

Lazard Ltd  
Form 10-Q  
October 29, 2010  
Table of Contents

---

**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 September 30, 2010

OR

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

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

001-32492

(Commission File Number)

\_\_\_\_\_

# LAZARD LTD

(Exact name of registrant as specified in its charter)

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

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

---

**Clarendon House**

**2 Church Street**

**Hamilton HM11, Bermuda**

(Address of principal executive offices)

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

---

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

As of October 25, 2010, there were 116,604,467 shares of the Registrant's Class A common stock (including 5,679,587 shares held by a subsidiary) and one share of the Registrant's Class B common stock outstanding.



**Table of Contents****TABLE OF CONTENTS**

*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 September 30, 2010 of approximately 91.5% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

	<b>Page</b>
<b>Part I. Financial Information</b>	
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	75
<u>Item 4. Controls and Procedures</u>	75
<b>Part II. Other Information</b>	
<u>Item 1. Legal Proceedings</u>	76
<u>Item 1A. Risk Factors</u>	76
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	76
<u>Item 3. Defaults Upon Senior Securities</u>	77
<u>Item 4. [Removed and Reserved]</u>	77
<u>Item 5. Other Information</u>	77
<u>Item 6. Exhibits</u>	78
<b><u>Signatures</u></b>	<b>83</b>

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

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

	<b>Page</b>
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2010 and December 31, 2009</u>	2
<u>Condensed Consolidated Statements of Operations for the three month and nine month periods ended September 30, 2010 and 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2010 and 2009</u>	5
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine month periods ended September 30, 2010 and 2009</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****SEPTEMBER 30, 2010 AND DECEMBER 31, 2009****(UNAUDITED)****(dollars in thousands, except for per share data)**

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 847,431	\$ 917,329
Cash deposited with clearing organizations and other segregated cash	24,449	20,217
Receivables-net:		
Fees	463,718	437,532
Banks	179,112	143,778
Customers and other	137,818	73,750
Related parties	6,829	14,415
	787,477	669,475
Investments:		
Debt:		
U.S. Government and agencies (includes \$126,547 and \$126,413 of securities at amortized cost at September 30, 2010 and December 31, 2009, respectively)	148,177	147,507
Other (includes \$10,135 and \$10,217 of securities at amortized cost at September 30, 2010 and December 31, 2009, respectively)	264,490	313,342
Equities	85,215	82,442
Other	214,401	264,402
	712,283	807,693
Property (net of accumulated amortization and depreciation of \$248,690 and \$239,603 at September 30, 2010 and December 31, 2009, respectively)	154,177	166,913
Goodwill and other intangible assets (net of accumulated amortization of \$12,398 and \$7,140 at September 30, 2010 and December 31, 2009, respectively)	318,541	317,780
Other assets	279,340	248,355
Total assets	\$ 3,123,698	\$ 3,147,762

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****SEPTEMBER 30, 2010 AND DECEMBER 31, 2009****(UNAUDITED)****(dollars in thousands, except for per share data)**

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Deposits and other customer payables	\$ 408,768	\$ 322,101
Accrued compensation and benefits	320,663	515,033
Senior debt	1,076,850	1,086,850
Capital lease obligations	21,749	24,628
Related party payables	564	17,450
Other liabilities	509,110	508,603
Subordinated debt	150,000	150,000
Total liabilities	2,487,704	2,624,665
Commitments and contingencies		
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$.01 per share; 15,000,000 shares authorized: Series A - 22,021 and 26,883 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		
Series B - no shares issued and outstanding		
Common stock: Class A, par value \$.01 per share (500,000,000 shares authorized; 116,604,467 and 92,165,912 shares issued at September 30, 2010 and December 31, 2009, respectively, including shares held by a subsidiary as indicated below)	1,166	922
Class B, par value \$.01 per share (1 share authorized, issued and outstanding at September 30, 2010 and December 31, 2009)		
Additional paid-in-capital	666,705	549,931
Retained earnings	83,348	52,726
Accumulated other comprehensive income (loss), net of tax	(70,519)	(57,048)
	680,700	546,531
Class A common stock held by a subsidiary, at cost (5,865,580 and 5,850,775 shares at September 30, 2010 and December 31, 2009, respectively)	(192,129)	(191,140)
Total Lazard Ltd stockholders equity	488,571	355,391
Noncontrolling interests	147,423	167,706
Total stockholders equity	635,994	523,097
Total liabilities and stockholders equity	\$ 3,123,698	\$ 3,147,762

Edgar Filing: Lazard Ltd - Form 10-Q

See notes to condensed consolidated financial statements.



Table of Contents

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>REVENUE</b>				
Investment banking and other advisory fees	\$ 245,294	\$ 252,538	\$ 759,785	\$ 650,327
Money management fees	202,662	149,102	560,664	368,346
Interest income	5,430	8,642	16,037	21,954
Other	23,924	27,992	47,785	76,232
Total revenue	477,310	438,274	1,384,271	1,116,859
Interest expense	24,073	26,559	73,788	81,124
Net revenue	453,237	411,715	1,310,483	1,035,735
<b>OPERATING EXPENSES</b>				
Compensation and benefits	282,528	250,914	845,926	693,725
Occupancy and equipment	22,414	23,690	65,004	63,774
Marketing and business development	17,503	14,070	51,358	43,311
Technology and information services	18,904	17,592	53,552	49,670
Professional services	10,731	11,823	29,716	31,883
Fund administration and outsourced services	12,037	10,272	34,407	26,075
Amortization of intangible assets related to acquisitions	1,719	2,032	5,258	2,720
Restructuring			87,108	62,550
Other	7,934	8,157	26,117	22,685
Total operating expenses	373,770	338,550	1,198,446	996,393
<b>OPERATING INCOME</b>	79,467	73,165	112,037	39,342
Provision for income taxes	9,113	19,968	29,049	29,312
<b>NET INCOME</b>	70,354	53,197	82,988	10,030
<b>LESS - NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	6,263	15,779	7,859	(2,079)
<b>NET INCOME ATTRIBUTABLE TO LAZARD LTD</b>	\$ 64,091	\$ 37,418	\$ 75,129	\$ 12,109

ATTRIBUTABLE TO LAZARD LTD CLASS A  
COMMON STOCKHOLDERS:

Edgar Filing: Lazard Ltd - Form 10-Q

**WEIGHTED AVERAGE SHARES OF  
COMMON STOCK OUTSTANDING:**

Basic	111,059,071	80,756,718	101,440,741	75,278,905
Diluted	138,094,101	131,468,085	135,554,131	75,278,905

**NET INCOME PER SHARE OF COMMON STOCK:**

Basic	\$0.58	\$0.47	\$0.74	\$0.16
Diluted	\$0.51	\$0.41	\$0.58	\$0.16

**DIVIDENDS DECLARED PER SHARE OF  
COMMON STOCK**

\$0.125	\$0.125	\$0.375	\$0.325
---------	---------	---------	---------

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009****(UNAUDITED)****(dollars in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 82,988	\$ 10,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items included in net income:		
Depreciation and amortization of property	16,131	16,781
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	257,840	224,797
Amortization of intangible assets related to acquisitions	5,258	2,720
(Gain) loss on extinguishment of debt	424	(258)
(Increase) decrease in operating assets:		
Cash deposited with clearing organizations and other segregated cash	(4,824)	(4,267)
Receivables - net	(129,364)	196,158
Investments	(38,902)	(40,830)
Other assets	(35,174)	13,508
Increase (decrease) in operating liabilities:		
Deposits and other payables	83,741	(280,858)
Accrued compensation and benefits and other liabilities	(191,480)	(9,886)
Net cash provided by operating activities	46,638	127,895
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of businesses, net of cash acquired of \$23,280, and equity method investments		(22,500)
Disposition of and distributions from equity method investments	51,437	
Additions to property	(10,073)	(8,579)
Disposals of property	301	896
Purchases of held-to-maturity securities		(135,950)
Purchases of available-for-sale securities		(3,399)
Proceeds from sales and maturities of available-for-sale securities	71,579	54,467
Net cash provided by (used in) investing activities	113,244	(115,065)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from:		
Contribution from noncontrolling interests	3,005	1,474
Other financing activities	6,638	56
Payments for:		
Senior borrowings	(10,375)	(635)
Capital lease obligations	(1,626)	(2,084)

Edgar Filing: Lazard Ltd - Form 10-Q

Distributions to noncontrolling interests	(20,315)	(47,507)
Repurchase of common membership interests from members of LAZ-MD Holdings	(5,072)	(13,285)
Purchase of Class A common stock	(106,316)	(50,479)
Class A common stock dividends	(36,714)	(23,216)
Settlement of vested share-based incentive compensation	(54,947)	(12,291)
Other financing activities	(53)	(27)
Net cash used in financing activities	(225,775)	(147,994)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(4,005)	20,531
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(69,898)	(114,633)
<b>CASH AND CASH EQUIVALENTS - January 1</b>	917,329	909,707
<b>CASH AND CASH EQUIVALENTS - September 30</b>	\$ 847,431	\$ 795,074
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>Supplemental investing non-cash transaction:</b>		
Class A common stock issued/issuable in connection with business acquisitions	\$	\$ 4,390

See notes to condensed consolidated financial statements.

Table of Contents

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2010

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock			Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held by a Subsidiary		Total Lazard Ltd Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	\$	Shares (*)	\$	\$				Shares	\$			
<b>Balance January 1, 2010</b>	<b>26,883</b>	<b>\$</b>	<b>92,165,913</b>	<b>\$</b>	<b>922</b>	<b>\$ 549,931</b>	<b>\$ 52,726</b>	<b>\$ (57,048)</b>	<b>5,850,775</b>	<b>\$ (191,140)</b>	<b>\$ 355,391</b>	<b>\$ 167,706</b>	<b>\$ 523,097</b>
Comprehensive income (loss):													
Net income							75,129				75,129	7,859	82,988
Other comprehensive income (loss) - net of tax:													
Currency translation adjustments								(3,829)			(3,829)	(292)	(4,121)
Amortization of interest rate hedge								823			823	76	899
Available-for-sale securities:													
Net unrealized gain								2,272			2,272	211	2,483
Adjustments for items reclassified to earnings								2,372			2,372	219	2,591
Employee benefit plans:													
Net actuarial loss								(5,999)			(5,999)	(556)	(6,555)
Adjustments for items reclassified to earnings								888			888	82	970
<b>Comprehensive income</b>											<b>71,656</b>	<b>7,599</b>	<b>79,255</b>
Class A common stock issued/issuable in connection with business acquisitions and LAM Merger and related amortization			315,617		3	2,064					2,067	2,119	4,186
Conversion of Series A preferred stock into Class A common stock	(4,862)		572,988		6	(6)							
Amortization of share-based incentive compensation						228,668					228,668	21,185	249,853
Dividend-equivalents						7,758	(7,793)				(35)	(3)	(38)
Class A common stock dividends							(36,714)				(36,714)		(36,714)
Purchase of Class A common stock									3,466,178	(106,316)	(106,316)		(106,316)
Delivery of Class A common stock in connection with share-based incentive compensation awards						(276,374)			(6,451,373)	221,427	(54,947)		(54,947)

Edgar Filing: Lazard Ltd - Form 10-Q

Repurchase of common membership interests from LAZ-MD Holdings				(4,642)					(4,642)	(430)	(5,072)		
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 offerings	20,549,950	205	(205)										
Distributions to noncontrolling interests										(17,310)	(17,310)		
Adjustments related to noncontrolling interests				43,441		(9,998)			33,443	(33,443)			
<b>Balance</b>	<b>September 30, 2010</b>	<b>22,021</b>	<b>\$</b>	<b>116,604,468</b>	<b>\$ 1,166</b>	<b>\$ 666,705</b>	<b>\$ 83,348</b>	<b>\$ (70,519)</b>	<b>5,865,580</b>	<b>\$ (192,129)</b>	<b>\$ 488,571</b>	<b>\$ 147,423</b>	<b>\$ 635,994</b>

(\*) Includes 92,165,912 and 116,604,467 shares of the Company's Class A common stock issued at January 1, 2010 and September 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.

Table of Contents

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2009

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock			Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By A Subsidiary		Total Lazard Ltd Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	\$	Shares(*)	\$	\$				Shares	\$			
<b>Balance January 1, 2009</b>	<b>31,745</b>	<b>\$</b>	<b>76,294,913</b>	<b>\$ 763</b>	<b>\$ 429,694</b>	<b>\$ 221,410</b>	<b>\$ (79,435)</b>	<b>9,376,162</b>	<b>\$(321,852)</b>	<b>\$ 250,580</b>	<b>\$ 61,172</b>	<b>\$ 311,752</b>	
Comprehensive income (loss):													
Net income (loss)						12,109				12,109	(2,079)	10,030	
Other comprehensive income (loss) - net of tax:													
Currency translation adjustments							48,074			48,074	16,450	64,524	
Amortization of interest rate hedge							602			602	206	808	
Available-for-sale securities:													
Net unrealized gain							17,479			17,479	5,983	23,462	
Adjustment for items reclassified to earnings							894			894	306	1,200	
Employee benefit plans:													
Net actuarial gain							841			841	288	1,129	
Adjustment for items reclassified to earnings							(278)			(278)	(95)	(373)	
<b>Comprehensive income</b>										<b>79,721</b>	<b>21,059</b>	<b>100,780</b>	
Class A common stock issued/issuable in connection with business acquisitions and LAM Merger and related amortization			1,473,866	15	20,190					20,205	10,531	30,736	
Conversion of Series A preferred stock into Class A common stock	(4,862)		479,732	5	(5)								
Amortization of share-based incentive compensation					162,318					162,318	55,112	217,430	
Dividend-equivalents					4,793	(4,820)				(27)		(27)	
Class A common stock dividends						(23,216)				(23,216)		(23,216)	
Purchase of Class A common stock								1,984,997	(50,479)	(50,479)		(50,479)	
Delivery of Class A common stock in connection with share-based incentive compensation awards					(47,142)			(1,030,960)	34,851	(12,291)		(12,291)	
Repurchase of common membership interests from LAZ-MD Holdings					(9,898)					(9,898)	(3,387)	(13,285)	

## Edgar Filing: Lazard Ltd - Form 10-Q

Class A common stock issued  
in exchange for Lazard Group  
common membership  
interests, including in  
connection with secondary  
offerings

13,907,140    139    (139)

Acquisitions of and  
distributions to noncontrolling  
interests

63,193    63,193

Adjustments related to  
noncontrolling interests

25,435    (14,678)    10,757    (10,757)

**Balance September 30, 2009 26,883 \$ 92,155,651 \$ 922 \$ 585,246 \$ 205,483 \$ (26,501) 10,330,199 \$ (337,480) \$ 427,670 \$ 196,923 \$ 624,593**

(\*) Includes 76,294,912 and 92,155,650 shares of the Company's Class A common stock issued at January 1, 2009 and September 30, 2009, 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**

**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 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 91.5% and 74.5% of all outstanding Lazard Group common membership interests as of September 30, 2010 and December 31, 2009, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group. 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 advice on mergers and acquisitions (M&A) and strategic advisory matters, restructurings and capital structure advisory services, capital raising and other transactions, and

Asset Management, which includes the management of equity and fixed income securities, alternative investments and private equity funds.

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 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, 2009 (the "Form 10-K"). The accompanying December 31, 2009 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

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

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 nine month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for any future period or the full fiscal year. Any material events or transactions that occurred subsequent to September 30, 2010 through the date of filing of this Quarterly Report on Form 10-Q were reviewed for purposes of determining whether any adjustments or additional disclosures were required to be made to the accompanying condensed consolidated financial statements.

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**

*Fair Value Measurements* On April 1, 2009, the Company adopted, on a prospective basis, additional accounting guidance issued by the FASB on fair value measurements. The additional accounting guidance assists in the determination of fair value for securities or other financial assets when the volume and level of activity for such items 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. The additional accounting guidance also assists in determining whether or not a transaction is orderly and whether or not a transaction or quoted price can be considered in the determination of fair value. Accordingly, the additional accounting guidance does not apply to quoted prices for identical assets or liabilities in active markets categorized as Level 1 in the fair value measurement hierarchy, and also requires that additional fair value disclosures be included on an interim basis. See Note 5 of Notes to Condensed Consolidated Financial Statements for the additional disclosures provided pursuant to the additional accounting guidance. The adoption of additional guidance regarding fair value measurements did not materially impact the Company's

consolidated financial statements.

In January 2010, the FASB amended its fair value measurement disclosure guidance to require disclosure of significant transfers into and out of the Level 1 and Level 2 categories in the fair value measurement hierarchy, as well as separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

measurements. In addition, the FASB also clarified its existing fair value measurement disclosure guidance regarding the level of disaggregation required and disclosures about inputs and valuation techniques used to measure fair value. The new disclosure requirements and clarifications of existing fair value measurement disclosure guidance are effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to provide disclosures about purchases, sales, issuances and settlements on a gross basis in the roll forward of activities in Level 3 fair value measurements, which becomes effective for interim and annual reporting periods beginning after December 15, 2010. On January 1, 2010, the Company adopted, on a prospective basis, the applicable new disclosure requirements and clarifications of existing fair value measurement disclosure guidance, which did not have a material impact on the Company's consolidated financial statements. The Company does not anticipate that the adoption of the remaining new disclosure requirements that are effective for interim and annual reporting periods beginning after December 15, 2010 will have a material impact on its consolidated financial statements.

*Other-Than-Temporary Impairments of Debt Securities* On April 1, 2009, the Company adopted, on a prospective basis, new accounting guidance issued by the FASB with respect to the recognition and presentation of other-than-temporary impairments pertaining to debt securities. The new accounting guidance requires greater clarity about the credit and non-credit components of debt securities that are not expected to be sold and whose fair value is below amortized cost, and also requires increased disclosures regarding expected cash flows, credit losses and an aging of securities with unrealized losses. The adoption of the new accounting guidance did not materially impact the Company's consolidated financial statements. See Note 4 of Notes to Condensed Consolidated Financial Statements.

*VIEs* In June 2009, the FASB amended its guidance on VIEs, which changes how a company determines whether an entity in which it is involved with is insufficiently capitalized or is not controlled through voting (or similar rights) and whether or not such entity should be consolidated. It also requires a company to provide additional disclosures about its involvement with VIEs and any significant changes in risk exposure due to that involvement. The requirements of the amended accounting guidance were to be effective for interim and annual periods beginning after November 15, 2009. On January 27, 2010, the FASB voted to defer the application of its guidance on consolidation of a reporting enterprise's interest in an entity when certain conditions are met. This deferral, which affects interests in mutual funds, hedge funds, private equity funds and other types of funds, is effective for interim and annual periods beginning after November 15, 2009. The adoption of the amended guidance for which the deferral provisions do not apply and related disclosures did not have a material impact on the Company's consolidated financial statements.

**3. RECEIVABLES NET**

Receivables net is comprised of receivables from fees, banks, customers and other and related parties.

Receivables from banks represent those related to LFB's short-term deposits in the inter-bank market and with the Banque de France. The level of these deposits may be driven by the level of LFB customer and bank-related interest-bearing time and demand deposits (which can fluctuate significantly on a daily basis) and by changes in asset allocation.

## Edgar Filing: Lazard Ltd - Form 10-Q

Customers and other receivables at September 30, 2010 and December 31, 2009 include \$2,175 and \$4,466, respectively, of loans by LFB to managing directors and employees in France 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)**

Receivables are stated net of an estimated allowance for doubtful accounts of \$17,000 and \$11,575 at September 30, 2010 and December 31, 2009, respectively, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. The Company recorded bad debt expense of \$226 and \$9,416 for the three month and nine month periods ended September 30, 2010, respectively, and \$1,148 and \$4,770 for the three month and nine month periods ended September 30, 2009, respectively. In addition, the Company recorded charge-offs, foreign currency translation and other adjustments, which resulted in a net decrease to the allowance for doubtful accounts of \$2,097 and \$3,991 for the three month and nine month periods ended September 30, 2010 and \$2,043 and \$6,538 for the three month and nine month periods ended September 30, 2009, respectively. At September 30, 2010 and December 31, 2009, the Company had \$21,224 and \$14,150, respectively, of receivables deemed past due or uncollectible.

**4. INVESTMENTS**

The Company's investments and securities sold, not yet purchased, consist of the following at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
<b>Debt:</b>		
U.S. Government and agencies	\$ 148,177	\$ 147,507
<b>Other:</b>		
Non-U.S. Government and agencies	69,208	43,501
U.S. states and municipals	11,232	15,728
Corporates	184,050	254,113
	264,490	313,342
Total debt securities	412,667	460,849
<b>Equities</b>	<b>85,215</b>	<b>82,442</b>
<b>Other:</b>		
<b>Interest in LAM alternative asset management funds:</b>		
General Partner ( GP ) interests owned	50,859	50,080
GP interests consolidated but not owned	7,514	13,038
<b>Private equity:</b>		
Investments owned	99,349	102,983
Investments consolidated but not owned	44,464	35,743
Equity method investments	12,215	62,558

Edgar Filing: Lazard Ltd - Form 10-Q

	214,401	264,402
Total investments	712,283	807,693
Less:		
Debt at amortized cost	136,682	136,630
Equity method investments	12,215	62,558
Investments, at fair value	\$ 563,386	\$ 608,505
Securities sold, not yet purchased, at fair value (included in other liabilities )	\$ 2,868	\$ 5,179



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

Debt investments at September 30, 2010 and December 31, 2009 were categorized as follows:

	September 30, 2010	December 31, 2009
Trading securities:		
U.S. Government and agencies	\$ 21,630	\$ 21,094
Non-U.S. Government and agencies	59,073	33,284
U.S. states and municipals	11,232	15,728
Corporates	9,186	450
	101,121	70,556
Available-for-sale securities:		
Corporates	174,864	253,663
Held-to-maturity securities:		
U.S. Government and agencies	126,547	126,413
Non-U.S. Government and agencies	10,135	10,217
	136,682	136,630
<b>Total debt securities</b>	<b>\$ 412,667</b>	<b>\$ 460,849</b>

Substantially all of the corporate and non-U.S. Government and agency debt securities are held by LFB and primarily consist of fixed and floating rate European corporate and French government debt securities.

The fair value and amortized cost basis pertaining to debt securities classified as available-for-sale at September 30, 2010, by maturity date/first call date, are as follows:

Maturity Date/First Call Date	Fair Value	Amortized Cost Basis
-------------------------------	------------	----------------------------

Edgar Filing: Lazard Ltd - Form 10-Q

Within one year	\$ 15,132	\$ 14,900
After 1 year through 5 years	99,418	105,503
After 5 years through 10 years	45,975	50,758
After 10 years	14,339	15,287
	\$174,864	\$ 186,448

Debt investments include corporate perpetual securities that are callable. Such securities are listed in the table above based on their respective first call dates. All other available-for-sale securities are listed in the table based on their contractual maturities.

Debt securities classified as available-for-sale at September 30, 2010 and December 31, 2009 that are in an unrealized loss position are as follows:

September 30, 2010				December 31, 2009			
Securities in a Continuous Loss Position for Less than 12 Months Unrealized		Securities in a Continuous Loss Position for 12 Months or Longer Unrealized		Securities in a Continuous Loss Position for Less than 12 Months Unrealized		Securities in a Continuous Loss Position for 12 Months or Longer Unrealized	
Fair Value	Loss	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
\$9,561	\$1,026	\$77,757	\$11,964	\$	\$	\$166,094	\$21,381

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

LFB does not intend to sell its debt securities classified as available-for-sale that are in an unrealized loss position, nor is it more likely than not that LFB will be required to sell such debt securities before their anticipated recovery. In addition, no credit loss was required to be recognized for these debt securities during the three month and nine month periods ended September 30, 2010 based on the qualitative and quantitative analysis performed by the Company. During the three month and nine month periods ended September 30, 2009, other-than-temporary impairment charges of \$528 and \$1,444, respectively, were recognized in other-revenue on the condensed consolidated statements of operations, representing the credit loss component of debt securities whose fair value was below amortized cost.

The fair value and amortized cost basis pertaining to debt securities classified as held-to-maturity at September 30, 2010, by maturity date, are as follows:

<b>Maturity Date</b>	<b>Fair Value</b>	<b>Amortized Cost Basis</b>
Within one year	\$ 10,248	\$ 10,135
After 1 year through 5 years	132,896	126,547
	\$ 143,144	\$ 136,682

There were no debt securities classified as held-to-maturity at September 30, 2010 and December 31, 2009 that were in an unrecognized loss position.

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.

In 2008, LFNy was a party to a Prime Brokerage Agreement with Lehman Brothers Inc. ( LBI ) for certain accounts involving investment strategies managed by LAM. On September 9, 2008, LAM requested a transfer of such accounts, of which \$11,368 was not received. On September 15, 2008, Lehman Brothers Holdings, Inc., the ultimate parent company in the Lehman Group, filed for protection under Chapter 11 of the United States Bankruptcy Code and a number of Lehman Group entities in the UK entered into administration proceedings under the Insolvency Act 1986. In addition, the Securities Investor Protection Corporation ( SIPC ) commenced liquidation proceedings on September 19, 2008 pursuant to the Securities Investor Protection Act of 1970, as amended, with respect to LBI. The Chapter 11 filing, Insolvency Act Administration and SIPC proceedings exposed Lazard to possible loss due to counterparty credit and other risk. During 2008, the Company

## Edgar Filing: Lazard Ltd - Form 10-Q

provided for the entire amount of such possible loss, and, through September 30, 2010, \$649 has been recovered by the Company. We continue to actively seek recovery of all amounts.

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. 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 condensed consolidated statements of financial condition (see Note 12 of Notes to Condensed Consolidated Financial Statements).

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

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. Senior Housing is managed by Lazard Alternative Investments Holdings LLC ( LAI ), a subsidiary of LFCM Holdings LLC ( LFCM Holdings ). LAI owns and operates the alternative investments of LFCM Holdings. CP II was managed by a subsidiary of LAI until February 16, 2009. Effective February 17, 2009, ownership and control of CP II was transferred to the investment professionals who manage CP II.

Private equity investments consolidated but not owned by Lazard are related 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. The acquisition was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the Edgewater Acquisition ). Edgewater is focused on buyout and growth equity investments in middle market companies. The economic interests that the Company does not own are owned by the current leadership team and other investors in the Edgewater management vehicles. See Note 8 of Notes to Condensed Consolidated Financial Statements.

Equity method investments at December 31, 2009 primarily consisted of our investment in Sapphire Industrials Corp. ( Sapphire ). On January 24, 2008, Sapphire, a then newly-organized special purpose acquisition company formed by the Company, completed an initial public offering (the Sapphire IPO ). 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.

On January 6, 2010, Sapphire announced that it had not completed the Business Combination and it would dissolve and distribute the funds in the Trust Account to all 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 distributed an initial distribution to the Company aggregating \$50,319. All Sapphire warrants expired without value. During the fourth quarter of 2009, the Company recognized a loss of approximately \$13,000 principally related to its investment in warrants of Sapphire.

The Company recognized gross investment gains and losses on investments measured at fair value for the three month and nine month periods ended September 30, 2010 and 2009, in revenue-other on its condensed consolidated statement of operations as follows:

Edgar Filing: Lazard Ltd - Form 10-Q

	<b>Three Month Period Ended September 30,</b>		<b>Nine Month Period Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Gross investment gains	\$ 17,306	\$ 20,489	\$ 26,690	\$ 41,419
Gross investment losses	\$	\$	\$ 7,031	\$ 5,371

**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:

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2010	2009	2010	2009
Gross unrealized investment gains	\$ 1,187	\$ 2,297	\$	\$ 3,021
Gross unrealized investment losses	\$ 101	\$	\$ 138	\$ 17

In addition, within accumulated other comprehensive income (loss), net of tax ( AOCI ), the Company recorded gross pre-tax unrealized investment gains of \$8,672 and \$41,281 during the nine month periods ended September 30, 2010 and 2009, respectively, and gross pre-tax unrealized investment losses of \$1,950 and \$364 during the nine month periods ended September 30, 2010 and 2009, respectively, pertaining to debt securities held at LFB that are designated as available-for-sale. With respect to adjustments for items reclassified to earnings, the average cost basis is utilized for purposes of calculating realized investment gains and losses.

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

## Edgar Filing: Lazard Ltd - Form 10-Q

Most of the Company's investments in corporate debt securities are considered Level 2 investments with such fair value based on observable data, principally broker quotes as provided by external pricing services. The Company's other debt securities at fair value are considered Level 1 investments with such fair value based on unadjusted quoted prices in active markets.

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 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.



**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 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 September 30, 2010 and December 31, 2009 into a three-level fair value hierarchy in accordance with fair value measurement disclosure requirements:

	Level 1	As of September 30, 2010		Total
		Level 2	Level 3	
<b>Assets:</b>				
Investments:				
Debt (excluding securities at amortized cost)	\$ 101,121	\$ 174,864	\$	\$ 275,985
Equities	69,206	15,696	313	85,215
Other (excluding equity method investments):				
Interest in LAM alternative asset management funds:				
GP interests owned		50,859		50,859
GP interests consolidated but not owned		7,514		7,514
Private equity:				
Investments owned			99,349	99,349
Investments consolidated but not owned			44,464	44,464
Derivatives		1,335		1,335
<b>Total Assets</b>	<b>\$ 170,327</b>	<b>\$ 250,268</b>	<b>\$ 144,126</b>	<b>\$ 564,721</b>
<b>Liabilities:</b>				
Securities sold, not yet purchased	\$ 2,868	\$	\$	\$ 2,868
Derivatives		29,027		29,027

Edgar Filing: Lazard Ltd - Form 10-Q

Total Liabilities	\$ 2,868	\$ 29,027	\$	\$ 31,895
-------------------	----------	-----------	----	-----------

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

	<b>As of December 31, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Investments:				
Debt (excluding securities at amortized cost)	\$ 70,556	\$ 253,663	\$	\$ 324,219
Equities	65,932	16,205	305	82,442
Other (excluding equity method investments):				
Interest in LAM alternative asset management funds:				
GP interests owned		50,080		50,080
GP interests consolidated but not owned		13,038		13,038
Private equity:				
Investments owned		2,812	100,171	102,983
Investments consolidated but not owned			35,743	35,743
Derivatives	5	916		921
<b>Total Assets</b>	<b>\$ 136,493</b>	<b>\$ 336,714</b>	<b>\$ 136,219</b>	<b>\$ 609,426</b>
<b>Liabilities:</b>				
Securities sold, not yet purchased	\$ 5,179	\$	\$	\$ 5,179
Derivatives		17,383		17,383
<b>Total Liabilities</b>	<b>\$ 5,179</b>	<b>\$ 17,383</b>	<b>\$</b>	<b>\$ 22,562</b>

There were no transfers into and out of the Level 1, 2 and 3 categories in the fair value measurement hierarchy for the three month and nine month periods ended September 30, 2010.

The following tables provide a summary of changes in fair value of the Company's Level 3 assets for the three month and nine month periods ended September 30, 2010 and 2009:

<b>Beginning Balance</b>	<b>Net Unrealized/ Realized Gains (Losses)</b>	<b>Three Months Ended September 30, 2010</b>		<b>Foreign Currency Translation Adjustments</b>	<b>Ending Balance</b>
		<b>Net Purchases, Issuances</b>	<b>Net Sales, Redemptions</b>		

Edgar Filing: Lazard Ltd - Form 10-Q

		<b>Included In Revenue-Other</b>	<b>and Settlements/ Acquisitions</b>		
<b>Investments:</b>					
Equities	\$ 299	\$ 18	\$ 2	\$ (6)	\$ 313
<b>Private equity:</b>					
Investments owned	94,303	961	(103)	4,188	99,349
Investments consolidated but not owned	44,106	(362)	720		44,464
<b>Total Level 3 Assets</b>	<b>\$ 138,708</b>	<b>\$ 617</b>	<b>\$ 619</b>	<b>\$ 4,182</b>	<b>\$ 144,126</b>

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

	<b>Three Months Ended September 30, 2009</b>				
	<b>Beginning Balance</b>	<b>Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other</b>	<b>Net Purchases, Issuances and Settlements/ Acquisitions</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Ending Balance</b>
Investments:					
Equities	\$ 297	\$	\$ 3	\$ 4	\$ 304
Private equity:					
Investments owned	93,530	1,773	3,344	1,509	100,156
Investments consolidated but not owned		1,976	33,416		35,392
Total Level 3 Assets	\$93,827	\$ 3,749	\$ 36,763	\$ 1,513	\$ 135,852

	<b>Nine Months Ended September 30, 2010</b>				
	<b>Beginning Balance</b>	<b>Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other</b>	<b>Net Purchases, Issuances and Settlements/ Acquisitions</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Ending Balance</b>
Investments:					
Equities	\$ 305	\$ 6	\$ 8	\$ (6)	\$ 313
Private equity:					
Investments owned	100,171	1,715	(106)	(2,431)	99,349
Investments consolidated but not owned	35,743	3,637	5,084		44,464
Total Level 3 Assets	\$ 136,219	\$ 5,358	\$ 4,986	\$ (2,437)	\$ 144,126

	<b>Nine Months Ended September 30, 2009</b>				
	<b>Beginning Balance</b>	<b>Net Unrealized/ Realized Gains (Losses)</b>	<b>Net Purchases, Issuances and</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Ending Balance</b>

Edgar Filing: Lazard Ltd - Form 10-Q

		Included In Revenue-Other	Settlements/ Acquisitions		
<b>Investments:</b>					
Equities	\$ 2,453	\$ (5)	\$ (2,053)	\$ (91)	\$ 304
<b>Private equity:</b>					
Investments owned	83,931	1,665	11,957	2,603	100,156
Investments consolidated but not owned		1,976	33,416		35,392
 Total Level 3 Assets	 \$ 86,384	 \$ 3,636	 \$ 43,320	 \$ 2,512	 \$ 135,852

There were no realized gains or losses included in income for the three month and nine month periods ended September 30, 2010 with respect to Level 3 assets. There were net realized gains of \$595 and \$616 included in income for the three month and nine month periods ended September 30, 2009, respectively, with respect to such Level 3 assets.

**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****6. DERIVATIVES**

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, equity swaps and other derivative contracts to hedge exposures to fluctuations in interest rates, currency exchange rates and equity 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 securities, 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 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 designated as fair value hedges, the hedged item is 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.

The table below presents 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 September 30, 2010 and December 31, 2009:

	Designated as Hedging Instruments		Not Designated as Hedging Instruments		Total	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<b>Derivative Assets:</b>						
Forward foreign currency exchange rate contracts	\$	\$	\$ 1,260	\$ 836	\$ 1,260	\$ 836
Interest rate swaps			63	80	63	80
Equity swaps and other			12	5	12	5
	\$	\$	\$ 1,335	\$ 921	\$ 1,335	\$ 921
<b>Derivative Liabilities:</b>						
Forward foreign currency exchange rate contracts	\$	\$	\$ 10,547	\$ 2,213	\$ 10,547	\$ 2,213
Interest rate swaps	15,283	14,147	2	56	15,285	14,203
Equity swaps			3,195	967	3,195	967
	\$ 15,283	\$ 14,147	\$ 13,744	\$ 3,236	\$ 29,027	\$ 17,383

## Edgar Filing: Lazard Ltd - Form 10-Q

Gains (losses) with respect to derivatives not designated as hedging instruments on the accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2010 and 2009 (predominantly reflected in revenue-other ), by type of derivative, were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Forward foreign currency exchange rate contracts	\$ (11,884)	\$ (699)	\$ 467	\$ 2,951
Interest rate swaps	2	82	36	564
Equity swaps and other	(6,900)	(7,847)	(2,850)	(11,110)
	\$ (18,782)	\$ (8,464)	\$ (2,347)	\$ (7,595)



---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

Derivatives designated as hedging instruments relate to interest rate swaps that hedge available-for-sale securities and are being accounted for as fair value hedges. For the three month and nine month periods ended September 30, 2010, the Company recognized net pre-tax losses pertaining to interest rate swaps of \$332 and \$4,088, respectively, and for the three month and nine month periods ended September 30, 2009, recognized net pre-tax losses pertaining to interest rate swaps of \$1,597 and \$1,787, respectively. These losses were substantially offset by amounts recognized on the hedged risk portion of such available-for-sale securities.

**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 payment on October 31, 2011 of approximately \$90,300 and (iii) an issuance on October 31, 2011 of 2,201,457 shares of Lazard Ltd's Class A common stock (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 clauses (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 \$14,929 and \$70,215, respectively, as of September 30, 2010 and \$14,252 and \$65,308, respectively, as of December 31, 2009.

**8. BUSINESS ACQUISITIONS**

On July 15, 2009, the Company established a private equity business with Edgewater, a private equity firm based in Chicago, Illinois, through the Edgewater Acquisition. Following such acquisition, Edgewater's current leadership team retained a substantial economic interest in such entities. Edgewater primarily manages two middle market funds, Edgewater Growth Capital Partners, L.P. and Edgewater Growth Capital Partners II, L.P. (the underlying funds), with an aggregate of approximately \$700,000 of capital raised. 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.

## Edgar Filing: Lazard Ltd - Form 10-Q

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

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

earnout criteria and payable over time (the Earnout Shares ). The Initial Shares are subject to transfer restrictions and forfeiture provisions that lapse only upon the achievement of certain performance thresholds for

the next Edgewater fund that must be met by July 15, 2011. The Earnout Shares will be issued only if certain performance thresholds for the next two Edgewater funds are met.

The Edgewater Acquisition was accounted for under the acquisition method of accounting, whereby the results of the acquired business are included in our consolidated financial results from July 15, 2009, the effective date of the acquisition. As a result of the acquisition, we recorded net tangible assets, identifiable intangible assets and goodwill of \$53,635 (consisting primarily of Edgewater's investments in their underlying funds and cash), \$56,200 and \$61,630, respectively, which include amounts for Edgewater's noncontrolling interests held (whose economic interests approximate 50%) aggregating \$109,841. Goodwill pertaining to this acquisition is deductible for income tax purposes. See Note 9 of Notes to Condensed Consolidated Financial Statements for additional information relating to goodwill and other intangible assets. The operating results relating to Edgewater are included in the Company's Asset Management segment.

In 2007, the Company acquired Goldsmith, Agio, Helms & Lynner, LLC ( GAHL ), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies, and Carnegie, Wylie & Company (Holdings) PTY LTD ( CWC ), an Australia-based financial advisory firm. 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 September 30, 2010 and December 31, 2009, 346,398 and 662,015 shares of Class A common stock were issuable on a non-contingent basis, respectively. Additionally, at September 30, 2010 and December 31, 2009, 2,431 and 7,293 shares of Series A preferred stock, respectively, 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. At both September 30, 2010 and December 31, 2009, 948,631 shares of Class A common stock were contingently issuable and, at both such dates, 19,590 shares of Series A preferred stock were contingently convertible into shares of Class A common stock, dependent upon the future performance of GAHL and CWC. The Class A common stock described above related to the GAHL and CWC acquisitions is issuable over multi-year periods.

**9. GOODWILL AND OTHER INTANGIBLE ASSETS**

The components of goodwill and other intangible assets at September 30, 2010 and December 31, 2009 are presented below:

	September 30, 2010	December 31, 2009
Goodwill	\$ 267,722	\$ 261,703

## Edgar Filing: Lazard Ltd - Form 10-Q

Other intangible assets (net of accumulated amortization)	50,819	56,077
	\$ 318,541	\$ 317,780

At September 30, 2010 and December 31, 2009, goodwill of \$206,092 and \$200,073, 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.

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

Changes in the carrying amount of goodwill for the nine month periods ended September 30, 2010 and 2009 are as follows:

	Nine Months Ended September 30,	
	2010	2009
Balance, January 1	\$ 261,703	\$ 170,277
Business acquisitions, including additional contingent consideration earned		62,693
Foreign currency translation adjustments	6,019	19,288
Balance, September 30	\$ 267,722	\$ 252,258

The gross cost and accumulated amortization of other intangible assets as of September 30, 2010 and December 31, 2009, by major intangible asset category, are as follows:

	September 30, 2010			December 31, 2009		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	\$ 30,740	\$	\$ 30,740	\$ 30,740	\$	\$ 30,740
Management fees, customer relationships and non-compete agreements	32,477	12,398	20,079	32,477	7,140	25,337
	\$ 63,217	\$ 12,398	\$ 50,819	\$ 63,217	\$ 7,140	\$ 56,077

Amortization expense of intangible assets for the three month and nine month periods ended September 30, 2010 was \$1,719 and \$5,258, respectively, and for the three month and nine month periods ended September 30, 2009 was \$2,032 and \$2,720, respectively. Estimated future amortization expense is as follows:

Year Ending December 31,	Amortization Expense (a)
2010 (October 1 through December 31)	\$ 1,730
2011	5,718

Edgar Filing: Lazard Ltd - Form 10-Q

2012	6,302
2013	13,022
2014	10,083
Thereafter	13,964
Total amortization expense	\$ 50,819

- (a) Approximately 47% of intangible asset amortization is attributable to a noncontrolling interest.

**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****10. SENIOR AND SUBORDINATED DEBT**

**Senior Debt** Senior debt is comprised of the following as of September 30, 2010 and December 31, 2009:

	<b>Initial Principal Amount</b>	<b>Maturity Date</b>	<b>Annual Interest Rate</b>	<b>Outstanding As Of</b>	
				<b>September 30, 2010</b>	<b>December 31, 2009</b>
Lazard Group 7.125% Senior Notes (a)	\$ 550,000	5/15/15	7.125%	\$ 528,500	\$ 538,500
Lazard Group 6.85% Senior Notes (b)	600,000	6/15/17	6.85%	548,350	548,350
Lazard Group Credit Facility	150,000	4/29/13	2.23%		
Total				\$ 1,076,850	\$ 1,086,850

- (a) During the second quarter of 2010, the Company repurchased \$10,000 principal amount of the 7.125% Senior Notes at a cost, excluding accrued interest, of \$10,375 and, after the write-off of applicable unamortized debt issuance costs of \$49, the Company recognized a pre-tax loss of \$424.
- (b) During the first quarter of 2009, the Company repurchased \$900 principal amount of the 6.85% Senior Notes at a cost, excluding accrued interest, of \$635 and, after the write-off of unamortized debt issuance costs of \$7, recognized a pre-tax gain of \$258.

**Subordinated Debt** Subordinated debt at September 30, 2010 and December 31, 2009 amounted to \$150,000 at each date and represents a note which is convertible into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of \$57 per share. The note matures on September 30, 2016 and has a fixed interest rate of 3.25% per annum. One-third in principal amount became convertible on and after each of July 1, 2008, July 1, 2009 and July 1, 2010, and no principal amount is convertible after June 30, 2011. As of September 30, 2010, there have been no conversions of the note.

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 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 case plus an applicable margin. As of September 30, 2010, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 2.23%. The Credit Facility contains customary terms and conditions substantially similar to the prior revolving credit facility, including certain financial covenants. In addition, the Credit Facility, the indenture and supplemental indentures relating to Lazard Group's senior notes as well as its subordinated convertible note contain certain covenants (none of which relate to financial condition), events of

## Edgar Filing: Lazard Ltd - Form 10-Q

default and other customary provisions, including a customary make-whole provision in the event of early redemption where applicable. As of September 30, 2010, the Company was in compliance with all of these provisions. All of the Company's senior and subordinated debt obligations are unsecured.

As of September 30, 2010, the Company had approximately \$235,000 in unused lines of credit available to it, including the Credit Facility and approximately \$40,000 and \$23,000 of unused lines of credit available to LFB and Edgewater, respectively. 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 September 30, 2010 and December 31, 2009, the fair value of the Company's senior and subordinated debt was \$1,294,732 and



**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

\$1,255,254, respectively, and exceeded the aggregate carrying value by \$67,882 and \$18,404, 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. In the opinion of management, the fulfillment of such commitments, in accordance with their terms, will not have a material adverse effect on Lazard's consolidated financial position, results of operations or cash flows.

**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 September 30, 2010, LFB had \$6,807 of such indemnifications and held \$5,337 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 September 30, 2010, the principal unfunded commitments by the Company for capital contributions to private equity investment funds related to CP II, in an amount not to exceed \$6,694 for potential follow-on investments and/or for CP II expenses through the earlier of (i) February 25, 2017 or (ii) the liquidation of the fund.

**Other Commitments** In the normal course of business, LFB enters into commitments to extend credit, predominantly at variable interest rates. Outstanding commitments at September 30, 2010 were \$9,693. Such 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 the opinion of management, the consummation of such commitments will not have a material adverse effect on the Company's consolidated financial position or results of

## Edgar Filing: Lazard Ltd - Form 10-Q

operations. 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.

**Legal** The Company's businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. 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

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

Company reviews such matters on a case-by-case basis and establishes any required reserves if a loss is probable and the amount of such loss can be reasonably estimated. Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on its financial condition but might be material to its operating results or cash flows for any particular period, depending upon the operating results for such period.

**12. STOCKHOLDERS EQUITY**

At September 30, 2010 and 2009, Lazard Group common membership interests held by subsidiaries of Lazard Ltd amounted to 91.5% and 74.5%, respectively, and by LAZ-MD Holdings LLC, an entity owned by Lazard Group's current and former managing directors ( LAZ-MD Holdings ), amounted to 8.5% and 25.5%, respectively. Pursuant to provisions of its 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 nine month periods ended September 30, 2010 and 2009, Lazard Group distributed \$8,453 and \$13,462, respectively, to LAZ-MD Holdings and \$36,714 and \$23,216, respectively, to the subsidiaries of Lazard Ltd, which latter amounts were used by Lazard Ltd to pay dividends to third-party stockholders of its Class A common stock. In addition, during the nine month period ended September 30, 2009, Lazard Group made tax distributions of \$67,360, including \$25,316 paid to LAZ-MD Holdings and \$42,044 paid to subsidiaries of Lazard Ltd. During the nine month period ended September 30, 2010, Lazard Group made no such tax distributions.

On October 26, 2010, the Board of Directors of Lazard Ltd declared a quarterly dividend of \$0.125 per share on its Class A common stock, totaling \$14,576, payable on November 26, 2010 to stockholders of record on November 3, 2010.

**Issuance of Class A Common Shares** During the first quarter of 2010, 3,000,000 shares of Class A common stock were newly issued to Lazard Group in connection with the settlement of vested restricted stock unit grants ( 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 ). In addition, during the third quarter of 2010, the Company issued an aggregate of 888,605 shares of Class A common stock in connection with the GAHL and CWC acquisitions (see Note 8 of Notes to Condensed Consolidated Financial Statements).

**Secondary Offerings** In March 2010, pursuant to a Prospectus Supplement dated March 16, 2010, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard and a former executive officer) and their permitted transferees, 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 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 ).

## Edgar Filing: Lazard Ltd - Form 10-Q

In August 2010, pursuant to a Prospectus Supplement dated August 3, 2010, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard) and their permitted transferees (the August 2010 Selling Shareholders ) sold 7,397,837 shares of Class A common stock at a price of \$30.32 per share (the August 2010 Secondary Offering , and together with the March 2010 Secondary Offering, the 2010

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

Secondary Offerings ). Separately, in connection with the August 2010 Secondary Offering, Lazard Group agreed to purchase from the August 2010 Selling Shareholders 2,500,000 shares of Class A common stock for an aggregate cost of \$75,800 (\$30.32 per share), with such purchase being part of the share repurchase program in effect during 2010. In the aggregate, the August 2010 Selling Shareholders sold a total of 9,897,837 shares of Class A common stock (including 7,194,144 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests and 2,703,693 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests).

In June 2009, pursuant to a Prospectus Supplement dated June 2, 2009, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard (including certain of our executive officers)) and their permitted transferees (the June 2009 Selling Shareholders ) sold 4,000,000 shares of Class A common stock at a price of \$26.00 per share (the June 2009 Secondary Offering ). Separately, in connection with the June 2009 Secondary Offering, Lazard Group agreed to purchase from the June 2009 Selling Shareholders 1,700,000 shares of Class A common stock for an aggregate cost of \$44,200 (\$26.00 per share), with such purchase being part of the share repurchase program in effect during 2009. In the aggregate, the June 2009 Selling Shareholders sold a total of 5,700,000 shares of Class A common stock (including 2,110,754 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests and 3,589,246 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests).

In September 2009, pursuant to a Prospectus Supplement dated September 8, 2009, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard (including certain of our executive officers)) and their permitted transferees (the September 2009 Selling Shareholders ) sold 5,215,921 shares of Class A common stock (including 2,411,001 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests and 2,804,920 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests) at a price of \$37.00 per share (the September 2009 Secondary Offering , and together with the June 2009 Secondary Offering, the 2009 Secondary Offerings ).

Lazard Ltd did not receive any net proceeds from the sales of Class A common stock from the 2010 Secondary Offerings or the 2009 Secondary Offerings.

***Exchanges of Lazard Group Common Membership Interests*** In addition to the simultaneous exchanges that occurred in connection with the secondary offerings discussed above, during the nine month periods ended September 30, 2010 and 2009, Lazard Ltd issued 11,665,618 and 7,512,974 shares of Class A common stock, respectively, in connection with the exchange of a like number of common membership interests of Lazard Group (received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests).

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

**Share Repurchase Program** On January 27, 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 expects that the share repurchase program, with respect to the Class A common stock, will continue to be used primarily to offset a

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

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 ). The Company's prior share repurchase program expired on December 31, 2009, with \$62,542 of the initial \$500,000 repurchase authorization unused. Pursuant to such authorizations, purchases have been made in the open market or through privately negotiated transactions, and since inception of the program in February 2006 through September 30, 2010, Lazard Group purchased an aggregate of 15,552,945 shares of Class A common stock at an average price of \$32.54 per share, and an aggregate of 1,323,961 Lazard Group common membership interests at an average price of \$32.29 per common membership interest. As a result of (i) Lazard Group's delivery of shares of Class A common stock for the settlement of vested RSUs and deferred stock unit grants ( DSUs ) during the three year period ended December 31, 2009 and the nine month period ended September 30, 2010, (ii) the incentive plan share award of shares of restricted Class A common stock granted during the second quarter of 2010, and (iii) the issuance of shares of restricted Class A common stock in exchange for RSUs during the third quarter of 2010, there were 5,865,580 and 5,850,775 shares of Class A common stock held by Lazard Group at September 30, 2010 and December 31, 2009, respectively. Such Class A common shares are reported, at cost, as Class A common stock held by a subsidiary on the condensed consolidated statements of financial condition.

As of September 30, 2010, \$88,612 of the \$200,000 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. During the nine month period ended September 30, 2010, the Company withheld 1,602,999 shares to cover estimated taxes upon the vesting of 7,938,606 RSUs (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 September 30, 2010 and December 31, 2009, 22,021 and 26,883 shares of Series A preferred stock were outstanding, respectively, and no shares of Series B preferred stock were outstanding at such respective dates.

At September 30, 2010 and December 31, 2009, 2,431 and 7,293 shares of the Series A preferred shares outstanding, respectively, were convertible into shares of Class A common stock. The remaining 19,590 shares of Series A preferred stock outstanding at September 30, 2010 and December 31, 2009, may become convertible into shares of Class A common stock upon completion or satisfaction of specified obligations in the CWC acquisition agreement (see Note 8 of Notes to Condensed Consolidated Financial Statements). The initial conversion rate, at the time of the acquisition of CWC, 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.

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

**Accumulated Other Comprehensive Income (Loss), Net of Tax** The components of AOCI at September 30, 2010 and December 31, 2009 are as follows:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Currency translation adjustments	\$ 18,529	\$ 22,650
Interest rate hedge	(4,875)	(5,774)
Available-for-sale securities	(7,556)	(12,630)
Employee benefit plans	(81,664)	(76,079)
<b>Total AOCI</b>	<b>(75,566)</b>	<b>(71,833)</b>
Less amount attributable to noncontrolling interests	(5,047)	(14,785)
<b>Total Lazard Ltd AOCI</b>	<b>\$ (70,519)</b>	<b>\$ (57,048)</b>

**Noncontrolling Interests** Noncontrolling interests principally represent interests held in Lazard Group by LAZ-MD Holdings and noncontrolling interests in various LAM-related GP interests and Edgewater's management vehicles that the Company is deemed to control but does not own.

As of September 30, 2010 and December 31, 2009, LAZ-MD Holdings held approximately 8.5% and 25.5%, respectively, of the outstanding Lazard Group common membership interests. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd's Class B common stock, which provided LAZ-MD Holdings with approximately 8.5% and 25.5%, of the voting power but no economic rights in the Company as of September 30, 2010 and December 31, 2009, respectively. Subject to certain limitations, LAZ-MD Holdings' interests in Lazard Group are exchangeable for Class A common stock.



**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 following tables summarize the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings during the nine month periods ended September 30, 2010 and 2009:

	Lazard Ltd		LAZ-MD Holdings		Total Lazard Group Common Membership Interests
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	
Balance, January 1, 2009	76,294,912	62.4%	45,938,752	37.6%	122,233,664
Activity January 1, 2009 to September 30, 2009:					
Common membership interest activity in connection with:					
2009 Secondary Offerings	6,394,166		(6,394,166)		
Exchanges for Class A common stock	7,512,974		(7,512,974)		
Business acquisitions	1,953,598				1,953,598
Repurchase of common membership interests from LAZ-MD Holdings			(500,924)		(500,924)
Balance, September 30, 2009	92,155,650	74.5%	31,530,688	25.5%	123,686,338
Balance, January 1, 2010	92,165,912	74.5%	31,520,426	25.5%	123,686,338
Activity January 1, 2010 to September 30, 2010:					
Common membership interest activity in connection with:					
Equity compensation	3,000,000				3,000,000
2010 Secondary Offerings	8,884,332		(8,884,332)		
Exchanges for Class A common stock	11,665,618		(11,665,618)		
Business acquisitions	888,605				888,605
Repurchase of common membership interests from LAZ-MD Holdings			(167,286)		(167,286)
Balance, September 30, 2010	116,604,467	91.5%	10,803,190	8.5%	127,407,657

The change in Lazard Ltd's ownership in Lazard Group in the nine month periods ended September 30, 2010 and 2009 did not materially impact Lazard Ltd's stockholders' equity.



**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 tables below summarize net income (loss) attributable to noncontrolling interests for the three month and nine month periods ended September 30, 2010 and 2009 and noncontrolling interests as of September 30, 2010 and December 31, 2009 in the Company's condensed consolidated financial statements:

	Net Income (Loss) Attributable To Noncontrolling Interests			
	Three Months Ended		Nine Months Ended	
	September 30, 2010	2009	September 30, 2010	2009
LAZ-MD Holdings	\$ 6,152	\$ 13,749	\$ 4,909	\$ (3,297)
LAM GPs	879	1,184	151	372
Edgewater	(366)	845	3,511	845
Other	(402)	1	(712)	1
<b>Total</b>	<b>\$ 6,263</b>	<b>\$ 15,779</b>	<b>\$ 7,859</b>	<b>\$ (2,079)</b>

	Noncontrolling Interests As Of	
	September 30, 2010	December 31, 2009
LAZ-MD Holdings	\$ 24,969	\$ 39,407
LAM GPs	7,514	13,409
Edgewater	112,932	112,158
Other	2,008	2,732
<b>Total</b>	<b>\$ 147,423</b>	<b>\$ 167,706</b>

**13. INCENTIVE PLANS****Share-Based Incentive Compensation Awards**

## Edgar Filing: Lazard Ltd - Form 10-Q

A description of Lazard Ltd's 2005 Plan and 2008 Plan, and activity with respect thereto during the nine month periods ended September 30, 2010 and 2009, 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.

In addition to the shares available under the 2005 Plan, additional shares of Class A common stock are available under the 2008 Plan, which was approved by the stockholders of Lazard Ltd on May 6, 2008. 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).

**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)*****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 is charged to compensation and benefits expense (and, as applicable, in restructuring expense, with respect to the expense associated with the acceleration of unrecognized expense pertaining to RSUs granted previously to individuals who were terminated in the restructuring programs during 2009 and 2010) as follows within the Company's condensed consolidated statements of operations:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Compensation and benefits (including \$24,860 in the nine month period ended September 30, 2010 relating to the amendment of the Company's retirement policy(a))	\$ 46,814	\$ 63,392	\$ 201,157	\$ 191,951
Restructuring			46,880	24,239
<b>Total</b>	<b>\$ 46,814</b>	<b>\$ 63,392</b>	<b>\$ 248,037</b>	<b>\$ 216,190</b>

- (a) As described below, the Company amended its retirement policy during the first quarter of 2010 to modify the retirement eligibility vesting requirement with respect to RSU awards.

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 nine month periods ended September 30, 2010 and 2009, dividend participation rights required the issuance of 244,754 and 249,048 RSUs, respectively, and resulted in a charge to retained earnings and a credit to additional paid-in-capital, net of estimated forfeitures, of \$6,963 and \$4,793 during the respective periods.

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

## Edgar Filing: Lazard Ltd - Form 10-Q

expense for the affected RSU awards. Accordingly, the Company recorded a non-cash charge to compensation and benefits expense of \$24,860 in the first quarter of 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 31,588 and 36,627 DSUs granted during the nine month periods ended September 30, 2010 and 2009, 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 nine month periods ended September 30, 2010 and 2009. 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 \$58 and

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

\$1,173 during the three month and nine month periods ended September 30, 2010, respectively, and \$157 and \$1,240 during the three month and nine month periods ended September 30, 2009, respectively.

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 nine month periods ended September 30, 2010 and 2009, 5,912 and 6,963 DSUs, respectively, had been granted pursuant such Plan.

The following is a summary of activity relating to RSUs and DSUs during the nine month periods ended September 30, 2010 and 2009:

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2010	23,367,813	\$ 37.01	103,146	\$ 35.75
Granted (including 244,754 RSUs relating to dividend participation)	7,730,444	\$ 35.66	37,500	\$ 31.27
Forfeited	(726,948)	\$ 36.21		
Vested/Converted/Exchanged	(7,979,501)	\$ 39.86	(20,435)	\$ 35.38
Balance, September 30, 2010	22,391,808	\$ 35.57	120,211	\$ 34.42

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2009	22,141,468	\$ 39.17	65,256	\$ 40.32
Granted (including 249,048 RSUs relating to dividend participation)	7,504,232	\$ 31.00	43,590	\$ 28.45
Forfeited	(805,721)	\$ 36.92		
Vested	(1,446,827)	\$ 38.81		
Balance, September 30, 2009	27,393,152	\$ 37.02	108,846	\$ 35.57

## Edgar Filing: Lazard Ltd - Form 10-Q

In connection with the vested RSUs above, and after considering the withholding tax obligations pertaining thereto, 6,335,607 and 1,030,960 shares of Class A common stock held by Lazard Group were delivered during the nine month periods ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately \$286,000, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.6 years subsequent to September 30, 2010. 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.



**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

***Restricted Stock***

During the second quarter of 2010, 54,437 shares of restricted Class A common stock were awarded under the 2008 Plan at a grant date fair value of \$38.78 per share. Such award will vest and will no longer be subject to any restrictions on August 31, 2012. The aggregate grant date fair value of the award is being amortized over the vesting period.

During the third quarter of 2010, 40,895 shares of restricted Class A common stock were issued in exchange for 40,895 RSUs previously granted on February 11, 2010 at a grant date fair value of \$36.10 per share. The vesting terms of such restricted Class A common stock issued are the same as that of the original award exchanged. There was no incremental compensation cost incurred as a result of the exchange.

At September 30, 2010, unrecognized restricted stock expense was approximately \$2,500, with such unrecognized compensation expense to be recognized over a weighted average period of approximately 2.0 years.

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. Expense relating to such restricted stock awards is charged to compensation and benefits expense within the Company's condensed consolidated statements of operations, and amounted to \$483 and \$643 for the three month and nine month periods ended September 30, 2010, respectively. 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.

**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. Expense related to the Company's employee benefit plans are included in compensation and benefits expense on the consolidated statements of operations. The Company uses December 31 as the measurement date for its employee benefit plans.

***Employer Contributions to Pension Plans*** In accordance with agreements reached with the Trustees of certain non-U.S. pension plans in 2005, the Company is obligated to make further contributions to such pension plans based upon the cumulative performance of the plans' assets against

## Edgar Filing: Lazard Ltd - Form 10-Q

specific benchmarks as measured on June 1, 2009 (the measurement date ) and subsequently remeasured on June 1, 2010 (the remeasurement date ). As of September 30, 2010, the remaining obligation related to the cumulative underperformance of the plans' assets (the underperformance obligation ) was approximately 3.7 million British pounds (\$5,868 at September 30, 2010 exchange rates) which is payable in equal monthly installments through May 2013.

In addition, on June 30, 2009 the Company and Trustees concluded the December 31, 2007 triennial valuation of the non-U.S. 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 (\$3,650 at September 30, 2010 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 pounds, with a final redemption

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

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 escrow balance has been recorded in cash deposited with clearing organizations and other segregated cash and investments: debt-other in the amounts of 6.25 million British pounds and 6.25 million British pounds, respectively, at each of September 30, 2010 and December 31, 2009 (\$9,919 and \$9,919 at September 30, 2010 exchange rates and \$10,138 and \$10,138 at December 31, 2009 exchange rates), 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 nine month period ended September 30, 2010, the Company contributed approximately \$2,900 primarily with respect to the underperformance obligation discussed above, and during such period there were no other contributions made to other pension plans.

The following table summarizes the components of total benefit cost (credit) for the three month and nine month periods ended September 30, 2010 and 2009:

	Pension Plans		Post-Retirement Medical Plans	
	Three Months Ended September 30,			
	2010	2009	2010	2009
<b>Components of Net Periodic Benefit Cost (Credit):</b>				
Service cost	\$ 160	\$	\$ 20	\$ 25
Interest cost	6,921	6,232	73	78
Expected return on plan assets	(7,372)	(6,922)		
Amortization of:				
Prior service cost (credit)	632		(332)	(345)
Net actuarial loss	203	227		
Net periodic benefit cost (credit)	\$ 544	\$ (463)	\$ (239)	\$ (242)

	Pension Plans		Post-Retirement Medical Plans	
	Nine Months Ended September 30,			
	2010	2009	2010	2009
<b>Components of Net Periodic Benefit Cost (Credit):</b>				
Service cost	\$ 420	\$	\$ 60	\$ 74
Interest cost	20,708	17,652	219	233
Expected return on plan assets	(21,801)	(19,622)		
Amortization of:				

## Edgar Filing: Lazard Ltd - Form 10-Q

Prior service cost (credit)	2,108		(1,023)	(1,036)
Net actuarial loss	602	663		
Net periodic benefit cost (credit)	\$ 2,037	\$ (1,307)	\$ (744)	\$ (729)

### **15. RESTRUCTURING PLANS**

In each of the first quarters of 2010 and 2009, the Company announced a restructuring plan which included certain staff reductions and realignments of personnel (the 2010 Restructuring Plan and the 2009

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

Restructuring Plan , respectively, and collectively the 2010 and 2009 Restructuring Plans ). In connection with the 2010 Restructuring Plan, the Company recorded a pre-tax 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 ), with this charge partially offset by associated income tax benefits and noncontrolling interest credits of \$9,276 and \$18,400, respectively, and, in connection with the 2009 Restructuring Plan, the Company recorded a charge in the first quarter of 2009 of \$62,550, inclusive of \$24,239 relating to the acceleration of RSUs (in aggregate, the 2009 Restructuring Charge ), with this charge partially offset by associated income tax benefits and noncontrolling interest credits of \$6,401 and \$21,075, respectively (collectively, the 2010 and 2009 Restructuring Charges ).

The 2010 and 2009 Restructuring Charges 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 September 30, 2010, the remaining liability associated with the 2010 Restructuring Plan was \$21,561 and, as of September 30, 2010 and December 31, 2009, the remaining liability associated with the 2009 Restructuring Plan was \$5,579 and \$11,500, respectively. During the nine month period ended September 30, 2010, other than cash payments of \$18,667 and \$5,921 for the 2010 Restructuring Plan and the 2009 Restructuring Plan, respectively, and an adjustment of \$3,596 to the estimated tax benefit relating to the 2010 Restructuring Charge, 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.

**16. INCOME TAXES**

Lazard Ltd is subject to U.S. federal income taxes on its portion of Lazard Group s operating income. Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income 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 \$9,113 and \$29,049 for the three month and nine month periods ended September 30, 2010, respectively, and \$19,968 and \$29,312 for the three month and nine month periods ended September 30, 2009, respectively, representing effective tax rates of 11.5%, 25.9%, 27.3% and 74.5%, respectively. Excluding (i) the income tax benefits of \$3,596 and \$9,276 for the three month and nine month periods ended September 30, 2010 related to the 2010 Restructuring Charge and \$3,472 and \$4,835 for the three month and nine month periods ended September 30, 2010 related to the charge incurred in connection with the amendment of Lazard s retirement policy with respect to RSU awards, and (ii) the income tax benefit of \$6,401 related to the 2009 Restructuring Charge, the Company had income tax provisions of \$16,181 and \$43,160 for the three month and nine month periods ended September 30, 2010, respectively, and \$19,968 and \$35,713 for the three month and nine month periods ended September 30, 2009, respectively, representing effective tax rates of 20.4%, 19.3%, 27.3% and 35.0%, respectively. The effective tax rates herein for the nine month period ended September 30, 2010 reflect a benefit from reductions in unrecognized tax benefits of \$6,629 relating to settlements with taxing authorities and other adjustments pertaining to certain prior

years.

---

**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 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, which are incremental to the U.S. federal statutory tax rate.

***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 three month and nine month periods ended September 30, 2010 and 2009. 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.

**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 nine month periods ended September 30, 2010 and 2009 are computed as described below.

***Basic Net Income Per Share***

*Numerator* utilizes net income attributable to Lazard Ltd for the three month and nine month periods ended September 30, 2010 and 2009, plus applicable adjustments to such net income associated with the inclusion of shares of Class A common stock issuable on a non-contingent basis.

## Edgar Filing: Lazard Ltd - Form 10-Q

*Denominator* utilizes the weighted average number of shares of Class A common stock outstanding for the three month and nine month periods ended September 30, 2010 and 2009, 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 three month and nine month periods ended September 30, 2010 and 2009 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 (loss) 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.



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

*Denominator* utilizes the weighted average number of shares of Class A common stock outstanding for the three month and nine month periods ended September 30, 2010 and 2009 as in the basic net income per share calculation described above, plus, to the extent dilutive, the incremental number of shares of Class A common stock to settle share-based incentive compensation, convertible debt, convertible preferred stock and LAZ-MD Holdings exchangeable interests, using the treasury stock method, the if converted method or the as-if-exchanged basis, as applicable.

The calculations of the Company's basic and diluted net income per share and weighted average shares outstanding for the three month and nine month periods ended September 30, 2010 and 2009 are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income attributable to Lazard Ltd	\$64,091	\$37,418	\$75,129	\$12,109
Add - adjustment associated with Class A common stock issuable on a non-contingent basis	116	349	95	(125)
Net income attributable to Lazard Ltd - basic	64,207	37,767	75,224	11,984
Add - dilutive effect, as applicable, of:				
Adjustments to income relating to interest expense and changes in net income attributable to noncontrolling interests resulting from assumed Class A common stock issuances in connection with share-based incentive compensation, convertible debt, convertible preferred stock and exchangeable interests, net of tax	5,992	15,518	3,988	
Net income attributable to Lazard Ltd - diluted	\$70,199	\$53,285	\$79,212	\$11,984
Weighted average number of shares of Class A common stock outstanding	108,302,438	77,707,395	98,579,076	72,124,816
Add - adjustment for shares of Class A common stock issuable on a non-contingent basis	2,756,633	3,049,323	2,861,665	3,154,089
Weighted average number of shares of Class A common stock outstanding - basic	111,059,071	80,756,718	101,440,741	75,278,905
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	27,035,030	50,711,367	34,113,390	

## Edgar Filing: Lazard Ltd - Form 10-Q

Weighted average number of shares of Class A common stock outstanding - diluted	138,094,101	131,468,085	135,554,131	75,278,905
Net income attributable to Lazard Ltd per share of Class A common stock:				
Basic	\$0.58	\$0.47	\$0.74	\$0.16
Diluted	\$0.51	\$0.41	\$0.58	\$0.16

**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 September 30, 2010 and December 31, 2009 are set forth below:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>Receivables</b>		
LFCM Holdings	\$ 5,818	\$ 14,212
Other	1,011	203
Total	\$ 6,829	\$ 14,415
<b>Payables</b>		
LFCM Holdings	\$ 564	\$ 17,431
Other		19
Total	\$ 564	\$ 17,450

**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 our executive officers) who are 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 nine month periods ended September 30, 2010, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$557 and \$1,616, respectively, and net referral fees for underwriting, private placement, M&A and restructuring

## Edgar Filing: Lazard Ltd - Form 10-Q

transactions under the business alliance agreement amounted to \$2,779 and \$9,508, respectively. For the three month and nine month periods ended September 30, 2009, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$1,287 and \$3,779, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to \$3,077 and \$9,665, 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 September 30, 2010 and December 31, 2009 primarily include \$890 and \$5,891, respectively, related to administrative and support services and reimbursement of expenses incurred on behalf of LFCM Holdings and \$4,530 and \$6,202, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at December 31, 2009 relate primarily to obligations pursuant to the tax receivable agreement of \$15,684 (see Note 16 of Notes to Condensed Consolidated Financial Statements).

---

**Table of Contents**

**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 nine month periods ended September 30, 2010, such charges amounted to \$188 and \$563, respectively. For the three month and nine month periods ended September 30, 2009, such charges amounted to \$188 and \$563, 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 (the Exchange Act). 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 September 30, 2010, LFNY's regulatory net capital was \$130,748, which exceeded the minimum requirement by \$123,348.

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 September 30, 2010, the aggregate regulatory net capital of the U.K. Subsidiaries was \$147,248, which exceeded the minimum requirement by \$103,865.

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 September 30, 2010, the consolidated regulatory net capital of CFLF was \$199,284, which exceeded the minimum requirement set for regulatory capital levels by \$99,414.

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 September 30, 2010, for those subsidiaries with regulatory capital requirements, their aggregate net capital was \$91,255, which exceeded the minimum required capital by \$68,349.

## Edgar Filing: Lazard Ltd - Form 10-Q

At September 30, 2010, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

Lazard Ltd is currently subject to supervision by the SEC as a Supervised Investment Bank Holding Company ( SIBHC ). As a SIBHC, Lazard Ltd is subject to group-wide supervision, which requires it to compute allowable capital and risk allowances on a consolidated basis. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), which was signed into law on July 21, 2010, provides for the eventual elimination of the SEC's SIBHC program. The Dodd-Frank Act also allows entities seeking consolidated supervision to elect to be regulated by the Federal Reserve. The Dodd-Frank Act could have other impacts on us, which we are currently in the process of examining, including the impact of the elimination of the SIBHC program.

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

**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 two business segments: Financial Advisory (which includes providing general strategic and transaction-specific advice on M&A and other strategic matters, restructurings, capital structure, capital raising and various other corporate finance matters), and Asset Management (which includes the management of equity and fixed income securities and alternative investment and private equity funds). In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of LFB. The Company also allocates outstanding indebtedness to its Corporate segment.

The Company's segment information for the three month and nine month periods ended September 30, 2010 and 2009 is prepared using the following methodology:

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

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

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

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

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





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

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:

		Three Months Ended		Nine Months Ended	
		September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Financial Advisory</b>	Net Revenue	\$ 254,012	\$ 259,221	\$ 768,481	\$ 674,222
	Operating Expenses	215,838	212,543	667,538	595,649
	Operating Income (a)	\$ 38,174	\$ 46,678	\$ 100,943	\$ 78,573
<b>Asset Management</b>	Net Revenue	\$ 210,132	\$ 160,744	\$ 587,299	\$ 393,810
	Operating Expenses	150,515	117,728	416,841	312,141
	Operating Income (a)	\$ 59,617	\$ 43,016	\$ 170,458	\$ 81,669
<b>Corporate</b>	Net Revenue	\$ (10,907)	\$ (8,250)	\$ (45,297)	\$ (32,297)
	Operating Expenses	7,417	8,279	114,067	88,603
	Operating Loss (a)	\$ (18,324)	\$ (16,529)	\$ (159,364)	\$ (120,900)
<b>Total</b>	Net Revenue	\$ 453,237	\$ 411,715	\$ 1,310,483	\$ 1,035,735
	Operating Expenses	373,770	338,550	1,198,446	996,393
	Operating Income (a)	\$ 79,467	\$ 73,165	\$ 112,037	\$ 39,342

	As of	
	September 30, 2010	December 31, 2009
<b>Total Assets:</b>		
Financial Advisory	\$ 728,215	\$ 706,785
Asset Management	768,029	702,775
Corporate	1,627,454	1,738,202
<b>Total</b>	<b>\$ 3,123,698</b>	<b>\$ 3,147,762</b>



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

- (a) Operating income (loss) for the nine month periods ended September 30, 2010 and 2009 was significantly impacted by certain special items related to the three month periods ended March 31, 2010 and 2009, respectively. Such impact, including the amounts attributable to each of the Company's business segments, is described in the table below:

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Financial Advisory</b>		
Operating income, as reported above	\$ 100,943	\$ 78,573
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	\$ 120,514	\$ 78,573
<b>Asset Management</b>		
Operating income, as reported above	\$170,458	\$ 81,669
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	\$ 173,360	\$ 81,669
<b>Corporate</b>		
Operating loss, as reported above	\$ (159,364)	\$ (120,900)
Special items:		
Restructuring expense	87,108	62,550
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	\$ (69,869)	\$ (58,350)
<b>Consolidated</b>		
Operating income, as reported above	\$ 112,037	\$ 39,342
Special items:		
Restructuring expense	87,108	62,550
Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards	24,860	

Edgar Filing: Lazard Ltd - Form 10-Q

Operating income, excluding impact of special items

\$ 224,005

\$ 101,892

---

**Table of Contents**

**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, 2009 (the "Form 10-K"). All references to 2010, 2009, third quarter, nine months, or the period refer to, as the context requires, the three month and nine month periods ended September 30, 2010 and September 30, 2009.*

**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.

## Edgar Filing: Lazard Ltd - Form 10-Q

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,

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

**Table of Contents**

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

## Edgar Filing: Lazard Ltd - Form 10-Q

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

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 we expect that it may expand its scope to include placements elsewhere in Europe.

Lazard also has a long history of making alternative investments with its own capital, usually alongside capital of qualified institutional and individual investors. At the time of Lazard Ltd's equity public offering and as a part of the separation, we transferred to LFCM Holdings LLC ( LFCM Holdings ) all of our alternative investment activities, except for Fonds Partenaires Gestion SA ( FPG ), our private equity business in France. Such activities



**Table of Contents**

transferred to LFCM Holdings represented the alternative investment activities of Lazard Alternative Investments Holdings LLC ( LAI ) and included private equity investments of Corporate Partners II Limited ( CP II ) and Lazard Senior Housing Partners LP. CP II was managed by a subsidiary of LAI until February 16, 2009. Effective February 17, 2009, ownership and control of CP II was transferred to the investment professionals who manage CP II. We also transferred to LFCM Holdings certain principal investments by Lazard Group in the funds managed by the separated businesses, subject to certain options by us to reacquire such investments, while we retained our investment in our French private equity funds. Since 2005, consistent with our obligations to LFCM Holdings, we have engaged in a number of alternative investments and private equity activities. Effective September 30, 2009, the Company sold FPG to a fund management company forming part of a group that manages investment companies and funds, in some of which Lazard could earn carried interests. The managing directors and staff conducting this activity were accordingly transferred to the buyer. The sale of FPG did not have a material impact on our financial condition or results of operations. Operating results of FPG have been included in our consolidated financial statements through the effective date of sale.

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. In that regard, on July 15, 2009, the Company established a private equity business with The Edgewater Funds ( Edgewater ), a Chicago-based private equity firm, through the acquisition of Edgewater s management vehicles. The acquisition was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the Edgewater Acquisition ) (see Note 8 of Notes to Condensed Consolidated Financial Statements). 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Financial Advisory	56%	63%	59%	65%
Asset Management	46	39	45	38
Corporate	(2)	(2)	(4)	(3)
Total	100%	100%	100%	100%

**Business Environment**

In the first nine months of 2010, economic and market conditions in general in the U.S. and globally have shown signs of a gradual, but uneven recovery, with the respective equity markets generally experiencing modest increases, albeit with significant volatility in the second and third quarters. Also contributing to the recovery in the first nine months of 2010 were healthier credit markets, improved corporate earnings and continued low interest rates. When compared to the first nine months of 2009, economic and market conditions have improved, which contributed to the improvement in our operating performance in both Financial Advisory and Asset Management during 2010.

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



**Table of Contents**

and revenue in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

**Financial Advisory**

Global and trans-atlantic completed and announced M&A transactions for the third quarter and the first nine months of 2010 increased versus the corresponding prior year periods, as shown in the following table, which sets forth industry statistics regarding the value of such transactions in the periods:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Incr/(Decr)	2010	2009	% Incr/(Decr)
	(\$ in billions)					
<b>Completed M&amp;A Transactions:</b>						
Global	\$ 420	\$ 388	8 %	\$ 1,290	\$ 1,190	8%
Trans-Atlantic	22	23	(4)%	92	84	10%
<b>Announced M&amp;A Transactions:</b>						
Global	607	436	39 %	1,648	1,379	20%
Trans-Atlantic	74	58	28 %	148	86	72%

Source: Thomson Financial as of October 25, 2010.

We believe that in the current environment we are relatively well positioned as our clients refinance, restructure and position their asset portfolios for growth. While overall M&A industry statistics regarding the number and size of announced transactions increased in the first nine months of 2010 as compared to the 2009 period, we continue to remain cautious with respect to the overall economic environment and its impact on the M&A business. Generally, during periods of unfavorable market or economic conditions, the volume and value of M&A transactions may decrease, thereby reducing the demand for our advisory services and increasing competition among financial services companies seeking such engagements.

Global restructuring activity during the first nine months of 2010 decreased from record levels in 2009 due to the decelerating pace of corporate debt defaults, partially resulting from the strengthening of the high yield and leveraged loan markets. According to Moody's Investors Service, Inc., in the first nine months of 2010, a total of 40 issuers defaulted as compared to 237 in the corresponding 2009 period. While we believe that the number and value of corporate defaults will continue to decline throughout the balance of 2010 and in 2011, we expect, due to our Restructuring assignments currently in progress, that our Restructuring business will remain active, albeit at a lower level, from advising companies during this period on matters relating to debt and financing restructuring and other on- and off-balance sheet assignments. Our Restructuring assignments are generally executed over a six- to twelve-month period.

Our Private Fund Advisory Group, which is part of our Financial Advisory segment and is conducted in the U.S. through Lazard Frères & Co. LLC, an SEC-registered broker-dealer and member of FINRA, 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 Illinois, Ohio, California and New Mexico, and similar measures are being considered or have been implemented in other jurisdictions. On June

## Edgar Filing: Lazard Ltd - Form 10-Q

30, 2010, the SEC approved a rule that, among other things, 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 or (ii) an SEC-registered broker-dealer that is a member of FINRA and thus subject to FINRA's forthcoming "pay-to-play" rule. We are continuing to evaluate the potential impact of state, local and other restrictions on our Private Fund Advisory Group.

**Table of Contents***Asset Management*

As shown in the table below, major global market indices at September 30, 2010 increased in most markets as compared to such indices at June 30, 2010, December 31, 2009, and September 30, 2009.

	June 30, 2010	Percentage Change September 30, 2010 vs. December 31, 2009	September 30, 2009
MSCI World Index	13%	1 %	5 %
CAC 40	8%	(6)%	(2)%
DAX	4%	5 %	10 %
FTSE 100	13%	3 %	8 %
TOPIX 100	%	(10)%	(8)%
MSCI Emerging Market	17%	9 %	18 %
Dow Jones Industrial Average	10%	4 %	11 %
NASDAQ	12%	4 %	12 %
S&P 500	11%	2 %	8 %

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 September 30, 2010 increased 11% versus AUM at December 31, 2009, with average AUM for the third quarter and first nine months of 2010 increasing 22% and 36%, respectively, as compared to our average AUM for the corresponding periods of 2009, reflecting significant market appreciation as well as net inflows over the twelve month period ended September 30, 2010. Such increased AUM contributed to significantly higher management fee revenues in the 2010 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 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 from public and private securities offerings for referring opportunities to LFCM Holdings for underwriting and distribution of securities. The referral fees received from LFCM Holdings are generally one-half of the revenue recorded by LFCM Holdings in respect of such activities. Significant fluctuations in Financial Advisory net revenue can occur over the course of any given year because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard's control.

## Edgar Filing: Lazard Ltd - Form 10-Q

Lazard's Asset Management segment principally includes LAM, Lazard Frères Gestion SAS, FPG (through its disposition on September 30, 2009) and, effective July 15, 2009, Edgewater. 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

---

## **Table of Contents**

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 as of the end of a quarter or month, and an increase or reduction in AUM at such dates, 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 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, 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 net interest income, including amounts earned at LFB, and investment gains and losses on the Company's investment portfolio of LAM-managed equity funds and principal investments in equities, debt securities at LFB and alternative investment funds. Interest expense is also included in Corporate net revenue. Corporate net revenue can fluctuate due to changes in the fair value of investments classified as trading, and with respect to available-for-sale, when realized, or when a decline is determined to be other than temporary with respect to available-for-sale and held-to-maturity investments, as well as due to changes in interest and currency exchange rates and in the levels of cash, investments and indebtedness.

Although Corporate segment net revenue during the first nine months of 2010 represented (4)% of Lazard's net revenue, total assets in Corporate represented 52% of Lazard's consolidated total assets as of September 30, 2010, which is attributable to assets associated with LFB, investments in government bonds, LAM-managed funds, other securities 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 amortization of the relevant portion of our share-based incentive compensation under the Lazard Ltd 2005 Equity

## Edgar Filing: Lazard Ltd - Form 10-Q

Incentive Plan ( 2005 Plan ) and the Lazard Ltd 2008 Incentive Compensation Plan (the 2008 Plan ), with such amortization generally determined on a straight-line basis over the vesting periods and not on the basis of revenue recognition. Compensation



---

## **Table of Contents**

expense in any given period is dependent on many factors, including general economic and market conditions, our operating and financial performance, staffing levels and competitive pay conditions, the nature of revenues earned, as well as the mix between current and deferred compensation. Our compensation expense-to-operating revenue ratio for the nine month periods of 2010 and 2009 was 60.0% and 62.9%, respectively (with such ratio in the nine month period of 2010 excluding the compensation charge of approximately \$25 million in connection with the accelerated vesting of restricted stock unit awards ( RSUs ) related to the Company s change in retirement policy), and was 59.7% and 58.2% for the third quarters of 2010 and 2009, respectively. See Note 13 of Notes to Condensed Consolidated Financial Statements for additional information regarding the Company s incentive plans.

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 the nine month periods of 2010 and 2009, restructuring expense. Amortization of intangible assets related to acquisitions relates primarily to the July 2009 acquisition of Edgewater. Restructuring expense relates to certain staff reductions and realignment of personnel in the first quarters of 2010 and 2009, and includes severance and related benefits expense, the acceleration of unrecognized expense pertaining to 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 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 (credit) attributable to LAZ-MD Holdings ownership interest in the net income (loss) attributable to Lazard Group, amounts related to Edgewater and various LAM-related general partnership interests ( GPs ) 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 than the U.S. dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries assets and liabilities are translated into U.S. dollars using exchange rates as of the respective balance sheet date while revenue and expenses are translated at average exchange rates during the respective periods based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary s functional currency are reported as a component of stockholders equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of operations.

## Edgar Filing: Lazard Ltd - Form 10-Q

During the first quarters of 2010 and 2009 the Company reported certain charges (the 2010 special items and the 2009 special item, respectively, and collectively, the 2010 and 2009 special items ) that adversely impacted operating results for the nine month periods. The impact of such special items on the Company s

**Table of Contents**

condensed consolidated statements of operations for the 2010 and 2009 nine month periods is described in more detail in the table below.

	Nine Months Ended September 30,			2009
	2010 RSU Retirement Amendment	2010 RSU Retirement Amendment	Total	
	Restructuring (a)	(b)	Total (\$ in thousands)	Restructuring (a)
Compensation		\$ 24,860	\$ 24,860	
Restructuring	\$ 87,108		87,108	\$ 62,550
Operating Income (Loss)	(87,108)	(24,860)	(111,968)	(62,550)
Income Tax Benefit	9,276 (c)	4,835 (c)	14,111 (c)	6,401
Noncontrolling Interest Benefit	18,400	5,988	24,388	21,075
Net Income (Loss) Attributable to Lazard Ltd.	\$ (59,432)	\$ (14,037)	\$ (73,469)	\$ (35,074)

- (a) Restructuring plans announced in the first quarters of 2010 and 2009, respectively.  
 (b) Additional amortization expense in connection with the accelerated vesting of RSUs related to the amendment of the Company's retirement policy.  
 (c) Inclusive of an adjustment in the third quarter of 2010 to increase the estimated tax benefit relating to the 2010 restructuring charge and the amendment of Lazard's retirement policy with respect to RSU awards of \$3,596 and \$3,472, respectively.

A discussion of the Company's consolidated results of operations for the 2010 and 2009 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 three month and nine month periods in 2010 and 2009 are shown in tables below, as applicable, on both an as reported U.S. GAAP and excluding special items non-U.S. GAAP basis.

	Three Months Ended September 30,			2009
	2010 U.S. GAAP As Reported	2010 Impact of Special Items (a)	2010 Non-U.S. GAAP Excluding Special Items (b)	
	(\$ in thousands)			U.S. GAAP As Reported
<b>Net Revenue</b>	\$ 453,237		\$ 453,237	\$ 411,715
<b>Operating Expenses:</b>				
Compensation and benefits	282,528		282,528	250,914
Non-compensation expense	89,523		89,523	85,604
Amortization of intangible assets related to acquisitions	1,719		1,719	2,032
Total operating expenses	373,770		373,770	338,550

Edgar Filing: Lazard Ltd - Form 10-Q

<b>Operating Income</b>	79,467		79,467	73,165
Provision (benefit) for income taxes	9,113	\$ (7,068)	16,181	19,968
<b>Net Income</b>	70,354		63,286	53,197
<b>Less Net Income Attributable to Noncontrolling Interests</b>	6,263		6,263	15,779
<b>Net Income Attributable to Lazard Ltd</b>	\$ 64,091		\$ 57,023	\$ 37,418
<b>Operating Income, As A % Of Net Revenue</b>	18%		18%	18%

- (a) Represents an adjustment to increase the estimated tax benefit relating to the previously described 2010 special items. See Notes 15 and 16 of Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.

	Nine Months Ended September 30,					
	2010 U.S. GAAP As Reported	2010 Impact of Special Items (a)	Non-U.S. GAAP Excluding Special Items (b)	2010 U.S. GAAP As Reported	2009 Impact of Special Item (a)	2009 Non-U.S. GAAP Excluding Special Item (b)
<b>Net Revenue</b>	\$ 1,310,483		\$ 1,310,483	\$ 1,035,735		\$ 1,035,735
<b>Operating Expenses:</b>						
Compensation and benefits	845,926	\$ 24,860	821,066	693,725		693,725
Non-compensation expense	260,154		260,154	237,398		237,398
Amortization of intangible assets related to acquisitions	5,258		5,258	2,720		2,720
Restructuring	87,108	87,108		62,550	\$ 62,550	
Total operating expenses	1,198,446		1,086,478	996,393		933,843
<b>Operating Income</b>	112,037		224,005	39,342		101,892
Provision (benefit) for income taxes	29,049	(14,111)	43,160	29,312	(6,401)	35,713
<b>Net Income</b>	82,988		180,845	10,030		66,179
<b>Less Net Income (Loss) Attributable to Noncontrolling Interests</b>	7,859	(24,388)	32,247	(2,079)	(21,075)	18,996
<b>Net Income Attributable to Lazard Ltd</b>	\$ 75,129		\$ 148,598	\$ 12,109		\$ 47,183
<b>Operating Income, As A % Of Net Revenue</b>	9%		17%	4%		10%

- (a) Represents charges related to the previously described special items. See Notes 13, 15 and 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.

The table below describes the components of operating revenue, a non-U.S. GAAP measure used by the Company to manage total compensation and benefits expense to managing directors and employees. Management believes operating revenue provides the most meaningful basis for comparison between present, historical and future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Operating revenue</b>				
Total revenue	\$ 477,310	\$ 438,274	\$ 1,384,271	\$ 1,116,859
Add (deduct):				

Edgar Filing: Lazard Ltd - Form 10-Q

LFB interest expense (a)	(2,145)	(3,075)	(6,691)	(10,721)
Revenue related to noncontrolling interests (b)	(2,000)	(3,716)	(9,137)	(2,903)
Operating revenue	\$ 473,165	\$ 431,483	\$ 1,368,443	\$ 1,103,235

**Table of Contents**

- (a) The interest expense incurred by LFB is deducted from total revenue because LFB is a commercial bank and we consider its interest expense to be a cost directly related to the conduct 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. Further, such revenue is offset by a charge or credit to noncontrolling interests.

Certain key ratios, statistics and headcount information for the 2010 and 2009 periods are set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>As a % of Net Revenue, By Revenue Category:</b>				
Investment banking and other advisory fees	54%	61%	58%	63%
Money management fees	45	36	43	36
Interest income	1	2	1	2
Other	5	7	4	7
Interest expense	(5)	(6)	(6)	(8)
Net Revenue	100%	100%	100%	100%

	As of September 30,	
	2010	2009
<b>Headcount:</b>		
Managing Directors:		
Financial Advisory	130	146
Asset Management	64	53
Corporate	9	7
Other Employees:		
Business segment professionals	1,002	993
All other professionals and support staff	1,112	1,085
<b>Total</b>	<b>2,317</b>	<b>2,284</b>

**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 and 2009 special items had a significant impact on the Company's reported operating results for the three month and nine month periods in the respective years. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such items.

*Three Months Ended September 30, 2010 versus September 30, 2009*

## Edgar Filing: Lazard Ltd - Form 10-Q

The Company reported net income attributable to Lazard Ltd of \$64 million, as compared to net income of \$37 million in the 2009 period. The Company's results in the 2010 period were impacted by an adjustment to the estimated tax benefit related to the 2010 special items, which served to increase net income attributable to Lazard Ltd in the 2010 period by \$7 million. Excluding such adjustment, net income attributable to Lazard Ltd in the 2010 period was \$57 million, an increase of \$20 million as compared to the 2009 period. The changes in the Company's operating results during the periods are described below.



---

**Table of Contents**

Net revenue and operating revenue each increased \$42 million, or 10%, as compared to the 2009 period. Fees from investment banking and other advisory activities declined \$7 million, or 3%, principally due to lower Restructuring fees, reflecting the decelerating pace of corporate debt defaults in the 2010 period. Principally offsetting such decline were increases in fees from M&A and Strategic Advisory and Capital Markets and Other Advisory, largely from our Private Fund Advisory Group business, with the latter due to an increase in the value and number of fund closings. Money management fees, including incentive fees, increased \$54 million, or 36%, due to a \$24 billion, or 22%, increase in average AUM for the 2010 period, primarily as the result of market appreciation and net inflows during the last twelve months, as well as a favorable change in the mix of AUM into higher margin global equity products. Interest income decreased \$3 million, or 37%. Other revenue decreased \$4 million, or 15%, principally due to a decrease in underwriting fees as a result of a decline in equity capital markets transactions, and a \$2 million net reduction in investment income. Interest expense decreased \$2 million, or 9%.

Compensation and benefits expense for the 2010 period increased \$32 million, or 13%, principally reflecting an increase in the provision for discretionary compensation and profit pools relating to the increase in operating revenue, partially offset by a decline in the amortization of share-based and deferred cash incentive compensation awards. Compensation and benefits expense was 59.7% and 58.2% of operating revenue for the 2010 and 2009 periods, respectively.

Non-compensation expense increased \$4 million, or 5%. Factors contributing to the increase were increased spending on travel and other business development activities, and increased fund administration expenses related to the increased level of business activity and AUM. The ratio of non-compensation expense to operating revenue was 18.9% as compared to 19.8% in the 2009 period.

Amortization of intangible assets was unchanged from the 2009 period.

Operating income for the 2010 period was \$79 million, as compared to operating income of \$73 million in the prior year period and, as a percentage of net revenue, was 18% in both the 2010 and 2009 periods.

The provision for income taxes was \$9 million, a decrease of \$11 million, as compared to \$20 million in the 2009 period. When excluding the tax benefits of \$7 million relating to the 2010 special items, the income tax provision was \$16 million in the 2010 period compared to \$20 million in the 2009 period.

Net income attributable to noncontrolling interests decreased \$10 million, as compared to the 2009 period, principally reflecting a decrease in LAZ-MD Holdings' ownership interests, partially offset by an increase in Lazard Group's net income.

*Nine Months Ended September 30, 2010 versus September 30, 2009*

The Company reported net income attributable to Lazard Ltd of \$75 million, as compared to net income of \$12 million in the 2009 period. The Company's results in both periods were adversely affected by the 2010 and the 2009 special items, which served to decrease the net income attributable to Lazard Ltd in the 2010 and 2009 periods by \$73 million and \$35 million, respectively. Excluding the after-tax impact of the 2010 and 2009 special items in each year, net income attributable to Lazard Ltd in the 2010 period was \$149 million, an increase of \$101 million as

## Edgar Filing: Lazard Ltd - Form 10-Q

compared to the 2009 period. The changes in the Company's operating results during the period are described below.

Net revenue increased \$275 million, or 27%, as compared to the 2009 period, with operating revenue increasing \$265 million, or 24%. Fees from investment banking and other advisory activities increased \$109 million, or 17%, including increases of \$98 million, or 28%, in M&A and Strategic Advisory fees, as well as higher Capital Markets and Other Advisory fees, principally from our Private Fund Advisory Group business, with the latter due to an increase in the value and number of fund closings, partially offset by a \$27 million, or 10%, decline in Restructuring fees reflecting a sequential quarterly reduction in restructuring activity as the economy improves and the number of corporate debt defaults decelerates. Money management fees, including

## Table of Contents

incentive fees, increased \$192 million, or 52%, due to a \$35 billion, or 36%, increase in average AUM for the 2010 period, primarily as the result of market appreciation and net inflows during the last twelve months, a favorable change in the mix of AUM into higher margin global equity products, as well as higher incentive fees earned in the 2010 period. Interest income decreased \$6 million, or 27%, due primarily to the lower interest rate environment. Other revenue decreased \$28 million, or 37%, primarily due to a \$14 million, or 70%, decline in underwriting fees as a result of a lower level of equity capital markets transactions, an \$8 million net reduction in investment income, and foreign exchange losses as compared to gains in the 2009 period. Interest expense decreased \$7 million, or 9%, due to the lower interest rate environment and reduced levels of LFB's customer deposits.

Compensation and benefits expense for the 2010 period, including the 2010 special item of \$25 million, increased \$152 million, or 22%. When excluding the 2010 special item, compensation and benefits expense increased \$127 million, or 18%, which includes an increase in the provision for discretionary compensation and profit pools relating to the increase in operating revenue and a reduction in the amortization of share-based and deferred cash incentive compensation. Compensation and benefits expense, excluding the 2010 special item, was 60.0% and 62.9% of operating revenue for the 2010 and 2009 periods, respectively. The reduction in the compensation ratio for the first nine months of 2010 is due primarily to execution of our previously announced goal to grow annual compensation expense at a slower rate than operating revenue.

Non-compensation expense increased \$23 million, or 10%. Factors contributing to this increase include higher spending on travel and other business development activities, technology and fund administration expenses related to a higher level of business activity and AUM. The ratio of non-compensation expense to operating revenue was 19.0% as compared to 21.5% of operating revenue for the 2009 period.

Amortization of intangible assets increased \$3 million principally due to the Edgewater acquisition in July 2009.

In the first quarters of 2010 and 2009, the Company announced plans to reduce certain staff and realign personnel. As a result, the 2010 and 2009 special items include restructuring charges of \$87 million and \$63 million, respectively, 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 for the 2010 period was \$112 million, as compared to operating income of \$39 million in the prior year period (with such amounts including the impact of the 2010 and 2009 special items) and, as a percentage of net revenue, was 9% as compared to 4% in the 2009 period. Excluding the impact of the 2010 and 2009 special items in each period, operating income was \$224 million, an increase of \$122 million, as compared to operating income of \$102 million in 2009, and, as a percentage of net revenue, was 17%, as compared to 10%, respectively.

The provision for income taxes was \$29 million in both the 2010 and 2009 periods. When excluding the tax benefits of \$14 million and \$6 million relating to the 2010 and 2009 special items, respectively, the income tax provision was \$43 million in the 2010 period compared to \$36 million in the 2009 period, representing effective tax rates of 19.3% and 35.0% in the 2010 and 2009 periods, respectively. The reduction in the effective tax rate in the 2010 period is principally due to a change in the geographic mix of operating income between the respective periods.

Net income attributable to noncontrolling interests increased \$10 million, as compared to the 2009 period. When excluding the impact of the 2010 and 2009 special items, net income attributable to noncontrolling interests increased \$13 million, with such increase principally reflecting LAZ-MD Holdings' ownership interest in the increased net income of Lazard Group, partially offset by a decrease in its ownership interest.

**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

**Table of Contents**

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 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 table summarizes the operating results of the Financial Advisory segment:

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
	(\$ in thousands)	
M&A and Strategic Advisory	\$ 160,662	\$ 124,691
Restructuring	66,000	119,101
Capital Markets and Other Advisory	27,350	15,429
Net Revenue	254,012	259,221
Operating Expenses	215,838	212,543
Operating Income	\$ 38,174	\$ 46,678
<b>Operating Income, As A Percentage Of</b>		
Net Revenue	15%	18%

	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>	<b>Non-U.S. GAAP Excluding Special Item</b>		<b>2009</b>
	<b>U.S. GAAP As Reported</b>	<b>Impact of Special Item (a)</b>	<b>(b)</b>	<b>U.S. GAAP As Reported</b>
	(\$ in thousands)			
M&A and Strategic Advisory	\$ 454,073		\$ 454,073	\$ 356,020
Restructuring	246,066		246,066	273,261
Capital Markets and Other Advisory	68,342		68,342	44,941
Net Revenue	768,481		768,481	674,222
Operating Expenses (c)	667,538	\$ 19,571	647,967	595,649
Operating Income	\$ 100,943		\$ 120,514	\$ 78,573
<b>Operating Income, As A Percentage Of</b>				
	13%		16%	12%

Net Revenue

	As of September 30,	
	2010	2009
Headcount (d):		
Managing Directors	130	146
Other Employees:		
Business segment professionals	679	686
All other professionals and support staff	208	215
Total	1,017	1,047

**Table of Contents**

- (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.

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:

	Nine Months Ended September 30,	
	2010	2009
<b>Lazard Statistics:</b>		
Number of Clients:		
Total	475	478
With Fees Greater than \$1 million	177	188
Percentage of Total Financial Advisory Revenue from Top 10 Clients	22%	19%
Number of M&A Transactions Completed Greater than \$1 billion (a)	18	28

- (a) Source: Thomson Financial as of October 25, 2010.

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). However, such distribution is not reflective of the geography in which the clients are located.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
United States	62%	47%	56%	51%
Europe	29	45	39	43
Rest of World	9	8	5	6
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.





## Table of Contents

### *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 nine month period ended September 30, 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.

### *Three Months Ended September 30, 2010 versus September 30, 2009*

Financial Advisory net revenue decreased \$5 million, or 2%, as compared to the 2009 period, with increases in M&A and Strategic Advisory revenue of \$36 million, or 29% and Capital Markets and Other Advisory net revenue of \$12 million, or 77%, being offset by decreases in Restructuring revenue of \$53 million, or 45%.

The increase in M&A and Strategic Advisory revenue was principally due to an increase in completed assignments in which we were engaged and higher average fees per M&A and Strategic Advisory assignment. Our major clients, which in the aggregate represented a significant portion of our M&A and Strategic Advisory revenue for the third quarter of 2010 included Coca-Cola Enterprises, Continental Airlines, Creative Artists Agency, DeCrane Aerospace, Deutsche Bahn, Healthscope, Honeywell, Micrus Endovascular, Newcrest Mining and Silpada Designs.

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, such as retiree health care obligations. The decrease in Restructuring revenue was principally driven by declines in both retainer and completion fees. The decline in retainer fees is related to a lower number of active deals versus that in the 2009 period, consistent with the decelerating pace of corporate debt defaults previously described. Notable assignments completed in the third quarter of 2010 included BNP Paribas, BTA Bank JSC, LNR Property, The Trump Group and U.S. Concrete. Several of these assignments that were completed in the third quarter of 2010 began in the fourth quarter of 2009.

The increase in Capital Markets and Other Advisory net revenue principally reflected increased revenue in our Private Fund Advisory Group resulting from an increase in the number and value of fund closings, partially offset by decreases in underwriting fees from public offerings.

Operating expenses increased \$3 million, or 2%, as compared to the 2009 period, principally due to higher business development expenses.

Financial Advisory operating income was \$38 million, a decrease of \$9 million, as compared to the 2009 period, and represented 15% of segment net revenues in the 2010 period as compared to 18% in the 2009 period.

## Edgar Filing: Lazard Ltd - Form 10-Q

*Nine Months Ended September 30, 2010 versus September 30, 2009*

Financial Advisory net revenue increased approximately \$94 million, or 14%, as compared to the 2009 period, reflecting increases in M&A and Strategic Advisory revenue of \$98 million, or 28% and Capital Markets and Other Advisory net revenue of \$23 million, or 52%, partially offset by declines in Restructuring revenue of \$27 million, or 10%.

The increase in M&A and Strategic Advisory revenue was principally due to higher average fees per M&A and Strategic Advisory assignment.

**Table of Contents**

The decrease in Restructuring revenue was principally driven by a decline in retainer fees earned, which was partially offset by an increase in completion fees. While the number of completed restructurings increased as compared to the 2009 period, the average fee per completed transaction declined. The decrease in retainer fees was due to a decline in the number of active assignments in the 2010 period as compared to the 2009 period.

The increase in Capital Markets and Other Advisory net revenue principally reflected increased revenue in our Private Fund Advisory Group, resulting from an increase in the number and value of fund closings, and was partially offset by decreases in underwriting fees from public offerings.

Operating expenses increased \$72 million, or 12%, as compared to the 2009 period. Excluding the impact of the portion of the 2010 special item attributable to the Financial Advisory segment, operating expenses increased \$52 million, or 9%. Contributing to the increase was a higher provision for discretionary compensation related to the increase in operating revenue, partially offset by a decline in the amortization of share-based and deferred cash incentive compensation awards, and higher costs related to travel and other business development expenses and technology expenses.

Financial Advisory operating income was \$101 million, an increase of \$22 million, as compared to the 2009 period, and represented 13% of segment net revenues in the 2010 period. Excluding the impact of the portion of the 2010 special item attributable to the Financial Advisory segment, operating income in the 2010 period increased \$42 million, and represented 16% of segment net revenues, as compared to 12% in the 2009 period.

**Asset Management**

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

	As of	
	September 30, 2010	December 31, 2009
	(\$ in millions)	
<b>AUM:</b>		
International Equities	\$ 30,831	\$ 32,268
Global Equities	71,283	58,332
U.S. Equities	18,424	16,003
<b>Total Equities</b>	<b>120,538</b>	<b>106,603</b>
European and International Fixed Income	12,467	13,763
Global Fixed Income	1,840	1,794
U.S. Fixed Income	3,178	2,499
<b>Total Fixed Income</b>	<b>17,485</b>	<b>18,056</b>

Edgar Filing: Lazard Ltd - Form 10-Q

Alternative Investments	4,603	3,936
Private Equity	864	839
Cash Management	83	109
<b>Total AUM</b>	<b>\$ 143,573</b>	<b>\$ 129,543</b>

Average AUM for the 2010 and 2009 periods is set forth below. Average AUM is based on an average of quarterly ending balances for the respective periods.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(\$ in millions)</b>			
<b>Average AUM</b>	<b>\$ 133,528</b>	<b>\$ 109,102</b>	<b>\$ 132,893</b>	<b>\$ 97,599</b>

**Table of Contents**

Total AUM at September 30, 2010 increased \$14 billion, or 11%, as compared to that at December 31, 2009. Average AUM for the three month and nine month periods in 2010 was 22% and 36% higher, respectively, than the average AUM for the corresponding 2009 periods, principally the result of market appreciation (which was generally consistent with the industry as a whole) and net inflows occurring over the last twelve month period. International, Global and U.S. equities represented 21%, 50% and 13% of total AUM at September 30, 2010, respectively, versus 25%, 45% and 12% of total AUM at December 31, 2009, respectively.

As of September 30, 2010 and December 31, 2009, approximately 90% and 89% of our AUM, respectively, 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% and 11% of our AUM, respectively, was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

As of September 30, 2010, AUM denominated in foreign currencies represented approximately 41% of our total AUM, as compared to 45% at December 31, 2009. Foreign denominated AUM declines in value with the strengthening of the U.S. dollar and increases in value as the U.S. dollar weakens.

The following is a summary of changes in AUM for the 2010 and 2009 periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(\$ in millions)			
AUM - Beginning of Period	\$ 123,483	\$ 98,020	\$ 129,543	\$ 91,109
Net Flows(a)	1,142	7,743	6,173	5,650
Acquisitions/(Dispositions)(b)	-	(831)	-	(831)
Market and Foreign Exchange Appreciation	18,948	15,253	7,857	24,257
AUM - End of Period	\$ 143,573	\$ 120,185	\$ 143,573	\$ 120,185

(a) Includes inflows of \$5,627 and \$11,110 and outflows of \$4,485 and \$3,367 for the three month periods in 2010 and 2009, respectively, and inflows of \$21,917 and \$20,393 and outflows of \$15,744 and \$14,743 for the nine month periods in 2010 and 2009, respectively.

(b) Includes AUM and unfunded fee-earning commitments related to the acquisition of Edgewater's management vehicles, offset by the disposition of private equity AUM related to the sale of FPG.

Inflows in the first nine months of 2010 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 Equity and Fixed Income products.

As of October 22, 2010, AUM was \$148.5 billion, a \$4.9 billion increase since September 30, 2010. The change in AUM was due to market/foreign exchange appreciation of \$3.8 billion and net inflows of \$1.1 billion. Market appreciation was approximately 3% of AUM since September 30, 2010, which was generally consistent with the increase in global market indices during that period.



**Table of Contents**

The following table summarizes the operating results of the Asset Management segment.

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
	(\$ in thousands)	
<b>Revenue:</b>		
Management Fees	\$ 183,974	\$ 133,377
Incentive Fees	15,469	15,202
Other Income	10,689	12,165
<b>Net Revenue</b>	<b>210,132</b>	<b>160,744</b>
Operating Expenses (c)	150,515	117,728
<b>Operating Income</b>	<b>\$ 59,617</b>	<b>\$ 43,016</b>
Operating Income, As A Percentage of Net Revenue	28%	27%

	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>	<b>2010</b>	<b>Non-U.S. GAAP</b>	<b>2009</b>
	<b>U.S. GAAP</b>	<b>Impact of</b>	<b>Excluding</b>	<b>U.S. GAAP</b>
	<b>As Reported</b>	<b>Special</b>	<b>Special Item (b)</b>	<b>As Reported</b>
	(\$ in thousands)			
<b>Revenue:</b>				
Management Fees	\$ 512,757		\$ 512,757	\$ 334,000
Incentive Fees	41,891		41,891	33,807
Other Income	32,651		32,651	26,003
<b>Net Revenue</b>	<b>587,299</b>		<b>587,299</b>	<b>393,810</b>
Operating Expenses (c)	416,841	\$ 2,902	413,939	312,141
<b>Operating Income</b>	<b>\$ 170,458</b>		<b>\$ 173,360</b>	<b>\$ 81,669</b>
Operating Income, As A Percentage of Net Revenue	29%		30%	21%

	<b>As of September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Headcount(d):</b>		
Managing Directors	64	53
<b>Other Employees:</b>		
Business segment professionals	313	297
All other professionals and support staff functions	289	265
<b>Total</b>	<b>666</b>	<b>615</b>

## Edgar Filing: Lazard Ltd - Form 10-Q

- (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.



**Table of Contents**

The geographical distribution of Asset Management net revenue is set forth below in percentage terms and is based on the revenues related to the location of the respective Lazard office's AUM:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
United States	59%	54%	57%	51%
Europe	30	35	32	38
Rest of World	11	11	11	11
Total	100%	100%	100%	100%

***Asset Management Results of Operations***

Asset Management's quarterly revenue and profits in any particular quarter or period may not be indicative of future results. 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 Management segment had a significant impact on the segment's reported operating results for the nine month period ended September 30, 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.

***Three Months Ended September 30, 2010 versus September 30, 2009***

Asset Management net revenue increased \$49 million, or 31%, as compared to the 2009 period. Management fees increased \$51 million, or 38%, as compared to 2009, driven by a 22% increase in average AUM. This increase was due largely to the increase in equity market indices, a favorable change in the mix of AUM into higher margin global equity products and net inflows. Other revenue decreased \$1 million as compared to the 2009 period.

Operating expenses increased \$33 million, or 28%, as compared to the 2009 period, principally due to a higher provision for discretionary compensation and profit pools related to the increase in operating revenue, as well as higher fees for outsourced services related to higher AUM and increased travel expenses.

Asset Management operating income was \$60 million, an increase of \$17 million, as compared to \$43 million in the 2009 period, and represented 28% of segment net revenue, as compared to 27% in the 2009 period.

***Nine Months Ended September 30, 2010 versus September 30, 2009***

## Edgar Filing: Lazard Ltd - Form 10-Q

Asset Management net revenue increased \$193 million, or 49%, as compared to the 2009 period. Management fees increased \$179 million, or 54%, as compared to 2009, driven by a 36% increase in average AUM. This increase was due largely to the increase in equity market indices, a favorable change in the mix of AUM into higher margin global equity products and net inflows. Incentive fees, primarily relating to traditional long-only investment strategies, increased \$8 million, or 24%, as compared to the 2009 period. Other revenue increased \$7 million as compared to the 2009 period, principally due to increased investment and commission income.

Operating expenses increased \$105 million, or 34%, as compared to the 2009 period. When excluding the 2010 special item, operating expenses increased \$102 million, or 33%, principally due to a higher provision for discretionary compensation and profit pools related to the increase in operating revenue, as well as higher fees for outsourced services related to higher AUM and an increase in the amortization of intangible assets relating to the Edgewater acquisition.

Asset Management operating income was \$170 million, an increase of \$89 million, as compared to \$82 million in the 2009 period, and represented 29% of segment net revenue. When excluding the impact of the 2010 special item, operating income increased \$92 million, and represented 30% of segment net revenue as compared to 21% for the 2009 period.

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

The following table summarizes the results of the Corporate segment:

	<b>Three Months Ended September 30, 2010      2009</b>	
	(\$ in thousands)	
Interest Income	\$ 4,118	\$ 7,200
Interest Expense	(23,838)	(25,302)
Net Interest Income (Expense)	(19,720)	(18,102)
Other Revenue	8,813	9,852
Net Revenue (Expense)	(10,907)	(8,250)
Operating Expenses	7,417	8,279
Operating Income (Loss)	\$ (18,324)	\$ (16,529)

	<b>Nine Months Ended September 30,</b>					
	2010		Non-U.S. GAAP		2009	
	U.S. GAAP As Reported	Impact of Special Items (a)	Excluding Special Items (b)	U.S. GAAP As Reported	Impact of Special Item (a)	Non-U.S. GAAP Excluding Special Item (b)
	(\$ in thousands)					
Interest Income	\$ 12,570		\$ 12,570	\$ 17,397		\$ 17,397
Interest Expense	(72,374)		(72,374)	(77,660)		(77,660)
Net Interest Income (Expense)	(59,804)		(59,804)	(60,263)		(60,263)
Other Revenue	14,507		14,507	27,966		27,966
Net Revenue (Expense)	(45,297)		(45,297)	(32,297)		(32,297)
Operating Expenses	114,067	\$ 89,495	24,572	88,603	\$ 62,550	26,053
Operating Income (Loss)	\$ (159,364)		\$ (69,869)	\$ (120,900)		\$ (58,350)

	<b>As of September 30, 2010      2009</b>	
Headcount (c):		
Managing Directors	9	7
Other Employees:		
Business segment professionals	10	10

## Edgar Filing: Lazard Ltd - Form 10-Q

All other professionals and support staff	615	605
Total	634	622

- (a) Represents the portion of the 2010 and 2009 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.

## **Table of Contents**

### *Corporate Results of Operations*

**As reflected in the table of operating results of the Corporate segment above, the 2010 and 2009 special items had a significant impact on the segment's reported operating results in the nine month periods of the respective years. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such items.**

#### *Three Months Ended September 30, 2010 versus September 30, 2009*

Net interest expense increased \$2 million, or 9%, as compared to the 2009 period. Other revenue declined \$1 million, or 11%, compared to the 2009 period, principally due to a net reduction in foreign exchange gains.

Operating expenses declined \$1 million, principally relating to a reduction in the amortization of share-based incentive compensation.

#### *Nine Months Ended September 30, 2010 versus September 30, 2009*

Net interest expense was unchanged as compared to the 2009 period. Other revenue declined \$13 million, or 48%, compared to the 2009 period, principally due to lower investment income.

Operating expenses increased \$25 million, substantially all of which related to the net impact of the 2010 and 2009 special items attributable to the Corporate segment. When excluding the impact of the 2010 and 2009 special items, operating expenses declined \$1 million.

### **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:**

	<b>Nine Months Ended September 30, 2010                      2009 (\$ in millions)</b>	
<b>Cash Provided By (Used In):</b>		
Operating activities:		
Net income	\$ 83.0	\$ 10.0
Noncash charges (a)	279.6	244.0
Other operating activities (b)	(316.0)	(126.1)
Net cash provided by operating activities	46.6	127.9
Investing activities (c)	113.2	(115.1)
Financing activities (d)	(225.7)	(148.0)
Effect of exchange rate changes	(4.0)	20.6
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(69.9)</b>	<b>(114.6)</b>
<b>Cash and Cash Equivalents:</b>		
<b>Beginning of Period</b>	<b>917.3</b>	<b>909.7</b>
<b>End of Period</b>	<b>\$ 847.4</b>	<b>\$ 795.1</b>

(a) Consists of the following:

Depreciation and amortization of property	\$ 16.1	\$ 16.8
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	257.8	224.8
Amortization of intangible assets related to acquisitions	5.3	2.7
(Gain) loss on extinguishment of debt	0.4	(0.3)
	<b>\$ 279.6</b>	<b>\$ 244.0</b>

- (b) Includes net changes in operating assets and liabilities principally relating to accrued compensation and benefits and other liabilities.
- (c) Principally relates to purchases and proceeds from sales and maturities of available-for-sale and held-to maturity securities, and, in the 2010 period, the disposition of our equity method investment in Sapphire (see Note 4 of Notes to Condensed Consolidated Financial Statements).
- (d) Primarily includes distributions to noncontrolling interest holders, settlements of vested RSUs, Class A common stock dividends, repurchases of shares of Class A common stock and activity related to borrowings.

**Liquidity and Capital Resources**

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

*Operating Activities*

## Edgar Filing: Lazard Ltd - Form 10-Q

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 have been made during the first four months of the year. As a consequence, cash on hand generally



**Table of Contents**

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.

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 September 30, 2010, Lazard had approximately \$1.1 billion of cash and liquid securities, including \$148 million of U.S. Government debt and agencies securities and \$85 million of investments in equity securities. We maintain lines of credit in excess of anticipated liquidity requirements. As of September 30, 2010, Lazard had approximately \$235 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 an aggregate of \$63 million of unused lines of credit available to LFB and Edgewater. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

On April 29, 2010, Lazard Group entered into the Credit Facility pursuant to an agreement with the banks parties thereto and Citibank, N.A., as administrative agent. The Credit Facility replaces the prior senior revolving credit facility, which was terminated as a condition to effectiveness of the Credit Facility. The Credit Facility contains customary terms and conditions substantially similar to the prior credit facility. Such terms and conditions include 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**

Over the past several years, Lazard has entered into several financing agreements designed to strengthen both its capital base and liquidity. Each of these agreements is 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. The table below sets forth our corporate indebtedness as of September 30, 2010 and December 31, 2009.

	Maturity Date	As of		Increase (Decrease)
		September 30, 2010	December 31, 2009	
(\$ in millions)				
Senior Debt:				
7.125%	2015	\$ 528.5	\$ 538.5	\$ (10.0)
6.85%	2017	548.4	548.4	
Subordinated Debt(a):				
3.25%	2016	150.0	150.0	

## Edgar Filing: Lazard Ltd - Form 10-Q

Total Senior and Subordinated Debt	\$ 1,226.9	\$ 1,236.9	\$ (10.0)
------------------------------------	------------	------------	-----------

- (a) Convertible into shares of Class A common stock at an effective conversion price of \$57 per share. One third in principal amount became convertible on and after each of July 1, 2008, July 1, 2009, and July 1, 2010, and no principal amount is convertible after June 30, 2011.

**Table of Contents**

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 September 30, 2010 Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 2.22 to 1.00 and its Consolidated Interest Coverage Ratio being 6.83 to 1.00. In any event, no amounts were outstanding under the Credit Facility as of September 30, 2010.

In addition, the Credit Facility, indenture and supplemental indentures relating to Lazard Group's senior notes, as well as its \$150 Million Subordinated Convertible Note, contain certain other covenants (none of which relate to financial condition), events of default and other customary provisions. At September 30, 2010, 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 September 30, 2010, total stockholders' equity was \$636 million as compared to \$523 million at December 31, 2009, including \$147 million and \$168 million of noncontrolling interests on the respective dates. The net activity in stockholders' equity in the nine month period ended September 30, 2010 is reflected in the table below (in millions of dollars):

Stockholders' Equity	December 31, 2009	\$ 523
Increase (decrease) due to:		
Net income		83
Amortization of share-based incentive compensation awards		250
Delivery of Class A common stock in connection with share-based incentive compensation		(55)
Net decreases in AOCI (including noncontrolling interests' portion thereof)(*)		(4)
Class A common stock dividends		(37)
Purchase of Class A common stock and Lazard Group common membership interests		(111)
Distributions to noncontrolling interests		(17)
Other net		4
Stockholders' Equity	September 30, 2010	\$ 636

(\*) Includes:

## Edgar Filing: Lazard Ltd - Form 10-Q

Net negative foreign currency translation adjustments	\$ (4)
Net mark-ups and adjustments for items reclassified to earnings related to securities designated as available-for-sale	6
Employee benefit plan adjustments	(6)
	\$ (4)

**Table of Contents**

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 (see Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding the share repurchase program). During the nine month period ended September 30, 2010 the Company repurchased 3,466,178 shares of Class A common stock, at an aggregate cost of \$106 million and 167,286 Lazard Group common membership interests at an aggregate cost of \$5 million. Accordingly, at September 30, 2010, \$89 million of the share purchase authorization remained available for future repurchases. In addition to the repurchases of 3,466,178 shares described above, during the nine month period ended September 30, 2010, in order, among other reasons, to help neutralize the dilutive effect of our share-based incentive compensation plans, Lazard Ltd utilized \$55 million to satisfy certain employees' withholding tax obligations on vested RSUs in lieu of issuing 1,602,999 shares.

**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 September 30, 2010:

	<b>Contractual Obligations - Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
	(\$ in thousands)				
Senior and Subordinated Debt (including interest) (a)	\$ 1,709,750	\$ 80,093	\$ 160,185	\$ 688,685	\$ 780,787
Operating Leases (exclusive of \$97,332 of sublease income)	394,397	65,267	97,788	60,503	170,839
LAM Merger Cash Consideration (b)	90,348		90,348		
Capital Leases (including interest)	27,465	3,558	6,405	5,004	12,498
Private Equity Funding Commitments (c)	6,962	6,914	48		
<b>Total (d)</b>	<b>\$ 2,228,922</b>	<b>\$ 155,832</b>	<b>\$ 354,774</b>	<b>\$ 754,192</b>	<b>\$ 964,124</b>

(a) See Note 10 of Notes to Condensed Consolidated Financial Statements.

(b) See Note 7 of Notes to Condensed Consolidated Financial Statements.

(c) See Note 11 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.



**Table of Contents**

**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.

## Edgar Filing: Lazard Ltd - Form 10-Q

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 September 30, 2010 and December 31, 2009, the Company had receivables past due of approximately \$21 and \$14 million, respectively, and its allowance for doubtful accounts was \$17 and \$12 million, respectively.



---

## **Table of Contents**

### ***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. These temporary differences result in deferred tax assets and liabilities, 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. 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, which 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. 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. 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.

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.

At September 30, 2010, net investments (representing total investments, net of securities sold, not yet purchased of \$3 million), totaled \$709 million, or 23% of total assets. Included in this amount is \$413 million of debt securities, representing 58% of net investments, that primarily

## Edgar Filing: Lazard Ltd - Form 10-Q

consist of securities issued by the U.S. Government and agencies and the French government, and fixed and floating rate European corporate bonds, all of which subject Lazard to market risk. Approximately 55%, 15%, 12%, 9% and 9% of such debt securities are invested in the government, financial, consumer, industrial and other sectors, respectively. At September 30, 2010, approximately 86% of the corporate bonds held investment grade ratings, and approximately \$12 million of pre-tax unrealized losses are included in AOCI related to such portfolio.

---

**Table of Contents**

Also included in the \$709 million of net investments were \$82 million, or 12%, of investments in equities (net of securities sold, not yet purchased) all of which subject the Company to market risk. We employ hedging strategies to reduce the market risk and, in turn, the volatility to earnings. Approximately 60% of such amount represents the Company's investment in marketable equity securities to seed asset management products and was invested 26%, 25%, 11% and 38% in the consumer, financial, industrial and other sectors, respectively. Asset Management fund investments represent the remaining 40% of total equities. The Company's asset management fund investments are diversified and may incorporate particular strategies; however, there are no investments in funds with single sector specific strategies.

In addition to the equity securities above, at September 30, 2010 Lazard held \$51 million, or 7%, of net investments in LAM alternative asset management funds principally representing GP interests in LAM-managed hedge funds, which subject Lazard to market risk. 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 specific strategy.

Private equity investments owned by Lazard of \$99 million represent approximately 14% of net investments and 3% of total assets at September 30, 2010 and are 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/credit risk. 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 (the mezzanine fund); (ii) CP II, a private equity fund targeting significant noncontrolling investments in established public and private companies; and (iii) Lazard Senior Housing Partners LP, which acquires companies and assets in the senior housing, extended-stay hotel and shopping center sectors.

The remaining \$64 million, or 9%, of net investments at September 30, 2010 represents investments (i) accounted for under the equity method of accounting and (ii) private equity and general partnership interests that are consolidated but not owned by Lazard, 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.

At December 31, 2009, net investments (net of securities sold, not yet purchased of \$5 million), totaled \$803 million, or 25% of total assets. Included in this amount is \$461 million of debt securities, representing 57% of net investments that primarily consist of fixed and floating rate European corporate bonds, U.S. Government and agencies and French government debt securities, all of which subject Lazard to market risk. Approximately 45%, 21%, 14%, 12% and 8% of such debt securities are invested in the government, financial, consumer, industrial and other sectors, respectively. At December 31, 2009, approximately 85% of the corporate bonds held investment grade ratings, and approximately \$19 million of pre-tax unrealized losses are included in AOCI related to such portfolio.

Also included in the \$803 million of net investments were \$77 million, or 10%, of investments in equities (net of securities sold, not yet purchased) all of which subject the Company to market risk. Approximately 60% of such amount represents the Company's investment in marketable equity securities to seed asset management products and was invested 27%, 25%, 10% and 38% in the consumer, financial, industrial and other sectors, respectively. Asset Management fund investments represent the remaining 40% of total equities. The Company's asset management fund investments are diversified and may incorporate particular strategies; however, there are no investments in funds with single sector specific strategies.

In addition to the equity securities above, at December 31, 2009 Lazard held \$50 million, or 6%, of net investments in LAM alternative asset management funds principally representing GP interests in LAM-managed hedge funds, which subject Lazard to market risk. 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 specific strategy.



## Table of Contents

Private equity investments owned by Lazard of \$103 million represent approximately 13% of net investments and 3% of total assets at December 31, 2009 and are 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/credit risk. Private equity investments primarily include (i) the mezzanine fund; (ii) CP II; and (iii) Lazard Senior Housing Partners LP.

The remaining \$112 million, or 14%, of net investments at December 31, 2009 represents investments (i) accounted for under the equity method of accounting and (ii) private equity and general partnership interests that are consolidated but not owned by Lazard, 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.

The decrease of \$93 million in net investments at September 30, 2010 compared to December 31, 2009 primarily relates to sales and maturities in the corporate bond portfolio and the disposition of the Company's investment in Sapphire Industrials Corp. in January 2010 (see Note 4 of Notes to Condensed Consolidated Financial Statements), partially offset by net purchases of non-U.S. Government and agency bonds.

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.

Most of the Company's investments in corporate bonds are considered Level 2 investments with such fair value based on observable data, principally broker quotes as provided by external pricing services. All other debt securities at fair value are considered Level 1 investments with such fair value based on unadjusted quoted prices in active markets.

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

## Edgar Filing: Lazard Ltd - Form 10-Q

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.

## **Table of Contents**

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.

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.

### ***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.

## Edgar Filing: Lazard Ltd - Form 10-Q

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.



---

**Table of Contents**

**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***

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 September 30, 2010 and December 31, 2009, derivative contracts related primarily to interest rate swaps, equity and foreign currency exchange rate contracts, and are recorded at fair value. Derivative assets amounted to \$1 million at both September 30, 2010 and December 31, 2009, and derivative liabilities amounted to \$29 million and \$17 million at September 30, 2010 and December 31, 2009, respectively.

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 securities portfolio, foreign currency exchange hedging and lending activities are sensitivity to changes in the general level of credit spreads and 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 nine month period ended September 30, 2010:

LFB's credit spread risk, as measured by a 100+/- basis point change in credit spreads totaled \$(7) million and \$8 million, respectively.

LFB's interest rate risk as measured by a 100+/- basis point change in interest rates totaled \$200 thousand.

## Edgar Filing: Lazard Ltd - Form 10-Q

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 \$30 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 September 30, 2010, total receivables amounted to \$787 million, net

## **Table of Contents**

of an allowance for doubtful accounts of \$17 million. As of that date, financial advisory fees and asset management fees, inter-bank deposits, customer and related party receivables comprised 59%, 23%, 17% and 1% of total receivables, respectively. At December 31, 2009, total receivables amounted to \$669 million, net of an allowance for doubtful accounts of \$12 million. As of that date, financial advisory fees and asset management fees, inter-bank deposits, customer and related party receivables comprised 65%, 22%, 11% and 2% 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.

Receivables from banks represent those related to LFB's short-term deposits in the inter-bank market and with the Banque de France. The level of these deposits may be driven by the level of LFB customer and bank-related interest-bearing time and demand deposits (which can fluctuate significantly on a daily basis) and by changes in asset allocation. Historically the risk of loss associated with such deposits is extremely low. The Company closely monitors the creditworthiness of counterparties to minimize its exposure to loss in adverse market conditions. Based on its review of its receivables from banks at September 30, 2010 and December 31, 2009, LFB has determined that an allowance for doubtful accounts related to such receivables from banks was not required.

### ***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 September 30, 2010, excluding deposits with inter-bank counterparties, LFB had no exposure to an individual counterparty that exceeded \$31 million (with such amount being fully collateralized).

With respect to activities outside LFB, as of September 30, 2010, the Company's largest individual counterparty exposure was a Financial Advisory-related fee receivable of \$20 million, substantially all of which has been collected subsequent to September 30, 2010.

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

A significant portion of the Company's liabilities has fixed interest rates, while its cash and short-term investments generally have floating interest rates. Based on account balances as of September 30, 2010, Lazard estimates that its annual operating income relating to cash and short-term investments and corporate indebtedness would increase by approximately \$8 million in the event interest rates were to increase by 1% and decrease by approximately \$3 million if rates were to decrease by 1%.

As of September 30, 2010, the Company's cash and cash equivalents totaled \$847 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**

## Edgar Filing: Lazard Ltd - Form 10-Q

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.

## **Table of Contents**

### **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.

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's businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. 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 reserves if a loss is probable and the amount can be reasonably estimated. Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on the Company's financial condition but might be material to the Company's operating results or cash flows for any particular period, depending upon the operating results for such period.

**Item 1A. Risk Factors**

Except as discussed below, there were no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K and the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010.

**LAZ-MD Holdings relies on an exception from the Investment Company Act of 1940, as amended (the Investment Company Act).**

LAZ-MD Holdings currently has less than 100 holders and does not publicly offer its shares. Accordingly, LAZ-MD Holdings relies on an exception from the definition of investment company under the Investment Company Act and the rules thereunder. Lazard Ltd expects that LAZ-MD Holdings will continue to conduct its operations such that LAZ-MD Holdings will not be subject to regulation as an investment company under the Investment Company Act.

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

During the third quarter of 2010, Lazard Ltd issued 200,510 shares of Class A common stock in reliance on Section 4(2) of the Securities Act of 1933 in connection with the exchange of 200,510 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.

**Table of Contents****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 third quarter of 2010. Share repurchases are recorded on a trade date basis.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
<b>July 1, 2010 – July 31, 2010</b>				
Share Repurchase Program (1)	25,000	\$ 29.64	25,000	\$ 176.5 million
Employee Transactions (2)	86,378	\$ 30.07		
<b>August 1, 2010 – August 31, 2010</b>				
Share Repurchase Program (1)	2,728,228	\$ 30.36	2,728,228	\$ 88.6 million(3)
Employee Transactions (2)	83,387	\$ 32.11		
<b>September 1, 2010 – September 30, 2010</b>				
Share Repurchase Program (1)				\$ 88.6 million
Employee Transactions (2)	144,903	\$ 35.48		
<b>Total</b>				
Share Repurchase Program (1)	2,753,228	\$ 30.36	2,753,228	\$ 88.6 million
Employee Transactions (2)	314,668	\$ 33.10		

- (1) On January 27, 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. The share repurchase program will be used primarily to offset a portion of the shares to be issued under Lazard Ltd's 2005 Plan and 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, shares of Class A common stock may be withheld by the Company to cover estimated income taxes. During the three month period ended September 30, 2010, the Company withheld 314,668 shares to cover estimated taxes upon the vesting of 986,545 RSUs.
- (3) The dollar value of the repurchase authorization, referred to in (1) above, was reduced by the repurchase of Lazard Group common membership interests in August 2010 in the aggregate amount of \$5.1 million.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. [Removed and Reserved]****Item 5. Other Information**

None.



**Table of Contents**

**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).

**Table of Contents**

- 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).

**Table of Contents**

10.15	Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.16	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).
10.17	Occupational Lease, dated as of August 9, 2002, by and among Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
10.18*	2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005).
10.19*	Lazard Ltd's 2008 Incentive Compensation Plan (incorporated by reference to Annex B to the Registrant's Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 24, 2008).
10.20*	2005 Bonus Plan (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
10.21*	Form of Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, applicable to, and related Schedule I for 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).
10.22*	Form of First Amendment, dated as of May 7, 2008, to Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, for 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).
10.23*	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).
10.24*	Form of Agreements Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).
10.25*	Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, by and between Lazard Group LLC and Alexander F. Stern (incorporated by reference to Exhibit 10.28 to Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 2, 2009).
10.26*	First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, with Alexander F. Stern (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on March 23, 2010).
10.27*	Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, by and between Lazard Group LLC and Kenneth M. Jacobs (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K (File No. 001-32492) filed on March 1, 2010).
10.28*	First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, with Kenneth M. Jacobs (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on March 23, 2010).

**Table of Contents**

10.29*	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).
10.30*	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).
10.31	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).
10.32	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).
10.33	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).
10.34	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).
10.35*	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).
10.36*	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).
10.37*	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).
10.38*	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).
10.39*	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).
10.40	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).
10.41	Amended and Restated \$150 Million Subordinated Convertible Promissory Note due 2018, 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).
10.42	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).

**Table of Contents**

10.43*	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).
10.44*	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).
10.45	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).
10.46*	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).
10.47	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 10.54 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on April 30, 2010).
10.48*	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).
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 Michael J. Castellano.
32.1	Section 1350 Certification for Kenneth M. Jacobs.
32.2	Section 1350 Certification for Michael J. Castellano.
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.

Table of Contents

**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: October 29, 2010

LAZARD LTD

By: /s/ Kenneth M. Jacobs  
Name: Kenneth M. Jacobs

Title: Chairman and Chief Executive Officer

By: /s/ Michael J. Castellano  
Name: Michael J. Castellano

Title: Chief Financial Officer