Lazard Ltd
Form 10-Q
November 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 September 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 October 24, 2012, there were 125,657,420 shares of the Registrant s Class A common stock (including 11,905,371 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 September 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

SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$832,940	$1,003,791
Deposits with banks	266,680	286,037
Cash deposited with clearing organizations and other segregated cash	61,863	75,506
Receivables (net of allowance for doubtful accounts of $22,324 and $19,450 at September 30, 2012 and December 31, 2011, respectively):		
Fees	389,346	402,843
Customers and other	84,063	83,111
Related parties	10,902	18,501
	484,311	504,455
Investments	439,435	378,521
Property (net of accumulated amortization and depreciation of $272,740 and $266,673 at September 30, 2012 and December 31, 2011, respectively)	216,412	168,429
Goodwill and other intangible assets (net of accumulated amortization of $33,094 and $26,922 at September 30, 2012 and December 31, 2011, respectively)	395,442	393,099
Other assets	297,863	272,098
Total assets	$2,994,946	$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)

SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits and other customer payables	$262,206	$288,427
Accrued compensation and benefits	301,174	383,513
Senior debt	1,076,850	1,076,850
Capital lease obligations	18,148	20,084
Related party payables	3,037	6,075
Other liabilities	499,705	440,131
Total liabilities	2,161,120	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 September 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; 123,201,012 and 123,009,311 shares issued at September 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 September 30, 2012 and December 31, 2011)		
Additional paid-in-capital	750,647	659,013
Retained earnings	270,245	258,646
Accumulated other comprehensive loss, net of tax	(81,408)	(88,364)
	940,716	830,525
Class A common stock held by subsidiaries, at cost (8,531,305 and 3,492,017 shares at September 30, 2012 and December 31, 2011, respectively)	(226,889)	(104,382)
Total Lazard Ltd stockholders equity	713,827	726,143
Noncontrolling interests	119,999	140,713
Total stockholders equity	833,826	866,856
Total liabilities and stockholders equity	$2,994,946	$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 NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUE				
Investment banking and other advisory fees	$218,262	$248,358	$ 732,109	$ 711,781
Money management fees	214,867	213,276	621,070	658,874
Interest income	733	3,418	4,598	11,273
Other	15,602	19,531	55,379	64,601
Total revenue	449,464	484,583	1,413,156	1,446,529
Interest expense	20,658	22,164	61,401	68,795
Net revenue	428,806	462,419	1,351,755	1,377,734
OPERATING EXPENSES				
Compensation and benefits	283,818	273,532	905,527	830,011
Occupancy and equipment	25,680	24,345	80,309	70,030
Marketing and business development	19,096	19,844	69,685	58,834
Technology and information services	21,474	20,417	63,142	60,566
Professional services	8,514	11,434	31,099	34,395
Fund administration and outsourced services	13,179	14,019	39,300	40,777
Amortization of intangible assets related to acquisitions	2,494	1,716	6,172	4,896
Other	7,825	9,374	27,439	27,839
Total operating expenses	382,080	374,681	1,222,673	1,127,348
OPERATING INCOME	46,726	87,738	129,082	250,386
Provision for income taxes	13,053	20,605	32,191	51,704
NET INCOME	33,673	67,133	96,891	198,682
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	372	4,434	7,217	18,972
NET INCOME ATTRIBUTABLE TO LAZARD LTD	$ 33,301	$ 62,699	$ 89,674	$ 179,710
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:				
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	115,603,351	118,315,944	117,689,404	117,586,028
Diluted	135,380,036	136,857,956	135,537,050	138,265,494
NET INCOME PER SHARE OF COMMON STOCK:				

Basic	$0.29	$0.53	$0.76	$1.53
Diluted	$0.26	$0.49	$0.70	$1.39
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$0.20	$0.16	$0.56	$0.445

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(dollars in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
NET INCOME	$ 33,673	$ 67,133	$96,891	$198,682
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Currency translation adjustments	14,306	(38,496)	12,352	(6,322)
Amortization of interest rate hedge	264	264	791	791
Employee benefit plans:				
Actuarial loss (net of tax benefits of $994 and $2,402 for the three months ended September 30, 2012 and 2011, respectively, and $3,719 and $4,308 for the nine months ended September 30, 2012 and 2011, respectively)	(1,893)	(4,585)	(7,947)	(8,215)
Adjustment for items reclassified to earnings (net of tax expense of $278 and $261 for the three months ended September 30, 2012 and 2011, respectively, and $856 and $778 for the nine months ended September 30, 2012 and 2011, respectively)	803	560	2,444	1,674
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	13,480	(42,257)	7,640	(12,072)
COMPREHENSIVE INCOME	47,153	24,876	104,531	186,610
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,086	2,023	7,784	18,210
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD	$ 46,067	$ 22,853	$ 96,747	$168,400

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(dollars in thousands)

	Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 96,891	$ 198,682
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	22,472	18,176
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	252,812	228,213
Amortization of intangible assets related to acquisitions	6,172	4,896
Gain on extinguishment of debt		(18,171)
(Increase) decrease in operating assets:		
Deposits with banks	18,465	96,193
Cash deposited with clearing organizations and other segregated cash	13,614	28,574
Receivables-net	23,115	(28,681)
Investments	(55,135)	71,127
Other assets	(54,449)	(64,267)
Increase (decrease) in operating liabilities:		
Deposits and other payables	(28,361)	(22,187)
Accrued compensation and benefits and other liabilities	(55,770)	(230,935)
Net cash provided by operating activities	239,826	281,620
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(71,722)	(17,277)
Disposals of property	2,158	353
Net cash used in investing activities	(69,564)	(16,924)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Contribution from noncontrolling interests	1,544	3,821
Excess tax benefits from share-based incentive compensation		2,848
Payments for:		
Subordinated debt		(131,829)
Capital lease obligations	(1,878)	(1,600)
Distributions to noncontrolling interests	(17,399)	(21,431)
Repurchase of common membership interests from members of LAZ-MD Holdings		(794)
Purchase of Class A common stock	(222,679)	(158,617)
Class A common stock dividends	(66,219)	(51,409)
Settlement of vested share-based incentive compensation	(40,686)	(92,337)
Other financing activities	(99)	(33,386)
Net cash used in financing activities	(347,416)	(484,734)

EFFECT OF EXCHANGE RATE CHANGES ON CASH	6,303	237
NET DECREASE IN CASH AND CASH EQUIVALENTS	(170,851)	(219,801)
CASH AND CASH EQUIVALENTS January 1	1,003,791	1,209,695
CASH AND CASH EQUIVALENTS September 30	$ 832,940	$ 989,894
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Supplemental investing non-cash transaction:		
Class A common stock issued/issuable in connection with business acquisitions	$	$ 39,654

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2011

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock					Class A Common Stock Held By a Subsidiary				
	Shares	$	Shares (*)	$	Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Shares	$	Total Lazard Ltd Stockholders Equity	Noncontrolling Interests	Total 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						179,710				179,710	18,972	198,682
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments							(5,866)			(5,866)	(456)	(6,322)
Amortization of interest rate hedge							749			749	42	791
Employee benefit plans:												
Net actuarial loss							(7,778)			(7,778)	(437)	(8,215)
Adjustments for items reclassified to earnings							1,585			1,585	89	1,674
Comprehensive income										168,400	18,210	186,610
Business acquisitions and related equity transactions:												
Class A common stock issued/issuable (including related amortization)					41,688					41,688	3,115	44,803
Conversion of Series A preferred stock into Class A common stock	(14,100)		2,434,561	25	(25)							
Delivery of Class A common stock					(45,935)			(1,247,555)	45,147	(788)		(788)
Amortization of share-based incentive compensation					200,230					200,230	11,236	211,466
Dividend-equivalents					9,140	(9,194)				(54)	(3)	(57)
Class A common stock dividends						(51,409)				(51,409)		(51,409)
Purchase of Class A common stock								4,318,916	(158,617)	(158,617)		(158,617)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefits of $2,178					(290,059)			(5,820,438)	199,827	(90,232)	73	(90,159)
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			738,655	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											(17,610)	(17,610)
Other adjustments related to noncontrolling interests					14,258		(244)			14,014	(14,014)	
Balance September 30, 2011	**7,921**	**$**	**122,871,153**	**$ 1,229**	**$ 685,800**	**$ 285,575**	**$ (57,712)**	**4,098,431**	**$ (141,593)**	**$ 773,299**	**$ 144,683**	**$ 917,982**

(*) Includes 119,697,936 and 122,871,152 shares of the Company s Class A common stock issued at January 1, 2011 and September 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 NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock		Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders Equity	Noncontrolling Interests	Total Stockholders Equity
	Shares	$	Shares(*)	$				Shares	$			
Balance January 1, 2012	**7,921**	**$**	**123,009,312**	**$ 1,230**	**$ 659,013**	**$ 258,646**	**$ (88,364)**	**3,492,017**	**$ (104,382)**	**$ 726,143**	**$ 140,713**	**$ 866,856**
Comprehensive income (loss):												
Net income						89,674				89,674	7,217	96,891
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments							11,547			11,547	805	12,352
Amortization of interest rate hedge							751			751	40	791
Employee benefit plans:												
Net actuarial loss							(7,545)			(7,545)	(402)	(7,947)
Adjustments for items reclassified to earnings							2,320			2,320	124	2,444
Comprehensive income										96,747	7,784	104,531
Business acquisitions and related equity transactions:												
Class A common stock issued/issuable (including related amortization)					3,369					3,369	180	3,549
Amortization of share-based incentive compensation					209,036					209,036	11,139	220,175
Dividend-equivalents					11,770	(11,856)				(86)	(5)	(91)
Class A common stock dividends						(66,219)				(66,219)		(66,219)
Purchase of Class A common stock								8,235,306	(222,679)	(222,679)		(222,679)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax expense of $972					(141,781)			(3,196,018)	100,172	(41,609)	(49)	(41,658)
Class A common stock issued in exchange for Lazard Group common membership interests			191,701	2	(2)							

Distributions to noncontrolling interests, net											(15,855)	(15,855)
Deconsolidation of investment companies											(14,783)	(14,783)
Adjustments related to noncontrolling interests					9,242		(117)			9,125	(9,125)	
Balance September 30, 2012	**7,921**	**$**	**123,201,013**	**$ 1,232**	**$ 750,647**	**$ 270,245**	**$ (81,408)**	**8,531,305**	**$ (226,889)**	**$ 713,827**	**$ 119,999**	**$ 833,826**

(*) Includes 123,009,311 and 123,201,012 shares of the Company s Class A common stock issued at January 1, 2012 and September 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 September 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 September 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

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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)

financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd s Annual Report on Form 10-K for the year ended December 31, 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 nine month periods ended September 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.

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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)

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 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

The Company s receivables consist of receivables from fees, customers and other and related parties, net of an allowance for doubtful accounts.

Receivables are stated net of an estimated allowance for doubtful accounts of $22,324 and $19,450 at September 30, 2012 and December 31, 2011, respectively, for certain 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 of $1,553 and $2,701 for the three month and nine month periods ended September 30, 2012, respectively, and $1,445 and $4,875 for the three month and nine month periods ended September 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 $15 and $173 for the three month and nine month periods ended September 30, 2012, respectively, and $(513) and $(2,435) for the three month and nine month periods ended September 30, 2011, respectively. At September 30, 2012 and December 31, 2011, the Company had receivables deemed past due or uncollectible of $25,990 and $22,785, respectively.

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4. *INVESTMENTS*

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

	September 30, 2012	December 31, 2011
Debt	$ 25,744	$ 36,966
Equities (a)	207,695	156,053
Other:		
Interests in alternative asset management funds (a)	31,673	20,610
Fixed income funds (a)	50,393	31,121
Private equity	117,194	122,718
Equity method investments	6,736	11,053
	205,996	185,502
Total	439,435	378,521
Less:		
Interest-bearing deposits (included in debt above)	552	2,834
Equity method investments	6,736	11,053
Investments, at fair value	$ 432,147	$ 364,634
Securities sold, not yet purchased, at fair value (included in other liabilities)	$ 2,793	$ 4,282

(a) Equities, interests in alternative asset management funds and fixed income funds include investments with fair values of $76,280, $3,577 and $21,856, respectively, at September 30, 2012 and $19,857, $2,256 and $5,212, respectively, 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 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 by LAM 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

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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 targeting Australasian mid-market investments.

Private equity investments consolidated but not owned by Lazard relate to the economic interests that are owned by the management team and other investors in the Edgewater Funds (Edgewater) which aggregated $19,734 and $18,502 at September 30, 2012 and December 31, 2011, respectively.

During the three month and nine month periods ended September 30, 2012 and 2011, the Company reported in revenue-other on its condensed consolidated statements of operations gross unrealized investment gains and losses pertaining to trading securities as follows:

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2012	**2011**	**2012**	**2011**
Gross unrealized investment gains	$ 4,081	$	$ 3,778	$ 35
Gross unrealized investment losses	$	$ 2,536	$	$ 1,670

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 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.

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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.

The Company s investments in fixed income funds are considered Level 1 assets when the fair values are primarily based on the reported closing price for the fund or Level 2 assets when the fair values are primarily based on NAV or its equivalent and are redeemable in the near future.

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 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 September 30, 2012 and December 31, 2011 into the three-level fair value hierarchy in accordance with fair value measurement disclosure requirements:

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt (excluding interest-bearing deposits)	$ 21,877	$ 3,315	$	$ 25,192
Equities	170,043	37,456	196	207,695
Other (excluding equity method investments):				
Interests in alternative asset management funds		28,238	3,435	31,673
Fixed income funds	35,460	14,933		50,393
Private equity			117,194	117,194
Derivatives		46		46
Total	$ 227,380	$ 83,988	$ 120,825	$ 432,193
Liabilities:				
Securities sold, not yet purchased	$ 2,793	$	$	$ 2,793
Derivatives		101,238		101,238
Total	$ 2,793	$ 101,238	$	$ 104,031

	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 nine month periods ended September 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 nine month periods ended September 30, 2012 and 2011:

	Three Months Ended September 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	$ 191	$	$	$	$ 5	$ 196
Interests in alternative asset management funds	4,616	18		(1,199)		3,435
Private equity	113,991	(522)	2,945	(348)	1,128	117,194
Total Level 3 Assets	$ 118,798	$ (504)	$ 2,945	$ (1,547)	$ 1,133	$ 120,825

	Nine Months Ended September 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)	$	$ 196
Interests in alternative asset management funds	7,041	107	10	(3,723)		3,435
Private equity	122,718	11,828	5,697	(23,093)	44	117,194
Total Level 3 Assets	$ 133,100	$ 11,940	$ 5,717	$ (29,976)	$ 44	$ 120,825

	Three Months Ended September 30, 2011					
	Beginning Balance	Net Unrealized/ Realized	Purchases/ Acquisitions	Sales/ Dispositions	Foreign Currency Translation	Ending Balance

		Gains (Losses) Included In Revenue-Other (a)			Adjustments	
Investments:						
Equities	$ 135	$	$	$	$ (9)	$ 126
Interests in alternative asset management funds			8,528			8,528
Private equity	174,704	(963)	17,158	(45,058)(b)	(3,063)	142,778
Total Level 3 Assets	$ 174,839	$ (963)	$ 25,686	$ (45,058)	$ (3,072)	$ 151,432

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	Nine Months Ended September 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)	$ 2	$ 126
Interests in alternative asset management funds			8,528			8,528
Private equity	163,482	2,861	30,233	(54,218)(b)	420	142,778
Total Level 3 Assets	$ 163,798	$ 2,864	$ 38,761	$ (54,413)	$ 422	$ 151,432

(a) Earnings for the three month and nine month periods ended September 30, 2012 and the three month and nine month periods ended September 30, 2011 include net unrealized gains (losses) of $(460), $9,103, $(829) and $2,988, respectively.

(b) Sales/dispositions of private equity investments for the three month and nine month periods ended September 30, 2011 include $42,800 and $49,500, respectively, in connection with a reduction of interests in certain funds of Edgewater as such funds are no longer consolidated by Lazard.

Fair Value of Certain Investments Based on NAV The Company s Level 2 and Level 3 investments at September 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:

	September 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
Equities	$ 36,559	$	1%	0%	0%	1%	Quarterly	60 Days
Interests in alternative asset management funds	31,673		0%	0%	0%	0%	Quarterly	>90 Days
Fixed income funds	14,933		0%	0%	0%	0%	Monthly	60 Days
Private equity	115,571	34,047	100%	23%	35%	42%	NA	NA
Total	$ 198,736	$ 34,047						

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	December 31, 2011								
			% of Fair Value Not Redeemable	Estimated Liquidation Period of Investments Not Redeemable			Investments Redeemable	
	Fair Value	Unfunded Commitments		% Next 5 Years	% 5-10 Years	% Thereafter	Redemption Frequency	Redemption Notice Period
Equities	$ 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	121,276	52,197	100%	33%	28%	39%	NA	NA
Total	$ 185,970	$ 52,197						

See Note 4 of Notes to Condensed Consolidated Financial Statements for discussion of significant investment strategies of investments with values based on NAV.

Investment Capital Funding Commitments At September 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 or the liquidation of the fund, (ii) EGCP III, amounting to $23,776 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 $8,147, 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

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expected to be delivered upon settlement of Lazard Fund Interests awards, which is reported in revenue-other in the consolidated statements of operations.

The tables below represent 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 September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Derivative Assets:		
Forward foreign currency exchange rate contracts	$ 2	$ 4,245
Equity and fixed income swaps and other	44	2,886
Total	$ 46	$ 7,131
Derivative Liabilities:		
Forward foreign currency exchange rate contracts	$ 5,089	$ 445
Interest rate swaps	242	277
Equity and fixed income swaps	4,854	91
Lazard Fund Interests and other similar deferred compensation arrangements	91,053	29,900
Total	$ 101,238	$ 30,713

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Forward foreign currency exchange rate contracts	$ (3,377)	$ 6,541	$ (1,248)	$ (2,856)
Lazard Fund Interests and other similar deferred compensation arrangements	(4,728)	3,961	(4,639)	3,961
Equity and fixed income swaps and other	(7,471)	12,030	(14,096)	9,309
Total	$ (15,576)	$ 22,532	$ (19,983)	$ 10,414

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.

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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.

8. PROPERTY-NET

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

	Estimated Depreciable Life in Years	September 30, 2012	December 31, 2011
Buildings	33	$ 163,234	$ 164,168
Leasehold improvements	2 - 20	182,070	159,191
Furniture and equipment	3 - 10	118,020	85,396
Construction in progress		25,828	26,347
Total		489,152	435,102
Less Accumulated depreciation and amortization		272,740	266,673
Property-net		$ 216,412	$ 168,429

9. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	September 30, 2012	December 31, 2011
Goodwill	$ 364,761	$ 356,657
Other intangible assets (net of accumulated amortization)	30,681	36,442
Total	$ 395,442	$ 393,099

At September 30, 2012 and December 31, 2011, goodwill of $300,220 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.

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

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Balance, January 1	$ 356,657	$ 313,229
Business acquisitions, including, in the 2011 period, $39,654 of additional contingent consideration earned relating to prior year business acquisitions	4,272	42,566
Foreign currency translation adjustments	3,832	(4,874)
Balance, September 30	$ 364,761	$ 350,921

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

	September 30, 2012			December 31, 2011		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	$ 30,740	$ 9,882	$ 20,858	$ 30,740	$ 7,122	$ 23,618
Management fees, customer relationships and non-compete agreements	33,035	23,212	9,823	32,624	19,800	12,824
Total	$ 63,775	$ 33,094	$ 30,681	$ 63,364	$ 26,922	$ 36,442

Amortization expense of intangible assets for the three month and nine month periods ended September 30, 2012 was $2,494 and $6,172, respectively, and for the three month and nine month periods ended September 30, 2011 was $1,716 and $4,896, respectively. Estimated future amortization expense is as follows:

Year Ending December 31,	Future Amortization Expense (a)
2012 (October 1 through December 31)	$ 1,487
2013	9,029
2014	8,477
2015	6,642
2016	5,046
Total	$ 30,681

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

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10. SENIOR AND SUBORDINATED DEBT

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

	Initial Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As Of September 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	9/25/15	0.90%		
Total				$ 1,076,850	$ 1,076,850

On September 25, 2012, Lazard Group entered into a $150,000, three-year senior revolving credit facility with a group of lenders (the Credit Facility), which expires in September, 2015. The Credit Facility replaced a similar revolving credit facility which was terminated as a condition to effectiveness of the Credit Facility. Interest rates under the Credit Facility vary and are based on either a Federal Funds rate or a Eurodollar rate, in each case plus an applicable margin. As of September 30, 2012, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 0.90%. At September 30, 2012 and December 31, 2011, no amounts were outstanding under the Credit Facility or the prior revolving credit facility, respectively.

The Credit Facility contains customary terms and conditions, including certain financial covenants. In addition, the Credit Facility, 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 September 30, 2012, the Company was in compliance with all of these provisions. All of the Company s senior debt obligations are unsecured.

As of September 30, 2012, the Company had approximately $301,000 in unused lines of credit available to it, including the Credit Facility, and unused lines of credit available to LFB of approximately $91,000 (at September 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 September 30, 2012 and December 31, 2011 is recorded at historical amounts. At those dates, the fair value of such senior debt outstanding was approximately $1,208,000 and $1,138,000, respectively, and exceeded the aggregate carrying value by approximately $131,000 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 at both September 30, 2012 and December 31, 2011.

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

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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 September 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 September 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 September 30, 2012, LFB had no such underwriting commitments.

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

Issuance of Class A Common Shares During the third quarter of 2011, the Company issued an aggregate of 3,682,116 shares (including 1,247,555 shares delivered from Class A common stock held by a subsidiary) of Class A common stock in connection with certain prior year business acquisitions.

Lazard Group Distributions As previously described, Lazard Group s common membership interests are held by subsidiaries of Lazard Ltd and by LAZ-MD Holdings. Pursuant to provisions of the Operating Agreement, Lazard Group distributions in respect of its common membership interests are allocated to the

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

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

	Nine Months Ended September 30,	
	2012	2011
Subsidiaries of Lazard Ltd	$ 66,219	$ 51,409
LAZ-MD Holdings	3,729	3,280
Total	$ 69,948	$ 54,689

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 nine month periods ended September 30, 2012 and 2011, Lazard Ltd issued 191,701 and 738,655 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 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 nine month period ended September 30, 2012, the Company purchased 8,235,306 shares of Class A common stock, at an aggregate cost of $222,679 (no Lazard Group common membership interests were purchased during such nine month period).

As of September 30, 2012, $114,463 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).

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During the nine month period ended September 30, 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.

In October 2012, the Board of Directors of Lazard Ltd authorized the repurchase of up to an additional $200,000 in aggregate cost of Class A common stock and Lazard Group common membership interests through December 31, 2014. During the period October 1 through October 24, 2012, the Company purchased 3,374,308 shares of Class A common stock, at an aggregate cost of $97,858 (including shares of Class A common stock received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests). No Lazard Group common membership interests were purchased during such period. After giving effect to these purchases, and the additional share repurchase authorization described above, $216,605 of the current aggregate share repurchase amount authorized remained available under the share repurchase program as of October 24, 2012, $16,605 of which expires on December 31, 2013 and $200,000 of which expires on December 31, 2014.

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. During the nine month period ended September 30, 2011, 14,100 shares of Series A preferred stock were converted into shares of Class A common stock. The remaining 7,921 shares of Series A preferred stock were outstanding as of both September 30, 2012 and December 31, 2011, and no shares of Series B preferred stock were outstanding at such respective dates. At September 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.

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

	September 30, 2012	December 31, 2011
Currency translation adjustments	$ 16,071	$ 3,719
Interest rate hedge	(2,766)	(3,557)
Employee benefit plans	(98,140)	(92,637)
Total AOCI	(84,835)	(92,475)
Less amount attributable to noncontrolling interests	(3,427)	(4,111)
Total Lazard Ltd AOCI	$ (81,408)	$ (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 September 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 nine month periods ended September 30, 2012, and 2011:

	Lazard Ltd		LAZ-MD Holdings		Total Lazard Group
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	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 September 30, 2011:					
Common membership interest activity in connection with:					
Exchanges for Class A common stock	738,655		(738,655)		
Business acquisitions	2,434,561				2,434,561
Repurchase of common membership interests from LAZ-MD Holdings			(19,032)		(19,032)
Balance, September 30, 2011	122,871,152	94.7%	6,894,938	5.3%	129,766,090
Balance, January 1, 2012	123,009,311	94.8%	6,756,779	5.2%	129,766,090
Activity January 1, 2012 to September 30, 2012:					
Common membership interest activity in connection with:					
Exchanges for Class A common stock	191,701		(191,701)		
Balance, September 30, 2012	123,201,012	94.9%	6,565,078	5.1%	129,766,090

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

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

	Net Income (Loss) Attributable To Noncontrolling Interests			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
LAZ-MD Holdings	$ 1,937	$ 4,209	$ 4,956	$ 11,955
Edgewater	(1,704)	587	2,168	7,492

Other	139	(362)	93	(475)
Total	$ 372	$ 4,434	$ 7,217	$ 18,972

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	Noncontrolling Interests As Of	
	September 30, 2012	December 31, 2011
LAZ-MD Holdings	$ 35,819	$ 31,954
Edgewater	82,669	91,713
Other	1,511	17,046
Total	$ 119,999	$ 140,713

Dividend Declared, October 2012 On October 24, 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 November 23, 2012, to stockholders of record on November 5, 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 nine month periods ended September 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 (with respect to RSUs and restricted stock awards) and professional services expense (with respect to deferred stock unit awards (DSUs)) within the Company s accompanying condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011

Share-based incentive awards:				
RSUs	$ 65,952	$ 58,489	$211,271	$ 200,899
Restricted stock	1,659	374	7,538	9,373
DSUs	78	70	1,366	1,194
Total	$ 67,689	$ 58,933	$220,175	$ 211,466

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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.

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

	Nine Months Ended September 30,	
	2012	**2011**
Number of RSUs issued	479,958	251,146
Charges to retained earnings, net of estimated forfeitures	$11,770	$8,169

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 49,982 and 26,859 DSUs granted during the nine month periods ended September 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 Directors Fee Deferral Unit Plan described below. DSUs are convertible into Class A common stock at the time of cessation of service to the Board, and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the nine month periods ended September 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 nine month periods ended September 30, 2012 and 2011, 7,988 and 5,371 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 nine month periods ended September 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 479,958 RSUs relating to dividend participation)	8,121,632	$ 27.56	57,970	$ 23.57
Forfeited	(401,065)	$ 35.49		
Vested	(4,425,534)	$ 34.43		
Balance, September 30, 2012	24,046,862	$ 34.16	198,630	$ 31.54
Balance January 1, 2011	22,108,635	$ 35.67	121,737	$ 34.46
Granted (including 251,146 RSUs relating to dividend participation)	6,764,420	$ 43.91	32,230	$ 37.06
Forfeited	(287,975)	$ 37.73		
Vested	(7,848,744)	$ 39.21	(16,120)	$ 34.76
Balance, September 30, 2011	20,736,336	$ 36.99	137,847	$ 35.03

In connection with RSUs which vested during the nine month periods ended September 30, 2012 and 2011, the Company satisfied certain employees tax obligations in lieu of issuing 1,331,812 and 2,302,798 shares of Class A common stock in the respective periods. Accordingly, 3,093,722 and 5,545,946 shares of Class A common stock held by the Company were delivered during the respective periods. In addition, during the nine month period ended September 30, 2012, 42,432 shares of previously delivered Class A common stock were forfeited by certain former employees and returned to the Company.

As of September 30, 2012, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately $257,000, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.2 years subsequent to September 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 nine month periods ended September 30, 2012 and 2011:

	Restricted Shares	Weighted Average Grant Date Fair Value
Balance, January 1, 2012	95,332	$ 37.63
Granted	577,323	$ 29.25
Forfeited	(21,178)	$ 29.51
Vested	(186,180)	$ 31.60
Balance, September 30, 2012	465,297	$ 30.02
Balance, January 1, 2011	95,332	$ 37.63
Granted	327,238	$ 43.70
Vested	(327,238)	$ 43.70
Balance, September 30, 2011	95,332	$ 37.63

In connection with shares of restricted Class A common stock that vested during the nine month periods ended September 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, 158,051 and 258,372 shares of Class A common stock held by the Company were delivered during the respective nine 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 September 30, 2012, unrecognized restricted stock expense was approximately $8,000, with such expense to be recognized over a weighted average period of approximately 1.8 years subsequent to September 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 nine month period ended September 30, 2012:

	Prepaid Compensation	Compensation Liability
Balance, January 1, 2012	$ 17,782	$ 29,900
Granted	64,658	64,658
Settled		(8,640)
Forfeited	(1,607)	(1,706)
Amortization (including grants of awards to retirement-eligible recipients)	(24,508)	
Increase in fair value related to:		
Change in fair value of underlying investments		4,639
Adjustment for estimated forfeitures		2,202
Other	101	
Balance, September 30, 2012	$ 56,426	$ 91,053

The amortization of the prepaid compensation asset will generally be recognized over a weighted average period of approximately 1.8 years subsequent to September 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 nine month periods ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Amortization, after impact of forfeitures	$ 9,626	$ 2,480	$ 26,611	$ 7,534
Change in fair value of underlying investments	4,728	(3,961)	4,639	(3,961)
Total	$ 14,354	$ (1,481)	$ 31,250	$ 3,573

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 nine month period ended September 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 September 30, 2012 of approximately $16,500 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 nine month period ended September 30, 2012, the Company contributed 1 million British pounds ($1,577 at September 30, 2012 exchange rates) to these U.K. pension plans, and no contributions were made to other non-U.S. pension plans.

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

	Pension Plans		Post-Retirement Medical Plans	
	Three Months Ended September 30,			
	2012	2011	2012	2011
Components of Net Periodic Benefit Cost:				
Service cost	$ 166	$ 163	$ 15	$ 18
Interest cost	6,862	7,242	53	70
Expected return on plan assets	(6,637)	(7,763)		
Amortization of:				
Prior service cost	668	756		
Net actuarial loss	412	65		
Net periodic benefit cost	$ 1,471	$ 463	$ 68	$ 88

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	Pension Plans		Post-Retirement Medical Plans	
	Nine Months Ended September 30,			
	2012	2011	2012	2011
Components of Net Periodic Benefit Cost:				
Service cost	$ 504	$ 495	$ 45	$ 52
Interest cost	20,649	21,401	158	209
Expected return on plan assets	(19,931)	(23,029)		
Amortization of:				
Prior service cost	2,056	2,258		
Net actuarial loss	1,243	194		
Settlement loss (a)	886			
Net periodic benefit cost	$ 5,407	$ 1,319	$ 203	$ 261

(a) During the nine month period ended September 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, after recording 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.

The Company recorded income tax provisions of $13,053 and $32,191 for the three month and nine month periods ended September 30, 2012, respectively, and $20,605 and $51,704 for the three month and nine month periods ended September 30, 2011, respectively, representing effective tax rates of 27.9%, 24.9%, 23.5% and 20.6%, 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.

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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 nine month periods ended September 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 nine month periods ended September 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 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.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income attributable to Lazard Ltd	$33,301	$62,699	$89,674	$179,710
Add - adjustment associated with Class A common stock issuable on a non-contingent basis	3	86	6	285
Net income attributable to Lazard Ltd - basic	33,304	62,785	89,680	179,995
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 preferred stock and exchangeable interests, net of tax	1,804	3,618	4,680	12,692
Net income attributable to Lazard Ltd - diluted	$35,108	$66,403	$94,360	$192,687
Weighted average number of shares of Class A common stock outstanding	114,689,712	115,071,470	116,949,317	114,026,323
Add - adjustment for shares of Class A common stock issuable on a non-contingent basis	913,639	3,244,474	740,087	3,559,705
Weighted average number of shares of Class A common stock outstanding - basic	115,603,351	118,315,944	117,689,404	117,586,028
Add - dilutive effect, as applicable, of:				
Weighted average number of incremental shares of Class A common stock issuable from share-based incentive compensation, convertible preferred stock and exchangeable interests	19,776,685	18,542,012	17,847,646	20,679,466
Weighted average number of shares of Class A common stock outstanding - diluted	135,380,036	136,857,956	135,537,050	138,265,494
Net income attributable to Lazard Ltd per share of Class A common stock:				
Basic	$0.29	$0.53	$0.76	$1.53
Diluted	$0.26	$0.49	$0.70	$1.39

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

17. RELATED PARTIES

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

	September 30, 2012	December 31, 2011
Receivables		
LFCM Holdings	$7,037	$14,790
Other	3,865	3,711
Total	$10,902	$18,501
Payables		
LFCM Holdings	$2,290	$ 4,850
Other	747	1,225
Total	$3,037	$ 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 nine month periods ended September 30, 2012, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $666 and $2,181, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $182 and $4,548, respectively. For the three month and nine month periods ended September 30, 2011, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $596 and $1,788, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $5,927 and $19,074, respectively. Amounts relating to the administrative services agreement are reported as reductions to operating expenses. Net referral fees for underwriting transactions under the business alliance agreement are reported in revenue-other . Net referral fees for private placement, M&A and restructuring transactions under the business alliance agreement are reported in advisory fee revenue.

Receivables from LFCM Holdings and its subsidiaries as of September 30, 2012 and December 31, 2011 include $2,363 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 $4,674 and $2,928, respectively, related to referral fees for underwriting and private placement transactions.

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

Payables to LFCM Holdings and its subsidiaries at September 30, 2012 and December 31, 2011 consist of $2,290 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 September 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 nine month periods ended September 30, 2012, such charges amounted to $188 and $563, respectively. For the three month and nine month periods ended September 30, 2011, such charges amounted to $188 and $563, 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 September 30, 2012, LFNY s regulatory net capital was $123,097, which exceeded the minimum requirement by $119,424.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries) are regulated by the Financial Services Authority. At September 30, 2012, the aggregate regulatory net capital of the U.K. Subsidiaries was $107,795, which exceeded the minimum requirement by $89,602.

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 September 30, 2012, the consolidated regulatory net capital of CFLF was $173,924, which exceeded the minimum requirement set for regulatory capital levels by $79,308.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At September 30, 2012, for those subsidiaries with regulatory capital requirements, their aggregate net capital was $116,764, which exceeded the minimum required capital by an aggregate of $88,166.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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

Lazard Ltd had been subject to supervision by the SEC as a Supervised Investment Bank Holding Company (SIBHC). As a SIBHC, Lazard Ltd was subject to group-wide supervision, which required it to compute allowable capital and risk allowances on a consolidated basis. However, pursuant to Section 617 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the SEC s SIBHC program was eliminated on July 21, 2011. Pursuant to relevant rules in the European Union, which we are examining, LFB, as a European credit institution, is required to be supervised on a consolidated basis by another regulatory body, either in the U.S., by the Board of Governors of the Federal Reserve, or the European Union. The Dodd-Frank Act and the rules and regulations that may be adopted thereunder (including regulations that have not yet been proposed) could have other effects on us. We continue to monitor the process as such rules are proposed and adopted.

19. SEGMENT INFORMATION

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

The Company s segment information for the three month and nine month periods ended September 30, 2012 and 2011 is prepared using the following methodology:

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

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

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

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

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

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(UNAUDITED)

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

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

		Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Financial Advisory					
	Net Revenue	$ 219,973	$ 253,585	$ 739,793	$ 731,621
	Operating Expenses	212,449	213,614	693,546	641,397
	Operating Income	$ 7,524	$ 39,971	$ 46,247	$ 90,224
Asset Management					
	Net Revenue	$ 221,516	$ 219,077	$ 647,096	$ 690,785
	Operating Expenses	160,869	156,709	477,989	466,827
	Operating Income	$ 60,647	$ 62,368	$ 169,107	$ 223,958
Corporate					
	Net Revenue	$ (12,683)	$ (10,243)	$ (35,134)	$ (44,672)
	Operating Expenses	8,762	4,358	51,138	19,124
	Operating Loss	$ (21,445)	$ (14,601)	$ (86,272)	$ (63,796)
Total					
	Net Revenue	$ 428,806	$ 462,419	$ 1,351,755	$ 1,377,734
	Operating Expenses	382,080	374,681	1,222,673	1,127,348
	Operating Income	$ 46,726	$ 87,738	$ 129,082	$ 250,386

	As Of September 30, 2012	As Of December 31, 2011
Total Assets		
Financial Advisory	$ 760,366	$ 767,699
Asset Management	487,635	583,524
Corporate	1,746,945	1,730,713
Total	$ 2,994,946	$ 3,081,936

20. SUBSEQUENT EVENT

In October 2012, the Company announced a number of cost saving initiatives relating to the Company s operations. The Company expects associated pre-tax implementation expenses to range between $110,000 and $130,000, primarily consisting of compensation expense. The Company expects to recognize a significant majority of the expense in the fourth quarter of 2012 and the remainder in the first half of 2013. Approximately 75% of the implementation expenses are expected to be paid in cash.

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

The following discussion should be read in conjunction with Lazard Ltd s condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (the Form 10-Q), as well as Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) included in our Annual Report on Form 10-K for the year ended December 31, 2011 (the Form 10-K). All references to 2012 , 2011 , third quarter , nine months or the period refer to, as the context requires, the three month and nine month periods ended September 30, 2012 and September 30, 2011.

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

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

- a decline in general economic conditions or the global financial markets,
- losses caused by financial or other problems experienced by third parties,
- losses due to unidentified or unanticipated risks,
- a lack of liquidity, *i.e*., ready access to funds, for use in our businesses, and
- competitive pressure on our businesses and on our ability to retain our employees.

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

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

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

- business financial goals, including the ratio of awarded compensation and benefits expense to operating revenue,
- business ability to deploy surplus cash through dividends, share repurchases and debt repurchases,

business ability to offset stockholder dilution through share repurchases,

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

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- business strategies and investment policies,
- business financing plans and the availability of short-term borrowing,
- business competitive position,
- future acquisitions, including the consideration to be paid and the timing of consummation,
- potential growth opportunities available to our businesses,
- recruitment and retention of our managing directors and employees,
- potential levels of compensation expense,
- business potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,
- likelihood of success and impact of litigation,
- expected tax rates,
- changes in interest and tax rates,
- expectations with respect to the economy, securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other macroeconomic and industry trends,
- effects of competition on our business, and
- impact of future legislation and regulation on our business.

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

Business Summary

Lazard is a preeminent financial advisory and asset management firm. We have long specialized in crafting solutions to the complex financial and strategic challenges of a diverse set of clients around the world, including corporations, governments, institutions, partnerships and individuals. Founded in 1848 in New Orleans, we currently operate from 42 cities in key business and financial centers across 27 countries throughout Europe, North America, Asia, Australia, the Middle East and Central and South America.

Our primary business purpose is to serve our clients. Our deep roots in business centers around the world form a global network of relationships with key decision-makers in corporations, governments and investing institutions. This network is both a competitive strength and a powerful resource for Lazard and our clients. As a firm that competes on the quality of our advice, we have two fundamental assets: our people and our reputation.

We operate in cyclical businesses across multiple geographies, industries and asset classes. In recent years, we have expanded our geographic reach, bolstered our industry expertise and continued to build in growth areas. Companies, government bodies and investors seek independent advice with a geographic perspective, deep understanding of capital structure, informed research and knowledge of global economic conditions. We believe that our business model as an independent advisor will continue to create opportunities for us to attract new clients and key personnel.

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Our principal sources of revenue are derived from activities in the following 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.

Our consolidated net revenue was derived by our segments as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Financial Advisory	51%	55%	55%	53%
Asset Management	52	47	48	50
Corporate	(3)	(2)	(3)	(3)
Total	100%	100%	100%	100%

We also invest our own capital from time to time, generally alongside capital of qualified institutional and individual investors in alternative investments or private equity investments, and, since 2005, we have engaged in a number of alternative investments and private equity activities, including investments through (i) the Edgewater Funds (Edgewater), our Chicago-based private equity firm, (ii) Lazard Australia Corporate Opportunities Fund 2 (COF 2), a Lazard-managed Australian private equity fund targeting Australasian mid-market investments, (iii) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies, (iv) Corporate Partners II Limited (CP II), a private equity fund targeting significant non-controlling investments in established public and private companies and (v) Lazard Senior Housing Partners LP (Senior Housing), which acquires companies and assets in the senior housing, extended stay and shopping center sectors. We may explore and discuss opportunities to expand the scope of our alternative investment and private equity activities in Europe, the U.S. and elsewhere. These opportunities could include internal growth of new funds and direct investments by us, partnerships or strategic relationships, investments with third parties or acquisitions of existing funds or management companies. Also, consistent with our obligations to LFCM Holdings LLC (LFCM Holdings), we may explore discrete capital markets opportunities.

Business Environment and Outlook

Economic and global financial market conditions can materially affect our financial performance. As described above, our principal sources of revenue are derived from activities in our Financial Advisory and Asset Management business segments. As our Financial Advisory revenues are for the most part dependent on the successful completion of merger, acquisition, restructuring, capital raising or similar transactions, and our Asset

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Management revenues are primarily driven by the levels of AUM, weak economic and global financial market conditions can result in a challenging business environment for M&A and capital-raising activity as well as our Asset Management business, but may provide opportunities for our restructuring business.

Overall, global equity market indices at September 30, 2012 increased when compared to such indices at December 31, 2011, including increases in most of the indices during the third quarter of 2012. On an industry-wide basis, during the first nine months of 2012, M&A activity has generally decreased as compared to the corresponding period in 2011. The announced value and number of global M&A transactions decreased in the first nine months of 2012 as compared to the corresponding period in 2011. Restructuring volume declined in the third quarter of 2012, as compared to the corresponding period in 2011, despite an increase in the number of corporate defaults.

Entering the fourth quarter of 2012, interest rates remain low and corporate cash balances remain high. Macroeconomic conditions remain uncertain, however, especially with respect to Europe. The breadth of our businesses has mitigated the impact of the European financial crisis. Although European M&A activity has declined in the third quarter of 2012 and affected our Financial Advisory business, we believe other advisory opportunities, including opportunities for our Restructuring, Debt Advisory, and Sovereign Advisory businesses, have offset the slowdown. In our Asset Management business, most of LAM s European clients are invested with LAM primarily outside of Europe. Those who are invested in Europe are investing primarily in European fixed income, which has not had a significant impact on our Asset Management business. Nonetheless, the business situation in Europe remains challenging.

We intend to leverage our existing infrastructure to capitalize on any global macroeconomic recovery, any upturn in the M&A cycle, and any momentum in the global equity markets. We expect to generate revenue growth by remaining adequately staffed to capitalize on any macroeconomic recovery and deploying our intellectual capital to generate new revenue streams. We also remain focused on expense management and, in October 2012, announced a number of cost saving initiatives relating to our operations. See October 2012 Cost Saving Initiatives below and Note 20 of Notes to Condensed Consolidated Financial Statements.

Our outlook with respect to our Financial Advisory and Asset Management businesses is described below.

Financial Advisory In the near- to mid-term, we expect that the U.S. macroeconomic environment likely will be the strongest of the developed economies. Certain legal decisions in the U.S. reinforce the importance of independent advice, and the global scale and breadth of our Financial Advisory business allows us to advise on large, complex cross-border transactions across a variety of industries. We continue to develop our range of advisory capabilities. In Europe, we believe our Restructuring, Debt Advisory, Capital Markets Advisory and Sovereign Advisory businesses have positive growth prospects. In addition, we believe our businesses throughout the emerging markets, Japan and Australia position us for growth in these markets, while strengthening and distinguishing our relationships with clients in developed economies. We recently integrated our Brazilian operations based in São Paulo. We also created Lazard Africa to leverage our sovereign and corporate expertise in the rapidly growing region, for our clients in both developed and developing countries.

Asset Management Despite turbulent markets, we have recently seen investor demand across regions and investment platforms. In the short to intermediate term, we expect most of our growth will come from defined benefit and defined contribution plans in the developed economies because of their sheer scope and size. Over the longer term, we expect an increasing share of our AUM to come from the developing economies in Asia, Latin America and the Middle East, as their retirement systems evolve and individual wealth is increasingly deployed in the financial markets. Our global footprint is already well established in the developed economies and we expect our business in the developing economies will continue to expand. Given our globally diversified platform and our ability to provide investment solutions for a global mix of clients, we believe we are positioned to benefit from growth that may occur in the asset management industry. We recently extended the global footprint of our

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Asset Management business by opening a new office in Zurich. We are continually developing and seeding new investment strategies that extend our existing platforms. Recent examples of growth initiatives include the following investment strategies: Emerging Market Debt, Core Emerging Markets, Real Estate, Managed Volatility Strategies, Multistrategy products and Global Trend.

We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can we assess the impact of all potentially applicable factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See the section entitled Risk Factors in our Form 10-K. Furthermore, net income and revenue in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter. Overall, we continue to focus on the development of our business in this environment, including the generation of stable revenue and earnings growth and stockholder returns during periods of macroeconomic volatility, the prudent management of our costs and expenses, the efficient use of our capital and the return of cash to our stockholders.

Certain data with respect to our Financial Advisory and Asset Management businesses are included below.

Financial Advisory

As reflected in the following table, which sets forth industry statistics for the third quarter and first nine months of 2012 and 2011 regarding the value and number of global and Trans-Atlantic completed and announced M&A transactions, the value and number of such transactions in the 2012 periods generally decreased compared to the corresponding prior year periods, reflecting transactions with generally lower average values.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	**2011**	**% Incr / (Decr)**	**2012**	**2011**	**% Incr / (Decr)**
			($ in billions)			
Completed M&A Transactions:						
Global:						
Value	$ 447	$ 547	(18)%	$ 1,371	$ 1,850	(26)%
Number	6,396	7,633	(16)%	20,494	23,704	(14)%
Trans-Atlantic:						
Value	$ 45	$ 53	(15)%	$ 91	$ 159	(43)%
Number	283	352	(20)%	839	998	(16)%
Announced M&A Transactions:						
Global:						
Value	$ 554	$ 552	%	$ 1,648	$ 1,917	(14)%
Number	8,763	9,968				