Lazard Ltd
Form 10-Q
August 01, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from ___________ to ___________

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

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

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

Registrant s telephone number: (441) 295-1422

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

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

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

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

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

As of July 25, 2012, there were 123,196,012 shares of the Registrant s Class A common stock (including 6,970,705 shares held by subsidiaries) and one share of the registrant s Class B common stock outstanding.

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When we use the terms Lazard , we , us , our and the Company , we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company (Lazard Group), that is the current holding company for our businesses. Lazard Ltd has no material operating assets other than indirect ownership as of June 30, 2012 of approximately 94.9% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

JUNE 30, 2012 AND DECEMBER 31, 2011

(UNAUDITED)

(dollars in thousands, except for per share data)

	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$751,238	$1,003,791
Deposits with banks	324,355	286,037
Cash deposited with clearing organizations and other segregated cash	78,774	75,506
Receivables (net of allowance for doubtful accounts of $20,756 and $19,450 at June 30, 2012 and December 31, 2011, respectively):		
Fees	388,588	402,843
Customers and other	80,790	83,111
Related parties	14,102	18,501
	483,480	504,455
Investments	439,683	378,521
Property (net of accumulated amortization and depreciation of $261,690 and $266,673 at June 30, 2012 and December 31, 2011, respectively)	198,289	168,429
Goodwill and other intangible assets (net of accumulated amortization of $30,600 and $26,922 at June 30, 2012 and December 31, 2011, respectively)	394,168	393,099
Other assets	307,867	272,098
Total assets	$2,977,854	$3,081,936

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

JUNE 30, 2012 AND DECEMBER 31, 2011

(UNAUDITED)

(dollars in thousands, except for per share data)

	June 30, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits and other customer payables	$338,514	$288,427
Accrued compensation and benefits	251,120	383,513
Senior debt	1,076,850	1,076,850
Capital lease obligations	18,293	20,084
Related party payables	7,080	6,075
Other liabilities	459,589	440,131
Total liabilities	2,151,446	2,215,080
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share; 15,000,000 shares authorized:		
Series A - 7,921 shares issued and outstanding at June 30, 2012 and December 31, 2011		
Series B - no shares issued and outstanding		
Common stock:		
Class A, par value $.01 per share (500,000,000 shares authorized; 123,196,012 and 123,009,311 shares issued at June 30, 2012 and December 31, 2011, respectively, including shares held by subsidiaries as indicated below)	1,232	1,230
Class B, par value $.01 per share (1 share authorized, issued and outstanding at June 30, 2012 and December 31, 2011)		
Additional paid-in-capital	700,064	659,013
Retained earnings	264,682	258,646
Accumulated other comprehensive loss, net of tax	(94,171)	(88,364)
	871,807	830,525
Class A common stock held by subsidiaries, at cost (6,389,777 and 3,492,017 shares at June 30, 2012 and December 31, 2011, respectively)	(167,382)	(104,382)
Total Lazard Ltd stockholders equity	704,425	726,143
Noncontrolling interests	121,983	140,713
Total stockholders equity	826,408	866,856
Total liabilities and stockholders equity	$2,977,854	$3,081,936

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
REVENUE				
Investment banking and other advisory fees	$240,306	$243,096	$513,847	$463,423
Money management fees	201,642	230,906	406,203	445,598
Interest income	1,715	4,363	3,865	7,855
Other	13,568	22,240	39,777	45,070
Total revenue	457,231	500,605	963,692	961,946
Interest expense	20,321	23,313	40,743	46,631
Net revenue	436,910	477,292	922,949	915,315
OPERATING EXPENSES				
Compensation and benefits	283,392	286,480	621,709	556,479
Occupancy and equipment	28,347	22,977	54,629	45,685
Marketing and business development	22,322	20,879	50,589	38,990
Technology and information services	21,275	20,582	41,668	40,149
Professional services	13,274	13,120	22,585	22,961
Fund administration and outsourced services	12,670	13,507	26,121	26,758
Amortization of intangible assets related to acquisitions	2,560	1,706	3,678	3,180
Other	8,537	8,839	19,614	18,465
Total operating expenses	392,377	388,090	840,593	752,667
OPERATING INCOME	44,533	89,202	82,356	162,648
Provision for income taxes	10,371	17,636	19,138	31,099
NET INCOME	34,162	71,566	63,218	131,549
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	3,341	9,562	6,845	14,538
NET INCOME ATTRIBUTABLE TO LAZARD LTD	$ 30,821	$ 62,004	$ 56,373	$117,011
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:				
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	118,235,320	119,107,386	118,732,431	117,221,070
Diluted	134,636,935	139,347,933	135,615,557	138,969,263
NET INCOME PER SHARE OF COMMON STOCK:				

Basic	$0.26	$0.52	$0.47	$1.00
Diluted	$0.24	$0.48	$0.44	$0.91
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$0.20	$0.16	$0.36	$0.285

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
NET INCOME	$ 34,162	$ 71,566	$63,218	$131,549
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Currency translation adjustments	(21,083)	8,436	(1,954)	32,174
Amortization of interest rate hedge	263	263	527	527
Employee benefit plans:				
Net actuarial gain (loss) (net of tax benefit (expense) of $1,443 and $(29) for the three months ended June 30, 2012 and 2011, respectively, and $2,725 and $1,906 for the six months ended June 30, 2012 and 2011, respectively)	(3,457)	55	(6,054)	(3,630)
Adjustment for items reclassified to earnings (net of tax expense of $281 and $262 for the three months ended June 30, 2012 and 2011, respectively, and $578 and $517 for the six months ended June 30, 2012 and 2011, respectively)	826	566	1,641	1,114
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(23,451)	9,320	(5,840)	30,185
COMPREHENSIVE INCOME	10,711	80,886	57,378	161,734
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	2,096	9,942	6,698	16,187
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD	$ 8,615	$ 70,944	$ 50,680	$145,547

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(dollars in thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 63,218	$ 131,549
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash items included in net income:		
Depreciation and amortization of property	14,800	11,820
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	173,083	164,713
Amortization of intangible assets related to acquisitions	3,678	3,180
(Increase) decrease in operating assets:		
Deposits with banks	(47,391)	132,672
Cash deposited with clearing organizations and other segregated cash	(4,583)	(845)
Receivables-net	17,417	52,477
Investments	(58,317)	(13,164)
Other assets	(59,656)	12,237
Increase (decrease) in operating liabilities:		
Deposits and other payables	60,091	(112,956)
Accrued compensation and benefits and other liabilities	(127,851)	(366,816)
Net cash provided by operating activities	34,489	14,867
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(48,941)	(5,676)
Disposals of property	2,053	199
Net cash used in investing activities	(46,888)	(5,477)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Contribution from noncontrolling interests	784	980
Excess tax benefits from share-based incentive compensation		2,848
Other financing activities	10	1,688
Payments for:		
Capital lease obligations	(1,336)	(1,397)
Distributions to noncontrolling interests	(13,462)	(8,034)
Repurchase of common membership interests from members of LAZ-MD Holdings		(794)
Purchase of Class A common stock	(152,413)	(126,237)
Class A common stock dividends	(43,011)	(32,855)
Settlement of vested share-based incentive compensation	(29,421)	(90,635)
Other financing activities	(59)	(46)
Net cash used in financing activities	(238,908)	(254,482)

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,246)	19,409
NET DECREASE IN CASH AND CASH EQUIVALENTS	(252,553)	(225,683)
CASH AND CASH EQUIVALENTS January 1	1,003,791	1,209,695
CASH AND CASH EQUIVALENTS June 30	$ 751,238	$ 984,012

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock				Accumulated Other Comprehensive Income (Loss),	Class A Common Stock Held By a Subsidiary		Total Lazard Ltd		Total
	Shares	$	Shares (*)	$	Additional Paid-In-Capital	Retained Earnings	Net of Tax	Shares	$	Stockholders Equity	Noncontrolling Interests	Stockholders Equity
Balance January 1, 2011	**22,021**	**$**	**119,697,937**	**$ 1,197**	**$ 758,841**	**$ 166,468**	**$ (46,158)**	**6,847,508**	**$ (227,950)**	**$ 652,398**	**$ 143,719**	**$ 796,117**
Comprehensive income (loss):												
Net income						117,011				117,011	14,538	131,549
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments							30,418			30,418	1,756	32,174
Amortization of interest rate hedge							498			498	29	527
Employee benefit plans:												
Net actuarial loss							(3,434)			(3,434)	(196)	(3,630)
Adjustments for items reclassified to earnings							1,054			1,054	60	1,114
Comprehensive income										145,547	16,187	161,734
Business acquisitions and related equity transactions:												
Class A common stock issued/issuable (including related amortization)					4,180					4,180	240	4,420
Amortization of share-based incentive compensation					144,261					144,261	8,272	152,533
Dividend-equivalents					5,958	(5,991)				(33)	(2)	(35)
Class A common stock dividends						(32,855)				(32,855)		(32,855)
Purchase of Class A common stock								3,156,416	(126,237)	(126,237)		(126,237)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefits of $2,178					(282,956)			(5,664,049)	194,424	(88,532)	75	(88,457)
Repurchase of common membership interests from LAZ-MD Holdings					(751)					(751)	(43)	(794)
Class A common stock issued in exchange for Lazard Group common membership interests			728,385	7	(7)							

Adjustment related to the change in Lazard Ltd s ownership in Lazard Group					(1,580)					(1,580)		(1,580)
Distributions to noncontrolling interests, net											(7,054)	(7,054)
Adjustments related to noncontrolling interests					14,323		(205)			14,118	(14,118)	
Balance June 30, 2011	**22,021**	**$**	**120,426,322**	**$ 1,204**	**$ 642,269**	**$ 244,633**	**$ (17,827)**	**4,339,875**	**$ (159,763)**	**$ 710,516**	**$ 147,276**	**$ 857,792**

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

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock				Accumulated Other Comprehensive Income (Loss),	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd		Total
	Shares	$	Shares(*)	$	Additional Paid-In-Capital	Retained Earnings	Net of Tax	Shares	$	Stockholders Equity	Noncontrolling Interests	Stockholders Equity
Balance January 1, 2012	**7,921**	**$**	**123,009,312**	**$ 1,230**	**$ 659,013**	**$ 258,646**	**$ (88,364)**	**3,492,017**	**$ (104,382)**	**$ 726,143**	**$ 140,713**	**$ 866,856**
Comprehensive income (loss):												
Net income						56,373				56,373	6,845	63,218
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments							(2,004)			(2,004)	50	(1,954)
Amortization of interest rate hedge							500			500	27	527
Employee benefit plans:												
Net actuarial loss							(5,747)			(5,747)	(307)	(6,054)
Adjustments for items reclassified to earnings							1,558			1,558	83	1,641
Comprehensive income										50,680	6,698	57,378
Business acquisitions and related equity transactions:												
Class A common stock issued/issuable (including related amortization)					2,865					2,865	153	3,018
Amortization of share-based incentive compensation					144,766					144,766	7,720	152,486
Dividend-equivalents					7,277	(7,326)				(49)	(3)	(52)
Class A common stock dividends						(43,011)				(43,011)		(43,011)
Purchase of Class A common stock								5,706,592	(152,413)	(152,413)		(152,413)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax expense of $972					(119,757)			(2,808,832)	89,413	(30,344)	(49)	(30,393)
Class A common stock issued in exchange for Lazard Group common membership interests			186,701	2	(2)							

Distributions to noncontrolling interests, net											(12,678)	(12,678)
Deconsolidation of investment companies											(14,783)	(14,783)
Adjustments related to noncontrolling interests					5,902		(114)			5,788	(5,788)	
Balance June 30, 2012	7,921	$	123,196,013	$ 1,232	$ 700,064	$ 264,682	$ (94,171)	6,389,777	$ (167,382)	$ 704,425	$ 121,983	$ 826,408

(*) Includes 123,009,311 and 123,196,012 shares of the Company s Class A common stock issued at January 1, 2012 and June 30, 2012, respectively, and 1 share of the Company s Class B common stock issued at each such date.

See notes to condensed consolidated financial statements.

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

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

Lazard Ltd indirectly held approximately 94.9% and 94.8% of all outstanding Lazard Group common membership interests as of June 30, 2012 and December 31, 2011, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group, which is governed by an Operating Agreement dated as of May 10, 2005, as amended (the Operating Agreement). LAZ-MD Holdings LLC (LAZ-MD Holdings), an entity owned by Lazard Group s current and former managing directors, held approximately 5.1% and 5.2% of the outstanding Lazard Group common membership interests as of June 30, 2012 and December 31, 2011, respectively. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd s Class B common stock (the Class B common stock) which provided LAZ-MD Holdings with approximately 5.1% and 5.2% of the voting power but no economic rights in the Company as of such respective dates. Subject to certain limitations, LAZ-MD Holdings interests in Lazard Group are exchangeable for Lazard Ltd Class A common stock, par value $0.01 per share (Class A common stock).

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

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

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

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

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

Basis of Presentation

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

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd s Annual Report on Form 10-K for the year ended December 31, 2011 (the Form 10-K). The accompanying December 31, 2011 condensed consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management s knowledge of current events and actions that Lazard may undertake in the future, actual results may differ materially from the estimates. The consolidated results of operations for the three month and six month periods ended June 30, 2012 are not necessarily indicative of the results to be expected for any future interim or annual period.

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

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. Intercompany transactions and balances have been eliminated.

2. RECENT ACCOUNTING DEVELOPMENTS

Fair Value Measurements In the first quarter of 2012, the Company adopted the amended fair value measurement guidance issued by the Financial Accounting Standards Board (the FASB), which the FASB stated was designed to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (IFRS). Although many of the changes for U.S. GAAP purposes are clarifications of existing guidance or wording changes to align with IFRS, additional disclosures about fair value measurements are required, including (i) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (ii) the valuation processes used and the sensitivity of fair value measurements related to investments categorized within Level 3 of the hierarchy of fair value measurements to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any, and (iii) the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial condition but for which the fair value is required to be disclosed. The amended fair value measurement guidance became effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The adoption of the amended fair value measurement guidance did not have a material impact on the Company s consolidated financial statements, primarily because substantially all Level 3 assets are carried at net asset value (NAV) or its equivalent.

Other Comprehensive Income In the first quarter of 2012, the Company adopted the FASB s amended guidance regarding the presentation of comprehensive income, which the FASB stated was designed to improve

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

comparability, consistency and transparency. The amendment required that all changes in comprehensive income be presented either in (i) a single continuous statement of comprehensive income or in (ii) two separate but consecutive statements. The amendment was to be applied retrospectively and is effective with interim and annual periods beginning after December 15, 2011, with early adoption permitted. The Company elected the two-statement method.

3. RECEIVABLES - NET

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

Receivables are stated net of an estimated allowance for doubtful accounts of $20,756 and $19,450 at June 30, 2012 and December 31, 2011, respectively, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. The Company recorded net bad debt expense (recoveries) of $(133) and $1,148 for the three month and six month periods ended June 30, 2012, respectively, and $2,463 and $3,430 for the three month and six month periods ended June 30, 2011, respectively. In addition, the Company recorded charge-offs, foreign currency translation and other adjustments, which resulted in a net increase (decrease) to the allowance for doubtful accounts of $(283) and $158 for the three month and six month periods ended June 30, 2012, respectively, and $(1,435) and $(1,922) for the three month and six month periods ended June 30, 2011, respectively. At June 30, 2012 and December 31, 2011, the Company had receivables deemed past due or uncollectible of $22,857 and $22,785, respectively.

4. INVESTMENTS

The Company s investments and securities sold, not yet purchased, consist of the following at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Debt	$ 20,270	$ 36,966
Equities (a)	212,314	156,053
Other:		
Interests in alternative asset management funds (a)	36,500	20,610
Fixed income funds (a)	47,165	31,121
Private equity	113,991	122,718
Equity method investments	9,443	11,053
	207,099	185,502
Total	439,683	378,521
Less:		
Interest-bearing deposits (included in debt above)	2,715	2,834
Equity method investments	9,443	11,053

Investments, at fair value	$ 427,525	$ 364,634
Securities sold, not yet purchased, at fair value (included in other liabilities)	$ 1,097	$ 4,282

(a) Equities, interests in alternative asset management funds and fixed income funds include investments with fair values of $73,174, $3,512 and $20,237, respectively, at June 30, 2012 and $19,857, $2,256 and $5,212, respectively,

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at December 31, 2011, held in order to satisfy the Company s liability upon vesting of previously granted Lazard Fund Interests (Lazard Fund Interests) and other similar deferred compensation arrangements. Lazard Fund Interests represent grants by the Company to eligible employees of actual or notional interests in a number of Lazard-managed funds (see Notes 6 and 13 of Notes to Condensed Consolidated Financial Statements).

Debt securities primarily consist of seed investments in Asset Management products and U.S. and non-U.S. government debt securities.

Equities primarily consist of (i) seed investments in Asset Management products, which in turn invest in marketable equity securities of large-, mid- and small-cap domestic, international and global companies and include investments in public and private asset management funds managed both by LAM and third-party asset managers and (ii) amounts relating to Lazard Fund Interests discussed above.

Interests in alternative asset management funds primarily consist of general partner (GP) interests in various Lazard-managed alternative asset management funds.

Fixed income funds primarily consist of (i) seed investments in Asset Management products, which invest in fixed income securities and (ii) amounts relating to Lazard Fund Interests discussed above.

Private equity investments include those owned by Lazard and those consolidated but not owned by Lazard. Private equity investments owned by Lazard are primarily comprised of investments in private equity funds. Such investments primarily include (i) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies, (ii) Corporate Partners II Limited (CP II), a private equity fund targeting significant noncontrolling-stake investments in established public and private companies, (iii) Edgewater Growth Capital Partners III, L.P. (EGCP III), a private equity fund primarily making equity and buyout investments in lower middle market companies, (iv) Lazard Senior Housing Partners LP (Senior Housing), which targets controlling interests in companies and assets in the senior housing, extended-stay hotel and shopping center sectors, and (v) Lazard Australia Corporate Opportunities Fund 2 (COF 2), a Lazard-managed Australian private equity fund.

Private equity investments consolidated but not owned by Lazard relate to the economic interests that are owned by the management team and other investors in the Edgewater Funds (Edgewater) which aggregated $19,932 and $18,502 at June 30, 2012 and December 31, 2011, respectively.

During the three month and six month periods ended June 30, 2012 and 2011, the Company recognized gross investment gains and losses in revenue-other on its condensed consolidated statements of operations as follows:

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2012	2011	2012	2011
Gross investment gains	$ 1,715	$ 8,830	$ 29,359	$ 15,205
Gross investment losses	$ 3,052	$ 2,235	$ 4,036	$ 3,251

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

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2012	2011	2012	2011
Gross unrealized investment gains	$ 373	$ 641	$ 1,418	$ 1,214
Gross unrealized investment losses	$ 1,721	$ 193	$ 1,721	$ 313

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

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

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

The fair value of equities is principally classified as Level 1, Level 2 or Level 3 as follows: marketable equity securities are classified as Level 1 and are valued based on the last trade price on the primary exchange for that security; public asset management funds are classified as Level 1 and are valued based on the reported closing price for the fund; investments in private asset management funds redeemable in the near term are classified as Level 2 and valued at NAV or its equivalent, which is primarily determined based on information provided by fund managers and, secondarily, from external pricing services to the extent managed by LAM; and Level 3 represents equities valued based on NAV or its equivalent that are not redeemable within the near term.

The fair value of interests in alternative asset management funds is classified as either Level 2 or Level 3 depending on the time frame of any applicable redemption restriction, and is valued at NAV or its equivalent, which is primarily determined based on information provided by fund managers and, secondarily, from external pricing services to the extent managed by LAM.

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The Company s investments in fixed income funds are considered Level 1 assets when the fair values are based on the reported closing price for the fund or Level 2 assets when the fair values are primarily based on broker quotes as provided by external pricing services.

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

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

Where information reported is based on broker quotes, the Company generally obtains one quote/price per instrument. Where information reported is based on data received from fund managers or from external pricing services, the Company reviews such information to ascertain at which level within the fair value hierarchy to classify the investment.

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The following tables present the categorization of investments and certain other assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 into the three-level fair value hierarchy in accordance with fair value measurement disclosure requirements:

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt (excluding interest-bearing deposits)	$ 13,302	$ 4,253	$	$ 17,555
Equities	168,187	43,936	191	212,314
Other (excluding equity method investments):				
Interests in alternative asset management funds		31,884	4,616	36,500
Fixed income funds	33,211	13,954		47,165
Private equity			113,991	113,991
Derivatives		4,449		4,449
Total	$ 214,700	$ 98,476	$ 118,798	$ 431,974
Liabilities:				
Securities sold, not yet purchased	$ 1,097	$	$	$ 1,097
Derivatives		87,495		87,495
Total	$ 1,097	$ 87,495	$	$ 88,592

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt (excluding interest-bearing deposits)	$ 17,111	$ 17,021	$	$ 34,132
Equities	115,380	37,332	3,341	156,053
Other (excluding equity method investments):				
Interests in alternative asset management funds		13,569	7,041	20,610
Fixed income funds	27,539	3,582		31,121
Private equity			122,718	122,718
Derivatives		7,131		7,131
Total	$ 160,030	$ 78,635	$ 133,100	$ 371,765
Liabilities:				
Securities sold, not yet purchased	$ 4,282	$	$	$ 4,282
Derivatives		30,713		30,713

Total	$ 4,282	$ 30,713	$	$ 34,995

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There were no transfers between any of the Level 1, 2 and 3 categories in the fair value measurement hierarchy during the three month and six month periods ended June 30, 2012 and 2011.

The following tables provide a summary of changes in fair value of the Company s Level 3 assets for the three month and six month periods ended June 30, 2012 and 2011:

	Three Months Ended June 30, 2012					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a)	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending Balance
Investments:						
Equities	$ 227	$ 5	$	$ (30)	$ (11)	$ 191
Interests in alternative asset management funds	5,905	(38)	10	(1,261)		4,616
Private equity	116,563	4,786	56	(4,873)	(2,541)	113,991
Total Level 3 Assets	$ 122,695	$ 4,753	$ 66	$ (6,164)	$ (2,552)	$ 118,798

	Six Months Ended June 30, 2012					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other (a)	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation Adjustments	Ending Balance
Investments:						
Equities	$ 3,341	$ 5	$ 10	$ (3,160)	$ (5)	$ 191
Interests in alternative asset management funds	7,041	89	10	(2,524)		4,616
Private equity	122,718	12,350	2,752	(22,745)	(1,084)	113,991
Total Level 3 Assets	$ 133,100	$ 12,444	$ 2,772	$ (28,429)	$ (1,089)	$ 118,798

	Three Months Ended June 30, 2011			
	Net Unrealized/	Purchases/ Acquisitions	Foreign Currency	Ending Balance

	Beginning Balance	Realized Gains (Losses) Included In Revenue-Other (a)		Sales/ Dispositions	Translation Adjustments	
Investments:						
Equities	$ 129	$ 3	$	$	$ 3	$ 135
Private equity	171,487	3,545	922	(2,052)	802	174,704
Total Level 3 Assets	$ 171,616	$ 3,548	$ 922	$ (2,052)	$ 805	$ 174,839

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

(a) Earnings for the three month and six month periods ended June 30, 2012 and three month and six month periods ended June 30, 2011 include net unrealized gains of $3,483, $9,563, $3,538 and $3,817, respectively.

Fair Value of Certain Investments Based on NAV The Company s Level 2 and Level 3 investments at June 30, 2012 and December 31, 2011 include certain investments that are valued using NAV or its equivalent as a practical expedient in determining fair value. Information with respect thereto was as follows:

	June 30, 2012							
				Estimated Liquidation Period of Investments Not Redeemable			Investments Redeemable	
	Fair Value	Unfunded Commitments	% of Fair Value Not Redeemable	% Next 5 Years	% 5-10 Years	% Thereafter	Redemption Frequency	Redemption Notice Period
Equity funds	$ 43,908	$	2%	1%	0%	1%	Quarterly	60 Days
Interests in alternative asset management funds	36,500		0%	0%	0%	0%	Quarterly	>90 Days
Fixed income funds	13,954		0%	0%	0%	0%	Monthly	60 Days
Private equity funds	112,392	35,726	100%	25%	35%	40%	NA	NA
Total	$ 206,754	$ 35,726						

	December 31, 2011							
				Estimated Liquidation Period of Investments Not Redeemable			Investments Redeemable	
	Fair Value	Unfunded Commitments	% of Fair Value Not Redeemable	% Next 5 Years	% 5-10 Years	% Thereafter	Redemption Frequency	Redemption Notice Period
Equity funds	$ 40,512	$	2%	1%	0%	1%	Quarterly	60 Days

Interests in alternative asset management funds	20,600		0%	0%	0%	0%	Quarterly	>90 Days
Fixed income funds	3,582		0%	0%	0%	0%	Monthly	60 Days
Private equity funds	121,276	52,197	100%	33%	28%	39%	NA	NA
Total	$ 185,970	$ 52,197						

Investment Capital Funding Commitments At June 30, 2012, the current maximum unfunded commitments by the Company for capital contributions to investment funds related to (i) CP II, amounting to $2,124 for potential follow-on investments and/or for fund expenses through the earlier of February 25, 2017

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or the liquidation of the fund, (ii) EGCP III, amounting to $25,673 through the earlier of October 12, 2016 (*i.e*., the end of the investment period) for investments and/or expenses (with a portion of the undrawn amount of such commitment as of that date remaining committed until October 12, 2023 in respect of follow-on investments and/or fund expenses) or the liquidation of the fund and (iii) COF 2, amounting to $7,929, through the earlier of November 11, 2016 (*i.e*., the end of the investment period) for investments and/or fund expenses (with a portion of the undrawn amount of such commitment as of that date remaining committed until November 11, 2019 in respect of follow-on investments and/or fund expenses) or the liquidation of the fund.

6. DERIVATIVES

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, equity and fixed income swaps and other derivative contracts to hedge exposures to fluctuations in currency exchange rates, interest rates and equity and debt markets. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company s derivative instruments are recorded at their fair value, and are included in other assets and other liabilities on the consolidated statements of financial condition. Gains and losses on the Company s derivative instruments not designated as hedging instruments are included in interest income and interest expense , respectively, or revenue-other , depending on the nature of the underlying item, on the consolidated statements of operations.

In addition to the derivative instruments described above, the Company records derivative liabilities relating to its obligations pertaining to Lazard Fund Interests awards and other similar deferred compensation arrangements, the fair value of which is based on the value of the underlying investments, adjusted for estimated forfeitures, and is included in accrued compensation and benefits in the consolidated statements of financial condition. Changes in the fair value of the derivative liabilities are included in compensation and benefits in the consolidated statements of operations, the impact of which equally offsets the changes in the fair value of investments which are currently expected to be delivered upon settlement of Lazard Fund Interests awards, which is reported in revenue-other in the consolidated statements of operations.

The table below represents the fair values of the Company s derivative instruments reported within other assets and other liabilities and the fair value of the Company s derivative liabilities relating to its obligations pertaining to Lazard Fund Interests and other similar deferred compensation arrangements reported within accrued compensation and benefits (see Note 13 of Notes to Condensed Consolidated Financial Statements) on the accompanying condensed consolidated statements of financial condition as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Derivative Assets:		
Forward foreign currency exchange rate contracts	$1,084	$ 4,245
Equity and fixed income swaps and other	3,365	2,886
Total	$4,449	$ 7,131

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	June 30, 2012	December 31, 2011
Derivative Liabilities:		
Forward foreign currency exchange rate contracts	$ 1,491	$ 445
Interest rate swaps	247	277
Equity and fixed income swaps	116	91
Lazard Fund Interests and other similar deferred compensation arrangements (see Note 13)	85,641	29,900
Total	$ 87,495	$ 30,713

Net gains (losses) with respect to derivative instruments (predominantly reflected in revenue-other) and the Company s derivative liabilities relating to its obligations pertaining to Lazard Fund Interests and other similar deferred compensation arrangements (reported in compensation and benefits expense) as reflected on the accompanying condensed consolidated statements of operations for the three month and six month periods ended June 30, 2012 and 2011, by type of derivative, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Forward foreign currency exchange rate contracts	$ 4,051	$ (3,139)	$ 2,129	$ (9,397)
Equity and fixed income swaps and other	3,630	(432)	(6,625)	(2,721)
Lazard Fund Interests and other similar deferred compensation arrangements	2,856		89	
Total	$ 10,537	$ (3,571)	$ (4,407)	$ (12,118)

7. BUSINESS ACQUISITIONS

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

The aggregate fair value of the consideration recognized by the Company at the acquisition date was $61,624. Such consideration consisted of (i) a one-time cash payment, (ii) 1,142,857 shares of Class A common stock (the Initial Shares) and (iii) up to 1,142,857 additional shares of Class A common stock subject to earnout criteria and payable over time (the Earnout Shares). The Initial Shares are subject to forfeiture provisions that lapse only upon the achievement of certain performance thresholds and transfer restrictions during the four year period ending December 2014. The Earnout Shares will be issued only if certain performance thresholds are met. On December 30, 2011, 285,715 Initial Shares and 57,287 Earnout Shares became unrestricted or were otherwise delivered.

In prior years, the Company made certain other business acquisitions. These purchases were effected 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 were each convertible into Class A common stock. In connection with such acquisitions, as of both June 30, 2012 and December 31, 2011, 47,474 shares of Class A common

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stock were issuable on a non-contingent basis. At June 30, 2012, no shares of Series A preferred stock were convertible into shares of Class A common stock on a contingent or a non-contingent basis. See Note 12 of Notes to Condensed Consolidated Financial Statements for additional information relating to preferred stock.

8. PROPERTY-NET

At June 30, 2012 and December 31, 2011 property-net consists of the following:

	Estimated Depreciable Life in Years	June 30, 2012	December 31, 2011
Buildings	33	$ 158,939	$ 164,168
Leasehold improvements	5 - 20	167,957	159,191
Furniture and equipment	3 - 10	108,025	85,396
Construction in progress		25,058	26,347
Total		459,979	435,102
Less Accumulated depreciation and amortization		261,690	266,673
Property-net		$ 198,289	$ 168,429

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangible assets at June 30, 2012 and December 31, 2011 are presented below:

	June 30, 2012	December 31, 2011
Goodwill	$ 360,993	$ 356,657
Other intangible assets (net of accumulated amortization)	33,175	36,442
Total	$ 394,168	$ 393,099

At June 30, 2012 and December 31, 2011, goodwill of $296,452 and $292,116, respectively, was attributable to the Company s Financial Advisory segment and, at such respective dates, $64,541 of goodwill was attributable to the Company s Asset Management segment.

Changes in the carrying amount of goodwill for the six month periods ended June 30, 2012, and 2011 are as follows:

	Six Months Ended June 30,	
	2012	2011
Balance, January 1	$ 356,657	$ 313,229
Business acquisitions	4,272	
Foreign currency translation adjustments	64	7,182
Balance, June 30	$ 360,993	$ 320,411

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The gross cost and accumulated amortization of other intangible assets as of June 30, 2012 and December 31, 2011, by major intangible asset category, are as follows:

	June 30, 2012			December 31, 2011		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	$ 30,740	$ 8,510	$ 22,230	$ 30,740	$ 7,122	$ 23,618
Management fees, customer relationships and non-compete agreements	33,035	22,090	10,945	32,624	19,800	12,824
Total	$ 63,775	$ 30,600	$ 33,175	$ 63,364	$ 26,922	$ 36,442

Amortization expense of intangible assets for the three month and six month periods ended June 30, 2012 was $2,560 and $3,678, respectively, and for the three month and six month periods ended June 30, 2011 was $1,706 and $3,180, respectively. Estimated future amortization expense is as follows:

Year Ending December 31,	Future Amortization Expense (a)
2012 (July 1 through December 31)	$ 2,641
2013	9,372
2014	8,901
2015	6,953
2016	5,308
Total	$ 33,175

(a) Approximately 45% of intangible asset amortization is attributable to a noncontrolling interest.

10. SENIOR DEBT

Senior debt is comprised of the following as of June 30, 2012 and December 31, 2011:

	Initial Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As Of June 30, 2012	Outstanding As Of December 31, 2011
Lazard Group 7.125% Senior Notes	$ 550,000	5/15/15	7.125%	$ 528,500	$ 528,500
Lazard Group 6.85% Senior Notes	600,000	6/15/17	6.85%	548,350	548,350
Lazard Group Credit Facility	150,000	4/29/13	1.92%		
Total				$ 1,076,850	$ 1,076,850

Lazard Group has in place a $150,000, three-year senior revolving credit facility with a group of lenders (the Credit Facility), which expires in April, 2013. 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 June 30, 2012, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 1.92%. At June 30, 2012 and December 31, 2011, no amounts were outstanding under the Credit Facility.

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The Credit Facility, as amended, contains customary terms and conditions, including certain financial covenants. In addition, the Credit Facility, as well as the indenture and the supplemental indentures relating to Lazard Group s senior notes, contain certain covenants, events of default and other customary provisions, including, where applicable, a customary make-whole provision in the event of early redemption. As of June 30, 2012, the Company was in compliance with all of these provisions. All of the Company s senior debt obligations are unsecured.

As of June 30, 2012, the Company had approximately $299,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately $88,000 (at June 30, 2012, exchange rates) and Edgewater of $55,000. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

The Company s senior debt at June 30, 2012 and December 31, 2011 is recorded at historical amounts. At those dates, the fair value of such senior debt outstanding was approximately $1,186,000 and $1,138,000, respectively, and exceeded the aggregate carrying value by approximately $109,000 and $61,000, respectively. The fair value of the Company s senior 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. The Company s senior debt would be categorized within Level 2 of the hierarchy of fair value measurements if carried at fair value.

11. COMMITMENTS AND CONTINGENCIES

Leases The Company 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 the Company s consolidated financial position or results of operations.

Guarantees In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At June 30, 2012, LFB had approximately $5,000 of such indemnifications and held approximately $4,000 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.

Other Commitments In the normal course of business, LFB enters into commitments to extend credit, predominately at variable interest rates. Such commitments at June 30, 2012 aggregated approximately $22,000. These 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 5, 7 and 14 of Notes to Condensed Consolidated Financial Statements for information regarding commitments relating to investment capital funding commitments, business acquisitions and obligations to fund our pension plans, respectively.

The Company has various other contractual commitments arising in the ordinary course of business. In addition, from time to time, LFB enters into underwriting commitments in which it participates as a joint underwriter. The settlement of such transactions are not expected to have a material adverse effect on the Company s consolidated financial position or results of operations. At June 30, 2012, LFB had no such underwriting commitments.

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

12. STOCKHOLDERS EQUITY

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

During the six month periods ended June 30, 2012 and 2011, Lazard Group distributed the following amounts to LAZ-MD Holdings and the subsidiaries of Lazard Ltd (none of which related to tax distributions):

	Six Months Ended June 30,	
	2012	**2011**
LAZ-MD Holdings	$ 2,416	$ 2,174
Subsidiaries of Lazard Ltd	43,011	32,855
Total	$ 45,427	$ 35,029

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

Exchange of Lazard Group Common Membership Interests During the six month periods ended June 30, 2012 and 2011, Lazard Ltd issued 186,701 and 728,385 shares of Class A common stock, respectively, in connection with the exchange of a like number of Lazard Group common membership interests (received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests).

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

Share Repurchase Program In February 2011, October 2011 and April 2012, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, the repurchase of up to $250,000, $125,000 and $125,000, respectively, in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2012, December 31, 2013 and December 31, 2013, respectively. The Company s prior

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share repurchase authorizations expired on December 31, 2009 and December 31, 2011. The Company expects that the share repurchase program, with respect to the Class A common stock, will continue to be used, among other ways, to offset a portion of the shares that have been or will be issued under the Lazard Ltd 2005 Equity Incentive Plan (the 2005 Plan) and the Lazard Ltd 2008 Incentive Compensation Plan (the 2008 Plan). Pursuant to such authorizations, purchases have been made in the open market or through privately negotiated transactions. During the six month period ended June 30, 2012, the Company purchased 5,706,592 shares of Class A common stock, at an aggregate cost of $152,413 (no Lazard Group common membership interests were purchased during such six month period).

As of June 30, 2012, $184,730 of the current aggregate share repurchase amount authorized as of such date remained available under the share repurchase program, all of which expires on December 31, 2013. In addition, under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of restricted stock units (RSUs), shares of Class A common stock may be withheld by the Company to cover the recipient s estimated income tax liability (see Note 13 of Notes to Condensed Consolidated Financial Statements).

During the first half of 2012, the Company had written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 in place, pursuant to which it effected stock repurchases through the open market.

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 both June 30, 2012 and December 31, 2011, 7,921 shares of Series A preferred stock were outstanding, and no shares of Series B preferred stock were outstanding at such respective dates.

Accumulated Other Comprehensive Income (Loss), Net of Tax (AOCI) The components of AOCI at June 30, 2012 and December 31, 2011 are as follows:

	June 30, 2012	December 31, 2011
Currency translation adjustments	$ 1,765	$ 3,719
Interest rate hedge	(3,030)	(3,557)
Employee benefit plans	(97,050)	(92,637)
Total AOCI	(98,315)	(92,475)
Less amount attributable to noncontrolling interests	(4,144)	(4,111)
Total Lazard Ltd AOCI	$ (94,171)	$ (88,364)

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

As of June 30, 2012 and December 31, 2011, LAZ-MD Holdings held approximately 5.1% and 5.2%, respectively, of the outstanding Lazard Group common membership interests. Subject to certain limitations, LAZ-MD Holdings interests in Lazard Group are exchangeable for Class A common stock.

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The following tables summarize the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings during the six month periods ended June 30, 2012, and 2011:

	Lazard Ltd		LAZ-MD Holdings		Total
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	Lazard Group Common Membership Interests
Balance, January 1, 2011	119,697,936	94.0%	7,652,625	6.0%	127,350,561
Activity January 1, 2011 to June 30, 2011:					
Common membership interest activity in connection with:					
Exchanges for Class A common stock	728,385		(728,385)		
Repurchase of common membership interests from LAZ-MD Holdings			(19,032)		(19,032)
Balance, June 30, 2011	120,426,321	94.6%	6,905,208	5.4%	127,331,529
Balance, January 1, 2012	123,009,311	94.8%	6,756,779	5.2%	129,766,090
Activity January 1, 2012 to June 30, 2012:					
Common membership interest activity in connection with:					
Exchanges for Class A common stock	186,701		(186,701)		
Balance, June 30, 2012	123,196,012	94.9%	6,570,078	5.1%	129,766,090

The change in Lazard Ltd s ownership in Lazard Group in the six month periods ended June 30, 2012 and 2011 did not materially impact Lazard Ltd s stockholders equity.

The tables below summarize net income attributable to noncontrolling interests for the three month and six month periods ended June 30, 2012 and 2011 and noncontrolling interests as of June 30, 2012 and December 31, 2011 in the Company s accompanying condensed consolidated financial statements:

	Net Income (Loss) Attributable To Noncontrolling Interests			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
LAZ-MD Holdings	$1,694	$ 4,012	$ 3,019	$ 7,746
Edgewater	1,698	5,882	3,872	6,905
Other	(51)	(332)	(46)	(113)

Total	$3,341	$ 9,562	$ 6,845	$ 14,538

	Noncontrolling Interests As Of	
	June 30, 2012	December 31, 2011
LAZ-MD Holdings	$ 34,506	$ 31,954
Edgewater	86,235	91,713
Other	1,242	17,046
Total	$ 121,983	$ 140,713

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Dividend Declared, July, 2012 On July 25, 2012, the Board of Directors of Lazard Ltd declared a quarterly dividend of $0.20 per share on its Class A common stock, payable on August 24, 2012, to stockholders of record on August 6, 2012.

13. INCENTIVE PLANS
Share-Based Incentive Plan Awards

A description of Lazard Ltd s 2005 Plan and 2008 Plan and activity with respect thereto during the six month periods ended June 30, 2012 and 2011 is presented below.

Shares Available Under the 2005 Plan and 2008 Plan

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

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

The following is a summary of the impact of share-based incentive plans on compensation and benefits expense within the Company s accompanying condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Share-based incentive compensation:				
RSUs	$63,428	$ 57,552	$145,319	$ 142,410
Deferred stock units (DSUs)	1,218	1,068	1,288	1,124
Restricted stock	1,704	356	5,879	8,999
Total	$66,350	$ 58,976	$152,486	$ 152,533

The Company s incentive plans are described below.

Restricted and Deferred Stock Units

RSUs generally require future service as a condition for the delivery of the underlying shares of Class A common stock (unless the recipient is then eligible for retirement under the Company s retirement policy) and convert into Class A common stock on a one-for-one basis after the stipulated vesting periods. 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, RSUs are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method.

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RSUs issued subsequent to December 31, 2005 generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any ordinary quarterly dividends paid on Class A common stock during such period. During the six month periods ended June 30, 2012 and 2011, issuances of RSUs pertaining to such dividend participation rights and respective charges to retained earnings , net of estimated forfeitures (with corresponding credits to additional paid-in-capital) consisted of the following:

	Six Months Ended June 30,	
	2012	**2011**
Number of RSUs issued	310,756	140,613
Charges to retained earnings, net of estimated forfeitures	$7,277	$5,337

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 49,735 and 26,859 DSUs granted during the six month periods ended June 30, 2012 and 2011, respectively. Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Director s Fee Deferral Unit Plan described below. DSUs are convertible into Class A common stock at the time of cessation of service to the Board, and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the six month periods ended June 30, 2012 and 2011.

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 will be granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date on which the foregone cash fees would otherwise have been paid. During the six month periods ended June 30, 2012 and 2011, 5,489 and 2,942 DSUs, respectively, had been granted pursuant to such Plan.

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

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The following is a summary of activity relating to RSUs and DSUs during the six month periods ended June 30, 2012 and 2011:

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	20,751,829	$ 36.84	140,660	$ 34.83
Granted (including 310,756 RSUs relating to dividend participation)	7,847,541	$ 27.51	55,224	$ 23.32
Forfeited	(311,601)	$ 35.46		
Vested	(3,631,932)	$ 33.83		
Balance, June 30, 2012	24,655,837	$ 34.32	195,884	$ 31.58
Balance January 1, 2011	22,108,635	$ 35.67	121,737	$ 34.46
Granted (including 140,613 RSUs relating to dividend participation)	6,309,310	$ 44.93	29,801	$ 37.72
Forfeited	(223,365)	$ 37.90		
Vested	(7,616,386)	$ 39.21	(16,120)	$ 34.76
Balance, June 30, 2011	20,578,194	$ 37.18	135,418	$ 35.14

In connection with RSUs which vested during the six month periods ended June 30, 2012 and 2011, the Company satisfied certain employees tax obligations in lieu of issuing 967,828 and 2,226,829 shares of Class A common stock in the respective six month periods. Accordingly, 2,664,104 and 5,389,557 shares of Class A common stock held by the Company were delivered during the six month periods ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately $311,000, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.4 years subsequent to June 30, 2012. 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.

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Restricted Stock

The following is a summary of activity related to shares of restricted Class A common stock associated with compensation arrangements during the six month periods ended June 30, 2012 and 2011:

	Restricted Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	95,332	$ 37.63
Granted/Exchanged	577,323	$ 29.25
Forfeited	(18,921)	$ 29.51
Vested	(131,743)	$ 28.63
Balance, June 30, 2012	521,991	$ 30.93
Balance, January 1, 2011	95,332	$ 37.63
Granted	327,238	$ 43.70
Vested	(327,238)	$ 43.70
Balance, June 30, 2011	95,332	$ 37.63

In connection with shares of restricted Class A common stock that vested during the six month periods ended June 30, 2012 and 2011, the Company satisfied certain employees tax obligations in lieu of delivering 28,129 and 68,866 shares of Class A common stock during the respective periods. Accordingly, 103,614 and 258,372 shares of Class A common stock held by the Company were delivered during the respective six month periods.

The awards include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock during the period, which will vest concurrently with the underlying restricted stock award. At June 30, 2012, unrecognized restricted stock expense was approximately $10,000, with such expense to be recognized over a weighted average period of approximately 1.9 years subsequent to June 30, 2012.

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.

Lazard Fund Interests and Other Similar Deferred Compensation Arrangements

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

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the impact of which equally offsets the changes in fair value of investments which are currently expected to be delivered upon settlement of Lazard Fund Interests awards, which is reported in revenue-other in the consolidated statement of operations (see Note 6 of Notes to Condensed Consolidated Financial Statements).

The following is a summary of activity relating to Lazard Fund Interests and other similar deferred compensation arrangements during the six month period ended June 30, 2012:

	Prepaid Compensation Asset	Compensation Liability
Balance, January 1, 2012	$ 17,782	$ 29,900
Granted	64,631	64,631
Settled		(8,641)
Forfeited	(1,008)	(993)
Amortization (including grants of awards to retirement-eligible recipients)	(16,985)	
Decrease in fair value		(89)
Other	979	833
Balance, June 30, 2012	$ 65,399	$ 85,641

The amortization of the prepaid compensation asset will generally be recognized over a weighted average period of approximately 2.1 years subsequent to June 30, 2012.

The following is a summary of the impact of Lazard Fund Interests and other similar deferred compensation arrangements on compensation and benefits expense within the accompanying condensed consolidated statements of operations for the three and six month periods ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Amortization (including grants of awards to retirement-eligible recipients)	$10,800	$2,413	$16,985	$5,054
Change in fair value of compensation liability	(2,856)		(89)	
Total	$7,944	$2,413	$16,896	$5,054

14. EMPLOYEE BENEFIT PLANS

The Company provides retirement and other post-retirement benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement plans. These plans generally provide benefits to participants based on average levels of compensation. Expenses related to the Company s employee benefit plans are included in compensation and benefits expense on the consolidated statements of operations.

Employer Contributions to Pension Plans The Company s funding policy for its U.S. and non-U.S. pension plans is to fund when required or when applicable upon an agreement with the plans Trustees.

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Management also evaluates from time to time whether to make voluntary contributions to the plans. The Company made a contribution to the U.S. pension plans during the six month period ended June 30, 2012 of approximately $700.

On April 30, 2012, the Company and the Trustees of the U.K. pension plans concluded the December 31, 2010 triennial valuations of the plans. In connection with such valuations and a previously negotiated agreement with the Trustees, the Company and the Trustees agreed upon pension funding terms (the agreement) (which superseded the terms of an agreement reached in June 2009 with respect to the previous triennial valuation as of December 31, 2007) whereby the Company: (i) made a contribution in December 2011 to the plans of 2.3 million British pounds ($3,687 at December 31, 2011 exchange rates) from a previously established escrow account, (ii) will make contributions of 1 million British pounds during each year from 2012 through 2020 inclusive and (iii) amended the previous escrow arrangement into an account security arrangement covering 10.2 million British pounds, committing to make annual contributions of 1 million British pounds into such account security arrangement during each year from 2014 through 2020. It was further agreed that, to the extent that the value of the plans assets falls short of the funding target for June 1, 2020 that has been agreed upon with the Trustees, the assets from the account security arrangement would be released into the plans at that date. Additionally, the Company agreed to fund the expenses of administering the plans, including certain regulator levies and the cost of other professional advisors to the plans. The terms of the agreement are subject to adjustment based on the results of subsequent triennial valuations. The aggregate amount in the account security arrangement at June 30, 2012 of approximately $16,000 has been recorded in cash deposited with clearing organizations and other segregated cash on the accompanying condensed consolidated statement of financial condition. Income on the escrow balance accretes to the Company and is recorded in interest income.

During the six month period ended June 30, 2012, the Company contributed 1 million British pounds ($1,576 at June 30, 2012 exchange rates) to these U.K. pension plans, and no contributions were made to other non-U.S. pension plans.

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The following table summarizes the components of net periodic benefit cost for the three month and six month periods ended June 30, 2012 and 2011:

	Pension Plans		Post-Retirement Medical Plans	
	Three Months Ended June 30,			
	2012	2011	2012	2011
Components of Net Periodic Benefit Cost:				
Service cost	$ 166	$ 169	$ 19	$ 19
Interest cost	6,885	7,092	52	69
Expected return on plan assets	(6,622)	(7,644)		
Amortization of:				
Prior service cost	687	762		
Net actuarial loss	420	66		
Settlement loss (a)	886			
Net periodic benefit cost	$ 2,422	$ 445	$ 71	$ 88

	Pension Plans		Post-Retirement Medical Plans	
	Six Months Ended June 30,			
	2012	2011	2012	2011
Components of Net Periodic Benefit Cost:				
Service cost	$ 338	$ 332	$ 30	$ 34
Interest cost	13,787	14,159	105	139
Expected return on plan assets	(13,294)	(15,266)		
Amortization of:				
Prior service cost	1,388	1,502		
Net actuarial loss	831	129		
Settlement loss (a)	886			
Net periodic benefit cost	$ 3,936	$ 856	$ 135	$ 173

(a) During the three month period ended June 30, 2012, the Company s pension plans in the U.S. made lump sum benefit payments in excess of the plans annual service and interest costs, which, under U.S. GAAP, requires that the plans obligations and assets be remeasured. The remeasurement of the plans resulted in the recognition of actuarial losses totaling $1,935 recorded in other comprehensive income (loss), net of tax (OCI), which, combined with a settlement loss of $886 recognized in compensation and benefits expense, resulted in a net charge to OCI of $1,049.

15. INCOME TAXES

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

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The Company recorded income tax provisions of $10,371 and $19,138 for the three month and six month periods ended June 30, 2012, respectively, and $17,636 and $31,099 for the three month and six month periods ended June 30, 2011, respectively, representing effective tax rates of 23.3%, 23.2%, 19.8% and 19.1%, respectively. The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates reflected 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 and (iv) U.S. state and local taxes (primarily UBT), which are incremental to the U.S. federal statutory tax rate.

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

Tax Receivable Agreement

The redemption of historical partner interests in connection with the Company s separation and recapitalization that occurred in May 2005 and subsequent exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock have resulted, and future exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, in increases in the tax basis of the tangible and intangible assets of Lazard Group. The tax receivable agreement dated as of May 10, 2005 with LFCM Holdings LLC (LFCM Holdings) requires the Company to pay LFCM Holdings 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of the above-mentioned increases in tax basis. The Company calculates this provision annually and includes such amounts in operating expenses on its consolidated statements of operations once the results of operations for the full year are known. As a result, there is no provision for such payments in the six month periods ended June 30, 2012 and 2011. 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.

16. NET INCOME PER SHARE OF CLASS A COMMON STOCK

The Company s basic and diluted net income per share calculations for the three month and six month periods ended June 30, 2012 and 2011 are computed as described below.

Basic Net Income Per Share

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

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

Diluted Net Income Per Share

Numerator utilizes net income attributable to Lazard Ltd for the respective periods as in the basic net income per share calculation described above, plus, to the extent applicable and dilutive, (i) interest expense on convertible debt, (ii) changes in net income attributable to noncontrolling interests resulting from assumed Class

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A common stock issuances in connection with share-based incentive compensation, convertible debt and convertible preferred stock and, on an as-if-exchanged basis, amounts applicable to LAZ-MD Holdings exchangeable interests and (iii) income tax related to (i) and (ii) above.

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

The calculations of the Company s basic and diluted net income per share and weighted average shares outstanding for the three month and six month periods ended June 30, 2012 and 2011 are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income attributable to Lazard Ltd	$30,821	$62,004	$56,373	$117,011
Add - adjustment associated with Class A common stock issuable on a non-contingent basis	2	103	2	199
Net income attributable to Lazard Ltd - basic	30,823	62,107	56,375	117,210
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 in 2011, convertible preferred stock and exchangeable interests, net of tax	1,686	4,649	2,876	9,074
Net income attributable to Lazard Ltd - diluted	$32,509	$66,756	$59,251	$126,284
Weighted average number of shares of Class A common stock outstanding	117,478,380	115,326,051	118,079,120	113,503,750
Add - adjustment for shares of Class A common stock issuable on a non-contingent basis	756,940	3,781,335	653,311	3,717,320
Weighted average number of shares of Class A common stock outstanding - basic	118,235,320	119,107,386	118,732,431	117,221,070
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 in 2011, convertible preferred stock and exchangeable interests	16,401,615	20,240,547	16,883,126	21,748,193
Weighted average number of shares of Class A common stock outstanding - diluted	134,636,935	139,347,933	135,615,557	138,969,263

Net income attributable to Lazard Ltd per share of Class A common stock:				
Basic	$0.26	$0.52	$0.47	$1.00
Diluted	$0.24	$0.48	$0.44	$0.91

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17. RELATED PARTIES

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

	June 30, 2012	December 31, 2011
Receivables		
LFCM Holdings	$10,416	$14,790
Other	3,686	3,711
Total	$14,102	$18,501
Payables		
LFCM Holdings	$ 6,189	$ 4,850
Other	891	1,225
Total	$ 7,080	$ 6,075

LFCM Holdings

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

For the three month and six month periods ended June 30, 2012, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $702 and $1,515, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $3,552 and $4,366, respectively. For the three month and six month periods ended June 30, 2011, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $578 and $1,192, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $6,200 and $13,147, respectively. Amounts relating to the administrative services agreement are reported as reductions to operating expenses. Net referral fees for underwriting transactions under the business alliance agreement are reported in revenue-other . Net referral fees for private placement, M&A and restructuring transactions under the business alliance agreement are reported in advisory fee revenue.

Receivables from LFCM Holdings and its subsidiaries as of June 30, 2012 and December 31, 2011 include $3,825 and $11,862, respectively, related to administrative and support services, and other receivables which include sublease income and reimbursement of expenses incurred on behalf of LFCM Holdings, and $6,591 and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

$2,928, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at June 30, 2012 and December 31, 2011 consist of $6,189 and $2,060, respectively, principally relating to certain advances and referral fees for Financial Advisory transactions and, at December 31, 2011, obligations pursuant to the tax receivable agreement of $2,790 (see Note 15 of Notes to Condensed Consolidated Financial Statements).

Other

Other receivables and payables at June 30, 2012 and December 31, 2011 primarily relate to referral fees for restructuring and M&A transactions with MBA Lazard Holdings S.A. and its affiliates, an Argentina-based group in which the Company has a 50% ownership interest, and a related party loan.

LAZ-MD Holdings

Lazard Group provides selected administrative and support services to LAZ-MD Holdings through the administrative services agreement as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group s cost allocation methodology and, for the three month and six month periods ended June 30, 2012, such charges amounted to $187 and $375, respectively. For the three month and six month periods ended June 30, 2011, such charges amounted to $187 and $375, respectively.

18. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Exchange Act. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage of total aggregate indebtedness recorded in LFNY s Financial and Operational Combined Uniform Single (FOCUS) report filed with the Financial Industry Regulatory Authority (FINRA), or $100, whichever is greater. At June 30, 2012, LFNY s regulatory net capital was $74,299, which exceeded the minimum requirement by $68,933.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries) are regulated by the Financial Services Authority. At June 30, 2012, the aggregate regulatory net capital of the U.K. Subsidiaries was $130,437, which exceeded the minimum requirement by $106,893.

CFLF, under which asset management and commercial banking activities are carried out in France, is subject to regulation by the Autorité de Contrôle Prudentiel for its banking activities conducted through its subsidiary, LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), are subject to regulation and supervision by the Autorité des Marchés Financiers. At June 30, 2012, the consolidated regulatory net capital of CFLF was $168,117, which exceeded the minimum requirement set for regulatory capital levels by $75,989.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At June 30, 2012, for those subsidiaries with regulatory capital requirements, their aggregate net capital was $107,826, which exceeded the minimum required capital by an aggregate of $84,178.

At June 30, 2012, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

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