | \$0.11      |
| Diluted                                             | \$0.48      | \$0.39      | \$0.91      | \$0.10      |
| <b>DIVIDENDS DECLARED PER SHARE OF COMMON STOCK</b> |             |             |             |             |
|                                                     | \$0.16      | \$0.125     | \$0.285     | \$0.25      |

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2011 AND 2010****(UNAUDITED)****(dollars in thousands)**

|                                                                                               | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------------------------|--------------------------------------|-------------|
|                                                                                               | <b>2011</b>                          | <b>2010</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                  |                                      |             |
| Net income                                                                                    | \$ 131,549                           | \$ 12,634   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities:   |                                      |             |
| Noncash items included in net income:                                                         |                                      |             |
| Depreciation and amortization of property                                                     | 11,820                               | 10,122      |
| Amortization of deferred expenses, share-based incentive compensation and interest rate hedge | 164,713                              | 207,786     |
| Amortization of intangible assets related to acquisitions                                     | 3,180                                | 3,539       |
| Loss on extinguishment of debt                                                                |                                      | 424         |
| (Increase) decrease in operating assets:                                                      |                                      |             |
| Deposits with banks                                                                           | 132,672                              | (44,179)    |
| Cash deposited with clearing organizations and other segregated cash                          | (845)                                | (2,190)     |
| Receivables-net                                                                               | 52,477                               | 45,832      |
| Investments                                                                                   | (13,164)                             | (17,312)    |
| Other assets                                                                                  | 12,237                               | (3,589)     |
| Increase (decrease) in operating liabilities:                                                 |                                      |             |
| Deposits and other payables                                                                   | (112,956)                            | (3,421)     |
| Accrued compensation and benefits and other liabilities                                       | (366,816)                            | (301,056)   |
| Net cash provided by (used in) operating activities                                           | 14,867                               | (91,410)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                  |                                      |             |
| Distributions relating to equity method investments                                           |                                      | 51,437      |
| Additions to property                                                                         | (5,676)                              | (5,465)     |
| Disposals of property                                                                         | 199                                  | 254         |
| Proceeds from sales and maturities of available-for-sale securities                           |                                      | 52,786      |
| Net cash provided by (used in) investing activities                                           | (5,477)                              | 99,012      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                  |                                      |             |
| Proceeds from:                                                                                |                                      |             |
| Contribution from noncontrolling interests                                                    | 980                                  | 2,000       |
| Excess tax benefits from share-based incentive compensation                                   | 2,848                                |             |
| Other financing activities                                                                    | 1,688                                | 5,554       |
| Payments for:                                                                                 |                                      |             |
| Senior borrowings                                                                             |                                      | (10,375)    |
| Capital lease obligations                                                                     | (1,397)                              | (1,096)     |
| Distributions to noncontrolling interests                                                     | (8,034)                              | (9,491)     |
| Repurchase of common membership interests from members of LAZ-MD Holdings                     | (794)                                |             |
| Purchase of Class A common stock                                                              | (126,237)                            | (22,733)    |

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|                                                         |            |            |
|---------------------------------------------------------|------------|------------|
| Class A common stock dividends                          | (32,855)   | (23,022)   |
| Settlement of vested share-based incentive compensation | (90,635)   | (44,536)   |
| Other financing activities                              | (46)       | (34)       |
| Net cash used in financing activities                   | (254,482)  | (103,733)  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>          | 19,409     | (23,766)   |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>        | (225,683)  | (119,897)  |
| <b>CASH AND CASH EQUIVALENTS January 1</b>              | 1,209,695  | 917,329    |
| <b>CASH AND CASH EQUIVALENTS June 30</b>                | \$ 984,012 | \$ 797,432 |

See notes to condensed consolidated financial statements.

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## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011

(UNAUDITED)

(dollars in thousands)

|                                                                                                                            |                 | Series A<br>Preferred<br>Stock |    | Common Stock |          | Additional<br>Paid-In-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss),<br>Net of<br>Tax | Class A<br>Common Stock<br>Held By a Subsidiary |              | Total<br>Lazard Ltd<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|----------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------|----|--------------|----------|-----------------------------------|----------------------|-----------------------------------------------------------------------------|-------------------------------------------------|--------------|------------------------------------------------|-----------------------------|----------------------------------|
| Balance                                                                                                                    | January 1, 2011 | Shares                         | \$ | Shares (*)   | \$       |                                   |                      |                                                                             | Shares                                          | \$           |                                                |                             |                                  |
|                                                                                                                            |                 | 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                                                                                                                 |                 |                                |    |              |          |                                   | 117,011              |                                                                             |                                                 |              | 117,011                                        | 14,538                      | 131,549                          |
| Other comprehensive income (loss) - net of tax:                                                                            |                 |                                |    |              |          |                                   |                      |                                                                             |                                                 |              |                                                |                             |                                  |
| Currency translation adjustments                                                                                           |                 |                                |    |              |          |                                   |                      | 30,418                                                                      |                                                 |              | 30,418                                         | 1,756                       | 32,174                           |
| Amortization of interest rate hedge                                                                                        |                 |                                |    |              |          |                                   |                      | 498                                                                         |                                                 |              | 498                                            | 29                          | 527                              |
| Employee benefit plans:                                                                                                    |                 |                                |    |              |          |                                   |                      |                                                                             |                                                 |              |                                                |                             |                                  |
| Net actuarial loss                                                                                                         |                 |                                |    |              |          |                                   |                      | (3,434)                                                                     |                                                 |              | (3,434)                                        | (196)                       | (3,630)                          |
| Adjustments for items reclassified to earnings                                                                             |                 |                                |    |              |          |                                   |                      | 1,054                                                                       |                                                 |              | 1,054                                          | 60                          | 1,114                            |
| Comprehensive income                                                                                                       |                 |                                |    |              |          |                                   |                      |                                                                             |                                                 |              | 145,547                                        | 16,187                      | 161,734                          |
| Class A common stock issued/issuable in connection with business acquisitions and LAM Merger and related amortization      |                 |                                |    |              |          |                                   |                      |                                                                             |                                                 |              |                                                |                             |                                  |
|                                                                                                                            |                 |                                |    |              |          | 4,180                             |                      |                                                                             |                                                 |              | 4,180                                          | 240                         | 4,420                            |
| Amortization of share-based incentive compensation                                                                         |                 |                                |    |              |          | 144,261                           |                      |                                                                             |                                                 |              | 144,261                                        | 8,272                       | 152,533                          |
| Dividend-equivalents                                                                                                       |                 |                                |    |              |          | 5,958                             | (5,991)              |                                                                             |                                                 |              | (33)                                           | (2)                         | (35)                             |
| Class A common stock dividends                                                                                             |                 |                                |    |              |          |                                   | (32,855)             |                                                                             |                                                 |              | (32,855)                                       |                             | (32,855)                         |
| Purchase of Class A common stock                                                                                           |                 |                                |    |              |          |                                   |                      |                                                                             | 3,156,416                                       | (126,237)    | (126,237)                                      |                             | (126,237)                        |
| Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefits of \$2,178 |                 |                                |    |              |          |                                   |                      |                                                                             |                                                 |              |                                                |                             |                                  |
|                                                                                                                            |                 |                                |    |              |          | (282,956)                         |                      |                                                                             | (5,664,049)                                     | 194,424      | (88,532)                                       | 75                          | (88,457)                         |
| Repurchase of common membership interests from                                                                             |                 |                                |    |              |          | (751)                             |                      |                                                                             |                                                 |              | (751)                                          | (43)                        | (794)                            |

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|                                                                                      |                      |               |           |                    |                 |                   |                   |                    |                  |                     |                   |                   |                   |
|--------------------------------------------------------------------------------------|----------------------|---------------|-----------|--------------------|-----------------|-------------------|-------------------|--------------------|------------------|---------------------|-------------------|-------------------|-------------------|
| <b>LAZ-MD Holdings</b>                                                               |                      |               |           |                    |                 |                   |                   |                    |                  |                     |                   |                   |                   |
| Class A common stock issued in exchange for Lazard Group common membership interests |                      |               |           |                    |                 |                   |                   |                    |                  |                     |                   |                   |                   |
|                                                                                      |                      |               |           | 728,385            |                 | 7                 |                   | (7)                |                  |                     |                   |                   |                   |
| Adjustment related to the change in Lazard Ltd's ownership in Lazard Group           |                      |               |           |                    |                 |                   |                   |                    |                  |                     |                   |                   |                   |
|                                                                                      |                      |               |           |                    |                 |                   |                   | (1,580)            |                  |                     | (1,580)           |                   | (1,580)           |
| Distributions to noncontrolling interests, net                                       |                      |               |           |                    |                 |                   |                   |                    |                  |                     |                   |                   |                   |
|                                                                                      |                      |               |           |                    |                 |                   |                   |                    |                  |                     | (7,054)           |                   | (7,054)           |
| Adjustments related to noncontrolling interests                                      |                      |               |           |                    |                 |                   |                   |                    |                  |                     |                   |                   |                   |
|                                                                                      |                      |               |           |                    |                 | 14,323            |                   | (205)              |                  |                     | 14,118            | (14,118)          |                   |
| <b>Balance</b>                                                                       | <b>June 30, 2011</b> | <b>22,021</b> | <b>\$</b> | <b>120,426,322</b> | <b>\$ 1,204</b> | <b>\$ 642,269</b> | <b>\$ 244,633</b> | <b>\$ (17,827)</b> | <b>4,339,875</b> | <b>\$ (159,763)</b> | <b>\$ 710,516</b> | <b>\$ 147,276</b> | <b>\$ 857,792</b> |

(\*) Includes 119,697,936 and 120,426,321 shares of the Company's Class A common stock issued at January 1, 2011 and June 30, 2011, respectively, and 1 share of the Company's Class B common stock at each such date.

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2010****(UNAUDITED)****(dollars in thousands)**

|                                                                                                                       | Series A<br>Preferred Stock |    | Common Stock |       | Additional<br>Paid-In-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss),<br>Net of Tax | Class A<br>Common Stock<br>Held by a Subsidiary |             | Total<br>Lazard Ltd<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------------|----|--------------|-------|-----------------------------------|----------------------|--------------------------------------------------------------------------|-------------------------------------------------|-------------|------------------------------------------------|-----------------------------|----------------------------------|
|                                                                                                                       | Shares                      | \$ | Shares (*)   | \$    |                                   |                      |                                                                          | Shares                                          | \$          |                                                |                             |                                  |
| Balance January 1, 2010                                                                                               | 26,883                      | \$ | 92,165,913   | \$922 | \$549,931                         | \$52,726             | \$(57,048)                                                               | 5,850,775                                       | \$(191,140) | \$355,391                                      | \$167,706                   | \$523,097                        |
| Comprehensive income (loss):                                                                                          |                             |    |              |       |                                   |                      |                                                                          |                                                 |             |                                                |                             |                                  |
| Net income                                                                                                            |                             |    |              |       |                                   | 11,038               |                                                                          |                                                 |             | 11,038                                         | 1,596                       | 12,634                           |
| Other comprehensive income (loss) - net of tax:                                                                       |                             |    |              |       |                                   |                      |                                                                          |                                                 |             |                                                |                             |                                  |
| Currency translation adjustments                                                                                      |                             |    |              |       |                                   |                      | (51,932)                                                                 |                                                 |             | (51,932)                                       | (6,397)                     | (58,329)                         |
| Amortization of interest rate hedge                                                                                   |                             |    |              |       |                                   |                      | 480                                                                      |                                                 |             | 480                                            | 59                          | 539                              |
| Available-for-sale securities:                                                                                        |                             |    |              |       |                                   |                      |                                                                          |                                                 |             |                                                |                             |                                  |
| Net unrealized loss                                                                                                   |                             |    |              |       |                                   |                      | (755)                                                                    |                                                 |             | (755)                                          | (93)                        | (848)                            |
| Adjustments for items classified to earnings                                                                          |                             |    |              |       |                                   |                      | 2,102                                                                    |                                                 |             | 2,102                                          | 259                         | 2,361                            |
| Employee benefit plans:                                                                                               |                             |    |              |       |                                   |                      |                                                                          |                                                 |             |                                                |                             |                                  |
| Net actuarial loss                                                                                                    |                             |    |              |       |                                   |                      | (2,556)                                                                  |                                                 |             | (2,556)                                        | (315)                       | (2,871)                          |
| Adjustments for items classified to earnings                                                                          |                             |    |              |       |                                   |                      | 460                                                                      |                                                 |             | 460                                            | 57                          | 517                              |
| Comprehensive income (loss)                                                                                           |                             |    |              |       |                                   |                      |                                                                          |                                                 |             | (41,163)                                       | (4,834)                     | (45,997)                         |
| Class A common stock issued/issuable in connection with business acquisitions and LAM merger and related amortization |                             |    |              |       | 2,800                             |                      |                                                                          |                                                 |             | 2,800                                          | 345                         | 3,145                            |
| Amortization of share-based incentive compensation                                                                    |                             |    |              |       | 180,443                           |                      |                                                                          |                                                 |             | 180,443                                        | 22,055                      | 202,498                          |
| Dividend-equivalents                                                                                                  |                             |    |              |       | 5,232                             | (5,255)              |                                                                          |                                                 |             | (23)                                           |                             | (23)                             |
| Class A common stock dividends                                                                                        |                             |    |              |       |                                   | (23,022)             |                                                                          |                                                 |             | (23,022)                                       |                             | (23,022)                         |
| Purchase of Class A common stock                                                                                      |                             |    |              |       |                                   |                      |                                                                          | 712,950                                         | (22,733)    | (22,733)                                       |                             | (22,733)                         |
| Delivery of Class A common stock in connection with                                                                   |                             |    |              |       | (242,352)                         |                      |                                                                          | (5,738,601)                                     | 197,816     | (44,536)                                       |                             | (44,536)                         |

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|                                                                                                                                       |                      |               |           |                    |                |                  |                 |                    |                  |                    |                  |                  |                  |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------|-----------|--------------------|----------------|------------------|-----------------|--------------------|------------------|--------------------|------------------|------------------|------------------|
| Share-based incentive compensation                                                                                                    |                      |               |           |                    |                |                  |                 |                    |                  |                    |                  |                  |                  |
| Issuance of Class A common stock                                                                                                      |                      |               |           | 3,000,000          | 30             | 116,070          |                 |                    | 3,000,000        | (116,100)          |                  |                  |                  |
| Class A common stock issued in exchange for Lazard Group common membership interests, including in connection with secondary offering |                      |               |           | 17,645,747         | 176            | (176)            |                 |                    |                  |                    |                  |                  |                  |
| Distributions to noncontrolling interests, net                                                                                        |                      |               |           |                    |                |                  |                 |                    |                  |                    | (7,491)          | (7,491)          |                  |
| Adjustments related to noncontrolling interests                                                                                       |                      |               |           |                    |                | 31,973           | (8,545)         |                    |                  |                    | 23,428           | (23,428)         |                  |
| <b>Balance</b>                                                                                                                        | <b>June 30, 2010</b> | <b>26,883</b> | <b>\$</b> | <b>112,811,660</b> | <b>\$1,128</b> | <b>\$643,921</b> | <b>\$35,487</b> | <b>\$(117,794)</b> | <b>3,825,124</b> | <b>\$(132,157)</b> | <b>\$430,585</b> | <b>\$154,353</b> | <b>\$584,938</b> |

(\*) Includes 92,165,912 and 112,811,659 shares of the Company's Class A common stock issued at January 1, 2010 and June 30, 2010, respectively, and 1 share of the Company's Class B common stock at each such date.

See notes to condensed consolidated financial statements.



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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

**1. ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

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

Lazard Ltd indirectly held approximately 94.6% and 94.0% of all outstanding Lazard Group common membership interests as of June 30, 2011 and December 31, 2010, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group. LAZ-MD Holdings LLC ("LAZ-MD Holdings"), an entity owned by Lazard Group's current and former managing directors, held approximately 5.4% and 6.0% of the outstanding Lazard Group common membership interests as of June 30, 2011 and December 31, 2010, 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 5.4% and 6.0% of the voting power but no economic rights in the Company as of such respective dates. 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"). Lazard Group is governed by an Operating Agreement dated as of May 10, 2005, as amended (the "Operating Agreement").

The Company's sole operating asset is its indirect ownership of common membership interests of Lazard Group and its managing member interest of Lazard Group, whose principal operating activities are included in two business segments:

Financial Advisory, which includes providing general strategic and transaction-specific advice on mergers and acquisitions ("M&A") and other strategic matters, restructurings, capital structure, capital raising and various other corporate finance matters, and

Asset Management, which includes strategies for the management of equity and fixed income securities and alternative investment and private equity funds, as well as wealth management.

In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of Lazard Group's Paris-based Lazard Frères Banque SA ("LFB"). The Company also allocates outstanding

indebtedness to its Corporate segment.

LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group's businesses in France through its money market desk and commercial banking operations, deposit taking and, to a lesser extent, financing activities and custodial oversight over assets of various clients. LFB also engages in underwritten offerings of securities in France.

***Basis of Presentation***

The accompanying condensed consolidated financial statements of Lazard Ltd have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting

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**LAZARD LTD**

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

**(UNAUDITED)**

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

principles generally accepted in the United States of America ( U.S. GAAP ) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd 's annual report on Form 10-K for the year ended December 31, 2010 (the Form 10-K ). The accompanying December 31, 2010 unaudited condensed consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management 's knowledge of current events and actions that Lazard may undertake in the future, actual results may differ materially from the estimates. The consolidated results of operations for the three month and six month periods ended June 30, 2011 are not necessarily indicative of the results to be expected for any future interim or annual period.

The condensed consolidated financial statements include Lazard Ltd, Lazard Group and Lazard Group 's principal operating subsidiaries: Lazard Frères & Co. LLC ( LFNY ), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM ); its French limited liability companies Compagnie Financière Lazard Frères SAS ( CFLF ) along with its subsidiaries, LFB and Lazard Frères Gestion SAS ( LFG ), and Maison Lazard SAS and its subsidiaries; and Lazard & Co., Limited ( LCL ), through Lazard & Co., Holdings Limited, an English private limited company ( LCH ), together with their jointly owned affiliates and subsidiaries.

The Company 's policy is to consolidate (i) entities in which it has a controlling financial interest, (ii) variable interest entities ( VIEs ) where the Company has a variable interest and is deemed to be the primary beneficiary and (iii) limited partnerships where the Company is the general partner, unless the presumption of control is overcome. When the Company does not have a controlling interest in an entity, but exerts significant influence over 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. All material intercompany transactions and balances have been eliminated.

Certain prior period amounts have been reclassified to conform to the manner of presentation in the current period.

**2. RECENT ACCOUNTING DEVELOPMENTS**

On January 1, 2011, the Company adopted the fair value measurement disclosure guidance regarding presenting purchases, sales, issuances and settlements on a gross basis in the roll forward of activities in Level 3 of the hierarchy of fair value measurements, which did not have a material impact on the Company 's condensed consolidated financial statements.

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During May 2011, the FASB amended its fair value measurement guidance, which it states was designed to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards ( IFRS ). Although many of the changes for U.S. GAAP purposes are clarifications of existing guidance or wording changes to align with IFRS, additional disclosures about fair value measurements would be required, including (i) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (ii) the valuation processes used and the sensitivity of fair value measurements related to investments categorized within Level 3 of the hierarchy of fair value measurements to

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**LAZARD LTD**

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

**(UNAUDITED)**

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

changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (iii) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial condition but for which the fair value is required to be disclosed. The amended fair value measurement guidance will become effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. Early application is not permitted. The Company does not anticipate that the adoption of the amended fair value measurement guidance will have a material impact on the Company's consolidated financial statements.

During June 2011, the FASB amended its guidance regarding the presentation of comprehensive income, which it states was designed to improve comparability, consistency and transparency. The amendment requires that all changes in comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the one-statement approach, the Company would present total net income, including its components, followed by other comprehensive income, including its components, and a total of comprehensive income. In the two-statement approach, the first statement would present total net income and its components as currently presented by the Company in its statement of operations, followed consecutively by a second statement that would present the components of other comprehensive income, total other comprehensive income and the total of comprehensive income. The amendment is to be applied retrospectively and is effective with interim and annual periods beginning after December 15, 2011, with early adoption permitted.

**3. RECEIVABLES - NET**

The Company's receivables - net represents receivables from fees, customers and other, and related parties.

Receivables are stated net of an allowance for doubtful accounts of \$16,525 and \$15,017 at June 30, 2011 and December 31, 2010, respectively, for accounts deemed past due and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. The Company recorded bad debt expense of \$2,463 and \$3,430 for the three month and six month periods ended June 30, 2011, respectively, and \$2,322 and \$9,190 for the three month and six month periods ended June 30, 2010, respectively. In addition, the Company recorded charge-offs, foreign currency translation and other adjustments, resulting in a net decrease to the allowance for doubtful accounts of \$1,435 and \$1,922 for the three month and six month periods ended June 30, 2011, respectively, and \$937 and \$1,894 for the three month and six month periods ended June 30, 2010, respectively. At June 30, 2011 and December 31, 2010, the Company had receivables deemed past due or uncollectible of \$18,023 and \$17,101, respectively.

Customers and other receivables at June 30, 2011 and December 31, 2010 include \$1,534 and \$2,121, respectively, of loans to managing directors and employees of the Company that are made in the ordinary course of business at market terms.



**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****4. INVESTMENTS**

The Company's investments and securities sold, not yet purchased, consist of the following at June 30, 2011 and December 31, 2010:

|                                                                                           | <b>June 30,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|-------------------------------------------------------------------------------------------|--------------------------|----------------------------------|
| <b>Debt:</b>                                                                              |                          |                                  |
| U.S. Government and agencies                                                              | \$ 31,889                | \$ 31,900                        |
| Fixed income funds (a)                                                                    | 40,403                   | 33,951                           |
| Corporate and other debt and interest-bearing deposits                                    | 26,868                   | 29,693                           |
|                                                                                           | 99,160                   | 95,544                           |
| <b>Equities (a)</b>                                                                       | <b>110,634</b>           | <b>88,437</b>                    |
| <b>Other:</b>                                                                             |                          |                                  |
| Interests in LAM alternative asset management funds                                       | 39,360                   | 58,656                           |
| Private equity                                                                            | 174,704                  | 163,482                          |
| Equity method investments                                                                 | 11,281                   | 11,291                           |
|                                                                                           | 225,345                  | 233,429                          |
| <b>Total investments</b>                                                                  | <b>435,139</b>           | <b>417,410</b>                   |
| <b>Less:</b>                                                                              |                          |                                  |
| Interest-bearing deposits                                                                 | 7,660                    | 7,754                            |
| Equity method investments                                                                 | 11,281                   | 11,291                           |
| <b>Investments, at fair value</b>                                                         | <b>\$ 416,198</b>        | <b>\$ 398,365</b>                |
| <b>Securities sold, not yet purchased, at fair value (included in other liabilities )</b> | <b>\$ 1,262</b>          | <b>\$2,897</b>                   |

- (a) At June 30, 2011 fixed income funds and equities include investments with fair values of \$2,051 and \$23,051, respectively, held in connection with previously granted Lazard Fund Interest awards ( Lazard Fund Interests ), which will serve to satisfy the Company's liability upon vesting. Lazard Fund Interests represent grants by the Company to eligible employees of actual or notional interests in several Lazard managed fixed income and equity investment funds (see Note 13 of Notes to Condensed Consolidated Financial

Statements).

The Company's debt securities included in the table above are categorized as trading securities. Fixed income funds primarily consist of amounts seeding products of our Asset Management segment, as well as amounts held in connection with Lazard Fund Interests. Corporate and other debt primarily consist of United Kingdom (the U.K.) government and U.S. state and municipal debt securities.

Equities principally represent the Company's investments in marketable equity securities of large-, mid- and small-cap domestic, international and global companies to seed new Asset Management products and includes investments in public and private asset management funds managed both by LAM and third-party asset managers, as well as amounts held in connection with Lazard Fund Interests.

Interests in LAM alternative asset management funds represent (i) GP interests owned by Lazard in LAM-managed alternative asset management funds and (ii) GP interests consolidated by the Company pertaining to noncontrolling interests in LAM alternative asset management funds, the latter of which aggregated \$5,735 and \$8,219



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

at June 30, 2011 and December 31, 2010, respectively. Such noncontrolling interests in LAM alternative asset management funds, which represent GP interests held directly by certain of our LAM managing directors or employees of the Company, are deemed to be controlled by, and therefore consolidated by, the Company in accordance with U.S. GAAP. Noncontrolling interests are presented within stockholders' equity on the consolidated statements of financial condition (see Note 12 of Notes to Condensed Consolidated Financial Statements).

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 and direct private equity interests. 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 private equity fund targeting significant noncontrolling-stake investments in established public and private companies and (iii) Lazard Senior Housing Partners LP (Senior Housing), which acquires companies and assets in the senior housing, extended-stay hotel and shopping center sectors. Private equity investments consolidated but not owned by Lazard relate solely to Lazard's establishment of a private equity business with the Edgewater Funds (Edgewater), a Chicago-based private equity firm, through the acquisition of Edgewater's management vehicles on July 15, 2009, and aggregated \$74,505 and \$67,206 at June 30, 2011 and December 31, 2010, respectively. The economic interests that the Company does not own are owned by the leadership team and other investors in the Edgewater management vehicles (see Note 8 of Notes to Condensed Consolidated Financial Statements).

On January 24, 2008, Sapphire Industrials Corp. (Sapphire), a then newly-organized special purpose acquisition company formed by the Company, completed an initial public offering (the Sapphire IPO). Sapphire had been included in equity method investments prior to its dissolution discussed below. Sapphire was formed for the purpose of effecting a business combination within a 24-month period (the Business Combination) and net proceeds from the Sapphire IPO were placed in a trust account by Sapphire (the Trust Account) pending consummation of the Business Combination. In connection with the Sapphire IPO, the Company purchased warrants from Sapphire for a total purchase price of \$12,500 and Sapphire common stock for an aggregate purchase price of \$50,000. The Company's investment in Sapphire had been accounted for using the equity method of accounting. On January 6, 2010, Sapphire announced it had not completed the Business Combination and it would dissolve and distribute the funds in the Trust Account to all of its public shareholders, to the extent they were holders of shares issued in the Sapphire IPO. Pursuant to such dissolution, on January 26, 2010, Sapphire made an initial distribution to the Company aggregating \$50,319. All Sapphire warrants expired without value.

During the three month and six month periods ended June 30, 2011 and 2010, the Company recognized gross investment gains and losses in revenue-other on its condensed consolidated statements of operations as follows:

|                         | Three Month Period<br>Ended June 30, |          | Six Month Period Ended<br>June 30, |           |
|-------------------------|--------------------------------------|----------|------------------------------------|-----------|
|                         | 2011                                 | 2010     | 2011                               | 2010      |
| Gross investment gains  | \$ 8,830                             | \$ 3,724 | \$ 15,205                          | \$ 13,482 |
| Gross investment losses | \$ 2,235                             | \$ 6,368 | \$ 3,251                           | \$ 11,129 |



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

The table above includes gross unrealized investment gains and losses pertaining to trading securities as follows:

|                                    | <b>Three Month Period<br/>Ended June 30,</b> |             | <b>Six Month Period Ended<br/>June 30,</b> |             |
|------------------------------------|----------------------------------------------|-------------|--------------------------------------------|-------------|
|                                    | <b>2011</b>                                  | <b>2010</b> | <b>2011</b>                                | <b>2010</b> |
| Gross unrealized investment gains  | \$ 641                                       | \$          | \$ 1,214                                   | \$ 101      |
| Gross unrealized investment losses | \$ 193                                       | \$ 1,497    | \$ 313                                     | \$ 1,325    |

During the six month period ended June 30, 2010, the Company recorded within accumulated other comprehensive loss, net of tax ( AOCI ) gross pre-tax unrealized investment gains of \$5,456 and gross pre-tax unrealized investment losses of \$6,013 pertaining to debt securities held at LFB that were designated as available-for-sale. With respect to adjustments for items reclassified to earnings, the average cost basis was utilized for purposes of calculating realized investment gains and losses. There were no other-than-temporary impairment charges recognized during the six month period ended June 30, 2010.

During the fourth quarter of 2010, the Company sold its remaining available-for-sale debt securities. Accordingly, there were no gross pre-tax investment gains or losses recorded within AOCI during the six month period ended June 30, 2011.

**5. FAIR VALUE MEASUREMENTS**

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

- Level 1.* Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Lazard has the ability to access.
- Level 2.* Assets and liabilities whose values are based on quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in non-active markets or 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 management's 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 volume and level of activity have significantly decreased when compared with normal market activity and there is no longer

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sufficient frequency or volume to provide pricing information on an ongoing basis.

The Company's investments in U.S. Government and agency debt securities as well as its corporate and other debt securities are considered Level 1 assets with the respective fair values based on unadjusted quoted prices in active markets. The Company's investments in fixed income funds are considered Level 1 assets when their fair values are based on the reported closing price for the fund or Level 2 assets when their fair values are primarily based on broker quotes as provided by external pricing services.

The fair value of equities is principally classified as Level 1 or Level 2 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; public asset management funds are classified as Level 1 and are valued based on the reported closing

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

price for the fund; and investments in private asset management funds are classified as Level 2 and are primarily valued based on information provided by fund managers and, secondarily, from external pricing services to the extent managed by LAM.

The fair value of interests in LAM alternative asset management funds is classified as Level 2, and is based on information provided by external pricing services.

The fair value of private equity investments is classified as Level 3, and is based on financial statements provided by fund managers, appraisals and internal valuations.

Where information reported is based on broker quotes, the Company generally obtains one quote/price per instrument. In some cases, quotes related to corporate bonds obtained through external pricing services represent the average of several broker quotes. Where information reported is based on data received from fund managers or from external pricing services, the Company reviews such information to ascertain at which level within the fair value hierarchy to classify the investment.

The following tables present the categorization of investments and certain other assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010 into the three-level fair value hierarchy in accordance with fair value measurement disclosure requirements:

|                                                    | <b>June 30, 2011</b> |                |                |              |
|----------------------------------------------------|----------------------|----------------|----------------|--------------|
|                                                    | <b>Level 1</b>       | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Assets:</b>                                     |                      |                |                |              |
| Investments:                                       |                      |                |                |              |
| Debt:                                              |                      |                |                |              |
| U.S. Government and agencies                       | \$ 31,889            | \$             | \$             | \$ 31,889    |
| Fixed income funds                                 | 3,157                | 37,246         |                | 40,403       |
| Corporate and other debt                           | 19,208               |                |                | 19,208       |
| Equities                                           | 88,896               | 21,603         | 135            | 110,634      |
| Other (excluding equity method investments):       |                      |                |                |              |
| Interest in LAM alternative asset management funds |                      | 39,360         |                | 39,360       |
| Private equity                                     |                      |                | 174,704        | 174,704      |
| Derivatives                                        |                      | 2,328          |                | 2,328        |
| Total Assets                                       | \$ 143,150           | \$ 100,537     | \$ 174,839     | \$ 418,526   |

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|                                    |    |       |          |          |
|------------------------------------|----|-------|----------|----------|
| <b>Liabilities:</b>                |    |       |          |          |
| Securities sold, not yet purchased | \$ | 1,262 | \$       | \$ 1,262 |
| Derivatives                        |    |       | 2,200    | 2,200    |
| Total Liabilities                  | \$ | 1,262 | \$ 2,200 | \$ 3,462 |

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

|                                                    | Level 1        | December 31, 2010 |                | Total          |
|----------------------------------------------------|----------------|-------------------|----------------|----------------|
|                                                    |                | Level 2           | Level 3        |                |
| <b>Assets:</b>                                     |                |                   |                |                |
| Investments:                                       |                |                   |                |                |
| Debt:                                              |                |                   |                |                |
| U.S. Government and agencies                       | \$ 31,900      | \$                | \$             | \$ 31,900      |
| Fixed income funds                                 |                | 33,951            |                | 33,951         |
| Corporate and other debt                           | 21,939         |                   |                | 21,939         |
| Equities                                           | 66,269         | 21,852            | 316            | 88,437         |
| Other (excluding equity method investments):       |                |                   |                |                |
| Interest in LAM alternative asset management funds |                | 58,656            |                | 58,656         |
| Private equity                                     |                |                   | 163,482        | 163,482        |
| Derivatives                                        |                | 1,874             |                | 1,874          |
| <br>Total Assets                                   | <br>\$ 120,108 | <br>\$ 116,333    | <br>\$ 163,798 | <br>\$ 400,239 |
| <b>Liabilities:</b>                                |                |                   |                |                |
| Securities sold, not yet purchased                 | \$ 2,897       | \$                | \$             | \$ 2,897       |
| Derivatives                                        |                | 3,230             |                | 3,230          |
| <br>Total Liabilities                              | <br>\$ 2,897   | <br>\$ 3,230      | <br>\$         | <br>\$ 6,127   |

There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy during the three month and six month periods ended June 30, 2011 and 2010.

The following tables provide a summary of changes in fair value of the Company's Level 3 assets for the three month and six month periods ended June 30, 2011 and 2010:

|              | Three Months Ended June 30, 2011 |                                                                    |                         |                     |                                          |                |
|--------------|----------------------------------|--------------------------------------------------------------------|-------------------------|---------------------|------------------------------------------|----------------|
|              | Beginning Balance                | Net Unrealized/ Realized Gains (Losses) Included In Revenue- Other | Purchases/ Acquisitions | Sales/ Dispositions | Foreign Currency Translation Adjustments | Ending Balance |
| Investments: |                                  |                                                                    |                         |                     |                                          |                |
| Equities     | \$ 129                           | \$ 3                                                               | \$                      | \$                  | \$ 3                                     | \$ 135         |

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|                      |            |          |        |            |        |            |
|----------------------|------------|----------|--------|------------|--------|------------|
| Private equity       | 171,487    | 3,545    | 922    | (2,052)    | 802    | 174,704    |
| Total Level 3 Assets | \$ 171,616 | \$ 3,548 | \$ 922 | \$ (2,052) | \$ 805 | \$ 174,839 |

| Six Months Ended June 30, 2011 |                                                  |                                  |                            |                                                   |         |                   |
|--------------------------------|--------------------------------------------------|----------------------------------|----------------------------|---------------------------------------------------|---------|-------------------|
|                                | Net<br>Unrealized/<br>Realized<br>Gains (Losses) |                                  |                            | Foreign<br>Currency<br>Translation<br>Adjustments |         |                   |
|                                | Beginning<br>Balance                             | Included<br>In Revenue-<br>Other | Purchases/<br>Acquisitions | Sales/<br>Dispositions                            |         | Ending<br>Balance |
| Investments:                   |                                                  |                                  |                            |                                                   |         |                   |
| Equities                       | \$ 316                                           | \$ 3                             | \$                         | \$ (195)                                          | \$ 11   | \$ 135            |
| Private equity                 | 163,482                                          | 3,824                            | 13,075                     | (9,160)                                           | 3,483   | 174,704           |
| Total Level 3 Assets           | \$ 163,798                                       | \$ 3,827                         | \$ 13,075                  | \$ (9,355)                                        | \$3,494 | \$ 174,839        |



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| <b>Three Months Ended June 30, 2010</b> |                              |                                                                                              |                                    |                                |                                                             |                           |
|-----------------------------------------|------------------------------|----------------------------------------------------------------------------------------------|------------------------------------|--------------------------------|-------------------------------------------------------------|---------------------------|
|                                         | <b>Beginning<br/>Balance</b> | <b>Net<br/>Unrealized/<br/>Realized<br/>Gains (Losses)<br/>Included In<br/>Revenue-Other</b> | <b>Purchases/<br/>Acquisitions</b> | <b>Sales/<br/>Dispositions</b> | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Ending<br/>Balance</b> |
| Investments:                            |                              |                                                                                              |                                    |                                |                                                             |                           |
| Equities                                | \$ 298                       | \$ (4)                                                                                       | \$ 5                               | \$                             | \$                                                          | \$ 299                    |
| Private equity                          | 136,264                      | 1,535                                                                                        | 5,554                              | (1,190)                        | (3,754)                                                     | 138,409                   |
| Total Level 3 Assets                    | \$ 136,562                   | \$ 1,531                                                                                     | \$5,559                            | \$ (1,190)                     | \$(3,754)                                                   | \$ 138,708                |

| <b>Six Months Ended June 30, 2010</b> |                              |                                                                                              |                                    |                                |                                                             |                           |
|---------------------------------------|------------------------------|----------------------------------------------------------------------------------------------|------------------------------------|--------------------------------|-------------------------------------------------------------|---------------------------|
|                                       | <b>Beginning<br/>Balance</b> | <b>Net<br/>Unrealized/<br/>Realized<br/>Gains (Losses)<br/>Included In<br/>Revenue-Other</b> | <b>Purchases/<br/>Acquisitions</b> | <b>Sales/<br/>Dispositions</b> | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Ending<br/>Balance</b> |
| Investments:                          |                              |                                                                                              |                                    |                                |                                                             |                           |
| Equities                              | \$ 305                       | \$ (12)                                                                                      | \$ 6                               | \$                             | \$                                                          | \$ 299                    |
| Private equity                        | 135,914                      | 4,753                                                                                        | 5,554                              | (1,193)                        | (6,619)                                                     | 138,409                   |
| Total Level 3 Assets                  | \$ 136,219                   | \$ 4,741                                                                                     | \$5,560                            | \$ (1,193)                     | \$(6,619)                                                   | \$ 138,708                |

With respect to Level 3 assets held at June 30, 2011 and 2010, net gains (losses) included in earnings for the three month and six month periods ended June 30, 2011 and the three month and six month periods ended June 30, 2010 in connection with the change in unrealized gains and losses relating to such assets were \$3,538, \$3,817, \$1,531 and \$4,741, respectively.

**6. DERIVATIVES**

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, equity and fixed income swaps and other derivative contracts to hedge exposures to fluctuations in interest rates, currency exchange rates and equity and debt markets. 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. Except for derivatives hedging available-for-sale debt securities, which were

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sold in the fourth quarter of 2010 (see Note 4 of Notes to Condensed Consolidated Financial Statements), the Company elected to not apply hedge accounting to its other derivative instruments held. Gains and losses on the Company's derivatives not designated as hedging instruments, as well as gains and losses on derivatives then accounted for as fair value hedges, are included in interest income and interest expense, respectively, or revenue-other, depending on the nature of the underlying item, on the consolidated statements of operations. Furthermore, with respect to derivatives then designated as fair value hedges, the hedged item was required to be adjusted for changes in fair value of the risk being hedged, with such adjustment accounted for in the consolidated statements of operations.

As a result of the sale of the Company's available-for-sale debt securities during the fourth quarter of 2010 as discussed above, there were not any derivatives designated as hedging instruments for the three month and six month periods ended June 30, 2011. During the three month and six month periods ended June 30, 2010,

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the Company recognized pre-tax losses pertaining to interest rate swaps designated as hedging instruments of \$1,765 and \$3,756, respectively. These losses were substantially offset by gains recognized on the hedged risk portion of such available-for-sale securities.

The table below represents the fair values of the Company's derivative assets and liabilities reported within other assets and other liabilities on the accompanying condensed consolidated statements of financial condition as of June 30, 2011 and December 31, 2010:

|                                                  | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--------------------------------------------------|--------------------------|------------------------------|
| <b>Derivative Assets:</b>                        |                          |                              |
| Forward foreign currency exchange rate contracts | \$ 242                   | \$ 1,432                     |
| Interest rate swaps                              | 51                       | 57                           |
| Equity swaps                                     | 2,035                    | 385                          |
|                                                  | <b>\$ 2,328</b>          | <b>\$ 1,874</b>              |
| <b>Derivative Liabilities:</b>                   |                          |                              |
| Forward foreign currency exchange rate contracts | \$ 1,507                 | \$ 2,151                     |
| Interest rate swaps                              | 323                      | 326                          |
| Equity and fixed income swaps                    | 370                      | 753                          |
|                                                  | <b>\$ 2,200</b>          | <b>\$ 3,230</b>              |

Gains (losses) with respect to derivatives not designated as hedging instruments on the accompanying condensed consolidated statements of operations for the three month and six month periods ended June 30, 2011 and 2010 (predominantly reflected in revenue-other), by type of derivative, were as follows:

|                                                  | <b>Three Months Ended<br/>June 30,</b> |                  | <b>Six Months Ended<br/>June 30,</b> |                  |
|--------------------------------------------------|----------------------------------------|------------------|--------------------------------------|------------------|
|                                                  | <b>2011</b>                            | <b>2010</b>      | <b>2011</b>                          | <b>2010</b>      |
| Forward foreign currency exchange rate contracts | \$ (3,139)                             | \$ 7,133         | \$ (9,397)                           | \$ 12,351        |
| Interest rate swaps                              | (1)                                    | (10)             | (3)                                  | 34               |
| Equity and fixed income swaps                    | (431)                                  | 5,382            | (2,718)                              | 4,050            |
|                                                  | <b>\$ (3,571)</b>                      | <b>\$ 12,505</b> | <b>\$ (12,118)</b>                   | <b>\$ 16,435</b> |

**7. LAM MERGER TRANSACTION**

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 (the Transaction Consideration) consists of (i) cash payments made from the closing of the LAM Merger through January 2, 2009 of approximately \$60,100, (ii) a cash

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payment on October 31, 2011 of approximately \$90,300 and (iii) an issuance on October 31, 2011 of 2,201,457 shares of Class A common stock (plus additional shares of Class A common stock in an amount determined by reference to the cash dividends paid on Class A common stock since the closing of the LAM Merger), subject, in the case of clause (ii) and (iii) and, with respect to certain present employees of LAM and its subsidiaries, to delayed payment/issuance until the eighth anniversary of the closing of the LAM Merger if the applicable employee is no longer employed by Lazard or its affiliates on October 31, 2011, subject to certain exceptions. The merger agreement also generally provides that if there is a change in control of the Company or a sale of LAM, any and all of the Transaction Consideration will be payable as of the date of such change in control. The related liabilities for the present value of the unpaid cash consideration have been recorded in the accompanying condensed consolidated statements of financial condition in accrued compensation and benefits and other liabilities, and amounted to \$15,473 and \$73,752, respectively, as of June 30, 2011, and \$15,152 and \$71,394, respectively, as of December 31, 2010.

**8. BUSINESS ACQUISITIONS**

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 current 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 subject to earnout criteria and payable over time (the Earnout Shares). 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.

In prior years, the Company made certain other business acquisitions. These purchases were affected through an exchange of a combination of cash, Class A common stock, and by Lazard Ltd issuing shares of non-participating convertible Series A and Series B preferred stock, which are or were each convertible into Class A common stock. In connection with such acquisitions, as of June 30, 2011 and December 31, 2010, 1,295,029 shares of Class A common stock were issuable on a non-contingent basis. Additionally, at June 30, 2011 and December 31, 2010, 4,862 shares of Series A preferred stock were convertible into Class A common shares on a non-contingent basis, with the number of Class A common shares dependent, in part, upon future prices of the Class A common stock. Depending upon the future performance of such businesses acquired, at June 30, 2011 and December 31, 2010, 17,159 shares of Series A preferred stock were contingently convertible into shares of Class A common stock. The Class A common stock described above related to such acquisitions is primarily issuable during the remainder of 2011.

**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****9. GOODWILL AND OTHER INTANGIBLE ASSETS**

The components of goodwill and other intangible assets as of June 30, 2011 and December 31, 2010 are presented below:

|                                                           | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-----------------------------------------------------------|--------------------------|------------------------------|
| Goodwill                                                  | \$ 320,411               | \$ 313,229                   |
| Other intangible assets (net of accumulated amortization) | 45,030                   | 48,210                       |
|                                                           | <b>\$ 365,441</b>        | <b>\$ 361,439</b>            |

At June 30, 2011 and December 31, 2010, goodwill of \$258,781 and \$251,599, respectively, was attributable to the Company's Financial Advisory segment and, at each such date, \$61,630 of goodwill was attributable to the Company's Asset Management segment.

Changes in the carrying amount of goodwill for the six month periods ended June 30, 2011 and 2010 are as follows:

|                                          | <b>Six Months Ended<br/>June 30,</b> |                   |
|------------------------------------------|--------------------------------------|-------------------|
|                                          | <b>2011</b>                          | <b>2010</b>       |
| Balance, January 1                       | \$ 313,229                           | \$ 261,703        |
| Foreign currency translation adjustments | 7,182                                | (7,408)           |
| Balance, June 30                         | <b>\$ 320,411</b>                    | <b>\$ 254,295</b> |

The gross cost and accumulated amortization of other intangible assets as of June 30, 2011 and December 31, 2010, by major intangible asset category, are as follows:

**June 30, 2011****December 31, 2010**

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|                                                                    | <b>Gross<br/>Cost</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> | <b>Gross<br/>Cost</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> |
|--------------------------------------------------------------------|-----------------------|-------------------------------------|------------------------------------|-----------------------|-------------------------------------|------------------------------------|
| Success/performance fees                                           | \$ 30,740             | \$ 1,121                            | \$ 29,619                          | \$ 30,740             | \$ 890                              | \$ 29,850                          |
| Management fees, customer relationships and non-compete agreements | 32,477                | 17,066                              | 15,411                             | 32,477                | 14,117                              | 18,360                             |
|                                                                    | \$ 63,217             | \$ 18,187                           | \$ 45,030                          | \$ 63,217             | \$ 15,007                           | \$ 48,210                          |

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Amortization expense of intangible assets for the three month and six month periods ended June 30, 2011 was \$1,706 and \$3,180, respectively, and for the three month and six month periods ended June 30, 2010 was \$1,769 and \$3,539, respectively. Estimated future amortization expense is as follows:

| <b>Year Ending December 31,</b>   | <b>Amortization<br/>Expense (a)</b> |
|-----------------------------------|-------------------------------------|
| 2011 (July 1 through December 31) | \$ 2,778                            |
| 2012                              | 6,302                               |
| 2013                              | 12,742                              |
| 2014                              | 9,803                               |
| 2015                              | 7,220                               |
| Thereafter                        | 6,185                               |
| <b>Total amortization expense</b> | <b>\$ 45,030</b>                    |

(a) Approximately 48% of intangible asset amortization is attributable to a noncontrolling interest.

**10. SENIOR AND SUBORDINATED DEBT**

**Senior Debt** Senior debt is comprised of the following as of June 30, 2011 and December 31, 2010:

|                                  | <b>Initial<br/>Principal<br/>Amount</b> | <b>Maturity<br/>Date</b> | <b>Annual<br/>Interest<br/>Rate</b> | <b>Outstanding As Of</b> |                              |
|----------------------------------|-----------------------------------------|--------------------------|-------------------------------------|--------------------------|------------------------------|
|                                  |                                         |                          |                                     | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
| Lazard Group 7.125% Senior Notes | \$ 550,000                              | 5/15/15                  | 7.125%                              | \$ 528,500               | \$ 528,500                   |
| Lazard Group 6.85% Senior Notes  | 600,000                                 | 6/15/17                  | 6.85%                               | 548,350                  | 548,350                      |
| Lazard Group Credit Facility (a) | 150,000                                 | 4/29/13                  | 1.88%                               |                          |                              |
| <b>Total</b>                     |                                         |                          |                                     | <b>\$ 1,076,850</b>      | <b>\$ 1,076,850</b>          |

(a) On April 29, 2010, Lazard Group entered into a \$150,000, three-year senior revolving credit facility with a group of lenders (the Credit Facility). The Credit Facility, as amended, replaced the prior 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



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case plus an applicable margin. As of June 30, 2011, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 1.88%. As of June 30, 2011 and December 31, 2010, no amounts were outstanding under the Credit Facility.

**Subordinated Debt** Subordinated debt at June 30, 2011 and December 31, 2010 represents a note amounting to \$150,000 at each date. The note had a maturity date of September 30, 2016 and had a fixed interest rate of 3.25% per annum. Until June 30, 2011 the note had a conversion feature which permitted the holder to convert the note into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of \$57 per share. No conversions had occurred through that date and the note was no longer convertible. On July 22, 2011, the Company repurchased its outstanding 3.25% subordinated note, at a cost, excluding accrued interest, of \$131,829. Such repurchase resulted in a pre-tax gain of \$18,171, which is being recognized by the Company in the third quarter of 2011.

The Credit Facility contains customary terms and conditions, including certain financial covenants. In addition, the Credit Facility, the indenture and supplemental indentures relating to Lazard Group's senior notes, contain certain covenants (none of which relate to financial condition), events of default and other customary

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provisions, including a customary make-whole provision in the event of early redemption where applicable. As of June 30, 2011, the Company was in compliance with all of these provisions. All of the Company's senior and subordinated debt obligations are unsecured.

As of June 30, 2011, the Company had approximately \$285,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately \$107,000 (at June 30, 2011 exchange rates) and Edgewater of \$20,000. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

The Company's senior and subordinated debt are recorded at historical amounts. At June 30, 2011 and December 31, 2010, the fair value of the Company's senior and subordinated debt was approximately \$1,338,000 and \$1,271,000, respectively, and exceeded the aggregate carrying value by approximately \$111,000 and \$44,000, respectively. The fair value of the Company's senior and subordinated debt was estimated using a discounted cash flow analysis based on the Company's current borrowing rates for similar types of borrowing arrangements or based on market quotations, where available.

**11. COMMITMENTS AND CONTINGENCIES**

**Leases** Lazard has various leases and other contractual commitments arising in the ordinary course of business. At June 30, 2011, minimum rental commitments under non-cancelable operating leases, net of sublease income, are approximately as follows:

| <b>Year Ending December 31,</b>     |                   |
|-------------------------------------|-------------------|
| 2011 (July 1 through December 31)   | \$ 36,267         |
| 2012                                | 54,468            |
| 2013                                | 57,671            |
| 2014                                | 66,289            |
| 2015                                | 62,559            |
| Thereafter                          | 808,662           |
| <b>Total minimum lease payments</b> | <b>1,085,916</b>  |
| Sublease proceeds                   | 185,784           |
| <b>Net lease payments</b>           | <b>\$ 900,132</b> |

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**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 June 30, 2011, LFB had \$4,671 of such indemnifications and held \$3,144 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.

**Private Equity Funding Commitments** At June 30, 2011, the principal unfunded commitment by the Company for capital contributions to private equity investment funds related to CP II, and is an amount not to exceed \$3,022 for potential follow-on investments and/or for CP II expenses through the earlier of February 25, 2017 or the liquidation of the fund.

**Other Commitments** In the normal course of business, LFB enters into commitments to extend credit, predominately at variable interest rates. Such commitments at June 30, 2011 aggregated \$27,103. These

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commitments have varying expiration dates and 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.

See Notes 7, 8 and 14 of Notes to Condensed Consolidated Financial Statements for information regarding commitments relating to the LAM Merger, business acquisitions and obligations to fund our pension plans, respectively.

The Company has various other contractual commitments arising in the ordinary course of business. In addition, from time to time, LFB enters into underwriting commitments in which it participates as a joint underwriter. The settlement of such transactions are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

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

**12. STOCKHOLDERS' EQUITY**

**Issuance of Class A Common Shares** During the three month period ended March 31, 2010, 3,000,000 shares of Class A common stock were newly issued by Lazard Ltd to Lazard Group in connection with the settlement of vested restricted stock unit grants denominated in shares of Class A common stock ( RSUs ). Such shares were authorized as part of the 25,000,000 shares of Class A common stock that may be issued under the Lazard Ltd 2005 Equity Incentive Plan (the 2005 Plan ).

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**Secondary Offerings** Pursuant to the applicable Prospectus Supplements, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard (and, from time to time, certain of our directors, executive officers or former executive officers) and their permitted transferees (collectively, the Selling Shareholders ) who hold LAZ-MD Holdings exchangeable interests and/or Class A common stock), may offer to sell shares of Class A common stock pursuant to applicable underwriting and pricing agreements. During the three month period ended March 31, 2010 one such secondary offering occurred, which is described below (no secondary offerings occurred during the three month period ended June 30, 2010 or during the six month period ended June 30, 2011).

In March 2010, certain Selling Shareholders sold 7,869,311 shares of Class A common stock (including (i) 7,262 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests, (ii) 6,180,639 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests (including 5,958,000 shares held by the

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Estate of Lazard's former Chairman and Chief Executive Officer and related trusts (collectively, the Estate) and (iii) 1,681,410 shares held by the Estate) at a price of \$35.90 per share (collectively, the March 2010 Secondary Offering).

Lazard Ltd did not receive any net proceeds from the sales of Class A common stock from the March 2010 Secondary Offering.

**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 six month periods ended June 30, 2011 and 2010, Lazard Group distributed the following amounts to LAZ-MD Holdings and the subsidiaries of Lazard Ltd (none of which related to tax distributions):

|                            | <b>Six Months Ended<br/>June 30,</b> |                  |
|----------------------------|--------------------------------------|------------------|
|                            | <b>2011</b>                          | <b>2010</b>      |
| LAZ-MD Holdings            | \$ 2,174                             | \$ 7,103         |
| Subsidiaries of Lazard Ltd | 32,855                               | 23,022           |
|                            | <b>\$ 35,029</b>                     | <b>\$ 30,125</b> |

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** In addition to the simultaneous exchanges that occurred in connection with the March 2010 Secondary Offering, during the six month periods ended June 30, 2011 and 2010, Lazard Ltd issued 728,385 and 11,465,108 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).

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

**Share Repurchase Program** In January 2010, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, the repurchase of up to \$200,000 in aggregate cost of its Class A common stock and Lazard Group common membership interests through December 31, 2011. The Company's prior share repurchase program expired on December 31, 2009. In February 2011, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional \$250,000 in aggregate cost of Lazard Ltd Class A common stock and Lazard Group common membership interests through December 31, 2012. The Company expects that the share repurchase program, with respect to the Class A common stock, will continue to be used primarily to offset a portion of the shares that have been or will be issued under 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

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transactions, and since the inception of the program in February 2006 through June 30, 2011, purchases by Lazard Group with respect to such program are set forth in the table below (including, in the six month period ended June 30, 2011, purchases of 3,156,416 Class A common shares, at an aggregate cost of \$126,237, and the purchase of 19,032 Lazard Group common membership interests, at an aggregate cost of \$794):

|                                          | <b>Number of<br/>Shares/Common<br/>Membership<br/>Interests Purchased</b> | <b>Average Price Per<br/>Share/Common<br/>Membership<br/>Interest</b> |
|------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Class A common stock                     | 19,930,075                                                                | \$33.92                                                               |
| Lazard Group common membership interests | 1,400,089                                                                 | \$32.66                                                               |

As a result of Lazard Group's delivery of shares of Class A common stock during the four year and six month period ended June 30, 2011 relating to (i) the settlement of vested RSUs and deferred stock unit grants (DSUs), (ii) the incentive plan share awards of shares of restricted Class A common stock and (iii) the issuance of shares of restricted Class A common stock in exchange for RSUs, there were 4,339,875 and 6,847,508 shares of Class A common stock held by Lazard Group at June 30, 2011 and December 31, 2010, respectively. Such Class A common shares are reported, at cost, as Class A common stock held by a subsidiary on the accompanying condensed consolidated statements of financial condition.

As of June 30, 2011, \$165,740 of the current \$450,000 share repurchase authorization remained available under the share repurchase program. In addition, under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of RSUs, shares of Class A common stock may be withheld by the Company to cover estimated income taxes (see Note 13 of Notes to Condensed Consolidated Financial Statements).

**Preferred Stock** Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value \$0.01 per share, inclusive of its Series A preferred stock and Series B preferred stock. The Series A and Series B preferred shares are each non-participating securities that are or were each convertible into Class A common stock, and have no voting or dividend rights. As of June 30, 2011 and December 31, 2010, 22,021 shares of Series A preferred stock were outstanding, and no shares of Series B preferred stock were outstanding at such dates.

At June 30, 2011 and December 31, 2010, 4,862 shares of the Series A preferred shares outstanding were convertible into shares of Class A common stock. The remaining 17,159 shares of Series A preferred stock outstanding at June 30, 2011 and December 31, 2010 may become convertible into shares of Class A common stock upon completion or satisfaction of specified obligations in the applicable acquisition agreement (see Note 8 of Notes to Condensed Consolidated Financial Statements). The initial conversion rate, at the time of the acquisition, was 100 shares of Class A common stock to one share of Series A preferred stock, with the ultimate conversion rate dependent on certain variables, including the value of the Class A common stock, as defined, and the currency exchange rate on the date of conversion.





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**Accumulated Other Comprehensive Income (Loss), Net of Tax** The components of AOCI at June 30, 2011 and December 31, 2010 are as follows:

|                                                      | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------|--------------------------|------------------------------|
| Currency translation adjustments                     | \$ 45,367                | \$ 13,193                    |
| Interest rate hedge                                  | (4,084)                  | (4,611)                      |
| Employee benefit plans                               | (59,111)                 | (56,595)                     |
| Total AOCI                                           | (17,828)                 | (48,013)                     |
| Less amount attributable to noncontrolling interests | (1)                      | (1,855)                      |
| Total Lazard Ltd AOCI                                | \$ (17,827)              | \$ (46,158)                  |

**Noncontrolling Interests** Noncontrolling interests principally represent interests held in (i) Lazard Group by LAZ-MD Holdings, (ii) Edgewater's management vehicles that the Company is deemed to control, but does not own, and (iii) various LAM-related GP interests which are deemed to be controlled by the Company.

As of June 30, 2011 and December 31, 2010, LAZ-MD Holdings held approximately 5.4% and 6.0%, respectively, of the outstanding Lazard Group common membership interests. Subject to certain limitations, LAZ-MD Holdings' interests in Lazard Group are exchangeable for Class A common stock.

The following tables summarize the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings during the six month periods ended June 30, 2011 and 2010:

|                                            | <b>Lazard Ltd</b>                          |                        | <b>LAZ-MD Holdings</b>                     |                        | <b>Total<br/>Lazard Group<br/>Common<br/>Membership<br/>Interests</b> |
|--------------------------------------------|--------------------------------------------|------------------------|--------------------------------------------|------------------------|-----------------------------------------------------------------------|
|                                            | <b>Common<br/>Membership<br/>Interests</b> | <b>%<br/>Ownership</b> | <b>Common<br/>Membership<br/>Interests</b> | <b>%<br/>Ownership</b> |                                                                       |
| Balance, January 1, 2010                   | 92,165,912                                 | 74.5%                  | 31,520,426                                 | 25.5%                  | 123,686,338                                                           |
| Activity January 1, 2010 to June 30, 2010: |                                            |                        |                                            |                        |                                                                       |

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|                                                                |             |       |              |       |             |
|----------------------------------------------------------------|-------------|-------|--------------|-------|-------------|
| Common membership interest activity in connection with:        |             |       |              |       |             |
| Equity compensation                                            | 3,000,000   |       |              |       | 3,000,000   |
| March 2010 Secondary Offering                                  | 6,180,639   |       | (6,180,639)  |       |             |
| Exchanges for Class A common stock                             | 11,465,108  |       | (11,465,108) |       |             |
| Balance, June 30, 2010                                         | 112,811,659 | 89.0% | 13,874,679   | 11.0% | 126,686,338 |
|                                                                |             |       |              |       |             |
| Balance, January 1, 2011                                       | 119,697,936 | 94.0% | 7,652,625    | 6.0%  | 127,350,561 |
| Activity January 1, 2011 to June 30, 2011:                     |             |       |              |       |             |
| Common membership interest activity in connection with:        |             |       |              |       |             |
| Exchanges for Class A common stock                             | 728,385     |       | (728,385)    |       |             |
| Repurchase of common membership interests from LAZ-MD Holdings |             |       | (19,032)     |       | (19,032)    |
| Balance, June 30, 2011                                         | 120,426,321 | 94.6% | 6,905,208    | 5.4%  | 127,331,529 |

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The change in Lazard Ltd's ownership in Lazard Group in the six month periods ended June 30, 2011 and 2010 did not materially impact Lazard Ltd's stockholders' equity.

The tables below summarize net income (loss) attributable to noncontrolling interests for the three month and six month periods ended June 30, 2011 and 2010 and noncontrolling interests as of June 30, 2011 and December 31, 2010 in the Company's condensed consolidated financial statements:

|                 | <b>Net Income (Loss) Attributable To<br/>Noncontrolling Interests</b> |                          |                          |                          |
|-----------------|-----------------------------------------------------------------------|--------------------------|--------------------------|--------------------------|
|                 | <b>Three Months Ended</b>                                             |                          | <b>Six Months Ended</b>  |                          |
|                 | <b>June 30,<br/>2011</b>                                              | <b>June 30,<br/>2010</b> | <b>June 30,<br/>2011</b> | <b>June 30,<br/>2010</b> |
| LAZ-MD Holdings | \$ 4,012                                                              | \$ 8,476                 | \$ 7,746                 | \$ (1,243)               |
| Edgewater       | 5,882                                                                 | 1,270                    | 6,905                    | 3,877                    |
| LAM GPs         | (159)                                                                 | (598)                    | 13                       | (728)                    |
| Other           | (173)                                                                 | (192)                    | (126)                    | (310)                    |
| <b>Total</b>    | <b>\$ 9,562</b>                                                       | <b>\$ 8,956</b>          | <b>\$ 14,538</b>         | <b>\$ 1,596</b>          |

|                 | <b>Noncontrolling Interests<br/>As Of</b> |                              |
|-----------------|-------------------------------------------|------------------------------|
|                 | <b>June 30,<br/>2011</b>                  | <b>December 31,<br/>2010</b> |
| LAZ-MD Holdings | \$ 23,803                                 | \$ 22,167                    |
| Edgewater       | 115,808                                   | 111,289                      |
| LAM GPs         | 5,735                                     | 8,219                        |
| Other           | 1,930                                     | 2,044                        |
| <b>Total</b>    | <b>\$ 147,276</b>                         | <b>\$ 143,719</b>            |

**Dividend Declared, July 2011** On July 27, 2011, the Board of Directors of Lazard Ltd declared a quarterly dividend of \$0.16 per share on its Class A common stock, payable on August 26, 2011, to stockholders of record on August 8, 2011.

**13. 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 six month periods ended June 30, 2011 and 2010, is presented below.

***Shares Available Under the 2005 Plan and 2008 Plan***

The 2005 Plan authorizes the issuance of up to 25,000,000 shares of Class A common stock pursuant to the grant or exercise of stock options, stock appreciation rights, restricted stock, stock units and other equity-based awards. Each stock unit 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 stock unit awards is determined based on the closing market price of Lazard Ltd's Class A common stock at the date of grant.

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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).

***Restricted and Deferred Stock Units***

RSUs 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. The grant date fair value of the RSUs, net of an estimated forfeiture rate, is amortized over the vesting periods or requisite service periods, 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. Expense relating to RSUs was as follows within the Company's condensed consolidated statements of operations:

|                               | <b>Three Months Ended<br/>June 30,</b> |                  | <b>Six Months Ended<br/>June 30,</b> |                   |
|-------------------------------|----------------------------------------|------------------|--------------------------------------|-------------------|
|                               | <b>2011</b>                            | <b>2010</b>      | <b>2011</b>                          | <b>2010</b>       |
| Compensation and benefits (*) | \$ 57,552                              | \$ 50,530        | \$ 142,410                           | \$ 154,343        |
| Restructuring                 | -                                      | -                | -                                    | 46,880            |
| <b>Total</b>                  | <b>\$ 57,552</b>                       | <b>\$ 50,530</b> | <b>\$ 142,410</b>                    | <b>\$ 201,223</b> |

(\*) Includes, during the six month period ended June 30, 2010, \$24,860 relating to the January 2010 amendment of the Company's retirement policy (described below).

RSUs issued subsequent to December 31, 2005 generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any ordinary quarterly dividends paid on Class A common stock during such period. During the six month periods ended June 30, 2011 and 2010, 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:

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|                                                            | Six Months Ended<br>June 30 |         |
|------------------------------------------------------------|-----------------------------|---------|
|                                                            | 2011                        | 2010    |
| Issuance of RSUs                                           | 140,613                     | 163,146 |
| Charges to retained earnings, net of estimated forfeitures | \$5,337                     | \$4,732 |

In January 2010, the Company amended its retirement policy with respect to RSU awards. Such amendment served to modify the retirement eligibility vesting requirements of existing and future RSU awards, and, as noted above, Lazard accelerated the recognition of compensation expense for the affected RSU awards. Accordingly, the Company recorded a non-cash charge to compensation and benefits expense of \$24,860 in the three month period ended March 31, 2010 relating to prior years awards.

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 26,859 and

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31,588 DSUs granted during the six month periods ended June 30, 2011 and 2010, 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. The 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 six month periods ended June 30, 2011 and 2010.

On May 9, 2006, the Board of Directors adopted the Directors' Fee Deferral Unit Plan, which allows the Company's 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 six month periods ended June 30, 2011 and 2010, 2,942 and 4,120 DSUs, respectively, had been granted pursuant to such Plan.

DSU awards are expensed at their fair value on their date of grant, which, inclusive of amounts related to the Directors' Fee Deferral Unit Plan, totaled \$1,068 and \$1,124 during the three month and six month periods ended June 30, 2011, respectively, and \$1,039 and \$1,115 during the three month and six month periods ended June 30, 2010, respectively.

The following is a summary of activity relating to RSUs and DSUs during the six month periods ended June 30, 2011 and 2010:

|                                                                     | <b>RSUs</b>  |                                                           | <b>DSUs</b>  |                                                           |
|---------------------------------------------------------------------|--------------|-----------------------------------------------------------|--------------|-----------------------------------------------------------|
|                                                                     | <b>Units</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> | <b>Units</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
| Balance, January 1, 2011                                            | 22,108,635   | \$ 35.67                                                  | 121,737      | \$ 34.46                                                  |
| Granted (including 140,613 RSUs relating to dividend participation) | 6,309,310    | \$ 44.93                                                  | 29,801       | \$ 37.72                                                  |
| Forfeited                                                           | (223,365)    | \$ 37.90                                                  |              |                                                           |
| Vested/Converted                                                    | (7,616,386)  | \$ 39.21                                                  | (16,120)     | \$ 34.76                                                  |
| Balance, June 30, 2011                                              | 20,578,194   | \$ 37.18                                                  | 135,418      | \$ 35.14                                                  |
| Balance, January 1, 2010                                            | 23,367,813   | \$ 37.01                                                  | 103,146      | \$ 35.75                                                  |



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|                                                                     |             |          |          |          |
|---------------------------------------------------------------------|-------------|----------|----------|----------|
| Granted (including 163,146 RSUs relating to dividend participation) | 6,853,747   | \$ 35.98 | 35,708   | \$ 31.25 |
| Forfeited                                                           | (315,002)   | \$ 34.57 |          |          |
| Vested/Converted                                                    | (6,952,061) | \$ 39.88 | (20,435) | \$ 35.38 |
| Balance, June 30, 2010                                              | 22,954,497  | \$ 35.88 | 118,419  | \$ 34.46 |

During the six month periods ended June 30, 2011 and 2010, 7,616,386 RSUs and 6,952,061 RSUs vested, respectively. In connection with such vested RSUs, the Company satisfied certain employees' tax obligations in lieu of issuing 2,226,829 and 1,288,331 shares of Class A common stock in the respective periods. Accordingly, 5,389,557 and 5,663,730 shares of Class A common stock held by Lazard Group were delivered during the six month periods ended June 30, 2011 and 2010, respectively.

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As of June 30, 2011, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately \$348,000, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.8 years subsequent to June 30, 2011. The ultimate amount of such expense is dependent upon the actual number of RSUs that vest. The Company periodically assesses the forfeiture rates used for such estimates. A change in estimated forfeiture rates would cause the aggregate amount of compensation expense recognized in future periods to differ from the estimated unrecognized compensation expense described herein.

***Restricted Stock***

The following is a summary of activity related to shares of restricted Class A common stock during the six month periods ended June 30, 2011 and 2010:

|                          | <b>Restricted<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|--------------------------|------------------------------|-----------------------------------------------------------|
| Balance, January 1, 2011 | 95,332                       | \$ 37.63                                                  |
| Granted (a)              | 327,238                      | \$ 43.70                                                  |
| Vested (a)               | (327,238)                    | \$ 43.70                                                  |
| Balance, June 30, 2011   | 95,332                       | \$ 37.63                                                  |
| Balance, January 1, 2010 |                              |                                                           |
| Granted                  | 54,437                       | \$ 38.78                                                  |
| Vested                   |                              |                                                           |
| Balance, June 30, 2010   | 54,437                       | \$ 38.78                                                  |

(a) Includes 143,816 restricted shares pertaining to an award that was accounted for as a liability award through its vesting date.

During the six month period ended June 30, 2011, 327,238 shares of restricted Class A common stock vested. In connection with such vested shares of restricted Class A common stock, the Company satisfied certain employees' tax obligations in lieu of delivering 68,866 shares of Class A common stock by Lazard Group. Accordingly, 258,372 shares of Class A common stock held by Lazard Group were delivered during the six month period ended June 30, 2011.

Expense relating to restricted stock awards is charged to compensation and benefits expense within the Company's condensed consolidated statements of operations, and amounted to \$356 and \$8,999 for the three month and six month periods ended June 30, 2011, respectively, and \$160 for the three month and six month periods ended June 30, 2010. The awards include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock during the period, which will vest concurrently with the underlying restricted stock award. At June 30, 2011, unrecognized restricted stock expense was approximately \$1,600, with such expense to be recognized over a weighted average period of approximately 1.2 years subsequent to June 30, 2011.

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

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***Other Incentive Awards***

As described above, in February 2011, the Company granted to eligible employees Lazard Fund Interests, which had an aggregate fair value on the date of grant of approximately \$26,000, with such aggregate fair values excluding potential forfeitures. At June 30, 2011, the aggregate fair value of such liability amounted to \$25,102.

The Lazard Fund Interests granted provide for one-third vesting on March 1, 2013 and two-thirds vesting on March 3, 2014. Compensation expense with respect to the Lazard Fund Interests amounted to \$2,413 and \$5,054 for the three month and six month periods ended June 30, 2011, respectively, and is being recognized over the applicable vesting periods or requisite service periods, the ultimate amount of which will vary based on the then vested value of the underlying Lazard Fund Interests, with such compensation expense to be recognized over a weighted average period of approximately 2.3 years subsequent to June 30, 2011.

**14. EMPLOYEE BENEFIT PLANS**

The Company provides retirement and other post-retirement benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement plans. These 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*** In accordance with agreements reached with the Trustees of certain U.K. pension plans in 2005, the Company was obligated to make further contributions to such pension plans based upon the cumulative performance of the plans' assets against specific benchmarks as measured on June 1, 2009 (the measurement date) and subsequently remeasured on June 1, 2010 (the remeasurement date). As of December 31, 2009, the obligation related to the cumulative underperformance of the plans' assets (the underperformance obligation) was payable in equal monthly installments through May 2013. During the year ended December 31, 2010, the Company contributed approximately \$8,600 to settle the plans' underperformance obligation in full.

In addition, on June 30, 2009 the Company and Trustees concluded the December 31, 2007 triennial valuation of the U.K. pension plans discussed above, pursuant to which: (i) the Company agreed to contribute, in addition to amounts to cover administrative expenses under the plans, 2.3 million British pounds (\$3,683 at June 30, 2011 exchange rates), during each year from 2011 to 2018 inclusive, subject to adjustment resulting from the December 31, 2010 triennial valuation, which the Company expects to have concluded prior to the contribution payment scheduled for 2011, and (ii) to secure the Company's obligations thereunder, on July 15, 2009 the Company placed in escrow 12.5 million British

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pounds, with a final redemption date of December 31, 2018. This amount is subject to adjustment based on the results of the December 31, 2010 triennial valuation and subsequent triennial valuations. The aggregate escrow balance has been recorded in cash deposited with clearing organizations and other segregated cash and investments, respectively, on the accompanying condensed consolidated statements of financial condition. Income on the escrow balance accretes to the Company and is recorded in interest income.

During the six month period ended June 30, 2011, no contribution to these U.K. pension plans was required, and no contributions were required to be made to other pension plans.

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The following tables summarize the components of total benefit cost (credit) for the three month and six month periods ended June 30, 2011 and 2010:

|                                                          | Pension Plans               |         | Post-Retirement Medical Plans |          |
|----------------------------------------------------------|-----------------------------|---------|-------------------------------|----------|
|                                                          | Three Months Ended June 30, |         |                               |          |
|                                                          | 2011                        | 2010    | 2011                          | 2010     |
| <b>Components of Net Periodic Benefit Cost (Credit):</b> |                             |         |                               |          |
| Service cost                                             | \$ 169                      | \$ (88) | \$ 19                         | \$ 22    |
| Interest cost                                            | 7,092                       | 6,702   | 69                            | 73       |
| Expected return on plan assets                           | (7,644)                     | (7,056) | -                             | -        |
| Amortization of:                                         |                             |         |                               |          |
| Prior service cost (credit)                              | 762                         | 725     | -                             | (435)    |
| Net actuarial loss                                       | 66                          | 198     | -                             | -        |
| Net periodic benefit cost (credit)                       | \$ 445                      | \$ 481  | \$ 88                         | \$ (340) |

|                                                   | Pension Plans             |          | Post-Retirement Medical Plans |          |
|---------------------------------------------------|---------------------------|----------|-------------------------------|----------|
|                                                   | Six Months Ended June 30, |          |                               |          |
|                                                   | 2011                      | 2010     | 2011                          | 2010     |
| Components of Net Periodic Benefit Cost (Credit): |                           |          |                               |          |
| Service cost                                      | \$ 332                    | \$ 260   | \$ 34                         | \$ 40    |
| Interest cost                                     | 14,159                    | 13,787   | 139                           | 146      |
| Expected return on plan assets                    | (15,266)                  | (14,429) | -                             | -        |
| Amortization of:                                  |                           |          |                               |          |
| Prior service cost (credit)                       | 1,502                     | 1,476    | -                             | (691)    |
| Net actuarial loss                                | 129                       | 399      | -                             | -        |
| Net periodic benefit cost (credit)                | \$ 856                    | \$ 1,493 | \$ 173                        | \$ (505) |

**15. RESTRUCTURING PLANS**

In the three month period ended March 31, 2010, the Company announced a restructuring plan which included certain staff reductions and realignments of personnel (the 2010 Restructuring Plan ). In connection with the 2010 Restructuring Plan, the Company recorded a charge in the first quarter of 2010 of \$87,108, inclusive of \$46,880 relating to the acceleration of RSUs (in aggregate, the 2010 Restructuring Charge ).

The 2010 Restructuring Charge primarily consisted of compensation-related expenses, including the acceleration of unrecognized expenses pertaining to RSUs previously granted to individuals who were terminated pursuant to the restructuring, severance and benefit payments and other costs. As of June 30, 2011 and December 31, 2010, the remaining liability associated with the 2010 Restructuring Plan was \$13,145 and \$21,381, respectively. In the first quarter of 2009 the Company also announced a restructuring plan (the 2009 Restructuring Plan). As of June 30, 2011 and December 31, 2010, the remaining liability associated with the 2009 Restructuring Plan was \$5,128 and \$5,427, respectively. During the six month period ended June 30, 2011, other than cash payments of \$8,236 and \$299 for the 2010 Restructuring Plan and the 2009 Restructuring Plan, respectively, there were no adjustments to the amounts relating to the 2010 and 2009 Restructuring Plans. Liabilities relating to the 2010 and 2009 Restructuring Plans are reported within accrued compensation and benefits and other liabilities on the accompanying condensed consolidated statements of financial condition.

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**16. INCOME TAXES**

Lazard Ltd 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 the partners. In addition, Lazard Group is subject to New York City Unincorporated Business Tax (UBT), which is attributable to Lazard Group's operations apportioned to New York City. UBT is incremental to the U.S. federal statutory tax rate. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes.

The Company recorded income tax provisions of \$17,636 and \$31,099 for the three month and six month periods ended June 30, 2011, respectively, and \$13,523 and \$19,936 for the three month and six month periods ended June 30, 2010, respectively, representing effective tax rates of 19.8%, 19.1%, 20.2% and 61.2%, respectively. The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates described above principally relates to (i) Lazard Group primarily operating as a limited liability company in the U.S., (ii) foreign source income (loss) not subject to U.S. income taxes, (iii) Lazard Group's income from U.S. operations attributable to noncontrolling interests, (iv) valuation allowance changes affecting the provision for income taxes and (v) U.S. state and local taxes (primarily UBT), which are incremental to the U.S. federal statutory tax rate.

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

***Tax Receivable Agreement***

The redemption of historical partner interests in connection with the Company's separation and recapitalization that occurred in May 2005 and subsequent exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock have resulted, and future exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, in increases in the tax basis of the tangible and/or intangible assets of Lazard Group. The tax receivable agreement dated as of May 10, 2005 with LFCM Holdings 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 the above-mentioned increases in tax basis. The Company calculates this provision annually and includes such amounts in operating expenses on its consolidated statements of operations once the results of operations for the full year are known. As a result, there is no provision for such payments in the six month periods ended June 30, 2011 and 2010. If any provision is required pursuant to the tax receivable agreement, such amount would be fully offset by a reduction in the Company's income tax expense.





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**LAZARD LTD**

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

**(UNAUDITED)**

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

**17. NET INCOME PER SHARE OF CLASS A COMMON STOCK**

The Company's basic and diluted net income per share calculations for the three month and six month periods ended June 30, 2011 and 2010 are computed as described below.

***Basic Net Income Per Share***

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

***Diluted Net Income Per Share***

*Numerator* utilizes net income attributable to Lazard Ltd for the respective periods 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 periods 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.

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

The calculations of the Company's basic and diluted net income per share and weighted average shares outstanding for the three month and six month periods ended June 30, 2011 and 2010 are presented below:

|                                                                                                                                                                                                                                                                                                                         | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|-------------|----------------------------------|-------------|
|                                                                                                                                                                                                                                                                                                                         | <b>2011</b>                        | <b>2010</b> | <b>2011</b>                      | <b>2010</b> |
| Net income attributable to Lazard Ltd                                                                                                                                                                                                                                                                                   | \$62,004                           | \$44,572    | \$117,011                        | \$11,038    |
| Add (deduct) - adjustment associated with Class A common stock issuable on a non-contingent basis                                                                                                                                                                                                                       | 103                                | 192         | 199                              | (20)        |
| Net income attributable to Lazard Ltd - basic                                                                                                                                                                                                                                                                           | 62,107                             | 44,764      | 117,210                          | 11,018      |
| Add (deduct) - 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 | 4,649                              | 9,258       | 9,074                            | (212)       |
| Net income attributable to Lazard Ltd - diluted                                                                                                                                                                                                                                                                         | \$66,756                           | \$54,022    | \$126,284                        | \$10,806    |
| Weighted average number of shares of Class A common stock outstanding                                                                                                                                                                                                                                                   | 115,326,051                        | 100,608,379 | 113,503,750                      | 93,717,395  |
| Add - adjustment for shares of Class A common stock issuable on a non-contingent basis                                                                                                                                                                                                                                  | 3,781,335                          | 2,918,635   | 3,717,320                        | 2,914,181   |
| Weighted average number of shares of Class A common stock outstanding - basic                                                                                                                                                                                                                                           | 119,107,386                        | 103,527,014 | 117,221,070                      | 96,631,576  |
| 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                                                                                                                        | 20,240,547                         | 36,417,296  | 21,748,193                       | 12,364,261  |
| Weighted average number of shares of Class A common stock outstanding - diluted                                                                                                                                                                                                                                         | 139,347,933                        | 139,944,310 | 138,969,263                      | 108,995,837 |
| Net income attributable to Lazard Ltd per share of Class A common stock:                                                                                                                                                                                                                                                |                                    |             |                                  |             |
| Basic                                                                                                                                                                                                                                                                                                                   | \$0.52                             | \$0.43      | \$1.00                           | \$0.11      |
| Diluted                                                                                                                                                                                                                                                                                                                 | \$0.48                             | \$0.39      | \$0.91                           | \$0.10      |

**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****18. RELATED PARTIES**

Amounts receivable from, and payable to, related parties as of June 30, 2011 and December 31, 2010 are set forth below:

|                    | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--------------------|--------------------------|------------------------------|
| <b>Receivables</b> |                          |                              |
| LFCM Holdings      | \$ 12,764                | \$ 24,785                    |
| Other              | 738                      | 89                           |
| Total              | \$ 13,502                | \$ 24,874                    |
| <b>Payables</b>    |                          |                              |
| LFCM Holdings      | \$ 2,479                 | \$ 2,819                     |
| Other              | 985                      |                              |
| Total              | \$ 3,464                 | \$ 2,819                     |

***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 various current and former working members, including certain of Lazard's current and former managing directors (which also include the Company's executive officers) who were also members of LAZ-MD Holdings. In addition to 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. Certain of these agreements are described in more detail in the Company's Form 10-K.

For the three month and six month periods ended June 30, 2011, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$578 and \$1,192, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to \$6,200 and \$13,147, respectively. For the three month and six month periods ended June 30, 2010, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$513 and \$1,059,

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respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to \$3,384 and \$6,729, 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 June 30, 2011 and December 31, 2010 primarily include \$1,616 and \$12,775, respectively, related to administrative and support services and reimbursement of expenses incurred on behalf of LFCM Holdings, and \$10,397 and \$11,413, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at June 30, 2011 and December 31, 2010 relate primarily to obligations pursuant to the tax receivable agreement of \$2,361 (see Note 16 of Notes to Condensed Consolidated Financial Statements) and \$118 and \$458, respectively, principally relating to referral fees for Financial Advisory transactions.

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**LAZARD LTD**

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

**(UNAUDITED)**

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

***LAZ-MD Holdings***

Lazard Group provides selected administrative and support services to LAZ-MD Holdings through the administrative services agreement as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group's cost allocation methodology and, for the three month and six month periods ended June 30, 2011, such charges amounted to \$187 and \$375, respectively. For the three month and six month periods ended June 30, 2010, such charges amounted to \$187 and \$375, respectively.

**19. REGULATORY AUTHORITIES**

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage 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 June 30, 2011, LFNY's regulatory net capital was \$142,556, which exceeded the minimum requirement by \$135,750.

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 Services Authority. At June 30, 2011, the aggregate regulatory net capital of the U.K. Subsidiaries was \$128,624, which exceeded the minimum requirement by \$83,099.

CFLF, through which non-corporate finance advisory activities are carried out in France, is subject to regulation by the Autorité de Contrôle Prudentiel for its banking activities conducted through its subsidiary, LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), are subject to regulation and supervision by the Autorité des Marchés Financiers. At June 30, 2011, the consolidated regulatory net capital of CFLF was \$196,350, which exceeded the minimum requirement set for regulatory capital levels by \$90,589.

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 June 30, 2011, for those subsidiaries with regulatory capital requirements, their aggregate net capital was \$80,680, which exceeded the minimum required capital by \$55,686.

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At June 30, 2011, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

Lazard Ltd has been subject to supervision by the SEC as a Supervised Investment Bank Holding Company ( SIBHC ). As a SIBHC, Lazard Ltd was subject to group-wide supervision, which required it to compute allowable capital and risk allowances on a consolidated basis. However, pursuant to Section 617 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), the SEC's SIBHC program was eliminated on July 21, 2011. Pursuant to relevant rules in Europe, Lazard Ltd is required to be supervised by another regulatory body, either in the U.S. or Europe. The Dodd-Frank Act allows certain securities holding companies seeking consolidated supervision, including Lazard Ltd, to elect to be supervised by the Board of Governors of the Federal Reserve. Lazard Ltd anticipates that the Board of Governors of the Federal Reserve will adopt regulations pursuant to Section 618 of the Dodd-Frank Act in the near future for companies

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**LAZARD LTD**

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

**(UNAUDITED)**

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

that seek to come under their consolidated supervision. Once we understand the final scope of such regulations, Lazard Ltd will determine whether it will elect to comply with such regulations and register to come under the consolidated supervision of the Federal Reserve. Until such regulations are adopted, however, we cannot determine the full impact of such regulations on us. The Dodd-Frank Act and the rules and regulations that may be adopted thereunder (including regulations that have not yet been proposed) could have other effects on us. We continue to monitor the process as such rules are proposed and adopted.

**20. 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 the two business segments as described in Note 1 above: Financial Advisory and Asset Management. In addition, as described in Note 1 above, the Company records selected other activities in its Corporate segment.

The Company's segment information for the three month and six month periods ended June 30, 2011 and 2010 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



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and information services, professional services, fund administration and outsourced services and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities.

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Management evaluates segment results based on net revenue and operating income 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:

|                           |                      | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |              |
|---------------------------|----------------------|----------------------------------------|-------------|--------------------------------------|--------------|
|                           |                      | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b>  |
| <b>Financial Advisory</b> |                      |                                        |             |                                      |              |
|                           | Net Revenue          | \$ 249,191                             | \$ 245,973  | \$ 478,036                           | \$ 514,469   |
|                           | Operating Expenses   | 214,217                                | 213,900     | 427,783                              | 451,700      |
|                           | Operating Income (a) | \$ 34,974                              | \$ 32,073   | \$ 50,253                            | \$ 62,769    |
| <b>Asset Management</b>   |                      |                                        |             |                                      |              |
|                           | Net Revenue          | \$ 244,855                             | \$ 189,414  | \$ 471,708                           | \$ 377,167   |
|                           | Operating Expenses   | 160,914                                | 136,886     | 310,118                              | 266,326      |
|                           | Operating Income (a) | \$ 83,941                              | \$ 52,528   | \$ 161,590                           | \$ 110,841   |
| <b>Corporate</b>          |                      |                                        |             |                                      |              |
|                           | Net Revenue          | \$ (16,754)                            | \$ (16,352) | \$ (34,429)                          | \$ (34,390)  |
|                           | Operating Expenses   | 12,959                                 | 1,198       | 14,766                               | 106,650      |
|                           | Operating Loss (a)   | \$ (29,713)                            | \$ (17,550) | \$ (49,195)                          | \$ (141,040) |
| <b>Total</b>              |                      |                                        |             |                                      |              |
|                           | Net Revenue          | \$ 477,292                             | \$ 419,035  | \$ 915,315                           | \$ 857,246   |
|                           | Operating Expenses   | 388,090                                | 351,984     | 752,667                              | 824,676      |
|                           | Operating Income (a) | \$ 89,202                              | \$ 67,051   | \$ 162,648                           | \$ 32,570    |

|                     |  | <b>As Of</b>             |                              |
|---------------------|--|--------------------------|------------------------------|
|                     |  | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
| <b>Total Assets</b> |  |                          |                              |
| Financial Advisory  |  | \$ 731,184               | \$ 799,090                   |
| Asset Management    |  | 689,118                  | 687,323                      |
| Corporate           |  | 1,660,712                | 1,936,119                    |

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|       |              |              |
|-------|--------------|--------------|
| Total | \$ 3,081,014 | \$ 3,422,532 |
|-------|--------------|--------------|

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- (a) Operating income (loss) for the six month period ended June 30, 2010 was significantly impacted by certain charges related to the three month period ended March 31, 2010. Such impact, including the amounts attributable to each of the Company's business segments, is described in the table below:

**Financial Advisory**

|                                                                                                                           |           |
|---------------------------------------------------------------------------------------------------------------------------|-----------|
| Operating income, as reported above                                                                                       | \$ 62,769 |
| Special item:                                                                                                             |           |
| Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards | 19,571    |
| Operating income, excluding impact of special item                                                                        | \$ 82,340 |

**Asset Management**

|                                                                                                                           |            |
|---------------------------------------------------------------------------------------------------------------------------|------------|
| Operating income, as reported above                                                                                       | \$ 110,841 |
| Special item:                                                                                                             |            |
| Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards | 2,902      |
| Operating income, excluding impact of special item                                                                        | \$ 113,743 |

**Corporate**

|                                                                                                                           |              |
|---------------------------------------------------------------------------------------------------------------------------|--------------|
| Operating loss, as reported above                                                                                         | \$ (141,040) |
| Special items:                                                                                                            |              |
| Restructuring expense                                                                                                     | 87,108       |
| Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards | 2,387        |
| Operating loss, excluding impact of special items                                                                         | \$ (51,545)  |

**Consolidated**

|                                                                                                                           |            |
|---------------------------------------------------------------------------------------------------------------------------|------------|
| Operating income, as reported above                                                                                       | \$ 32,570  |
| Special items:                                                                                                            |            |
| Restructuring expense                                                                                                     | 87,108     |
| Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards | 24,860     |
| Operating income, excluding impact of special items                                                                       | \$ 144,538 |

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with Lazard Ltd's condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (the "Form 10-Q"), as well as Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") included in our Annual Report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K"). All references to 2011, 2010, second quarter, first half, or the period refer to, as the context requires, the three month and six month periods ended June 30, 2011 and June 30, 2010.*

### **Forward-Looking Statements and Certain Factors that May Affect Our Business**

Management has included in Parts I and II of this Form 10-Q, including in its MD&A, statements that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, believe, predict, potential or continue, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. These factors include, but are not limited to, those discussed in our Form 10-K under the caption Risk Factors, including the following:

a decline in general economic conditions or the global financial markets,

losses caused by financial or other problems experienced by third parties,

losses due to unidentified or unanticipated risks,

a lack of liquidity, *i.e.*, ready access to funds, for use in our businesses, and

competitive pressure on our businesses and on our ability to retain our employees.

These risks and uncertainties are not exhaustive. Other sections of the Form 10-K may include additional factors, which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can management assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Form 10-Q to conform our prior statements to actual results or revised expectations and we do not intend to do so.

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Forward-looking statements include, but are not limited to, statements about the:

business possible or assumed future results of operations and operating cash flows,

business strategies and investment policies,

business financing plans and the availability of short-term borrowing,

business competitive position,

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future acquisitions, including the consideration to be paid and the timing of consummation,

potential growth opportunities available to our businesses,

recruitment and retention of our managing directors and employees,

target levels of compensation expense,

business potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,

likelihood of success and impact of litigation,

expected tax rates,

changes in interest and tax rates,

expectations with respect to the economy, securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other industry trends,

effects of competition on our business, and

impact of future legislation and regulation on our business.

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

## **Business Summary**

The Company's principal sources of revenue are derived from activities in the following business segments:

Financial Advisory, which includes providing general strategic and transaction-specific advice on mergers and acquisitions ( M&A ) and other strategic matters, restructurings, capital structure, capital raising and various other corporate finance matters, and

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Asset Management, which includes strategies for the management of equity and fixed income securities and alternative investment and private equity funds, as well as wealth management.

In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of Lazard Group's Paris-based Lazard Frères Banque SA ( LFB ). The Company also allocates outstanding indebtedness to its Corporate segment.

LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group's businesses in France through its money market desk and commercial banking operations, deposit taking and, to a lesser extent, financing activities and custodial oversight over assets of various clients. LFB engages in underwritten offerings of securities in France and may expand its scope to include placements elsewhere in Europe.

Lazard invests or may invest its own capital usually alongside capital of qualified institutional and individual investors in alternative investments or private equity investments and, since 2005, we have engaged in a number of alternative investments and private equity activities, including private equity investments in



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Corporate Partners II Limited ( CP II ) and Lazard Senior Housing Partners LP ( Senior Housing ), consistent with our obligations to LFCM Holdings LLC ( LFCM Holdings ) and through The Edgewater Funds ( Edgewater ), our Chicago-based private equity firm (see Note 8 of Notes to Condensed Consolidated Financial Statements). We continue to explore and discuss opportunities to expand the scope of our alternative investment and private equity activities in Europe, the U.S. and elsewhere. These opportunities could include internal growth of new funds and direct investments by us, partnerships or strategic relationships, investments with third parties or acquisitions of existing funds or management companies. Also, consistent with our obligations to LFCM Holdings, we may explore discrete capital markets opportunities.

The Company's consolidated net revenue was derived from the following segments:

|                    | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|--------------------|--------------------------------|------|------------------------------|------|
|                    | 2011                           | 2010 | 2011                         | 2010 |
| Financial Advisory | 52%                            | 59%  | 52%                          | 60%  |
| Asset Management   | 51                             | 45   | 52                           | 44   |
| Corporate          | (3)                            | (4)  | (4)                          | (4)  |
| Total              | 100%                           | 100% | 100%                         | 100% |

**Business Environment**

Economic and global financial market conditions can materially affect our financial performance. As described above, the Company's principal sources of revenue are derived from activities in our Financial Advisory and Asset Management business segments. As our Financial Advisory revenues are for the most part dependent on the successful completion of merger, acquisition, restructuring or similar transactions, and our Asset Management revenues are primarily driven by the levels of AUM, weak economic and global financial market conditions can result in a challenging business environment for M&A and fundraising activity as well as our Asset Management business, but may provide opportunities for our restructuring business, which tends to be counter-cyclical.

Global market performance, capital-raising and M&A activity were mixed during the first half of 2011. Overall, global equity markets at June 30, 2011 were up modestly since December 31, 2010, despite volatility during both the first and second quarters of 2011. While the announced value of M&A activity increased in the second quarter of 2011 as compared to the corresponding period in 2010, M&A activity slowed as compared to the first quarter of 2011 due to economic uncertainty caused by concerns over the public-finance situation in Europe and continuing high U.S. unemployment. Restructuring activity continued at low levels due to the decline in the number of corporate defaults.

During the past few years we have expanded our geographic reach and industry expertise. We believe that in this environment, companies, government bodies and investors will seek independent advice with a geographic perspective, deep understanding of capital structure, informed research and knowledge of global economic conditions, and that our business model as an independent, unconflicted adviser will continue to create opportunities for us to attract new clients and key personnel.

Lazard operates in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for Lazard's management to predict all risks and uncertainties, nor can Lazard assess the impact of all potentially applicable factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See the section entitled Risk Factors in our Form 10-K. Furthermore, net income and revenue in any period may not

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be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

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### Financial Advisory

For the first half of 2011, the value of global completed and announced M&A transactions increased significantly, while the number of such transactions reflected no significant change as compared to the 2010 period, reflecting transactions with higher average values. During the second quarter of 2011 the value of completed and announced transactions increased as compared to the corresponding period in 2010, while the number of such transactions generally declined.

|                             | Three Months Ended<br>June 30, |        |                       | Six Months Ended<br>June 30, |          |                       |
|-----------------------------|--------------------------------|--------|-----------------------|------------------------------|----------|-----------------------|
|                             | 2011                           | 2010   | %<br>Incr /<br>(Decr) | 2011                         | 2010     | %<br>Incr /<br>(Decr) |
|                             | (\$ in billions)               |        |                       |                              |          |                       |
| Completed M&A Transactions: |                                |        |                       |                              |          |                       |
| Global:                     |                                |        |                       |                              |          |                       |
| Value                       | \$ 784                         | \$609  | 29%                   | \$ 1,483                     | \$1,128  | 31%                   |
| Number                      | 10,084                         | 10,944 | (8)%                  | 20,860                       | 21,311   | (2)%                  |
| Trans-Atlantic:             |                                |        |                       |                              |          |                       |
| Value                       | \$ 91                          | \$ 30  | 203%                  | \$ 121                       | \$ 99    | 22%                   |
| Number                      | 378                            | 392    | (4)%                  | 787                          | 768      | 2%                    |
| Announced M&A Transactions: |                                |        |                       |                              |          |                       |
| Global:                     |                                |        |                       |                              |          |                       |
| Value                       | \$ 774                         | \$ 608 | 27%                   | \$ 1,560                     | \$ 1,240 | 26%                   |
| Number                      | 10,649                         | 11,024 | (3)%                  | 21,723                       | 21,552   | 1%                    |
| Trans-Atlantic:             |                                |        |                       |                              |          |                       |
| Value                       | \$ 66                          | \$ 52  | 27%                   | \$ 135                       | \$ 106   | 27%                   |
| Number                      | 409                            | 400    | 2%                    | 833                          | 765      | 9%                    |

Source: Dealogic as of July 8, 2011.

We continue to believe that we are relatively well positioned as our clients refinance, restructure and reposition their asset portfolios for growth.

Global restructuring activity during the 2011 six month period decreased from the corresponding prior year period due to the decelerating pace of corporate debt defaults. According to Moody's Investors Service, Inc., in the twelve month period ended June 30, 2011 a total of 43 issuers defaulted, as compared to 121 in the twelve months ended June 30, 2010, which includes a total of 12 issuers in the six month period ended June 30, 2011, as compared to 27 in the corresponding 2010 period. We believe that the number and value of corporate defaults for the full year of 2011 will be significantly lower as compared to 2010, but due to our Restructuring assignments currently in progress, we expect that our Restructuring business will remain active, albeit at a lower level as compared to the prior year. Our Restructuring activities include advising companies on matters relating to debt restructurings, refinancings and other on- and off-balance sheet assignments. Our Restructuring assignments are generally executed over a six- to eighteen-month period.

Our Private Fund Advisory Group, which is part of our Financial Advisory segment and is conducted in the U.S. through Lazard Freres & Co. LLC (LFNY), an SEC-registered broker-dealer and municipal advisor and member of the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (the MSRB), acts as placement agent for investment funds, including investment funds that have historically received capital from certain public pension funds. In April 2009, governmental officials in New York announced a new policy banning the use of placement agents by funds seeking investment contributions from the New York State and New York City public pension funds. The use of placement agents has also been prohibited or otherwise restricted with respect to investments by public pension funds in

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Illinois, Ohio, California and New Mexico, and similar measures are being considered or have been implemented in other jurisdictions. On June 22, 2011, the SEC approved an amendment to its June 30, 2010 rule which, among other things, will place

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certain restrictions on the use of placement agents. As amended, the SEC rule will prohibit investment advisors from paying a third-party placement agent for soliciting investment advisory business from a U.S. governmental entity, unless the placement agent is (i) an SEC-registered investment advisor complying with the rule, (ii) an SEC-registered broker-dealer that is a member of FINRA and thus subject to FINRA's forthcoming pay-to-play rule, or (iii) a municipal advisor that is registered with the SEC under Section 15B of the Securities Exchange Act of 1934, as amended, and subject to the pay-to-play rules that will be adopted by the MSRB. We are continuing to evaluate the potential impact of state, local and other restrictions on our Private Fund Advisory business.

***Asset Management***

As shown in the table below, major global market indices at June 30, 2011 were generally unchanged in most markets as compared to such indices at March 31, 2011 and increased modestly as compared to December 31, 2010, with more significant increases as compared to June 30, 2010.

|                              | March 31,<br>2011 | Percentage Change<br>June 30, 2011 vs.<br>December 31,<br>2010 | June 30,<br>2010 |
|------------------------------|-------------------|----------------------------------------------------------------|------------------|
| MSCI World Index             | 0%                | 4%                                                             | 28%              |
| CAC 40                       | 0%                | 5%                                                             | 16%              |
| DAX                          | 5%                | 7%                                                             | 24%              |
| FTSE 100                     | 1%                | 1%                                                             | 21%              |
| TOPIX 100                    | (3)%              | (8)%                                                           | 1%               |
| MSCI Emerging Market         | (2)%              | 0%                                                             | 25%              |
| Dow Jones Industrial Average | 1%                | 7%                                                             | 27%              |
| NASDAQ                       | 0%                | 5%                                                             | 32%              |
| S&P 500                      | 0%                | 5%                                                             | 28%              |

The fees that we receive for providing investment management and advisory services are primarily driven by the level of AUM. Accordingly, since market movements and foreign currency volatility impact the level of our AUM, such items will impact the level of revenues we receive from our Asset Management business. A substantial portion of our AUM is invested in equities, and market movements reflected in the changes in Lazard's AUM during the period generally corresponded to the changes in global market indices. Our AUM at June 30, 2011 increased 4% versus AUM at December 31, 2010, with our average AUM during the first half of 2011 increasing 23%, as compared to our average AUM for the corresponding period of 2010, the latter primarily reflecting significant market appreciation as well as net inflows in the six month period ended December 31, 2010. The higher level of AUM contributed to significantly higher management fee revenues in the 2011 periods.

**Financial Statement Overview*****Net Revenue***

The majority of Lazard's Financial Advisory net revenue is earned from the successful completion of M&A transactions, strategic advisory matters, restructuring and capital structure advisory services, capital raising and similar transactions. The main drivers of Financial Advisory net revenue are overall M&A activity, the level of corporate debt defaults and the environment for capital raising activities, particularly in the industries and geographic markets in which Lazard focuses. In some client engagements, often those involving financially distressed companies, revenue is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment and are not

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necessarily linked to the completion of a transaction. In addition, Lazard also earns fees from providing strategic advice to clients, with such fees not being dependent on a specific transaction, and may also earn fees from public and private securities offerings for referring opportunities to LFCM Holdings for underwriting and distribution

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of securities. Significant fluctuations in Financial Advisory net revenue can occur over the course of any given year, because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard's control.

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

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

For hedge funds, incentive fees are calculated based on a specified percentage of a fund's net appreciation, in some cases in excess of established benchmarks. 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), and therefore such incentive fees are usually recorded in the fourth quarter of Lazard's fiscal year. These 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 funds in any year are applied against certain future period net appreciation 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.

Corporate segment net revenue consists primarily of interest income and interest expense, including amounts earned at LFB, investment gains and losses on the Company's seed investments in LAM equity funds and principal investments in equities and alternative investment funds, investments at LFB, and equity method investments. Corporate net revenue can fluctuate due to changes in the fair value of investments classified as trading, and with respect to available-for-sale investments, when realized, or, with respect to available-for-sale and held-to-maturity investments, when a decline is determined to be other than temporary, as well as due to changes in interest and currency exchange rates and in the levels of cash, investments and indebtedness. As of December 31, 2010, the Company no longer held available-for-sale or held-to-maturity investments.





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Although Corporate segment net revenue during the first half of 2011 represented (4)% of Lazard's net revenue, total assets in Corporate represented 54% of Lazard's consolidated total assets as of June 30, 2011, which is attributable to assets associated with LFB, investments in government bonds, fixed income funds, LAM-managed funds and other securities, private equity investments and cash.

### ***Operating Expenses***

The majority of Lazard's operating expenses relate to compensation and benefits for employees and managing directors. Our compensation and benefits expense includes (i) salaries and benefits, (ii) amortization of the relevant portion of (a) share-based incentive compensation under the Lazard Ltd 2005 Equity Incentive Plan (the "2005 Plan") and the Lazard Ltd 2008 Incentive Compensation Plan (the "2008 Plan") and (b) Lazard Fund Interests, with such aggregate amortization generally determined on a straight-line basis over the applicable vesting periods, and not on the basis of revenue recognition (see Note 13 of Notes to Condensed Consolidated Financial Statements) and (iii) a provision for discretionary bonuses and profit pools. Compensation expense in any given period is dependent on many factors, including general economic and market conditions, our operating and financial performance, staffing levels, competitive pay conditions, the nature of revenues earned, as well as the mix between current and deferred compensation. As reflected in the tables below, our compensation expense-to-operating revenue ratios for the second quarters of 2011 and 2010 were 58.1% and 59.8%, respectively, and for the six month periods of 2011 and 2010 were 58.5% and 60.0%, respectively (with such ratio for the six month period of 2010 excluding the compensation charge of approximately \$25 million in connection with the accelerated vesting of share-based incentive awards related to the Company's change in retirement policy).

Lazard's operating expenses also include non-compensation expense (which includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and other expenses), amortization of intangible assets related to acquisitions and, in 2010, restructuring expense. Amortization of intangible assets relates primarily to the acquisition of Edgewater. Restructuring expense relates to certain staff reductions and realignment of personnel in the first quarter of 2010, and includes severance and related benefits expense, the acceleration of unrecognized expense pertaining to restricted stock unit awards denominated in shares of Lazard Ltd Class A common stock (RSUs) previously granted to individuals who were terminated and certain other costs related to these initiatives.

### ***Provision for 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 pertaining to the limited liability company is not subject to U.S. federal income taxes because taxes associated with such income represent obligations of the individual partners. Outside the U.S., Lazard Group operates principally through corporations and is subject to local income taxes. Income taxes shown on Lazard's consolidated statements of operations are principally related to non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard's operations apportioned to New York City. The Company's provision for income taxes also includes a U.S. income tax provision attributable to Lazard Ltd's ownership interest in Lazard Group's operating income.

### ***Noncontrolling Interests***

Noncontrolling interests primarily relate to the charge attributable to LAZ-MD Holdings' ownership interest in the net income attributable to Lazard Group, amounts related to Edgewater and various LAM-related general partnership interests (GPs) in limited partnerships held directly by certain of our LAM managing directors. See Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding the Company's noncontrolling interests.

**Consolidated Results of Operations**

Lazard's consolidated financial statements are presented in U.S. dollars. Many of our non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other

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than the U.S. dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars using exchange rates as of the respective balance sheet date, while revenue and expenses are translated at average exchange rates during the respective periods based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of members'/stockholders' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of operations.

During the first quarter of 2010, the Company reported certain charges (the 2010 special items) that adversely impacted operating results for that period. The impact of such special items on the Company's condensed consolidated statements of operations for the first half of 2010 is described in more detail in the table below. There were no special items recorded in the 2011 periods.

|                                     | Six Months Ended<br>June 30, 2010 |                   |             |
|-------------------------------------|-----------------------------------|-------------------|-------------|
|                                     | RSU                               |                   |             |
|                                     | Amortization                      |                   |             |
|                                     | Restructuring                     | Amendment         | Total       |
|                                     | (a)                               | (b)               |             |
|                                     |                                   | (\$ in thousands) |             |
| Compensation                        |                                   | \$ 24,860         | \$ 24,860   |
| Restructuring                       | \$ 87,108                         |                   | 87,108      |
| Operating Loss                      | (87,108)                          | (24,860)          | (111,968)   |
| Income Tax Benefit                  | 5,680                             | 1,363             | 7,043       |
| Noncontrolling Interest Benefit     | 18,400                            | 5,988             | 24,388      |
| Net Loss Attributable to Lazard Ltd | \$ (63,028)                       | \$ (17,509)       | \$ (80,537) |

- (a) Restructuring plan announced in the first quarter of 2010.
- (b) Accelerated amortization expense recognized in connection with the vesting of share-based incentive awards related to the amendment of the Company's retirement policy.

A discussion of the Company's consolidated results of operations for the 2011 and 2010 periods is set forth below, followed by a more detailed discussion of business segment results. For comparability purposes in the discussion that follows, the results for the six month period of 2010 are shown in the table below, on both an as reported U.S. GAAP and excluding special items non-U.S. GAAP basis that management believes provides the most meaningful comparison between historical, present and future periods. There were no special items in the 2011 periods.

|                                                           | Three Months Ended<br>June 30, |            |
|-----------------------------------------------------------|--------------------------------|------------|
|                                                           | 2011                           | 2010       |
|                                                           | (\$ in thousands)              |            |
| <b>Net Revenue</b>                                        | \$ 477,292                     | \$ 419,035 |
| <b>Operating Expenses:</b>                                |                                |            |
| Compensation and benefits                                 | 286,480                        | 263,021    |
| Non-compensation expense                                  | 99,904                         | 87,194     |
| Amortization of intangible assets related to acquisitions | 1,706                          | 1,769      |

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|                                                                        |                  |                  |
|------------------------------------------------------------------------|------------------|------------------|
| Total operating expenses                                               | 388,090          | 351,984          |
| <b><i>Operating Income</i></b>                                         | <b>89,202</b>    | <b>67,051</b>    |
| Provision for income taxes                                             | 17,636           | 13,523           |
| <b><i>Net Income</i></b>                                               | <b>71,566</b>    | <b>53,528</b>    |
| <b><i>Less Net Income Attributable to Noncontrolling Interests</i></b> | <b>9,562</b>     | <b>8,956</b>     |
| <b><i>Net Income Attributable to Lazard Ltd</i></b>                    | <b>\$ 62,004</b> | <b>\$ 44,572</b> |
| <b><i>Operating Income, As A % Of Net Revenue</i></b>                  | <b>19%</b>       | <b>16%</b>       |

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|                                                                        | 2011                        | Six Months Ended<br>June 30, |                                   | 2010 | Non-U.S.<br>GAAP<br>Excluding<br>Special Items |
|------------------------------------------------------------------------|-----------------------------|------------------------------|-----------------------------------|------|------------------------------------------------|
|                                                                        | U.S. GAAP<br>As<br>Reported | U.S. GAAP<br>As<br>Reported  | Impact of<br>Special<br>Items (a) |      |                                                |
|                                                                        | (\$ in thousands)           |                              |                                   |      |                                                |
| <b>Net Revenue</b>                                                     | \$915,315                   | \$ 857,246                   |                                   |      | \$ 857,246                                     |
| <b>Operating Expenses:</b>                                             |                             |                              |                                   |      |                                                |
| Compensation and benefits                                              | 556,479                     | 563,398                      | \$ 24,860                         |      | 538,538                                        |
| Non-compensation                                                       | 193,008                     | 170,631                      |                                   |      | 170,631                                        |
| Amortization of intangible assets related to acquisitions              | 3,180                       | 3,539                        |                                   |      | 3,539                                          |
| Restructuring                                                          | -                           | 87,108                       | 87,108                            |      | -                                              |
| Total operating expenses                                               | 752,667                     | 824,676                      |                                   |      | 712,708                                        |
| <b>Operating Income</b>                                                | 162,648                     | 32,570                       |                                   |      | 144,538                                        |
| Provision (benefit) for income taxes                                   | 31,099                      | 19,936                       | (7,043)                           |      | 26,979                                         |
| <b>Net Income</b>                                                      | 131,549                     | 12,634                       |                                   |      | 117,559                                        |
| <b>Less Net Income (Loss) Attributable to Noncontrolling Interests</b> | 14,538                      | 1,596                        | (24,388)                          |      | 25,984                                         |
| <b>Net Income Attributable to Lazard Ltd</b>                           | \$117,011                   | \$ 11,038                    |                                   |      | \$ 91,575                                      |
| <b>Operating Income, As A % Of Net Revenue</b>                         | 18%                         | 4%                           |                                   |      | 17%                                            |

(a) Represents charges related to the previously described special items. See Notes 13, 15 and 20 of Notes to Condensed Consolidated Financial Statements.

The tables below describe the components of operating revenue, compensation and benefits expense and non-compensation expense, and related key ratios, non-U.S. GAAP measures used by the Company to manage total compensation and benefits expense and non-compensation expense. Management believes such non-GAAP measures provide the most meaningful basis for comparison between present, historical and future periods.

|                                                 | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|-------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                                 | 2011                           | 2010      | 2011                         | 2010      |
|                                                 | (\$ in thousands)              |           |                              |           |
| <b>Operating revenue</b>                        |                                |           |                              |           |
| Total revenue                                   | \$500,605                      | \$443,153 | \$961,946                    | \$906,961 |
| Add (deduct):                                   |                                |           |                              |           |
| LFB interest expense (a)                        | (970)                          | (1,987)   | (2,034)                      | (4,546)   |
| Revenue related to noncontrolling interests (b) | (7,862)                        | (2,798)   | (11,288)                     | (7,137)   |
| Operating revenue                               | \$491,773                      | \$438,368 | \$948,624                    | \$895,278 |

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- (a) The interest expense incurred by LFB is reported as a charge in determining operating revenue because LFB is a commercial bank and we consider its interest expense to be a cost directly related to the revenues of its business.
- (b) Revenue related to the consolidation of noncontrolling interests is excluded from operating revenue because the Company has no economic interest in such amount.

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|                                                                        | Three Months Ended<br>June 31, |           | Six Months Ended<br>June 31, |           |
|------------------------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                                                        | 2011                           | 2010      | 2011                         | 2010      |
|                                                                        | (\$ in thousands)              |           |                              |           |
| <b>Compensation and benefits expense</b>                               |                                |           |                              |           |
| Total compensation and benefits expense                                | \$286,480                      | \$263,021 | \$556,479                    | \$563,398 |
| Deduct:                                                                |                                |           |                              |           |
| 2010 special item                                                      |                                |           |                              | (24,860)  |
| Amount related to noncontrolling interests (a)                         | (835)                          | (832)     | (1,913)                      | (1,700)   |
| Adjusted compensation and benefits expense                             | \$285,645                      | \$262,189 | \$554,566                    | \$536,838 |
| Adjusted compensation and benefits expense as a % of Operating Revenue | 58.1%                          | 59.8%     | 58.5%                        | 60.0%     |

|                                                               | Three Months Ended<br>June 31, |          | Six Months Ended<br>June 31, |           |
|---------------------------------------------------------------|--------------------------------|----------|------------------------------|-----------|
|                                                               | 2011                           | 2010     | 2011                         | 2010      |
|                                                               | (\$ in thousands)              |          |                              |           |
| <b>Non-compensation expense</b>                               |                                |          |                              |           |
| Total non-compensation expense                                | \$99,904                       | \$87,194 | \$193,008                    | \$170,631 |
| Deduct:                                                       |                                |          |                              |           |
| Amount related to noncontrolling interests (a)                | (324)                          | (195)    | (658)                        | (397)     |
| Adjusted non-compensation expense                             | \$99,580                       | \$86,999 | \$192,350                    | \$170,234 |
| Adjusted non-compensation expense as a % of Operating Revenue | 20.2%                          | 19.8%    | 20.3%                        | 19.0%     |

- (a) Expenses related to the consolidation of noncontrolling interests are excluded because the Company has no economic interest in such amounts.

Certain additional key ratios, statistics and headcount information for the 2011 and 2010 periods are set forth below:

|                                                    | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|----------------------------------------------------|--------------------------------|------|------------------------------|------|
|                                                    | 2011                           | 2010 | 2011                         | 2010 |
| <b>As a % of Net Revenue, by Revenue Category:</b> |                                |      |                              |      |
| Investment banking and other advisory fees         | 51%                            | 59%  | 51%                          | 60%  |
| Money management fees                              | 48                             | 43   | 49                           | 42   |
| Interest income                                    | 1                              | 1    | 1                            | 1    |
| Other                                              | 5                              | 3    | 5                            | 3    |
| Interest expense                                   | (5)                            | (6)  | (6)                          | (6)  |
| Net Revenue                                        | 100%                           | 100% | 100%                         | 100% |

|  | As Of            |                      |
|--|------------------|----------------------|
|  | June 30,<br>2011 | December 31,<br>2010 |
|  | June 30,<br>2010 |                      |

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### Headcount:

#### Managing Directors:

|                    |     |     |     |
|--------------------|-----|-----|-----|
| Financial Advisory | 138 | 129 | 131 |
| Asset Management   | 68  | 64  | 63  |
| Corporate          | 10  | 9   | 8   |

#### Other Employees:

|                                           |       |       |       |
|-------------------------------------------|-------|-------|-------|
| Business segment professionals            | 1,024 | 999   | 984   |
| All other professionals and support staff | 1,146 | 1,131 | 1,106 |

|       |       |       |       |
|-------|-------|-------|-------|
| Total | 2,386 | 2,332 | 2,292 |
|-------|-------|-------|-------|



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### **Operating Results**

The Company's quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods. As reflected in the table of consolidated results of operations above, charges related to the 2010 special items had a significant impact on the Company's reported operating results for the six month period of 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such items.

#### *Three Months Ended June 30, 2011 versus June 30, 2010*

The Company reported net income attributable to Lazard Ltd of \$62 million, as compared to net income of \$45 million in the 2010 period. The changes in the Company's operating results during these periods are described below.

Net revenue and operating revenue increased by \$58 million, or 14%, and \$53 million, or 12%, respectively, as compared to the 2010 period. Fees from investment banking and other advisory activities declined \$2 million, or 1%, and were principally driven by a decline in Restructuring fee revenues, substantially offset by increases in M&A and Strategic Advisory and Capital Markets Advisory revenues. The decline in Restructuring revenue reflects a reduction in restructuring activity as the economy improved and the number of corporate debt defaults declined. Money management fees, including incentive fees, increased \$50 million, or 28%, principally due to a \$32 billion, or 25%, increase in average AUM for the 2011 period, which resulted from market appreciation and net inflows during the last twelve months, and a favorable change in the mix of AUM into higher margin equity products, partially offset by lower incentive fees earned on traditional long-only products in the 2011 period. Interest income decreased \$1 million, or 21%, due primarily to a shift in asset allocation at LFB (with a corresponding decrease in interest expense). Other revenue increased \$11 million, or 94%, primarily due to increases in underwriting fees, foreign exchange remeasurement and higher commission revenue. Interest expense decreased \$1 million, or 3%.

Compensation and benefits expense was \$286 million as compared to \$263 million in the 2010 period, an increase of \$23 million, or 9%, with the rate of increase being consistent with the Company's goal to grow compensation expense at a slower rate than revenues.

Non-compensation expense increased \$13 million, or 15%. The increase in non-compensation expense was primarily due to increases related to technology and business development expenses, and the adverse impact of the weakening of the U.S. dollar versus foreign currencies, as well as fund administration expenses related to the growth in AUM.

Amortization of intangible assets remained substantially unchanged as compared to the 2010 period.

Operating income was \$89 million, an increase of \$22 million, as compared to operating income of \$67 million in the 2010 period and, as a percentage of net revenue, was 19% as compared to 16% in the 2010 period.

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The provision for income taxes was \$18 million, an increase of \$4 million as compared to the 2010 period.

Net income attributable to noncontrolling interests increased \$1 million as compared to the 2010 period, with increases in the noncontrolling interest relating to Edgewater in the 2011 period, substantially offset by a reduction in LAZ-MD's noncontrolling interest as a result of its reduced ownership interest in Lazard Group in the period.

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*Six Months Ended June 30, 2011 versus June 30, 2010*

The Company reported net income attributable to Lazard Ltd of \$117 million, as compared to net income of \$11 million in the 2010 period. The Company's results in the 2010 period were adversely affected by the 2010 special items, which served to decrease the net income attributable to Lazard Ltd by \$81 million. Excluding the after-tax impact of the 2010 special items, net income attributable to Lazard Ltd in the 2011 period increased \$25 million, or 28%, as compared to the 2010 period. The changes in the Company's operating results during these periods are described below.

Net revenue and operating revenue increased \$58 million, or 7%, and \$53 million, or 6%, respectively, as compared to the 2010 period. Fees from investment banking and other advisory activities declined \$51 million, or 10%, and were principally driven by a decline in Restructuring fee revenues, partially offset by increases in M&A and Strategic Advisory and Capital Markets Advisory revenues. The decline in Restructuring revenue reflects a reduction in restructuring activity as the economy improved and the number of corporate debt defaults declined. Money management fees, including incentive fees, increased \$88 million, or 24%, principally due to a \$30 billion, or 23%, increase in average AUM for the 2011 period, which resulted from market appreciation and net inflows during the last twelve months, and a favorable change in the mix of AUM into higher margin equity products, partially offset by lower incentive fees earned on traditional long-only products in the 2011 period. Interest income decreased \$3 million, or 26%, due primarily to a shift in asset allocation at LFB (with a corresponding decrease in interest expense). Other revenue increased \$21 million, or 89%, and included an \$8 million increase in underwriting fees, a \$6 million increase in foreign exchange gains (as compared to losses in the 2010 period), a \$3 million increase in investment income and higher commission revenue. Interest expense decreased \$3 million, or 6%.

Compensation and benefits expense was \$556 million as compared to \$563 million in the 2010 period. When excluding the 2010 special item of \$25 million related to the accelerated amortization expense recognized in connection with the vesting of share-based incentive awards related to the amendment of the Company's retirement policy, compensation and benefits expense increased \$18 million, or 3%, with the rate of increase being consistent with the Company's goal to grow compensation expense at a slower rate than revenues.

Non-compensation expense increased \$22 million, or 13%. The increase in non-compensation expense was primarily due to increases related to technology and business development expenses, and the adverse impact of the weakening of the U.S. dollar versus foreign currencies, as well as fund administration expenses related to the growth in AUM.

Amortization of intangible assets remained substantially unchanged as compared to the 2010 period.

In the first quarter of 2010, the Company announced plans to reduce certain staff and realign personnel. As a result, the 2010 special items include a restructuring charge of \$87 million in connection with severance and benefit payments, the acceleration of unrecognized expense pertaining to share-based incentive compensation previously granted to individuals who were terminated and certain other costs related to the restructuring initiatives.

Operating income was \$163 million, an increase of \$130 million, as compared to operating income of \$33 million in the 2010 period (with such latter amount including the impact of the 2010 special items) and, as a percentage of net revenue, was 18% as compared to 4% in the 2010 period. Excluding the impact of the 2010 special items, operating income in the 2011 period increased \$18 million, or 13%, as compared to operating income of \$145 million in the 2010 period, and, as a percentage of net revenue, was 18%, as compared to 17% in the 2010 period.

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The provision for income taxes was \$31 million, an increase of \$11 million as compared to the 2010 period. When excluding the tax benefit of \$7 million related to the 2010 special items, the income tax provision in the 2011 period increased \$4 million as compared to the 2010 period.

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Net income attributable to noncontrolling interests increased \$13 million as compared to the 2010 period. When excluding the impact of the 2010 special items of \$24 million, net income attributable to noncontrolling interests decreased \$11 million, with such decrease principally reflecting LAZ-MD Holdings' reduced ownership interest in Lazard Group in the 2011 period, partially offset by an increase in the noncontrolling interest relating to Edgewater in the 2011 period.

## Business Segments

The following is a discussion of net revenue and operating income for the Company's business 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, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as, among other items, headcount, square footage and transactional volume. As reflected in the tables below, each segment's operating results for the six month period of 2010 are presented, as applicable, on an as reported and excluding special items basis (see Note 20 of Notes to Condensed Consolidated Financial Statements).

## Financial Advisory

The following tables summarize the operating results of the Financial Advisory segment for the 2011 and 2010 periods. Operating results for the six month period of 2010 are shown before and after the charge attributable to the Financial Advisory segment related to the 2010 special item.

|                                                  | Three Months Ended<br>June 30, |            |
|--------------------------------------------------|--------------------------------|------------|
|                                                  | 2011                           | 2010       |
|                                                  | (\$ in thousands)              |            |
| M&A and Strategic Advisory                       | \$ 170,568                     | \$ 145,854 |
| Capital Markets and Other Advisory               | 30,290                         | 20,240     |
| Sub-total                                        | 200,858                        | 166,094    |
| Restructuring                                    | 48,333                         | 79,879     |
| Net Revenue                                      | 249,191                        | 245,973    |
| Operating Expenses (c)                           | 214,217                        | 213,900    |
| Operating Income                                 | \$ 34,974                      | \$ 32,073  |
| Operating Income, As A Percentage Of Net Revenue | 14%                            | 13%        |

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|                                                  | Six Months Ended<br>June 30, |                             |                                  |                                                   |
|--------------------------------------------------|------------------------------|-----------------------------|----------------------------------|---------------------------------------------------|
|                                                  | 2011                         | 2010                        |                                  |                                                   |
|                                                  | U.S. GAAP<br>As<br>Reported  | U.S. GAAP<br>As<br>Reported | Impact of<br>Special<br>Item (a) | Non-U.S. GAAP<br>Excluding<br>Special Item<br>(b) |
|                                                  | (\$ in thousands)            |                             |                                  |                                                   |
| M&A and Strategic Advisory                       | \$ 334,320                   | \$ 293,411                  |                                  | \$ 293,411                                        |
| Capital Markets and Other Advisory               | 59,826                       | 40,991                      |                                  | 40,991                                            |
| Sub-total                                        | 394,146                      | 334,402                     |                                  | 334,402                                           |
| Restructuring                                    | 83,890                       | 180,067                     |                                  | 180,067                                           |
| Net Revenue                                      | 478,036                      | 514,469                     |                                  | 514,469                                           |
| Operating Expenses (c)                           | 427,783                      | 451,700                     | \$ 19,571                        | 432,129                                           |
| Operating Income                                 | \$ 50,253                    | \$ 62,769                   |                                  | \$ 82,340                                         |
| Operating Income, As A Percentage Of Net Revenue | 11%                          | 12%                         |                                  | 16%                                               |

|                                           | As Of            |                      |                  |
|-------------------------------------------|------------------|----------------------|------------------|
|                                           | June 30,<br>2011 | December 31,<br>2010 | June 30,<br>2010 |
| Headcount (d):                            |                  |                      |                  |
| Managing Directors                        | 138              | 129                  | 131              |
| Other Employees:                          |                  |                      |                  |
| Business segment professionals            | 684              | 673                  | 673              |
| All other professionals and support staff | 230              | 222                  | 215              |
| Total                                     | 1,052            | 1,024                | 1,019            |

- (a) Represents the portion of the 2010 special item attributable to the Financial Advisory segment (see Note 20 of Notes to Condensed Consolidated Financial Statements).
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
- (c) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
- (d) Excludes headcount related to indirect support functions, with such headcount being included in the Corporate segment.

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Net revenue trends in Financial Advisory for M&A and Strategic Advisory and Restructuring are generally correlated to the volume of completed industry-wide M&A transactions and restructurings 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 significant non-public assignments. Certain Lazard client statistics and global industry statistics are set forth below:

|                                                                               | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|-------------------------------------------------------------------------------|--------------------------------|------|------------------------------|------|
|                                                                               | 2011                           | 2010 | 2011                         | 2010 |
| <b>Lazard Statistics:</b>                                                     |                                |      |                              |      |
| Number of Clients With Fees Greater Than \$1 Million:                         |                                |      |                              |      |
| Total Financial Advisory                                                      | 49                             | 61   | 105                          | 125  |
| M&A and Strategic Advisory                                                    | 35                             | 34   | 71                           | 68   |
| Percentage of Total Financial Advisory Revenue from Top 10 Clients            | 38%                            | 35%  | 25%                          | 25%  |
| Number of M&A Transactions Completed With Values Greater than \$1 billion (a) | 16                             | 9    | 30                           | 15   |

(a) Source: Dealogic as of July 8, 2011.

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 (principally in the U.K., France, Italy, Spain and Germany) and the rest of the world (principally in Australia) and therefore may not be reflective of the geography in which the clients are located.

|               | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|---------------|--------------------------------|------|------------------------------|------|
|               | 2011                           | 2010 | 2011                         | 2010 |
| United States | 60%                            | 54%  | 54%                          | 54%  |
| Europe        | 35                             | 43   | 38                           | 43   |
| Rest of World | 5                              | 3    | 8                            | 3    |
| Total         | 100%                           | 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 net revenue and operating income margins.

### Financial Advisory Results of Operations

Financial Advisory's quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter

or period may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and further periods. As reflected in the table of operating results of the Financial Advisory segment above, the portion of the 2010 special item attributable to the Financial Advisory segment had a significant impact on the segment's reported operating results for the six month period of 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.



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### *Three Months Ended June 30, 2011 versus June 30, 2010*

M&A and Strategic Advisory, Capital Markets and Other Advisory net revenue, in the aggregate, increased \$35 million, or 21%, as compared to the 2010 period, with M&A and Strategic Advisory net revenue increasing \$25 million, or 17%, and Capital Markets and Other Advisory net revenue increasing \$10 million, or 50%. Partially offsetting these increases was a decline in Restructuring net revenue of \$32 million, or 39%.

The increase in M&A and Strategic Advisory revenue was principally due to higher average fees per M&A and Strategic Advisory transaction. Our major clients, which in the aggregate represented a significant portion of our M&A and Strategic Advisory revenue in the second quarter of 2011, included Asda Stores, Caisse des Dépôts, Hilite International, Lazard Real Estate Partners' Sale of Atria Senior Living Group, Mitsubishi UFJ Financial Group, Smurfit-Stone Container, Stirling Square Capital Partners and A2A, Vodafone and Wind Telecom.

The increase in Capital Markets and Other Advisory revenue principally reflected the increased value of fund closings by our Private Fund Advisory Group and increased underwriting fees from public offerings.

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 was driven by a reduction in global restructuring activity, resulting in a decline in the number of active assignments in the 2011 period as compared to the corresponding prior year period, and a corresponding decrease in completion fees. Notable assignments completed in the second quarter of 2011 included Capmark Financial Group, Pfeleiderer, Satélites Mexicanos and Station Casinos.

Operating expenses remained substantially unchanged as compared to the 2010 period.

Financial Advisory operating income was \$35 million, an increase of \$3 million, as compared to operating income of \$32 million in the 2010 period and, as a percentage of net revenue, was 14% as compared to 13% in 2010.

### *Six Months Ended June 30, 2011 versus June 30, 2010*

M&A and Strategic Advisory, Capital Markets and Other Advisory net revenue, in the aggregate, increased \$60 million, or 18%, as compared to the 2010 period, with M&A and Strategic Advisory net revenue increasing \$41 million, or 14%, and Capital Markets and Other Advisory net revenue increasing \$19 million, or 46%. Offsetting these increases was a decline in Restructuring net revenue of \$96 million, or 53%.

The increase in M&A and Strategic Advisory revenue was principally due to higher average fees per M&A and Strategic Advisory transaction. The increase in Capital Markets and Other Advisory revenue principally reflected the increased value of fund closings by our Private Fund Advisory Group and increased underwriting fees from public offerings.

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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 was driven by a reduction in global restructuring activity, resulting in a decline in the number of active assignments in the 2011 period as compared to the corresponding prior year period, and a corresponding decrease in completion fees.

Operating expenses decreased \$24 million, or 5%, as compared to the 2010 period. Excluding the impact of the 2010 special item attributable to the Financial Advisory segment, operating expenses decreased \$4 million, or 1%. The principal contributor to the decrease was a decline in compensation expense, partially offset by higher costs related to travel and other business development expenses.

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Financial Advisory operating income was \$50 million, a decrease of \$13 million, as compared to operating income of \$63 million in the 2010 period (with such latter amount including the impact of the 2010 special item) and, as a percentage of net revenue, was 11% as compared to 12% in 2010. Excluding the impact of the 2010 special item, operating income in the 2011 period decreased \$32 million, as compared to operating income of \$82 million in the 2010 period, and, as a percentage of net revenue, was 11%, as compared to 16% in the 2010 period.

**Asset Management**

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

|                                         | As of             |                      |
|-----------------------------------------|-------------------|----------------------|
|                                         | June 30,<br>2011  | December 31,<br>2010 |
|                                         | (\$ in millions)  |                      |
| <b>AUM:</b>                             |                   |                      |
| International Equities                  | \$ 33,348         | \$ 32,037            |
| Global Equities                         | 80,791            | 77,965               |
| U.S. Equities                           | 22,039            | 21,298               |
| <b>Total Equities</b>                   | <b>136,178</b>    | <b>131,300</b>       |
| European and International Fixed Income | 12,764            | 12,249               |
| Global Fixed Income                     | 1,958             | 1,705                |
| U.S. Fixed Income                       | 3,217             | 3,190                |
| <b>Total Fixed Income</b>               | <b>17,939</b>     | <b>17,144</b>        |
| Alternative Investments                 | 5,877             | 5,524                |
| Private Equity                          | 1,440             | 1,294                |
| Cash Management                         | 163               | 75                   |
| <b>Total AUM</b>                        | <b>\$ 161,597</b> | <b>\$ 155,337</b>    |

Average AUM for the 2011 and 2010 periods is set forth below. Average AUM is based on an average of quarterly ending balances for the respective periods.

|             | Three Months Ended |                  | Six Months Ended |                  |
|-------------|--------------------|------------------|------------------|------------------|
|             | June 30,<br>2011   | June 30,<br>2010 | June 30,<br>2011 | June 30,<br>2010 |
|             | (\$ in millions)   |                  |                  |                  |
| Average AUM | \$ 161,024         | \$ 129,227       | \$ 159,129       | \$ 129,333       |

Total AUM at June 30, 2011 increased \$6 billion, or 4%, as compared to that at December 31, 2010. Average AUM for the three month and six month periods in 2011 was 25% and 23% higher, respectively, than the average AUM for the corresponding periods in 2010, principally the

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result of market appreciation (which was generally consistent with the industry as a whole) and net inflows occurring during the six month period ended December 31, 2010. International, Global and U.S. equities represented 21%, 50% and 14% of total AUM at June 30, 2011, unchanged versus December 31, 2010.

As of June 30, 2011 and December 31, 2010, 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 sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors, and, as of such dates, 10% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

As of June 30, 2011, AUM denominated in foreign currencies represented approximately 47% of our total AUM, as compared to 45% at December 31, 2010. Foreign denominated AUM declines in value with the strengthening of the U.S. dollar and increases in value as the U.S. dollar weakens.

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The following is a summary of changes in AUM for the 2011 and 2010 periods.

|                                          | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                          | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
|                                          | <b>(\$ in millions)</b>                |             |                                      |             |
| AUM Beginning of Period                  | \$ 160,451                             | \$ 134,972  | \$ 155,337                           | \$ 129,543  |
| Net Flows (a)                            | (327)                                  | 2,064       | 368                                  | 5,031       |
| Market and Foreign Exchange Appreciation | 1,473                                  | (13,553)    | 5,892                                | (11,091)    |
| AUM End of Period                        | \$ 161,597                             | \$ 123,483  | \$ 161,597                           | \$ 123,483  |

- (a) Includes inflows of \$5,310 and \$9,275 and outflows of \$5,637 and \$7,211 for the three month periods in 2011 and 2010, respectively, and inflows of \$11,075 and \$18,281 and outflows of \$10,707 and \$13,250 for the six month periods in 2011 and 2010, respectively.

Inflows in the first half of 2011 were principally in Global Equities due to increased investments in existing accounts, as well as new accounts gained. Outflows in the period occurred primarily in Global and International Equities and, to a lesser extent, certain International and Fixed Income products.

As of July 22, 2011, AUM was \$162.7 billion, a \$1.1 billion increase since June 30, 2011. The change in AUM was due to market/foreign exchange appreciation of \$1.8 billion and net outflows of \$0.7 billion. Market appreciation was approximately 1% of AUM since June 30, 2011, which was generally consistent with the increase in global market indices during that period.

The following tables summarize the operating results of the Asset Management segment. Operating results for the six month period of 2010 are shown before and after the charge attributable to the Asset Management segment related to the 2010 special item.

|                                                  | <b>Three Months Ended<br/>June 30,</b> |             |
|--------------------------------------------------|----------------------------------------|-------------|
|                                                  | <b>2011</b>                            | <b>2010</b> |
|                                                  | <b>(\$ in thousands)</b>               |             |
| Revenue:                                         |                                        |             |
| Management Fees                                  | \$ 221,217                             | \$ 166,987  |
| Incentive Fees                                   | 6,331                                  | 12,635      |
| Other Income                                     | 17,307                                 | 9,792       |
| Net Revenue                                      | 244,855                                | 189,414     |
| Operating Expenses (c)                           | 160,914                                | 136,886     |
| Operating Income                                 | \$ 83,941                              | \$ 52,528   |
| Operating Income, As A Percentage of Net Revenue | 34%                                    | 28%         |

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|                                                  | 2011                        | Six Months Ended<br>June 30,<br>2010          | Non-<br>U.S. GAAP<br>Excluding<br>Special Item (b) |
|--------------------------------------------------|-----------------------------|-----------------------------------------------|----------------------------------------------------|
|                                                  | U.S. GAAP<br>As<br>Reported | U.S. GAAP<br>As Reported<br>(\$ in thousands) | Impact of<br>Special<br>Item<br>(a)                |
| <b>Revenue:</b>                                  |                             |                                               |                                                    |
| Management Fees                                  | \$ 427,985                  | \$ 328,783                                    | \$ 328,783                                         |
| Incentive Fees                                   | 11,477                      | 26,422                                        | 26,422                                             |
| Other Income                                     | 32,246                      | 21,962                                        | 21,962                                             |
| <b>Net Revenue</b>                               | <b>471,708</b>              | <b>377,167</b>                                | <b>377,167</b>                                     |
| Operating Expenses (c)                           | 310,118                     | 266,326                                       | \$ 2,902                                           |
| <b>Operating Income</b>                          | <b>\$ 161,590</b>           | <b>\$ 110,841</b>                             | <b>\$ 113,743</b>                                  |
| Operating Income, As A Percentage of Net Revenue | 34%                         | 29%                                           | 30%                                                |

|                                           | June 30,<br>2011 | As Of<br>December 31,<br>2010 | June 30,<br>2010 |
|-------------------------------------------|------------------|-------------------------------|------------------|
| <b>Headcount (d):</b>                     |                  |                               |                  |
| Managing Directors                        | 68               | 64                            | 63               |
| <b>Other Employees:</b>                   |                  |                               |                  |
| Business segment professionals            | 329              | 315                           | 301              |
| All other professionals and support staff | 309              | 297                           | 276              |
| <b>Total</b>                              | <b>706</b>       | <b>676</b>                    | <b>640</b>       |

- (a) Represents the portion of the 2010 special item attributable to the Asset Management segment (see Note 20 of Notes to Condensed Consolidated Financial Statements).
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
- (c) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
- (d) Excludes headcount related to indirect support functions, with such headcount being included in the Corporate segment.

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.

|               | Three Months Ended<br>June 30,<br>2011 | 2010        | Six Months Ended<br>June 30,<br>2011 | 2010        |
|---------------|----------------------------------------|-------------|--------------------------------------|-------------|
| United States | 58%                                    | 58%         | 60%                                  | 56%         |
| Europe        | 31                                     | 31          | 29                                   | 33          |
| Rest of World | 11                                     | 11          | 11                                   | 11          |
| <b>Total</b>  | <b>100%</b>                            | <b>100%</b> | <b>100%</b>                          | <b>100%</b> |

*Asset Management Results of Operations*

Asset Management's quarterly revenue and profits in any particular quarter or period may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods. As reflected in the table of operating results of the Asset Management segment above, the portion of the 2010 special item attributable to the Asset

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**Management segment had a significant impact on the segment's reported operating results for the six month period of 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.**

### *Three Months Ended June 30, 2011 versus June 30, 2010*

Asset Management net revenue increased \$55 million, or 29%, as compared to the 2010 period. Management fees increased \$54 million, or 32%, as compared to the 2010 period, driven primarily by a 25% increase in average AUM, due principally to the increase in equity market indices since June 30, 2010, and, to a lesser extent, a favorable change in the mix of AUM into higher margin equity products. Incentive fees, consisting of traditional long-only investment strategies, decreased \$6 million, or 50%, as compared to the 2010 period. Other revenue increased \$7 million, or 77%, as compared to the 2010 period, principally due to increased investment income and custody fees.

Operating expenses increased \$24 million, or 18%, as compared to the 2010 period, principally due to higher compensation expense, as well as higher fees for fund administration and business development expenses for travel and market related data due to the increased level of business activity and AUM.

Asset Management operating income was \$84 million, an increase of \$31 million, as compared to operating income of \$53 million in the 2010 period and, as a percentage of net revenue, was 34% as compared to 28% in 2010.

### *Six Months Ended June 30, 2011 versus June 30, 2010*

Asset Management net revenue increased \$95 million, or 25%, as compared to the 2010 period. Management fees increased \$99 million, or 30%, as compared to the 2010 period, driven primarily by a 23% increase in average AUM, due principally to the increase in equity market indices since June 30, 2010, and, to a lesser extent, a favorable change in the mix of AUM into higher margin equity products. Incentive fees, consisting of traditional long-only investment strategies, decreased \$15 million, or 57%, as compared to the 2010 period. Other revenue increased \$10 million, or 47%, as compared to the 2010 period, principally due to increased investment and commission income.

Operating expenses increased \$44 million, or 16%, as compared to the 2010 period. Excluding the impact of the 2010 special item attributable to the Asset Management segment, operating expenses increased \$47 million, or 18%, principally due to higher compensation expense, as well as higher fees for fund administration and business development expenses for travel and market related data due to the increased level of business activity and AUM.

Asset Management operating income was \$162 million, an increase of \$51 million, as compared to operating income of \$111 million in the 2010 period (with such latter amount including the impact of the 2010 special item) and, as a percentage of net revenue, was 34% as compared to 29% in 2010. Excluding the impact of the 2010 special item, operating income in the 2011 period increased \$48 million, as compared to operating income of \$114 million in the 2010 period, and, as a percentage of net revenue, was 34%, as compared to 30% in the 2010 period.



**Table of Contents****Corporate**

The following tables summarize the results of the Corporate segment:

|                        | <b>Three Months Ended<br/>June 30,</b> |             |
|------------------------|----------------------------------------|-------------|
|                        | <b>2011</b>                            | <b>2010</b> |
|                        | <b>(\$ in thousands)</b>               |             |
| Interest Income        | \$ 1,622                               | \$ 3,971    |
| Interest Expense       | (22,626)                               | (23,836)    |
| Net Interest (Expense) | (21,004)                               | (19,865)    |
| Other Revenue          | 4,250                                  | 3,513       |
| Net Revenue (Expense)  | (16,754)                               | (16,352)    |
| Operating Expenses     | 12,959                                 | 1,198       |
| Operating Loss         | \$ (29,713)                            | \$ (17,550) |

|                        | <b>Six Months Ended<br/>June 30,</b> |                                      |                                            |                                                                  |
|------------------------|--------------------------------------|--------------------------------------|--------------------------------------------|------------------------------------------------------------------|
|                        | <b>2011</b>                          |                                      | <b>2010</b>                                |                                                                  |
|                        | <b>U.S. GAAP<br/>As<br/>Reported</b> | <b>U.S. GAAP<br/>As<br/>Reported</b> | <b>Impact of<br/>Special<br/>Items (a)</b> | <b>Non-U.S.<br/>GAAP<br/>Excluding<br/>Special<br/>Items (b)</b> |
|                        | <b>(\$ in thousands)</b>             |                                      |                                            |                                                                  |
| Interest Income        | \$ 3,206                             | \$ 8,452                             |                                            | \$ 8,452                                                         |
| Interest Expense       | (45,353)                             | (48,536)                             |                                            | (48,536)                                                         |
| Net Interest (Expense) | (42,147)                             | (40,084)                             |                                            | (40,084)                                                         |
| Other Revenue          | 7,718                                | 5,694                                |                                            | 5,694                                                            |
| Net Revenue (Expense)  | (34,429)                             | (34,390)                             |                                            | (34,390)                                                         |
| Operating Expenses     | 14,766                               | 106,650                              | \$ 89,495                                  | 17,155                                                           |
| Operating Loss         | \$ (49,195)                          | \$ (141,040)                         |                                            | \$ (51,545)                                                      |

|                                           | <b>As Of</b>             |                              |                          |
|-------------------------------------------|--------------------------|------------------------------|--------------------------|
|                                           | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> | <b>June 30,<br/>2010</b> |
| Headcount (c):                            |                          |                              |                          |
| Managing Directors                        | 10                       | 9                            | 8                        |
| Other Employees:                          |                          |                              |                          |
| Business segment professionals            | 11                       | 11                           | 10                       |
| All other professionals and support staff | 607                      | 612                          | 615                      |

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|       |     |     |     |
|-------|-----|-----|-----|
| Total | 628 | 632 | 633 |
|-------|-----|-----|-----|

- (a) Represents the portion of the 2010 special items attributable to the Corporate segment (see Note 20 of Notes to Condensed Consolidated Financial Statements).
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
- (c) Includes headcount related to support functions.

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### ***Corporate Results of Operations***

As reflected in the table of operating results of the Corporate segment above, the 2010 special items had a significant impact on the segment's reported operating results for the six month period of 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such items.

#### ***Three Months Ended June 30, 2011 versus June 30, 2010***

Net interest expense and other revenue was substantially unchanged as compared to the 2010 period.

Operating expenses in the 2011 period increased \$12 million, principally due to increased compensation expense.

#### ***Six Months Ended June 30, 2011 versus June 30, 2010***

Net interest expense and other revenue was substantially unchanged as compared to the 2010 period.

Operating expenses in the 2011 period decreased \$92 million, or 86%, substantially all of which related to the net impact in the prior year's period of the 2010 special items attributable to the Corporate segment. When excluding the impact of the 2010 special items, operating expenses decreased \$2 million, or 14%, principally due to expenses related to secondary offerings in the 2010 period.

### **Cash Flows**

The Company's cash flows are influenced by the timing of the receipt of Financial Advisory and Asset Management fees, the timing of distributions to shareholders and payments of incentive compensation to managing directors and employees. M&A, Strategic 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.

Lazard Group traditionally pays a significant portion of its incentive compensation during the first four months of each calendar year with respect to the prior year's results.

**Table of Contents****Summary of Cash Flows:**

|                                                     | Six Months Ended<br>June 30, |                 |
|-----------------------------------------------------|------------------------------|-----------------|
|                                                     | 2011                         | 2010            |
|                                                     | (\$ in millions)             |                 |
| <b>Cash Provided By (Used In):</b>                  |                              |                 |
| Operating activities:                               |                              |                 |
| Net income                                          | \$ 131.5                     | \$ 12.6         |
| Noncash charges (a)                                 | 179.7                        | 221.8           |
| Other operating activities (b)                      | (296.3)                      | (325.8)         |
| Net cash provided by (used in) operating activities | 14.9                         | (91.4)          |
| Investing activities (c)                            | (5.5)                        | 99.0            |
| Financing activities (d)                            | (254.5)                      | (103.7)         |
| Effect of exchange rate changes                     | 19.4                         | (23.8)          |
| <b>Net Decrease in Cash and Cash Equivalents</b>    | <b>(225.7)</b>               | <b>(119.9)</b>  |
| <b>Cash and Cash Equivalents:</b>                   |                              |                 |
| <b>Beginning of Period</b>                          | <b>1,209.7</b>               | <b>917.3</b>    |
| <b>End of Period</b>                                | <b>\$ 984.0</b>              | <b>\$ 797.4</b> |

(a) Consists of the following:

|                                                                        |                 |                 |
|------------------------------------------------------------------------|-----------------|-----------------|
| Depreciation and amortization of property                              | \$ 11.8         | \$ 10.1         |
| Amortization of deferred expenses, stock units and interest rate hedge | 164.7           | 207.8           |
| Amortization of intangible assets related to acquisitions              | 3.2             | 3.5             |
| Loss on extinguishment of debt                                         |                 | 0.4             |
| <b>Total</b>                                                           | <b>\$ 179.7</b> | <b>\$ 221.8</b> |

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

(c) Consists primarily of activity in the 2010 period relating to proceeds from sales and maturities of available-for-sale securities and the distribution received relating to our equity method investment in Sapphire.

(d) Consists primarily of distributions to noncontrolling interest holders, settlements of vested RSUs, Class A common stock dividends and purchases of shares of Class A common stock and common membership interests from LAZ-MD Holdings.

**Liquidity and Capital Resources**

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

**Operating Activities**

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Net revenue, operating income and cash receipts fluctuate significantly between quarters. In the case of Financial Advisory, fee receipts are principally dependent upon the successful completion of client transactions, the occurrence and timing of which is irregular and not subject to Lazard's control. In the case of Asset Management, incentive fees earned on AUM are generally not earned until the end of the applicable measurement period, which is generally the fourth quarter of Lazard's fiscal year, with the respective receivable collected in the first quarter of the following year.

Liquidity is significantly impacted by incentive compensation payments, a significant portion of which historically has been made during the first four 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.

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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 and matters relating to liquidity and to compliance with regulatory net capital requirements. At June 30, 2011, Lazard had approximately \$1.1 billion of cash and liquid securities (including \$32 million of U.S. Government debt and agencies securities and \$111 million of investments in equity securities), with such aggregate amount including approximately \$310 million held at Lazard's foreign operations. 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 June 30, 2011, Lazard had approximately \$285 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 matures in April 2013 (the Credit Facility) (see Financing below) and unused lines of credit available to LFB of approximately \$107 million (at June 30, 2011 exchange rates) and Edgewater of \$20 million. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

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

**Financing**

The table below sets forth our corporate indebtedness as of June 30, 2011 and December 31, 2010. 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-Q and in our Form 10-K.

|                                    | Maturity Date | June 30, 2011 | As of December 31, 2010 (\$ in millions) | Increase (Decrease) |
|------------------------------------|---------------|---------------|------------------------------------------|---------------------|
| <b>Senior Debt:</b>                |               |               |                                          |                     |
| 7.125%                             | 2015          | \$ 528.5      | \$ 528.5                                 | \$                  |
| 6.85%                              | 2017          | 548.4         | 548.4                                    |                     |
| <b>Subordinated Debt (a):</b>      |               |               |                                          |                     |
| 3.25%                              | 2016          | 150.0         | 150.0                                    |                     |
| Total Senior and Subordinated Debt |               | \$ 1,226.9    | \$ 1,226.9                               | \$                  |

- (a) Until June 30, 2011 the note had a conversion feature which permitted the holder to convert the note into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of \$57 per share. No conversions had occurred through that date and the note was no longer convertible. On July 22, 2011, the Company repurchased its outstanding 3.25% subordinated note, at a cost, excluding accrued interest, of \$131.8 million. Such repurchase resulted in a pre-tax gain of \$18.2 million, which is being recognized by the Company in the third quarter of 2011.

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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 and beyond.

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 owing to the lending bank group, the Credit Facility includes financial condition 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 June 30, 2011 Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 1.67 to 1.00 and its Consolidated Interest Coverage Ratio being 10.83 to 1.00. In any event, no amounts were outstanding under the Credit Facility as of June 30, 2011.

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 June 30, 2011, 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 10 of Notes to Condensed Consolidated Financial Statements for additional information regarding senior and subordinated debt.

**Stockholders' Equity**

At June 30, 2011, total stockholders' equity was \$858 million as compared to \$796 million at December 31, 2010, including \$147 million and \$144 million of noncontrolling interests on the respective dates. The net activity in stockholders' equity in the six month period ended June 30, 2011 is reflected in the table below (in millions of dollars):

|                                                                                        |                   |        |
|----------------------------------------------------------------------------------------|-------------------|--------|
| Stockholders' Equity                                                                   | December 31, 2010 | \$ 796 |
| Increase (decrease) due to:                                                            |                   |        |
| Net income                                                                             |                   | 132    |
| Amortization of share-based incentive compensation                                     |                   | 153    |
| AOCI (including noncontrolling interests' portion thereof)(*)                          |                   | 30     |
| Delivery of Class A common stock in connection with share-based incentive compensation |                   | (88)   |
| Class A common stock dividends                                                         |                   | (33)   |
| Purchase of Class A common stock and Lazard Group common membership interests          |                   | (127)  |
| Distributions to noncontrolling interests - net                                        |                   | (7)    |
| Other - net                                                                            |                   | 2      |
| Stockholders' Equity                                                                   | June 30, 2011     | \$ 858 |
| (*) Includes:                                                                          |                   |        |
| Net positive foreign currency translation adjustments                                  |                   | \$ 32  |
| Employee benefit plan and other adjustments                                            |                   | (2)    |



|       |       |
|-------|-------|
| Total | \$ 30 |
|-------|-------|

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On January 27, 2010, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, a share repurchase program permitting the repurchase of up to \$200 million in aggregate cost of its Class A common stock and Lazard Group common membership interests through December 31, 2011. In February 2011, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional \$250 million in aggregate cost of Lazard Ltd Class A common stock and Lazard Group common membership interests through December 31, 2012. During the six month period ended June 30, 2011 the Company repurchased 3,156,416 shares of Class A common stock, at an aggregate cost of \$126 million and 19,032 Lazard Group common membership interests at an aggregate cost of \$1 million. As of June 30, 2011, \$166 million of the \$450 million share purchase authorization remained available for future repurchases. In addition to the repurchases of Class A common stock and Lazard Group common membership interests described herein, during the six month period ended June 30, 2011, in order, among other reasons, to help neutralize the dilutive effect of our share-based incentive compensation plans, the Company utilized \$96 million to satisfy certain employees' withholding tax obligations on vested RSUs and vested shares of restricted Class A common stock in lieu of issuing 2,295,695 shares of Class A common stock directly by Lazard Ltd or by delivery of shares held by Lazard Group.

See Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding (i) the issuance of Class A common stock, (ii) secondary offerings of Class A common stock, (iii) exchanges of Lazard Group common membership interests and (iv) the share repurchase program.

## 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 affiliates. See Note 19 of Notes to Condensed Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France and other countries in which we operate. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see Item 1-Business Regulation included in the Form 10-K.

## Contractual Obligations

The following table sets forth information relating to Lazard's contractual obligations as of June 30, 2011:

|                                                                  | Total        | Contractual Obligations Payment Due by Period |            |            |                      |
|------------------------------------------------------------------|--------------|-----------------------------------------------|------------|------------|----------------------|
|                                                                  |              | Less than<br>1 Year                           | 1-3 Years  | 3-5 Years  | More than<br>5 Years |
|                                                                  |              | (\$ in thousands)                             |            |            |                      |
| Senior and Subordinated Debt (including interest) (a)            | \$ 1,586,245 | \$ 208,618                                    | \$ 150,435 | \$ 641,280 | \$ 585,912           |
| Operating Leases (exclusive of \$185,784 of sublease income) (b) | 1,085,916    | 65,975                                        | 115,435    | 125,569    | 778,937              |
| LAM Merger cash consideration (c)                                | 90,348       | 90,348                                        |            |            |                      |
| Capital Leases (including interest)                              | 28,562       | 4,130                                         | 7,358      | 5,820      | 11,254               |
| Private Equity Funding Commitments (b)                           | 3,022        | 3,022                                         |            |            |                      |
| Total (d)                                                        | \$ 2,794,093 | \$ 372,093                                    | \$ 273,228 | \$ 772,669 | \$ 1,376,103         |

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- (a) Gives effect to the Company's July 2011 repurchase of its 3.25% subordinated note. See Note 10 of Notes to Condensed Consolidated Financial Statements.
- (b) See Note 11 of Notes to Condensed Consolidated Financial Statements.
- (c) See Note 7 of Notes to Condensed Consolidated Financial Statements.
- (d) The table above excludes contingent obligations and any possible payments for uncertain tax positions given the inability to estimate the timing of the latter payments. See Notes 11, 13, 14 and 16 of Notes to Condensed Consolidated Financial Statements regarding information in connection with commitments, incentive plans, employee benefit plans and income taxes, respectively.

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### **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 accounting principles generally accepted in the United States of America. The preparation of Lazard's consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Lazard evaluates its estimates, including those related to revenue recognition, compensation liabilities, 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 about 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").

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 fee 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 are impaired, which may include situations where a fee is in dispute or litigation has commenced.

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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.

At June 30, 2011 and December 31, 2010, the Company had receivables past due of approximately \$18 million and \$17 million, respectively, and its allowance for doubtful accounts was \$17 million and \$15 million at such respective dates.

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### ***Income Taxes***

As part of the process of preparing its consolidated financial statements, Lazard is required to estimate its income taxes in each of the jurisdictions in which it operates. This process requires Lazard to estimate its actual current tax liability and to assess temporary differences resulting from differing book versus tax treatment of items, such as deferred revenue, compensation and benefits expense, unrealized gains or losses on investments and depreciation and amortization. These temporary differences, and any net operating loss and tax credit carryforwards, result in deferred tax assets and liabilities, as applicable, which are included within Lazard's consolidated statements of financial condition. Significant management judgment is required in determining Lazard's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. At December 31, 2010, the Company recorded deferred tax assets of approximately \$1.3 billion, with such amount partially offset by a valuation allowance of approximately \$1.2 billion due to the uncertainty of realizing the benefits of the book versus tax basis differences and certain net operating loss carry-forwards.

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, valuation allowances are 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 level of historical taxable income, scheduled reversals of deferred taxes, projected future taxable income and tax planning strategies that can be implemented by the Company in making this assessment. If actual results differ from these estimates or Lazard adjusts these estimates in future periods, Lazard may need to adjust its valuation allowance if such circumstances indicate that the valuation allowance should be reduced or is no longer necessary. The portion reduced would result in a reduction in the provision for income taxes. A change in the valuation allowance could materially impact Lazard's consolidated financial position and results of operations. Furthermore, management applies the more likely than not criteria prior to the recognition of a financial statement benefit of a tax position taken or expected to be taken in a tax return with respect to uncertainties in income taxes.

Tax contingencies can involve complex issues and may require an extended period of time to resolve. Changes in the geographic mix or estimated level of annual pre-tax income can affect Lazard's overall effective tax rate. Furthermore, Lazard's interpretation of complex tax laws may impact its recognition and measurement of current and deferred income taxes.

### ***Investments***

Investments consist principally of debt securities, equities, interests in LAM alternative asset management funds and other private equity investments.

These investments are carried at either fair value on the consolidated statements of financial condition, with any increases or decreases in fair value reflected (i) in earnings, to the extent held by our broker-dealer subsidiaries or when designated as trading securities within our non-broker-dealer subsidiaries, and (ii) in AOCI, to the extent designated as available-for-sale securities until such time they are realized and reclassified to earnings, or, if designated as held-to-maturity securities, amortized cost on the consolidated statements of financial condition. Any declines in the fair value of available-for-sale and held-to-maturity securities that are determined to be other than temporary are charged to earnings. As of December 31, 2010 and June 30, 2011, there were no securities designated as available-for-sale or held-to-maturity.

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 or AOCI and therefore subject Lazard to market and credit risk.



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Data relating to net investments at June 30, 2011 and December 31, 2010 is set forth below (in millions of dollars):

|                                                                                                                                        | June 30,<br>2011 |      | December 31,<br>2010 |      |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------|------|----------------------|------|
|                                                                                                                                        | \$               | %    | \$                   | %    |
| Debt securities (a)                                                                                                                    | \$ 99            | 23%  | \$ 96                | 23%  |
| Equity securities (net of \$1 and \$3 of securities sold, not yet purchased, at June 30, 2011 and December 31, 2010, respectively) (b) | 109              | 25   | 86                   | 21   |
| LAM alternative asset management funds (principally GP interests in LAM-managed hedge funds) (c)                                       | 34               | 8    | 50                   | 12   |
| Private equity (d)                                                                                                                     | 100              | 23   | 96                   | 23   |
| Other (e)                                                                                                                              | 92               | 21   | 87                   | 21   |
| Net investments                                                                                                                        | \$ 434           | 100% | \$ 415               | 100% |
| Total assets                                                                                                                           | \$ 3,081         |      | \$ 3,423             |      |
| Net investments, as a percentage of total assets                                                                                       |                  | 14%  |                      | 12%  |

- (a) Debt securities primarily consist of securities issued by the U.S. Government and its agencies, and funds seeding products of our Asset Management segment, and, at June 30, 2011, fixed income funds with a fair value of \$2 million held in connection with Lazard Fund Interest awards granted, all of which subject Lazard to market risk.
- (b) The Company's equity securities principally represent investments in marketable equity securities of large-, mid- and small-cap domestic, international and global companies to seed new Asset Management products and includes investments in public and private asset management funds managed both by LAM and third-party asset managers and, at June 30, 2011, equity fund interests with a fair value of \$23 million held in connection with Lazard Fund Interest awards granted. Hedging strategies are employed to reduce market risk, and, in turn, the volatility to earnings. Additional information regarding equity securities as of June 30, 2011 and December 31, 2010 is shown below:

|                         | June<br>30,<br>2011 | December 31,<br>2010 |
|-------------------------|---------------------|----------------------|
| Percentage invested in: |                     |                      |
| Consumer                | 31%                 | 28%                  |
| Financials              | 19                  | 28                   |
| Industrial              | 11                  | 9                    |
| Other                   | 39                  | 35                   |
| Total                   | 100%                | 100%                 |

- (c) The fair value of such interests reflects the pro-rata value of the ownership of the underlying securities in the funds. Such funds are broadly diversified and may incorporate particular strategies; however, there are no investments in funds with a single sector strategy.
- (d) Comprised of investments in private equity funds and direct private equity interests that are generally not subject to short-term market fluctuation, but may subject Lazard to market or credit risk.



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Private equity investments primarily include (i) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small-to mid-cap European companies; (ii) CP II, a private equity fund targeting significant noncontrolling investments in established public and private companies; and (iii) Senior Housing, which acquires companies and assets in senior housing, extended stay and shopping center sectors.

Private equity investments represent approximately 3% of total assets at both June 30, 2011 and December 31, 2010.

- (e) Represents investments (i) accounted for under the equity method of accounting and (ii) private equity and general partnership interests 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.

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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 quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in non-active markets or 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 management's 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 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.

At June 30, 2011, the Company's investments in U.S Government and agency debt securities as well as its corporate and other debt securities are considered Level 1 assets with the respective fair values based on unadjusted quoted prices in active markets. The Company's investments in fixed income funds are considered Level 1 assets when their fair values are based on the reported closing price for the fund or Level 2 assets when their fair values are primarily based on broker quotes as provided by external pricing services.

The fair value of our equities is principally classified as Level 1 or Level 2 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; public asset management funds are classified as Level 1 and are valued based on the reported closing price for the fund; and investments in private asset management funds are classified as Level 2 and are primarily valued based on information provided by fund managers and secondarily, from external pricing services to the extent managed by LAM.

The fair value of our interests in LAM alternative asset management funds is classified as Level 2 and is based on information provided by external pricing services.

The fair value of our private equity investments is classified as Level 3 and is based on financial statements provided by fund managers, appraisals and internal valuations.

Where information reported is based on broker quotes, the Company generally obtains one quote/price per instrument. In some cases, quotes related to corporate bonds obtained through external pricing services represent the average of several broker quotes. Where information reported is based on data received from fund managers or from external pricing services, the Company reviews such information to ascertain at which level within the fair value hierarchy to classify the investment.

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For additional information regarding risks associated with our investments, see Risk Management Market and Credit Risks.

See Notes 4 and 5 of Notes to Condensed Consolidated Financial Statements for additional information regarding investments and certain other assets and liabilities measured at fair value, including the levels of fair value within which such measurements of fair value fall.

### *Assets Under Management*

AUM managed by LAM and LFG, which represents substantially all of the Company's total AUM, principally consists of debt and equity instruments whose value is readily available based on quoted prices on a recognized exchange or by a broker. Accordingly, significant estimates and judgments are generally not involved in the calculation of the value of our AUM.

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### ***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. In this process, Lazard makes estimates and assumptions in order to determine the fair value of its assets and liabilities and to project future earnings using various valuation techniques. Lazard's assumptions and estimates are used in projecting future earnings as part of the valuation, and actual results could differ from those estimates. See Note 9 of Notes to Condensed Consolidated Financial Statements for additional information regarding goodwill.

### ***Consolidation of VIEs***

The consolidated financial statements include the accounts of Lazard Group and all other 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 or a variable interest entity ( VIE ) under U.S. GAAP.

**Voting Interest Entities.** Voting interest entities 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 voting interest entity that it maintains an ownership interest in if it holds a majority of the voting interest in such entity.

**Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. 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 involved with various entities in the normal course of business that are VIEs and holds variable interests in such VIEs. Transactions associated with these entities primarily include investment management, real estate and private equity investments. Those VIEs for which Lazard is determined to be the primary beneficiary are consolidated in accordance with the applicable accounting guidance. Those VIEs include company-sponsored venture capital investment vehicles established in connection with Lazard's compensation plans.

### **Risk Management**

The Company encounters risk in the normal course of business and therefore we have designed risk management processes to help manage and monitor such risks considering both the nature of our business and our operating model. The Company is subject to varying degrees of credit, market, operational and liquidity risks (see Liquidity and Capital Resources ) and monitors these risks at both an entity and on a consolidated basis. Management within each of Lazard's operating locations are principally responsible for managing the risks within its respective businesses on a day-to-day basis.

### ***Market and Credit Risks***

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Lazard is subject to credit and market risks and therefore has established procedures to assess such risks, as well as specific interest rate and currency risk, and has established limits related to various positions. Market and/or credit risks related to investments are discussed under Critical Accounting Policies and Estimates Investments above.

Lazard enters into interest rate swaps and foreign currency exchange contracts to hedge exposures to interest rates and currency exchange rates and uses equity swap contracts to hedge a portion of its market exposure with respect to certain equity investments.

At June 30, 2011 and December 31, 2010, derivative contracts related primarily to interest rate swaps, equity and fixed income swaps and foreign currency exchange rate contracts, and are recorded at fair value. Derivative assets amounted to \$2 million at both June 30, 2011 and December 31, 2010, and derivative liabilities amounted to \$2 million and \$3 million at such respective dates.

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With respect to LFB's operations, LFB engages in commercial banking activities that primarily include investing in securities, deposit taking and, to a lesser degree, lending. In addition, LFB may take open foreign exchange positions with a view to profit, but does not sell foreign exchange options in this context, and enters into interest rate swaps, forward foreign exchange contracts and other derivative contracts to hedge exposures to interest rate and currency fluctuations.

The primary market risks associated with LFB's foreign currency exchange hedging and lending activities are sensitivity to changes in the general level of interest rate and foreign exchange risk. The risk management strategies that we employ use various risk sensitivity metrics to measure such risks and to examine behavior under significant adverse market conditions, such as those we are currently experiencing. The following sensitivity metrics provide the resultant effects on the Company's operating income for the six month period ended June 30, 2011:

LFB's interest rate risk as measured by a 100+/- basis point change in interest rates totaled \$700 thousand.

Foreign currency risk associated with LFB's open positions, in the aggregate, as measured by a 200+/- basis point change against the U.S. dollar, totaled approximately \$2 thousand.

LFB fully secures its collateralized financing transactions with fixed income securities.

### ***Risks Related to Receivables***

We maintain an allowance for doubtful accounts to provide coverage for probable losses from our fee 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 are impaired. At June 30, 2011, total receivables amounted to \$532 million, net of an allowance for doubtful accounts of \$17 million. As of that date, financial advisory and asset management fees, customer and related party receivables comprised 79%, 19% and 2% of total receivables, respectively. At December 31, 2010, total receivables amounted to \$569 million, net of an allowance for doubtful accounts of \$15 million. As of that date, financial advisory and asset management fees, customer and related party receivables comprised 85%, 11% and 4% of total receivables, respectively. See also Critical Accounting Policies and Estimates Revenue Recognition above and Note 3 of Notes to Condensed Consolidated Financial Statements for additional information regarding receivables.

### ***Credit Concentration***

To reduce the exposure to concentrations of credit from banking activities within LFB, the Company has established limits for corporate counterparties and monitors the exposure against such limits. At June 30, 2011, excluding deposits with inter-bank counterparties, LFB had no exposure to an individual counterparty that exceeded \$33 million, with such amount being fully collateralized.

With respect to activities outside LFB, as of June 30, 2011, the Company's largest individual counterparty exposure was a Financial Advisory fee receivable of \$20 million, the terms of which require payment over a remaining period of 24 months, including accrued interest.

***Risks Related to Short-Term Investments and Corporate Indebtedness***

A significant portion of the Company's indebtedness has fixed interest rates, while its cash and short-term investments generally have floating interest rates. Based on account balances as of June 30, 2011, Lazard estimates that its annual operating income relating to cash and short-term investments and corporate indebtedness would increase by approximately \$12 million in the event interest rates were to increase by 1% and decrease by approximately \$4 million if rates were to decrease by 1%.

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As of June 30, 2011, the Company's cash and cash equivalents totaled approximately \$984 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 securities) or in short-term interest earning accounts at a number of leading banks throughout the world, or in short-term certificates of deposit from such banks. On a regular basis, management reviews and updates its list of approved depositor banks as well as deposit and investment thresholds.

## **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 pronouncements and their impact or potential impact on Lazard's consolidated financial statements, see Note 2 of Notes to Condensed Consolidated Financial Statements.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

### **Risk Management**

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

## **Item 4. Controls and Procedures**

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



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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.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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

On May 10, 2011, Lazard Ltd issued 728,385 shares of Class A common stock in reliance on Section 4(2) of the Securities Act of 1933 in connection with the exchange of 728,385 common membership interests of Lazard Group held by certain members of LAZ-MD Holdings as provided for in the Master Separation Agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings and other related documents.

**Issuer Repurchases of Equity Securities**

The following table sets forth information regarding Lazard's purchases of its Class A common stock on a monthly basis during the second quarter of 2011. Share repurchases are recorded on a trade date basis.

| Period                       |                       | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>per<br>Share | Total Number<br>of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or Programs | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|------------------------------|-----------------------|-------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>April 1, 2011</b>         | <b>April 30, 2011</b> |                                           |                                          |                                                                                                          |                                                                                                         |
| Share Repurchase Program (1) |                       | 101,000                                   | \$ 40.85                                 | 101,000                                                                                                  | \$ 255.2 million                                                                                        |
| Employee Transactions (2)    |                       | 110,161                                   | \$ 41.13                                 |                                                                                                          |                                                                                                         |
| <b>May 1, 2011</b>           | <b>May 31, 2011</b>   |                                           |                                          |                                                                                                          |                                                                                                         |

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|                                      |           |          |           |                  |
|--------------------------------------|-----------|----------|-----------|------------------|
| Share Repurchase Program (1)         | 1,983,902 | \$ 39.49 | 1,983,902 | \$ 176.8 million |
| Employee Transactions (2)            | 115,059   | \$ 40.53 |           |                  |
| <b>June 1, 2011    June 30, 2011</b> |           |          |           |                  |
| Share Repurchase Program (1)         | 304,700   | \$ 36.37 | 304,700   | \$ 165.7 million |
| Employee Transactions (2)            | 97,784    | \$ 37.11 |           |                  |
| <b>Total</b>                         |           |          |           |                  |
| Share Repurchase Program (1)         | 2,389,602 | \$ 39.15 | 2,389,602 | \$ 165.7 million |
| Employee Transactions (2)            | 323,004   | \$ 39.70 |           |                  |

- (1) As disclosed in more detail in Note 12 of Notes to Condensed Consolidated Financial Statements, in January 2010, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, the repurchase of up to \$200 million in aggregate cost of Lazard Ltd Class A common stock and Lazard Group common membership interests through December 31, 2011. In addition, in February 2011, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional \$250 million in aggregate cost of Lazard Ltd Class A common stock and Lazard

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- Group common membership interests through December 31, 2012. The share repurchase program is used primarily to offset a portion of the shares to be issued under Lazard Ltd's 2005 Plan and the 2008 Plan. Purchases under the share repurchase program may be made in the open market or through privately negotiated transactions. Amounts shown in this line item include repurchases of both Class A common stock and Lazard Group common membership interests, and exclude the shares of Class A common stock withheld by the Company to cover estimated income taxes as described below.
- (2) Under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of RSUs and shares of restricted Class A common stock, shares of Class A common stock may be withheld by the Company to cover estimated income taxes. During the three month period ended June 30, 2011, the Company satisfied certain employees' tax obligations in lieu of issuing (i) 279,358 shares of Class A common stock to cover estimated taxes upon the vesting of 937,942 RSUs and (ii) 43,646 shares of Class A common stock to cover estimated taxes upon the vesting of 143,816 shares of restricted Class A common stock.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. (Removed and Reserved)**

### **Item 5. Other Information**

#### *Amended Retention Agreement with Ashish Bhutani*

On August 2, 2011, the Company, Lazard Group and Ashish Bhutani entered into a First Amendment to Mr. Bhutani's Agreement Relating to Retention and Noncompetition and Other Covenants, dated March 15, 2005 (the "Retention Agreement"). The amended Retention Agreement supersedes Schedule I of the Retention Agreement and reflects Mr. Bhutani's title of Vice Chairman and Managing Director of Lazard and Chief Executive Officer of Lazard Asset Management LLC. Prior to this amendment, the Retention Agreement, which was entered into prior to the Company's initial public offering and at a time when Mr. Bhutani was not an executive officer, did not contain the standard provisions and definitions that are contained in our retention agreements with certain of our executive officers, which were generally entered into at the time of or following the Company's initial public offering. Kenneth M. Jacobs, the Chairman and Chief Executive Officer of the Company and Lazard Group determined it was in the Company's best interest to amend Mr. Bhutani's existing Retention Agreement to bring the terms of Mr. Bhutani's Retention Agreement in line with certain terms set forth in the agreements entered into with other executive officers of the Company, ensure his retention and provide him with customary executive officer protections. The Compensation Committee of the Company's Board of Directors agreed with Mr. Jacobs' recommendation.

The amended Retention Agreement has a term ending March 23, 2013, which is the date that the retention agreements with the Company's other executive officers are scheduled to expire, and provides for a minimum annual base salary of \$750,000. In addition, Mr. Bhutani is entitled to an annual bonus to be determined under the applicable annual bonus plan of Lazard on the same basis as annual bonuses are determined for other executive officers. Mr. Bhutani's annual bonus is required to be paid in the same ratio of cash to deferred awards as is applicable to other executives receiving bonuses at a level comparable to Mr. Bhutani, provided that he is employed by Lazard at the end of the applicable fiscal year.

The amended Retention Agreement provides for certain severance benefits in the event of a termination of employment prior to March 23, 2013 by Lazard other than for cause or by Mr. Bhutani for good reason (which we refer to below as a "qualifying termination"). The level of severance benefits provided to Mr. Bhutani generally depends on whether the applicable termination occurs prior to or following a change in control pursuant to which Lazard is acquired by an entity that has an asset management business (a "Specified Change in Control").



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In the event of a qualifying termination of employment prior to a Specified Change in Control, Mr. Bhutani generally would be entitled to receive in a lump sum (1) any unpaid base salary accrued through the date of termination, (2) any earned but unpaid bonuses for years completed prior to the date of termination, (3) a prorated bonus for the year of termination and (4) a severance payment equal to the sum of his base salary and average annual bonus for the two fiscal years that ended prior to the date of his termination. Upon such a qualifying termination, Mr. Bhutani and his eligible dependents would generally continue to be eligible to participate in our medical and dental benefit plans on the same basis as in effect immediately prior to the date of termination for one year following such termination (which currently requires the executive officer to pay a portion of the premiums). The period of medical and dental benefits continuation described above would generally be credited toward his credited age and service for purpose of our retiree medical program.

In the event of a qualifying termination of Mr. Bhutani on or following a Specified Change in Control, he would receive the payments and benefits described in the preceding paragraph, except that the severance payment would be in the following amount: three times the sum of his base salary and average annual bonus for the two fiscal years that ended prior to the date of his termination. Upon such a qualifying termination, Mr. Bhutani and his eligible dependents would be eligible for continued participation in our medical and dental benefits plans as described in the preceding paragraph, except that the applicable period would be three years following the date of termination of service.

The amended Retention Agreement includes changes to the definitions of "cause" and "good reason", which are intended to be consistent with the definitions in the retention agreements with certain of the Company's other executive officers and which are described in the Company's Definitive Proxy Statement on Schedule 14A, filed on March 18, 2011 (File No. 001-32492) (the "2011 Proxy Statement"). In addition, Mr. Bhutani's amended Retention Agreement also provides that he would be entitled to resign for "good reason" in the event that any person other than he receives the title of Chairman of Lazard's asset management group, unless such title is given in connection with a merger or acquisition transaction involving Lazard that is approved by the Company's Board of Directors.

The amended retention agreement does not materially modify Mr. Bhutani's restrictive covenants relating to confidential information, noncompetition, nonsolicitation of clients, no hire of employees, nondisparagement and transfer of client relationships, which are substantially identical to the restrictive covenants in the retention agreements with the Company's other executive officers and which are described in the 2011 Proxy Statement.

The preceding summary of the amended Retention Agreement contained in this Item 5 is qualified in its entirety by reference to the First Amendment to the Retention Agreement, attached as Exhibit 10.56 hereto, as though it were fully set forth herein.

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### **Item 6. Exhibits**

- 2.1 Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 2.2 Amendment No. 1, dated as of November 6, 2006, to the Master Separation Agreement,  
  
dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.2 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
- 2.3 Second Amendment, dated as of May 7, 2008, to the Master Separation Agreement, dated as of May 10, 2005, as amended, by and among Lazard Ltd, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on May 8, 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 Amended and Restated Third Supplemental Indenture, dated as of May 15, 2008, by and among Lazard Group LLC and The Bank of New York, as trustee (and incorporated by reference to Exhibit 4.1 to the Registrants' Current Report on Form 8-K (Commission File No. 333-126751) filed on May 16, 2008).
- 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 Form of Senior Note (included in Exhibit 4.3).

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- 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 7, 2008, to the Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on May 8, 2008).
- 10.6 Amendment No. 3, dated as of April 27, 2010, to the Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010).
- 10.7 Tax Receivable Agreement, dated as of May 10, 2005, by and among Ltd Sub A, Ltd Sub B and LFCM Holdings LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.8 Employee Benefits Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.9 Insurance Matters Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.10 License Agreement, dated as of May 10, 2005, by and among Lazard Strategic Coordination Company, LLC, Lazard Frères & Co. LLC, Lazard Frères S.A.S., Lazard & Co. Holdings Limited and LFCM Holdings LLC (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.11 Administrative Services Agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings LLC, LFCM Holdings LLC and Lazard Group LLC (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.12 Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 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 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).



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|        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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  | Lease with an Option to Purchase, dated as of July 11, 1990, by and between Sicomibail and Finabail and SCI du 121 Boulevard Hausmann (English translation) (incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).                                                                                                                                                                                                                  |
| 10.18  | 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).                                                                                                                                                                    |
| 10.19* | 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).                                                                                                                                                                                                                                                                                                                                                         |
| 10.20* | 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).                                                                                                                                                                                                                                                                                                                                    |
| 10.21* | 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).                                                                                                                                                                                                                                                                                                                                                                 |
| 10.22* | Form of Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, applicable to, and related Schedule I for each of Michael J. Castellano and 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).                                                                                                                                                                                    |
| 10.23* | 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 each of Michael J. Castellano and 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 8, 2008).                                                                                                                                                                                   |
| 10.24* | Second Amendment, dated as of February 26, 2009, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005 (as amended from time to time), for Michael J. Castellano (incorporated by reference to Exhibit 10.26 to Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).                                                                                                                                                                               |
| 10.25* | Second 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).                                                                                                                                                                             |
| 10.26* | Form of Agreement Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).                                                                                                                                                                                                                                                                                                  |
| 10.27* | 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 Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).                                                                                                                                                                                                                                     |
| 10.28* | 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).                                                                                                                                                                                                            |
| 10.29* | 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).                                                                                                                                                                                                                                   |

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| 10.30* | First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, with Kenneth M. Jacobs (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on March 23, 2010).                                                                                                       |
| 10.31* | 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).                                                                                                                       |
| 10.32* | 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).                                                                           |
| 10.33* | Amended and Restated Letter Agreement, effective as of January 1, 2004, between Vernon E. Jordan, Jr. and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.28 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).                                                                                                                                                 |
| 10.34* | 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). |
| 10.35  | 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).                                                                                                                                                       |
| 10.36  | 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).                                                                                                           |
| 10.37  | Letter Agreement, dated as of May 10, 2005, with Bruce Wasserstein family trusts (incorporated by reference to Exhibit 10.31 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).                                                                                                                                                                                                  |
| 10.38  | Letter Agreement, dated as of March 16, 2010, among Lazard Ltd, Lazard Group LLC and the Cranberry Dune 1998 Long-Term Trust (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on March 22, 2010).                                                                                                                                                         |
| 10.39* | 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).                                                                                                                                                                                                                   |
| 10.40* | 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).                                                                                                                                                                                          |
| 10.41* | 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).                                                                                                                                                        |
| 10.42* | 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 Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).                                                                                                                                                          |
| 10.43* | 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 Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).                                                                                                                                                             |
| 10.44  | Termination Agreement, dated as of March 31, 2006, by and among Banca Intesa S.p.A., Lazard Group LLC and Lazard & Co. S.r.l. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on April 4, 2006).                                                                                                                                                         |

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| 10.45   | Amended and Restated \$150 Million Subordinated Convertible Promissory Note due 2016, issued by Lazard Funding LLC to Banca Intesa S.p.A. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on May 17, 2006).                                                                                                    |
| 10.46   | Amended and Restated Guaranty of Lazard Group LLC to Banca Intesa S.p.A., dated as of May 15, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on May 17, 2006).                                                                                                                                           |
| 10.47*  | Directors' Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006).                                                                                                                                                                                                            |
| 10.48*  | 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 Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 1, 2007).                                                                                                 |
| 10.49   | 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).                                                                             |
| 10.50*  | Letter Agreement regarding employment dated as of April 21, 2010 between Lazard Group LLC and Gary W. Parr (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, 2010).                                                                                                                             |
| 10.51   | Senior Revolving Credit Agreement, dated as of April 29, 2010, among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent.                                                                                                                                                                                                    |
| 10.52   | Amendment No. 1, dated as of August 12, 2010, to the Senior Revolving Credit Agreement, dated as of April 29, 2010, among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on February 29, 2011).   |
| 10.53   | Amendment No. 2, dated as of December 17, 2010, to the Senior Revolving Credit Agreement, dated as of April 29, 2010, among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.49 to the Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on February 29, 2011). |
| 10.54*  | 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).                                                                                                                                    |
| 10.55*  | 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).                                                                                                                               |
| 10.56*  | 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.                                                                                                                                                                                |
| 12.1    | Computation of Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                  |
| 31.1    | Rule 13a-14(a) Certification of Kenneth M. Jacobs.                                                                                                                                                                                                                                                                                                                                  |
| 31.2    | Rule 13a-14(a) Certification of Matthieu Bucaille.                                                                                                                                                                                                                                                                                                                                  |
| 32.1    | Section 1350 Certification for Kenneth M. Jacobs.                                                                                                                                                                                                                                                                                                                                   |
| 32.2    | Section 1350 Certification for Matthieu Bucaille.                                                                                                                                                                                                                                                                                                                                   |
| 101.INS | XBRL Instance Document                                                                                                                                                                                                                                                                                                                                                              |
| 101.SCH | XBRL Taxonomy Extension Schema                                                                                                                                                                                                                                                                                                                                                      |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                                                                                                                                                                                                                                                                                                                                        |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                                                                                                                                                                                                                                                                                                                                         |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                                                                                                                                                                                                                                                                                                                                              |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase                                                                                                                                                                                                                                                                                                                                       |

\* Management contract or compensatory plan or arrangement.



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**SIGNATURES**

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

Date: August 4, 2011

LAZARD LTD

By: /s/ Matthieu Bucaille  
Name: Matthieu Bucaille

Title: Chief Financial Officer

By: /s/ Richard J. Hittner  
Name: Richard J. Hittner

Title: Chief Accounting Officer