

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

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

Bermuda
(State or Other Jurisdiction of Incorporation
or Organization)

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

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

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

See notes to condensed consolidated financial statements.

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

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

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See notes to condensed consolidated financial statements.

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

ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:

WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2011

(UNAUDITED)

(dollars in thousands)

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

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

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

See notes to condensed consolidated financial statements.

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

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

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

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

See notes to condensed consolidated financial statements.

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

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

Lazard Ltd indirectly held approximately 94.6% and 94.0% of all outstanding Lazard Group common membership interests as of June 30, 2011 and December 31, 2010, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group. LAZ-MD Holdings LLC (LAZ-MD Holdings), an entity owned by Lazard Group's current and former managing directors, held approximately 5.4% and 6.0% of the outstanding Lazard Group common membership interests as of June 30, 2011 and December 31, 2010, respectively. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd's Class B common stock (the Class B common stock) which provided LAZ-MD Holdings with approximately 5.4% and 6.0% of the voting power but no economic rights in the Company as of such respective dates. Subject to certain limitations, LAZ-MD Holdings' interests in Lazard Group are exchangeable for Lazard Ltd Class A common stock, par value \$0.01 per share (Class A common stock). Lazard Group is governed by an Operating Agreement dated as of May 10, 2005, as amended (the Operating Agreement).

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

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

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

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

indebtedness to its Corporate segment.

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

Basis of Presentation

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

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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

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

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

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

2. RECENT ACCOUNTING DEVELOPMENTS

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

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

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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

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

3. RECEIVABLES - NET

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

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

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

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

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

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

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

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Statements).

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

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

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

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

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

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

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

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

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

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2011	2010	2011	2010
Gross unrealized investment gains	\$ 641	\$	\$ 1,214	\$ 101
Gross unrealized investment losses	\$ 193	\$ 1,497	\$ 313	\$ 1,325

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

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

5. FAIR VALUE MEASUREMENTS

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

- Level 1.* Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Lazard has the ability to access.
- Level 2.* Assets and liabilities whose values are based on quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in non-active markets or inputs other than quoted prices that are directly observable or derived principally from or corroborated by market data.
- Level 3.* Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Items included in Level 3 include securities or other financial assets whose volume and level of activity have significantly decreased when compared with normal market activity and there is no longer

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

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

The fair value of equities is principally classified as Level 1 or Level 2 as follows: marketable equity securities are classified as Level 1 and are valued based on the last trade price on the primary exchange for that security; public asset management funds are classified as Level 1 and are valued based on the reported closing

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

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

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

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

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

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

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

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Liabilities:

Securities sold, not yet purchased	\$ 1,262	\$	\$	\$ 1,262
Derivatives		2,200		2,200
Total Liabilities	\$ 1,262	\$ 2,200	\$	\$ 3,462

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

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

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

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

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

Six Months Ended June 30, 2011

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

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

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

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

6. DERIVATIVES

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, equity and fixed income swaps and other derivative contracts to hedge exposures to fluctuations in interest rates, currency exchange rates and equity and debt markets. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company's derivative instruments are recorded at their fair value, and are included in other assets and other liabilities on the consolidated statements of financial condition. Except for derivatives hedging available-for-sale debt securities, which were

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

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

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

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

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

June 30,
2011 &nbs