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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(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, 2010

OR

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

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

333-126751

(Commission File Number)

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**LAZARD GROUP LLC**

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation  
or Organization)

51-0278097

(I.R.S. Employer Identification No.)

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30 Rockefeller Plaza  
New York, NY 10020

(Address of principal executive offices)

Registrant's telephone number: (212) 632-6000

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

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

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

Large accelerated filer

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

As of July 26, 2010, in addition to profit participation interests, there were 126,686,338 common membership interests and two managing member interests outstanding.

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**TABLE OF CONTENTS**

*When we use the terms “Lazard Group”, “Lazard”, “we”, “us”, “our” and “the Company”, we mean Lazard Group LLC, a Delaware limited liability company, that is the current holding company for the subsidiaries that conduct our businesses. Lazard Ltd is a Bermuda exempt company whose shares of Class A common stock are publicly traded on the New York Stock Exchange under the Symbol “LAZ”. Lazard Ltd’s subsidiaries include Lazard Group and their respective subsidiaries. Lazard Ltd has no operating assets other than indirect ownership as of June 30, 2010 of approximately 89.0% of the common membership interests in Lazard Group and its controlling interest in Lazard Group. Lazard Ltd controls Lazard Group through two of its indirect wholly-owned subsidiaries who are co-managing members of Lazard Group.*

*Lazard Group has two primary holders of its common membership interests: Lazard Ltd and LAZ-MD Holdings LLC (“LAZ-MD Holdings”), a holding company that is owned by current and former managing directors of Lazard Group. The Lazard Group common membership interests held by LAZ-MD Holdings are effectively exchangeable over time on a one-for-one basis with Lazard Ltd for shares of Lazard Ltd’s Class A common stock. In addition, Lazard Group has granted profit participation interests in Lazard Group to certain of its managing directors in connection with the recapitalization of Lazard Group at the time of Lazard Ltd’s equity public offering. The profit participation interests are discretionary profits interests that are intended to enable Lazard Group to compensate its managing directors in a manner consistent with historical practices.*

	<b>Page</b>
<b>Part I. Financial Information</b>	
<a href="#">Item 1. Financial Statements (Unaudited)</a>	1
<a href="#">Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	38
<a href="#">Item 3. Quantitative and Qualitative Disclosures About Market Risk</a>	70
<a href="#">Item 4. Controls and Procedures</a>	70
<b>Part II. Other Information</b>	
<a href="#">Item 1. Legal Proceedings</a>	72
<a href="#">Item 1A. Risk Factors</a>	72
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	73
<a href="#">Item 3. Defaults Upon Senior Securities</a>	73
<a href="#">Item 4. [Removed and Reserved]</a>	73
<a href="#">Item 5. Other Information</a>	73
<a href="#">Item 6. Exhibits</a>	74
<a href="#">Signatures</a>	79

**PART I. FINANCIAL INFORMATION**

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

	<u>Page</u>
<a href="#">Condensed Consolidated Statements of Financial Condition as of June 30, 2010 and December 31, 2009</a>	2
<a href="#">Condensed Consolidated Statements of Operations for the three month and six month periods ended June 30, 2010 and 2009</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2010 and 2009</a>	5
<a href="#">Condensed Consolidated Statements of Changes in Members' Equity for the six month periods ended June 30, 2010 and 2009</a>	6
<a href="#">Notes to Condensed Consolidated Financial Statements</a>	8

**LAZARD GROUP LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**JUNE 30, 2010 AND DECEMBER 31, 2009**  
**(UNAUDITED)**  
**(dollars in thousands)**

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 792,965	\$ 899,733
Cash deposited with clearing organizations and other segregated cash	20,631	20,217
Receivables-net:		
Fees	394,777	437,532
Banks	163,413	143,778
Customers and other	58,940	73,750
Related parties	32,483	46,099
	<u>649,613</u>	<u>701,159</u>
Investments:		
Debt:		
U.S. Government and agencies (includes \$126,502 and \$126,413 of securities at amortized cost at June 30, 2010 and December 31, 2009, respectively)	147,881	147,507
Other (includes \$9,543 and \$10,217 of securities at amortized cost at June 30, 2010 and December 31, 2009, respectively)	219,939	313,342
Equities	73,978	82,442
Other	235,405	264,402
	<u>677,203</u>	<u>807,693</u>
Property (net of accumulated amortization and depreciation of \$228,803 and \$239,603 at June 30, 2010 and December 31, 2009, respectively)	143,616	166,913
Goodwill and other intangible assets (net of accumulated amortization of \$10,679 and \$7,140 at June 30, 2010 and December 31, 2009, respectively)	306,833	317,780
Other assets	192,929	201,553
Total assets	<u>\$ 2,783,790</u>	<u>\$ 3,115,048</u>

See notes to condensed consolidated financial statements.

**LAZARD GROUP LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION—(Continued)**  
**JUNE 30, 2010 AND DECEMBER 31, 2009**  
**(UNAUDITED)**  
**(dollars in thousands)**

	June 30, 2010	December 31, 2009
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities:		
Deposits and other customer payables	\$ 289,528	\$ 322,101
Accrued compensation and benefits	227,630	515,033
Senior debt	1,076,850	1,086,850
Capital lease obligations	20,165	24,628
Related party payables	231,870	242,284
Other liabilities	441,416	491,221
Subordinated debt	150,000	150,000
Total liabilities	2,437,459	2,832,117
Commitments and contingencies		
<b>MEMBERS' EQUITY</b>		
Members' equity (net of 3,825,124 and 5,850,775 shares of Lazard Ltd Class A common stock, at cost of \$132,157 and \$191,140 at June 30, 2010 and December 31, 2009, respectively)	333,683	214,163
Accumulated other comprehensive income (loss), net of tax	(117,414)	(58,792)
Total Lazard Group members' equity	216,269	155,371
Noncontrolling interests	130,062	127,560
Total members' equity	346,331	282,931
Total liabilities and members' equity	<u>\$2,783,790</u>	<u>\$3,115,048</u>

See notes to condensed consolidated financial statements.

**LAZARD GROUP LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED JUNE 30, 2010 AND 2009**  
**(UNAUDITED)**  
**(dollars in thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>REVENUE</b>				
Investment banking and other advisory fees	\$245,282	\$236,387	\$514,491	\$397,789
Money management fees	180,899	120,301	358,002	219,244
Interest income	6,341	7,816	12,256	16,109
Other	11,484	40,198	23,873	48,232
Total revenue	444,006	404,702	908,622	681,374
Interest expense	25,198	28,667	51,867	57,472
Net revenue	418,808	376,035	856,755	623,902
<b>OPERATING EXPENSES</b>				
Compensation and benefits	263,018	239,274	563,393	442,806
Occupancy and equipment	21,312	19,982	42,582	40,076
Marketing and business development	18,252	15,786	33,855	29,239
Technology and information services	16,996	16,156	34,648	32,078
Professional services	10,011	11,169	18,003	19,005
Fund administration and outsourced services	10,996	8,057	22,370	15,803
Amortization of intangible assets related to acquisitions	1,769	344	3,539	688
Restructuring	-	-	87,108	62,550
Other	8,764	7,152	18,115	14,450
Total operating expenses	351,118	317,920	823,613	656,695
<b>OPERATING INCOME (LOSS)</b>	67,690	58,115	33,142	(32,793)
Provision for income taxes	13,040	13,219	18,580	8,665
<b>NET INCOME (LOSS)</b>	54,650	44,896	14,562	(41,458)
<b>LESS - NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	481	259	2,839	(812)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO LAZARD GROUP</b>	<u>\$ 54,169</u>	<u>\$ 44,637</u>	<u>\$ 11,723</u>	<u>\$(40,646)</u>

See notes to condensed consolidated financial statements.

**LAZARD GROUP LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2010 AND 2009**  
**(UNAUDITED)**  
**(dollars in thousands)**

	Six Months Ended June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 14,562	\$ (41,458)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Noncash items included in net income (loss):		
Depreciation and amortization of property	10,122	11,114
Amortization of deferred expenses, share-based compensation and interest rate hedge	206,671	158,094
Amortization of intangible assets related to acquisitions	3,539	688
(Gain) loss on extinguishment of debt	424	(258)
(Increase) decrease in operating assets:		
Cash deposited with clearing organizations and other segregated cash	(2,190)	6,508
Receivables - net	7,151	161,390
Investments	(17,312)	(6,303)
Other assets	(3,578)	15,879
Increase (decrease) in operating liabilities:		
Deposits and other payables	3,395	(159,591)
Accrued compensation and benefits and other liabilities	(301,812)	(98,780)
Net cash provided by (used in) operating activities	<u>(79,028)</u>	<u>47,283</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of equity method investments	-	(1,780)
Disposition of and distributions from equity method investments	51,437	-
Additions to property	(5,465)	(4,131)
Disposals of property	254	805
Purchases of available-for-sale securities	-	(3,320)
Proceeds from sales and maturities of available-for-sale securities	52,786	33,226
Net cash provided by investing activities	<u>99,012</u>	<u>24,800</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from:		
Contribution from noncontrolling interests	2,000	265
Other financing activities	5,554	14,195
Payments for:		
Senior borrowings	(10,375)	(635)
Capital lease obligations	(1,096)	(1,665)
Distributions to noncontrolling interests	(2,327)	(7,054)
Repurchase of common membership interests from members of LAZ-MD Holdings	-	(1,810)
Purchase of Lazard Ltd Class A common stock	(22,733)	(49,829)
Distribution to members	(30,125)	(89,962)
Settlement of vested share-based incentive compensation awards	(43,812)	(11,322)
Other financing activities	(72)	(71)
Net cash used in financing activities	<u>(102,986)</u>	<u>(147,888)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<u>(23,766)</u>	<u>14,457</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(106,768)</u>	<u>(61,348)</u>
<b>CASH AND CASH EQUIVALENTS - January 1</b>	<u>899,733</u>	<u>907,278</u>
<b>CASH AND CASH EQUIVALENTS - June 30</b>	<u>\$ 792,965</u>	<u>\$ 845,930</u>

See notes to condensed consolidated financial statements.

**LAZARD GROUP LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2010**  
**(UNAUDITED)**  
**(dollars in thousands)**

	Members' Equity	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Lazard Group Members' Equity	Noncontrolling Interests	Total Members' Equity
<b>Balance—January 1, 2010 (*)</b>	<b>\$214,163</b>	<b>\$(58,792)</b>	<b>\$155,371</b>	<b>\$127,560</b>	<b>\$282,931</b>
Comprehensive income (loss):					
Net income	11,723		11,723	2,839	14,562
Other comprehensive income (loss)-net of tax:					
Currency translation adjustments		(58,320)	(58,320)	(10)	(58,330)
Amortization of interest rate hedge		539	539		539
Available-for-sale securities:					
Net unrealized loss		(848)	(848)		(848)
Adjustments for items reclassified to earnings		2,361	2,361		2,361
Employee benefit plans:					
Net actuarial loss		(2,871)	(2,871)		(2,871)
Adjustments for items reclassified to earnings		517	517		517
Comprehensive income (loss)			(46,899)	2,829	(44,070)
Amortization of share-based incentive compensation awards	201,383		201,383		201,383
Distributions to members and noncontrolling interests	(30,125)		(30,125)	(327)	(30,452)
Purchase of Lazard Ltd Class A common stock	(22,733)		(22,733)		(22,733)
Delivery of Lazard Ltd Class A common stock in connection with share-based incentive compensation awards	(43,812)		(43,812)		(43,812)
Lazard Ltd Class A common stock issued / issuable in connection with business acquisitions and LAM Merger and related amortization	3,145		3,145		3,145
Other	(61)		(61)		(61)
<b>Balance—June 30, 2010 (*)</b>	<b>\$333,683</b>	<b>\$(117,414)</b>	<b>\$216,269</b>	<b>\$130,062</b>	<b>\$346,331</b>

(\*) Includes 123,686,338 and 126,686,338 common membership interests at January 1, 2010 and June 30, 2010, respectively. Also includes profit participation interests and two managing member interests at each such date.

See notes to condensed consolidated financial statements.



**LAZARD GROUP LLC**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2009**  
**(UNAUDITED)**  
**(dollars in thousands)**

	Members' Equity	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Lazard Group Members' Equity	Noncontrolling Interests	Total Members' Equity
<b>Balance—January 1, 2009(*)</b>	<b>\$ 227,036</b>	<b>\$ (121,407)</b>	<b>\$ 105,629</b>	<b>\$ 20,881</b>	<b>\$ 126,510</b>
Comprehensive income (loss):					
Net loss	(40,646)		(40,646)	(812)	(41,458)
Other comprehensive income (loss) - net of tax:					
Currency translation adjustments		48,148	48,148		48,148
Amortization of interest rate hedge		538	538		538
Available-for-sale securities:					
Net unrealized gain		9,639	9,639		9,639
Adjustments for items reclassified to earnings		254	254		254
Employee benefit plans:					
Net actuarial gain		1,128	1,128		1,128
Adjustments for items reclassified to earnings		(256)	(256)		(256)
Comprehensive income (loss)			<u>18,805</u>	<u>(812)</u>	<u>17,993</u>
Amortization of share-based incentive compensation awards	152,798		152,798		152,798
Distributions to members and noncontrolling interests	(89,962)		(89,962)	(6,789)	(96,751)
Purchase of Lazard Ltd Class A common stock	(49,829)		(49,829)		(49,829)
Delivery of Lazard Ltd Class A common stock in connection with share-based incentive compensation awards	(11,322)		(11,322)		(11,322)
Repurchase of common membership interests from LAZ-MD Holdings	(1,810)		(1,810)		(1,810)
Lazard Ltd Class A common stock issued / issuable in connection with business acquisitions and LAM Merger and related amortization	7,634		7,634		7,634
Other	(71)		(71)		(71)
<b>Balance—June 30, 2009(*)</b>	<b><u>\$ 193,828</u></b>	<b><u>\$ (61,956)</u></b>	<b><u>\$ 131,872</u></b>	<b><u>\$ 13,280</u></b>	<b><u>\$ 145,152</u></b>

(\*) Includes 122,233,664 and 122,164,041 common membership interests at January 1, 2009 and June 30, 2009, respectively. Also includes profit participation interests and two managing member interests at each such date.

See notes to condensed consolidated financial statements.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

**Organization**

The accompanying condensed consolidated financial statements are those of Lazard Group LLC and its subsidiaries (collectively referred to with its subsidiaries as “Lazard Group” or the “Company”). Lazard Group is a Delaware limited liability company and is governed by an Operating Agreement dated as of May 10, 2005, as amended (the “Operating Agreement”).

Lazard Ltd, a Bermuda holding company, through its subsidiaries held approximately 89.0% and 74.5% of all outstanding Lazard Group common membership interests as of June 30, 2010 and December 31, 2009, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group.

Lazard Ltd, including its indirect investment in 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.

LAZ-MD Holdings LLC (“LAZ-MD Holdings”), an entity owned by Lazard Group’s current and former managing directors, held approximately 11.0% and 25.5% of all outstanding Lazard Group common membership interests as of June 30, 2010 and December 31, 2009, 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 11.0%, and 25.5% of the voting power but no economic rights in the Company as of June 30, 2010 and December 31, 2009, respectively. 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’s principal operating activities are included in two business segments:

- Financial Advisory, which includes providing advice on mergers and acquisitions (“M&A”) and strategic advisory matters, restructurings and capital structure advisory services, capital raising and other transactions, and
- Asset Management, which includes the management of equity and fixed income securities, alternative investments and private equity funds.

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

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

**Basis of Presentation**

The accompanying condensed consolidated financial statements of Lazard Group have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) regarding

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Group’s annual report on Form 10-K for the year ended December 31, 2009 (the “Form 10-K”). The accompanying December 31, 2009 unaudited condensed consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements 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, 2010 are not necessarily indicative of the results to be expected for any future period or the full fiscal year. Any material events or transactions that occurred subsequent to June 30, 2010 through the date of filing of this Quarterly Report on Form 10-Q were reviewed for purposes of determining whether any adjustments or additional disclosures were required to be made to the accompanying condensed consolidated financial statements.

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

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

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

## **2. RECENT ACCOUNTING DEVELOPMENTS**

*Fair Value Measurements*—On April 1, 2009, the Company adopted, on a prospective basis, additional accounting guidance issued by the FASB on fair value measurements. The additional accounting guidance assists in the determination of fair value for securities or other financial assets when the volume and level of activity for such items have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis. The additional accounting guidance also assists in determining whether or not a transaction is orderly and whether or not a transaction or quoted price can be considered in the determination of fair value. Accordingly, the additional accounting guidance does not apply to quoted prices for identical assets or liabilities in active markets categorized as Level 1 in the fair value measurement hierarchy, and also requires that additional fair value disclosures be included on an

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

interim basis. See Note 5 of Notes to Condensed Consolidated Financial Statements for the additional disclosures provided pursuant to the additional accounting guidance. The adoption of additional guidance regarding fair value measurements did not materially impact the Company's consolidated financial statements.

In January 2010, the FASB amended its fair value measurement disclosure guidance to require disclosure of significant transfers into and out of the Level 1 and Level 2 categories in the fair value measurement hierarchy, as well as separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. In addition, the FASB also clarified its existing fair value measurement disclosure guidance regarding the level of disaggregation required and disclosures about inputs and valuation techniques used to measure fair value. The new disclosure requirements and clarifications of existing fair value measurement disclosure guidance are effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to provide disclosures about purchases, sales, issuances and settlements on a gross basis in the roll forward of activities in Level 3 fair value measurements, which becomes effective for interim and annual reporting periods beginning after December 15, 2010. On January 1, 2010, the Company adopted, on a prospective basis, the applicable new disclosure requirements and clarifications of existing fair value measurement disclosure guidance, which did not have a material impact on the Company's consolidated financial statements. The Company does not anticipate that the adoption of the remaining new disclosure requirements that are effective for interim and annual reporting periods beginning after December 15, 2010 will have a material impact on its consolidated financial statements.

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

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

**3. RECEIVABLES—NET**

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

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

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

Customers and other receivables at June 30, 2010 and December 31, 2009 include \$2,016 and \$4,466, respectively, of loans by LFB to managing directors and employees in France that are made in the ordinary course of business at market terms.

Receivables are stated net of an estimated allowance for doubtful accounts of \$18,871 and \$11,575 at June 30, 2010 and December 31, 2009, respectively, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. The Company recorded bad debt expense (recoveries) of \$2,322 and \$9,190 for the three month and six month periods ended June 30, 2010, respectively, and \$4,170 and \$3,622 for the three month and six month periods ended June 30, 2009, respectively. In addition, the Company recorded charge-offs, foreign currency translation and other adjustments, which resulted in a net decrease (increase) to the allowance for doubtful accounts of \$937 and \$1,894 for the three month and six month periods ended June 30, 2010 and \$(150) and \$4,495 for the three month and six month periods ended June 30, 2009, respectively. At June 30, 2010 and December 31, 2009, the Company had \$26,090 and \$14,150, respectively, of receivables deemed past due or uncollectible.

#### 4. INVESTMENTS

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

	June 30, 2010	December 31, 2009
<b>Debt:</b>		
U.S. Government and agencies	\$ 147,881	\$ 147,507
<b>Other:</b>		
Non-U.S. Governments and agencies	38,119	43,501
U.S. states and municipals	12,797	15,728
Corporates	169,023	254,113
	<u>219,939</u>	<u>313,342</u>
Total debt securities	367,820	460,849
<b>Equities</b>	<u>73,978</u>	<u>82,442</u>
<b>Other:</b>		
Interest in LAM alternative asset management funds:		
General Partner ("GP") interests owned	71,604	50,080
GP interests consolidated but not owned	14,126	13,038
Private equity:		
Investments owned	94,303	102,983
Investments consolidated but not owned	44,106	35,743
Equity method	11,266	62,558
	<u>235,405</u>	<u>264,402</u>
<b>Total investments</b>	677,203	807,693
<b>Less:</b>		
Debt at amortized cost	136,045	136,630
Equity method investments	11,266	62,558
<b>Investments, at fair value</b>	<u>\$ 529,892</u>	<u>\$ 608,505</u>
Securities sold, not yet purchased, at fair value (included in "other liabilities")	<u>\$ 2,640</u>	<u>\$ 5,179</u>

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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

	June 30, 2010	December 31, 2009
<b>Trading securities:</b>		
U.S. Government and agencies	\$ 21,379	\$ 21,094
Non-U.S. Government and agencies	28,576	33,284
U.S. states and municipals	12,797	15,728
Corporates	480	450
	<u>63,232</u>	<u>70,556</u>
<b>Available-for-sale securities:</b>		
Corporates	168,543	253,663
<b>Held-to-maturity securities:</b>		
U.S. Government and agencies	126,502	126,413
Non-U.S. Government and agencies	9,543	10,217
	<u>136,045</u>	<u>136,630</u>
<b>Total debt securities</b>	<u>\$367,820</u>	<u>\$ 460,849</u>

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

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

<u>Maturity Date/First Call Date</u>	<u>Fair Value</u>	<u>Amortized Cost Basis</u>
Within one year	\$ 19,789	\$ 19,613
After 1 year through 5 years	84,042	87,575
After 5 years through 10 years	51,656	65,003
After 10 years	13,056	13,390
	<u>\$168,543</u>	<u>\$ 185,581</u>

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

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

June 30, 2010				December 31, 2009			
Securities in a Continuous Loss Position for Less than 12 Months		Securities in a Continuous Loss Position for 12 Months or Longer		Securities in a Continuous Loss Position for Less than 12 Months		Securities in a Continuous Loss Position for 12 Months or Longer	
Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
\$44,639	\$811	\$69,548	\$17,080	\$ -	\$ -	\$166,094	\$21,381

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

LFB does not intend to sell its debt securities classified as “available-for-sale” that are in an unrealized loss position, nor is it more likely than not that LFB will be required to sell such debt securities before their anticipated recovery. In addition, no credit loss was required to be recognized during the three month and six month periods ended June 30, 2010 based on the qualitative and quantitative analysis performed by the Company. During the three month and six month periods ended June 30, 2009, an other-than-temporary impairment charge of \$916 was recognized in “other-revenue” on the condensed consolidated statements of operations representing the credit loss component of debt securities whose fair value was below amortized cost during the second quarter of 2009.

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

<u>Maturity Date</u>	<u>Fair Value</u>	<u>Amortized Cost Basis</u>
After 1 year through 5 years	\$ 140,991	\$ 136,045

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

Equities principally represent the Company’s investments in marketable equity securities of large-, mid- and small-cap domestic, international and global companies to seed new Asset Management products and includes investments in public and private asset management funds managed both by LAM and third-party asset managers.

In 2008, LFNy was a party to a Prime Brokerage Agreement with Lehman Brothers Inc. (“LBI”) for certain accounts involving investment strategies managed by LAM. On September 9, 2008, LAM requested a transfer of such accounts, of which \$11,368 was not received. On September 15, 2008, Lehman Brothers Holdings, Inc., the ultimate parent company in the Lehman Group, filed for protection under Chapter 11 of the United States Bankruptcy Code and a number of Lehman Group entities in the UK entered into administration proceedings under the Insolvency Act 1986. In addition, the Securities Investor Protection Corporation (“SIPC”) commenced liquidation proceedings on September 19, 2008 pursuant to the Securities Investor Protection Act of 1970, as amended, with respect to LBI. The Chapter 11 filing, Insolvency Act Administration and SIPC proceedings exposed Lazard to possible loss due to counterparty credit and other risk. During 2008, the Company provided for the entire amount of such possible loss, and, through June 30, 2010, no amounts have been recovered by the Company. We continue to actively seek recovery of all amounts.

Interests in LAM alternative asset management funds represent (i) GP interests owned by Lazard in LAM-managed alternative asset management funds and (ii) GP interests consolidated by the Company pertaining to noncontrolling interests in LAM alternative asset management funds. Such noncontrolling interests in LAM alternative asset management funds, which represent GP interests held directly by certain of our LAM managing directors or employees of the Company, are deemed to be controlled by, and therefore consolidated by, the Company in accordance with U.S. GAAP. Noncontrolling interests are presented within “members’ equity” on the condensed consolidated statements of financial condition (see Note 12 of Notes to Condensed Consolidated Financial Statements).

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

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

Limited (“CP II”), a private equity fund targeting significant noncontrolling-stake investments in established public and private companies and (iii) Lazard Senior Housing Partners LP (“Senior Housing”), which acquires companies and assets in the senior housing, extended-stay hotel and shopping center sectors. Senior Housing is managed by Lazard Alternative Investments Holdings LLC (“LAI”), a subsidiary of LFCM Holdings LLC (“LFCM Holdings”). LAI owns and operates the alternative investments of LFCM Holdings. CP II was managed by a subsidiary of LAI until February 16, 2009. Effective February 17, 2009, ownership and control of CP II was transferred to the investment professionals who manage CP II.

Private equity investments consolidated but not owned by Lazard are related solely to Lazard’s establishment of a private equity business with the Edgewater Funds (“Edgewater”), a Chicago-based private equity firm, through the acquisition of Edgewater’s management vehicles on July 15, 2009. The acquisition was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the “Edgewater Acquisition”). Edgewater is focused on buyout and growth equity investments in middle market companies. The economic interests that the Company does not own are owned by the current leadership team and other investors in the Edgewater management vehicles. See Note 8 of Notes to Condensed Consolidated Financial Statements.

Equity method investments at December 31, 2009 primarily consisted of our investment in Sapphire Industrials Corp. (“Sapphire”). On January 24, 2008, Sapphire, a then newly-organized special purpose acquisition company formed by the Company, completed an initial public offering (the “Sapphire IPO”). Sapphire was formed for the purpose of effecting a business combination within a 24-month period (the “Business Combination”) and net proceeds from the Sapphire IPO were placed in a trust account by Sapphire (the “Trust Account”) pending consummation of the Business Combination. In connection with the Sapphire IPO, the Company purchased warrants from Sapphire for a total purchase price of \$12,500 and Sapphire common stock for an aggregate purchase price of \$50,000.

On January 6, 2010, Sapphire announced that it had not completed the Business Combination and it would dissolve and distribute the funds in the Trust Account to all its public shareholders, to the extent they were holders of shares issued in the Sapphire IPO. Pursuant to such dissolution, on January 26, 2010, Sapphire distributed an initial distribution to the Company aggregating \$50,319. All Sapphire warrants expired without value. During the fourth quarter of 2009, the Company recognized a loss of approximately \$13,000 principally related to its investment in warrants of Sapphire.

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

	<b>Three Month Period</b>		<b>Six Month Period</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Gross investment gains	\$ 3,724	\$ 18,648	\$ 13,482	\$ 21,871
Gross investment losses	\$ 6,368	\$ –	\$ 11,129	\$ 6,312



**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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,	
	2010	2009	2010	2009
Gross unrealized investment gains	\$ —	\$ 1,549	\$ 101	\$ 719
Gross unrealized investment losses	\$ 1,497	\$ —	\$ 1,325	\$ 12

In addition, within “accumulated other comprehensive income (loss), net of tax” (“AOCI”), the Company recorded gross pre-tax unrealized investment gains of \$5,456 and \$18,969 during the six month periods ended June 30, 2010 and 2009, respectively, and gross pre-tax unrealized investment losses of \$6,013 and \$2,893 during the six month periods ended June 30, 2010 and 2009, respectively pertaining to debt securities held at LFB that are designated as “available-for-sale.” The average cost basis is utilized for purposes of calculating realized investment gains and losses.

#### 5. FAIR VALUE MEASUREMENTS

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

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

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

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

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

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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

Where information reported is based on broker quotes, the Company generally obtains one quote/price per instrument. In some cases, quotes related to corporate bonds obtained through external pricing services represent the average of several broker quotes.

Where information reported is based on data received from fund managers or from external pricing services, the Company reviews such information to ascertain at which level within the fair value hierarchy to classify the investment.

The following tables present the categorization of investments and certain other assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009 into a three-level fair value hierarchy in accordance with fair value measurement disclosure requirements:

	As of June 30, 2010			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Investments:				
Debt (excluding securities at amortized cost)	\$ 63,232	\$ 168,543	\$ -	\$ 231,775
Equities	56,407	17,272	299	73,978
Other (excluding equity method investments):				
Interest in LAM alternative asset management funds:				
GP interests owned	-	71,604	-	71,604
GP interests consolidated but not owned	-	14,126	-	14,126
Private equity:				
Investments owned	-	-	94,303	94,303
Investments consolidated but not owned	-	-	44,106	44,106
Derivatives	-	6,186	-	6,186
Total Assets	<u>\$ 119,639</u>	<u>\$ 277,731</u>	<u>\$ 138,708</u>	<u>\$ 536,078</u>
<b>Liabilities:</b>				
Securities sold, not yet purchased	\$ 2,640	\$ -	\$ -	\$ 2,640
Derivatives	-	16,709	-	16,709
Total Liabilities	<u>\$ 2,640</u>	<u>\$ 16,709</u>	<u>\$ -</u>	<u>\$ 19,349</u>

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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

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

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

	Three Months Ended June 30, 2010				Ending Balance
	Beginning Balance	Net Unrealized/Realized Gains (Losses) Included In Revenue-Other	Net Purchases, Issuances and Settlements/Acquisitions	Foreign Currency Translation Adjustments	
<b>Investments:</b>					
Equities	\$ 298	\$ (4)	\$ 5	\$ -	\$ 299
Private equity:					
Investments owned	98,037	20	-	(3,754)	94,303
Investments consolidated but not owned	38,227	1,515	4,364	-	44,106
<b>Total Level 3 Assets</b>	<b>\$136,562</b>	<b>\$ 1,531</b>	<b>\$ 4,369</b>	<b>\$ (3,754)</b>	<b>\$138,708</b>

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

	Three Months Ended June 30, 2009				
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other	Net Purchases, Issuances and Settlements/ Acquisitions	Foreign Currency Translation Adjustments	Ending Balance
<b>Investments:</b>					
Equities	\$ 261	\$ (5)	\$ 36	\$ 5	\$ 297
Private equity investments owned	86,324	(127)	4,201	3,132	93,530
Total Level 3 Assets	<u>\$ 86,585</u>	<u>\$ (132)</u>	<u>\$ 4,237</u>	<u>\$ 3,137</u>	<u>\$ 93,827</u>
<b>Six Months Ended June 30, 2010</b>					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other	Net Purchases, Issuances and Settlements/ Acquisitions	Foreign Currency Translation Adjustments	Ending Balance
<b>Investments:</b>					
Equities	\$ 305	\$ (12)	\$ 6	\$ -	\$ 299
<b>Private equity:</b>					
Investments owned	100,171	754	(3)	(6,619)	94,303
Investments consolidated but not owned	35,743	3,999	4,364	-	44,106
Total Level 3 Assets	<u>\$ 136,219</u>	<u>\$ 4,741</u>	<u>\$ 4,367</u>	<u>\$ (6,619)</u>	<u>\$ 138,708</u>
<b>Six Months Ended June 30, 2009</b>					
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other	Net Purchases, Issuances and Settlements/ Acquisitions	Foreign Currency Translation Adjustments	Ending Balance
<b>Investments:</b>					
Equities	\$ 2,453	\$ (5)	\$ (2,056)	\$ (95)	\$ 297
Private equity investments owned	83,931	(108)	8,613	1,094	93,530
Total Level 3 Assets	<u>\$ 86,384</u>	<u>\$ (113)</u>	<u>\$ 6,557</u>	<u>\$ 999</u>	<u>\$ 93,827</u>

There were no realized gains or losses included in income for the three month and six month periods ended June 30, 2010 with respect to Level 3 assets. There were net realized gains of \$21 included in income for the three month and six month periods ended June 30, 2009 with respect to such assets.

**6. DERIVATIVES**

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

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

“available-for-sale” securities, the Company elected to not apply hedge accounting to its other derivative instruments held. Gains and losses on the Company’s derivatives not designated as hedging instruments, as well as gains and losses on derivatives accounted for as fair value hedges, are included in “interest income” and “interest expense”, respectively, or “revenue-other”, depending on the nature of the underlying item, on the consolidated statements of operations. Furthermore, with respect to derivatives designated as fair value hedges, the hedged item is required to be adjusted for changes in fair value of the risk being hedged, with such adjustment accounted for in the consolidated statements of operations.

The table below presents the fair values of the Company’s derivative assets and liabilities reported within “other assets” and “other liabilities” on the accompanying condensed consolidated statements of financial condition as of June 30, 2010 and December 31, 2009:

	Designated as Hedging Instruments		Not Designated as Hedging Instruments		Total	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
<b>Derivative Assets:</b>						
Forward foreign currency exchange rate contracts	\$ -	\$ -	\$ 5,357	\$ 836	\$ 5,357	\$ 836
Interest rate swaps	-	-	61	80	61	80
Equity swaps and other	-	-	768	5	768	5
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,186</u>	<u>\$ 921</u>	<u>\$ 6,186</u>	<u>\$ 921</u>
<b>Derivative Liabilities:</b>						
Forward foreign currency exchange rate contracts	\$ -	\$ -	\$ 2,314	\$ 2,213	\$ 2,314	\$ 2,213
Interest rate swaps	13,821	14,147	3	56	13,824	14,203
Equity swaps	-	-	571	967	571	967
	<u>\$ 13,821</u>	<u>\$ 14,147</u>	<u>\$ 2,888</u>	<u>\$ 3,236</u>	<u>\$ 16,709</u>	<u>\$ 17,383</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Forward foreign currency exchange rate contracts	\$ 7,133	\$ 3,482	\$ 12,351	\$ 3,650
Interest rate swaps	(10)	344	34	482
Equity swaps and other	5,382	(7,145)	4,050	(3,263)
	<u>\$ 12,505</u>	<u>\$ (3,319)</u>	<u>\$ 16,435</u>	<u>\$ 869</u>

Derivatives designated as hedging instruments relate to interest rate swaps that hedge “available-for-sale” securities and are being accounted for as fair value hedges. For the three month and six month periods ended June 30, 2010, the Company recognized net losses pertaining to interest rate swaps of \$1,765 and \$3,756, respectively, and for the three month and six month periods ended June 30, 2009, recognized net gains (losses) of \$3,143 and \$(190), respectively, with respect to such interest rate swaps. These gains (losses) were substantially offset by amounts recognized on the hedged risk portion of such “available-for-sale” securities.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**7. LAM MERGER TRANSACTION**

On September 25, 2008, the Company, LAM and LAZ Sub I, LLC, a then newly-formed subsidiary of LFNy, completed the merger of LAZ Sub I, LLC with and into LAM (the “LAM Merger”). Prior to the LAM Merger, the common equity interests of LAM were held by LFNy, and certain other equity interests of LAM, representing contingent payments should certain specified fundamental transactions occur, were held by present and former employees of LAM. Following the LAM Merger, all equity interests of LAM are owned directly or indirectly by LFNy.

The aggregate non-contingent consideration relating to the equity interests of LAM held by present and former employees of LAM and its subsidiaries (the “Transaction Consideration”) consists of (i) cash payments made from the closing of the LAM Merger through January 2, 2009 of approximately \$60,100, (ii) a cash payment on October 31, 2011 of approximately \$90,300 and (iii) an issuance on October 31, 2011 of 2,201,457 shares of Lazard Ltd’s Class A common stock (plus additional shares of Class A common stock in an amount determined by reference to the cash dividends paid on Class A common stock since the closing of the LAM Merger), subject, in the case of clauses (ii) and (iii) and with respect to certain present employees of LAM and its subsidiaries, to delayed payment/issuance until the eighth anniversary of the closing of the LAM Merger if the applicable employee is no longer employed by Lazard or its affiliates on October 31, 2011, subject to certain exceptions. The merger agreement also generally provides that if there is a change in control of Lazard Ltd or a sale of LAM, any and all of the Transaction Consideration will be payable as of the date of such change in control. The related liabilities for the present value of the unpaid cash consideration have been recorded in the accompanying condensed consolidated statements of financial condition in “accrued compensation and benefits” and “other liabilities”, and amounted to \$14,754 and \$68,145, respectively, as of June 30, 2010 and \$14,252 and \$65,308, respectively, as of December 31, 2009.

In connection with the LAM Merger, Lazard Group recorded a related party payable to subsidiaries of Lazard Ltd of \$64,305 at both June 30, 2010 and December 31, 2009, which corresponds to the increase in stockholders’ equity recorded by Lazard Ltd for such merger (see Note 17 of Notes to Condensed Consolidated Financial Statements).

**8. BUSINESS ACQUISITIONS**

On July 15, 2009, the Company established a private equity business with Edgewater, a private equity firm based in Chicago, Illinois, through the Edgewater Acquisition. Following such acquisition, Edgewater’s current leadership team retained a substantial economic interest in such entities. Edgewater primarily manages two middle market funds, Edgewater Growth Capital Partners, L.P. and Edgewater Growth Capital Partners II, L.P. (the “underlying funds”), with an aggregate of approximately \$700,000 of capital raised. The acquisition was structured as a purchase by Lazard Group of interests in a holding company that in turn owns interests in the general partner and management company entities of the current Edgewater private equity funds.

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 transfer restrictions and forfeiture provisions that lapse only upon the achievement of certain performance thresholds for the next Edgewater fund that must be met by July 15, 2011. The Earnout Shares will be issued only if certain performance thresholds for the next two Edgewater funds are met.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

The Edgewater Acquisition was accounted for under the acquisition method of accounting, whereby the results of the acquired business are included in our consolidated financial results from July 15, 2009, the effective date of the acquisition. As a result of the acquisition, we recorded net tangible assets, identifiable intangible assets and goodwill of \$53,635 (consisting primarily of Edgewater's investments in their underlying funds and cash), \$56,200 and \$61,630, respectively, which include amounts for Edgewater's noncontrolling interests held (whose economic interests approximate 50%) aggregating \$109,841. Goodwill pertaining to this acquisition is deductible for income tax purposes. See Note 9 of Notes to Condensed Consolidated Financial Statements for additional information relating to goodwill and other intangible assets. The operating results relating to Edgewater, which have not been material, are included in the Company's Asset Management segment.

In 2007, the Company acquired Goldsmith, Agio, Helms & Lynner, LLC ("GAHL"), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies, and Carnegie, Wylie & Company (Holdings) PTY LTD ("CWC"), an Australia-based financial advisory firm. These purchases were affected through an exchange of a combination of cash, Class A common stock, and by Lazard Ltd issuing shares of non-participating convertible Series A and Series B preferred stock, which are or were each convertible into Class A common stock. In connection with such acquisitions, as of both June 30, 2010 and December 31, 2009, 662,015 shares of Class A common stock were issuable on a non-contingent basis. Additionally, at both June 30, 2010 and December 31, 2009, 7,293 shares of Series A preferred stock were convertible into Class A common shares on a non-contingent basis, with the number of Class A common shares dependent, in part, upon future prices of the Class A common stock. At both June 30, 2010 and December 31, 2009, 948,631 shares of Class A common stock were contingently issuable and, at both such dates, 19,590 shares of Series A preferred stock were contingently convertible into shares of Class A common stock, dependent upon the future performance of GAHL and CWC. The Class A common stock described above related to the GAHL and CWC acquisitions is issuable over multi-year periods.

In connection with Lazard Group's acquisitions of GAHL and Edgewater's management vehicles, as well as Lazard Ltd's acquisition of CWC and subsequent contribution of CWC to Lazard Group, Lazard Group recorded related party payables of \$39,820 at both June 30, 2010 and December 31, 2009 to subsidiaries of Lazard Ltd (see Note 17 of Notes to the Condensed Consolidated Financial Statements).

#### **9. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Goodwill	\$254,295	\$ 261,703
Other intangible assets (net of accumulated amortization)	52,538	56,077
	<u>\$306,833</u>	<u>\$ 317,780</u>

At June 30, 2010 and December 31, 2009, goodwill of \$192,665 and \$200,073, respectively, was attributable to the Company's Financial Advisory segment and, at each such date, \$61,630 of goodwill was attributable to the Company's Asset Management segment.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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

	Six Months Ended June 30,	
	2010	2009
Balance, January 1	\$261,703	\$170,277
Business acquisitions, including additional contingent consideration earned	-	2,779
Foreign currency translation adjustments	(7,408)	12,378
Balance, June 30	<u>\$254,295</u>	<u>\$185,434</u>

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

	June 30, 2010			December 31, 2009		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	\$30,740	\$ -	\$30,740	\$30,740	\$ -	\$30,740
Management fees, customer relationships and non-compete agreements	32,477	10,679	21,798	32,477	7,140	25,337
	<u>\$63,217</u>	<u>\$ 10,679</u>	<u>\$52,538</u>	<u>\$63,217</u>	<u>\$ 7,140</u>	<u>\$56,077</u>

Amortization expense of intangible assets for the three month and six month periods ended June 30, 2010 was \$1,769 and \$3,539, respectively, and for the three month and six month periods ended June 30, 2009 was \$344 and \$688, respectively. Estimated future amortization expense is as follows:

<u>Year Ending December 31,</u>	<u>Amortization Expense (a)</u>
2010 (July 1 through December 31)	\$ 3,449
2011	5,718
2012	6,302
2013	13,022
2014	10,083
Thereafter	13,964
Total amortization expense	<u>\$ 52,538</u>

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



**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**10. SENIOR AND SUBORDINATED DEBT**

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

	Initial Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As Of	
				June 30, 2010	December 31, 2009
Lazard Group 7.125% Senior Notes (a)	\$ 550,000	5/15/15	7.125%	\$ 528,500	\$ 538,500
Lazard Group 6.85% Senior Notes (b)	600,000	6/15/17	6.85%	548,350	548,350
Lazard Group Credit Facility	150,000	4/29/13	2.15%	-	-
Total				<u>\$ 1,076,850</u>	<u>\$ 1,086,850</u>

- (a) During the six month period ended June 30, 2010, the Company repurchased \$10,000 principal amount of the 7.125% Senior Notes at a cost, excluding accrued interest, of \$10,375 and, after the write-off of applicable unamortized debt issuance costs of \$49, the Company recognized a pre-tax loss of \$424.
- (b) During the six month period ended June 30, 2009, the Company repurchased \$900 principal amount of the 6.85% Senior Notes at a cost, excluding accrued interest, of \$635 and, after the write-off of unamortized debt issuance costs of \$7, recognized a pre-tax gain of \$258.

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

On April 29, 2010, Lazard Group entered into a \$150,000, three-year senior revolving credit facility with a group of lenders (the “Credit Facility”). The Credit Facility replaced the prior revolving credit facility, which was terminated as a condition to effectiveness of the Credit Facility. The Credit Facility contains customary terms and conditions substantially similar to the prior revolving credit facility, including certain financial covenants. In addition, the Credit Facility, the indenture and supplemental indentures relating to Lazard Group’s senior notes as well as its subordinated convertible note contain certain covenants (none of which relate to financial condition), events of default and other customary provisions, including a customary make-whole provision in the event of early redemption where applicable. As of June 30, 2010, the Company was in compliance with all of these provisions. All of the Company’s senior and subordinated debt obligations are unsecured.

As of June 30, 2010, the Company had approximately \$259,000 in unused lines of credit available to it, including the Credit Facility, and approximately \$50,000 and \$39,000 of unused lines of credit available to LFB and Edgewater, respectively. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

The Company’s senior and subordinated debt are recorded at historical amounts. At June 30, 2010 and December 31, 2009, the fair value of the Company’s senior and subordinated debt was \$1,231,581 and \$1,255,254, respectively, and exceeded the aggregate carrying value by \$4,731 and \$18,404, respectively. The fair value of the Company’s senior and subordinated debt was estimated using a discounted cash flow analysis based on the Company’s current borrowing rates for similar types of borrowing arrangements or based on market quotations where available.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**11. COMMITMENTS AND CONTINGENCIES**

**Leases**—Lazard has various leases and other contractual commitments arising in the ordinary course of business. In the opinion of management, the fulfillment of such commitments, in accordance with their terms, will not have a material adverse effect on Lazard's consolidated financial position, results of operations or cash flows.

**Guarantees**—On March 12, 2007, Lazard entered into an agreement to guarantee to a foreign tax jurisdiction the deferred payment of certain income tax obligations and potential tax penalties of certain managing directors of Lazard Group, which, as of June 30, 2010, aggregate to \$4,454. These managing directors have pledged their interests in LAZ-MD Holdings LLC (which are exchangeable into shares of Class A common stock) and unsold shares of Class A common stock received in exchange for such interests, with the value of such collateral in each case exceeding the guarantee provided by Lazard.

In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At June 30, 2010, LFB had \$5,171 of such indemnifications and held \$3,577 of collateral/counter-guarantees to secure these commitments. The Company believes the likelihood of loss with respect to these indemnities is remote. Accordingly, no liability is recorded in the consolidated statement of financial condition.

**Private Equity Funding Commitments**—At June 30, 2010, the principal unfunded commitments by the Company for capital contributions to private equity investment funds related to CP II, in an amount not to exceed \$7,442 for potential "follow-on investments" and/or for CP II expenses through the earlier of (i) February 25, 2017 or (ii) the liquidation of the fund.

**Other Commitments**—In the normal course of business, LFB enters into commitments to extend credit, predominantly at variable interest rates. Outstanding commitments at June 30, 2010 were \$29,390. Such commitments have varying expiration dates and are fully collateralized and generally contain requirements for the counterparty to maintain a minimum collateral level. These commitments may not represent future cash requirements as they may expire without being drawn upon.

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

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

**Legal**—The Company's businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved from time to time in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses, including proceedings initiated by former employees alleging wrongful termination. The Company reviews such matters on a case-by-case basis and establishes any required reserves if a loss is probable and the amount of such loss can be reasonably estimated. Management believes, based on currently available

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

information, that the results of such matters, in the aggregate, will not have a material adverse effect on its financial condition but might be material to its operating results or cash flows for any particular period, depending upon the operating results for such period.

**12. MEMBERS' EQUITY**

At June 30, 2010 and 2009, Lazard Group common membership interests held by subsidiaries of Lazard Ltd amounted to 89.0% and 71.2%, respectively, and by LAZ-MD Holdings amounted to 11.0% and 28.8%, respectively. Pursuant to provisions of its Operating Agreement, Lazard Group distributions in respect of its common membership interests are allocated to the holders of such interests on a pro rata basis. Such distributions represent amounts necessary to fund (i) any dividends Lazard Ltd may declare on its Class A common stock and (ii) tax distributions in respect of income taxes that Lazard Ltd's subsidiaries and the members of LAZ-MD Holdings incur as a result of holding Lazard Group common membership interests. During the six month periods ended June 30, 2010 and 2009, Lazard Group distributed \$7,103 and \$9,163, respectively, to LAZ-MD Holdings and \$23,022 and \$13,439, respectively, to the subsidiaries of Lazard Ltd, which latter amounts were used by Lazard Ltd to pay dividends to third-party stockholders of its Class A common stock. In addition, during the six month period ended June 30, 2009, Lazard Group made tax distributions of \$67,360, including \$25,316 paid to LAZ-MD Holdings and \$42,044 paid to subsidiaries of Lazard Ltd. During the six month period ended June 30, 2010, Lazard Group made no such tax distributions.

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

**Secondary Offerings**—In March 2010, pursuant to a Prospectus Supplement dated March 16, 2010, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard and a former executive officer) and their permitted transferees, sold 7,869,311 shares of Class A common stock (including (i) 7,262 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests, (ii) 6,180,639 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests (including 5,958,000 shares held by the Estate of Lazard's former Chairman and Chief Executive Officer and related trusts (collectively, the "Estate") and (iii) 1,681,410 shares held by the Estate) at a price of \$35.90 per share (collectively, the "2010 Secondary Offering").

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

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

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**Exchange of Lazard Group Common Membership Interests**—In addition to the simultaneous exchanges that occurred in connection with the secondary offerings discussed above, during the six month periods ended June 30, 2010 and 2009, Lazard Ltd issued 11,465,108 and 7,077,741 shares of Class A common stock, respectively, in connection with the exchange of a like number of common membership interests of Lazard Group (received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests).

**Share Repurchase Program**

On January 27, 2010, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, the repurchase of up to \$200,000 in aggregate cost of its Class A common stock and Lazard Group common membership interests through December 31, 2011. The Company expects that the share repurchase program, with respect to the Class A common stock, will continue to be used primarily to offset a portion of the shares that have been or will be issued under the 2005 Plan and the Lazard Ltd 2008 Incentive Compensation Plan (the “2008 Plan”). The Company’s prior share repurchase program expired on December 31, 2009, with \$62,542 of the initial \$500,000 repurchase authorization unused. Pursuant to such authorizations, purchases have been made in the open market or through privately negotiated transactions, and since inception of the program in February 2006 through June 30, 2010, Lazard Group purchased an aggregate of 12,799,717 shares of Class A common stock at an average price of \$33.01 per share, and an aggregate of 1,156,675 Lazard Group common membership interests at an average price of \$32.58 per common membership interest. As a result of Lazard Group’s delivery of shares of Class A common stock for the settlement of vested RSUs and deferred stock unit grants (“DSUs”) during the three year period ended December 31, 2009 and the six month period ended June 30, 2010 and the incentive plan share award of restricted Class A common stock granted during the second quarter of 2010, there were 3,825,124 and 5,850,775 shares of Class A common stock held by Lazard Group at June 30, 2010 and December 31, 2009, respectively. Such Class A common shares are reported, at cost, as a reduction of members’ equity within the condensed consolidated statements of financial condition.

As of June 30, 2010, \$177,267 of the \$200,000 share repurchase authorization remained available under the share repurchase program. In addition, under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of RSUs, shares of Class A common stock may be withheld by the Company to cover estimated income taxes. During the six month period ended June 30, 2010, the Company withheld 1,288,331 shares to cover estimated taxes upon the vesting of 6,952,061 RSUs (see Note 13 of Notes to Condensed Consolidated Financial Statements).

**Accumulated Other Comprehensive Income (Loss), Net of Tax**

The components of AOCI at June 30, 2010 and December 31, 2009 are as follows:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Currency translation adjustments	\$ (22,440)	\$ 35,890
Interest rate hedge	(5,235)	(5,774)
Available-for-sale securities	(11,117)	(12,630)
Employee benefit plans	(78,433)	(76,079)
Total AOCI	(117,225)	(58,593)
Less amount attributable to noncontrolling interests	189	199
Total Lazard Group AOCI	<u>\$ (117,414)</u>	<u>\$ (58,792)</u>

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**Noncontrolling Interests**

Noncontrolling interests represent interests in various LAM-related GP interests and Edgewater’s management vehicles that the Company is deemed to control but does not own.

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

	Net Income (Loss) Attributable To Noncontrolling Interests			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
LAM GPs	\$ (598)	\$ 259	\$ (728)	\$(812)
Edgewater	1,270	-	3,877	-
Other	(191)	-	(310)	-
Total	<u>\$ 481</u>	<u>\$ 259</u>	<u>\$ 2,839</u>	<u>\$(812)</u>

  

	Noncontrolling Interests As Of	
	June 30, 2010	December 31, 2009
	LAM GPs	\$ 14,126
Edgewater	114,267	112,158
Other	1,669	1,993
Total	<u>\$ 130,062</u>	<u>\$ 127,560</u>

**13. INCENTIVE PLANS**

**Share-Based Incentive Plan Awards**

A description of Lazard Ltd’s 2005 Plan and 2008 Plan, and activity with respect thereto during the six month periods ended June 30, 2010 and 2009, is presented below.

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

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

In addition to the shares available under the 2005 Plan, additional shares of Class A common stock are available under the 2008 Plan, which was approved by the stockholders of Lazard Ltd on May 6, 2008. The maximum number of shares available under the 2008 Plan is based on a formula that limits the aggregate number of shares that may, at any time, be subject to awards that are considered “outstanding” under the 2008 Plan to 30% of the then-outstanding shares of Class A common stock (treating, for this purpose, the then-outstanding exchangeable interests of LAZ-MD Holdings on a “fully-exchanged” basis as described in the 2008 Plan).

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**Restricted and Deferred Stock Units**

RSUs require future service as a condition for the delivery of the underlying shares of Class A common stock (unless the recipient is then eligible for retirement under the Company's retirement policy) and convert into Class A common stock on a one-for-one basis after the stipulated vesting periods. The grant date fair value of the RSUs, net of an estimated forfeiture rate, is amortized over the vesting periods or requisite service periods. Expense relating to RSUs is charged to "compensation and benefits" expense (and, as applicable, in "restructuring" expense, with respect to the expense associated with the acceleration of unrecognized expense pertaining to RSUs granted previously to individuals who were terminated in the restructuring programs during 2009 and 2010) as follows within the Company's condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Compensation and benefits (including \$24,860 in the six month period ended June 30, 2010 relating to the amendment of the Company's retirement policy(a))	\$50,530	\$64,111	\$154,343	\$128,559
Restructuring	-	-	46,880	24,239
<b>Total</b>	<b>\$50,530</b>	<b>\$64,111</b>	<b>\$201,223</b>	<b>\$152,798</b>

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

RSUs issued subsequent to December 31, 2005 generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any ordinary quarterly dividends paid on Class A common stock during such period. During the six month periods ended June 30, 2010 and 2009, dividend participation rights required the issuance of 163,146 and 169,582 RSUs, respectively.

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

Non-executive members of the Board of Directors of Lazard Group (who are also the same Non-Executive Directors of Lazard Ltd) receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs which resulted in 31,588 and 33,359 DSUs granted during the six month periods ended June 30, 2010 and 2009, respectively. Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Directors' Fee Deferral Unit Plan described below. DSUs are convertible into Class A common stock at the time of cessation of service to the Board. The DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the six month periods ended June 30, 2010 and 2009. DSU awards are expensed at their fair value on their date of grant, which, inclusive of amounts related to the Directors' Fee Deferral Unit Plan, totaled \$520 and \$558 during the three month and six month periods ended June 30, 2010, respectively, and \$502 and \$541 during the three month and six month periods ended June 30, 2009, respectively.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

On May 9, 2006, the Board of Directors adopted the Directors' Fee Deferral Unit Plan, which allows the Company's Non-Executive Directors to elect to receive additional DSUs pursuant to the 2005 Plan in lieu of some or all of their cash fees. The number of DSUs that shall be granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date on which the foregone cash fees would otherwise have been paid. During the six month periods ended June 30, 2010 and 2009, 4,120 and 5,446 DSUs, respectively, had been granted pursuant such Plan.

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

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2010	23,367,813	\$ 37.01	103,146	\$ 35.75
Granted (including 163,146 RSUs relating to dividend participation)	6,853,747	\$ 35.98	35,708	\$ 31.25
Forfeited	(315,002)	\$ 34.57	–	–
Vested/Converted	(6,952,061)	\$ 39.88	(20,435)	\$ 35.38
Balance, June 30, 2010	<u>22,954,497</u>	<u>\$ 35.88</u>	<u>118,419</u>	<u>\$ 34.46</u>

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2009	22,141,468	\$ 39.17	65,256	\$ 40.32
Granted (including 169,582 RSUs relating to dividend participation)	7,161,473	\$ 30.84	38,805	\$ 27.90
Forfeited	(657,866)	\$ 37.01	–	–
Vested	(1,128,585)	\$ 39.39	–	–
Balance, June 30, 2009	<u>27,516,490</u>	<u>\$ 37.05</u>	<u>104,061</u>	<u>\$ 35.69</u>

In connection with the vested RSUs above, and after considering the withholding tax obligations pertaining thereto, 5,663,730 and 745,890 shares of Class A common stock held by Lazard Group were delivered during the six month periods ended June 30, 2010 and 2009, respectively.

As of June 30, 2010, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately \$324,000, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.8 years subsequent to June 30, 2010. The ultimate amount of such expense is dependent upon the actual number of RSUs that vest. The Company periodically assesses the forfeiture rates used for such estimates. A change in estimated forfeiture rates would cause the aggregate amount of compensation expense recognized in future periods to differ from the estimated unrecognized compensation expense described herein.

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**Restricted Stock**

During the second quarter of 2010, 54,437 shares of restricted Class A common stock were awarded under the 2008 Plan at a grant date fair value of \$38.78 per share. Such award will vest and will no longer be subject to any restrictions on August 31, 2012. The aggregate grant date fair value of the award is being amortized over the vesting period. Expense relating to such restricted stock award is charged to “compensation and benefits” expense within the consolidated statements of operations, and amounted to \$160 for the three month and six month periods ended June 30, 2010. The award includes a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock during the period which will vest concurrently with the underlying restricted stock award.

**14. EMPLOYEE BENEFIT PLANS**

The Company provides retirement and other post-retirement benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement plans. These plans generally provide benefits to participants based on average levels of compensation. Expenses (benefits) related to the Company’s employee benefit plans are included in “compensation and benefits” expense on the consolidated statements of operations. The Company uses December 31 as the measurement date for its employee benefit plans.

**Employer Contributions to Pension Plans**—In accordance with agreements reached with the Trustees of certain non-U.S. pension plans in 2005, the Company is obligated to make further contributions to such pension plans based upon the cumulative performance of the plans’ assets against specific benchmarks as measured on June 1, 2009 (the “measurement date”) and subsequently remeasured on June 1, 2010 (the “remeasurement date”). As of June 30, 2010, the remaining obligation related to the cumulative underperformance of the plans’ assets (the “underperformance obligation”) was approximately 4.0 million British pounds (\$6,070 at June 30, 2010 exchange rates) which is payable in equal monthly installments through May 2013. During the six month period ended June 30, 2010, the Company contributed approximately \$2,006 with respect to the underperformance obligation.

In addition, on June 30, 2009 the Company and Trustees concluded the December 31, 2007 triennial valuation of the non-U.S. pension plans discussed above, pursuant to which: (i) the Company agreed to contribute, in addition to amounts to cover administrative expenses under the plans, 2.3 million British pounds (\$3,453 at June 30, 2010 exchange rates), during each year from 2011 to 2018 inclusive, subject to adjustment resulting from the December 31, 2010 triennial valuation, which the Company expects to have concluded prior to the contribution payment scheduled for 2011, and (ii) to secure the Company’s obligations thereunder, on July 15, 2009 the Company placed in escrow 12.5 million British pounds, with a final redemption date of December 31, 2018. This amount is subject to adjustment based on the results of the December 31, 2010 triennial valuation and subsequent triennial valuations. The escrow balance has been recorded in “cash deposited with clearing organizations and other segregated cash” and “investments: debt-other” in the amounts of 6.25 million British pounds and 6.25 million British pounds, respectively, at each of June 30, 2010 and December 31, 2009 (\$9,382 and \$9,382 at June 30, 2010 exchange rates and \$10,138 and \$10,138 at December 31, 2009 exchange rates), respectively, on the accompanying condensed consolidated statements of financial condition. Income on the escrow balance accretes to the Company and is recorded in interest income.

During the six month period ended June 30, 2010, there were no other contributions made to other pension plans.



**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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

	Pension Plans		Post-Retirement Medical Plans	
	Three Months Ended June 30,			
	2010	2009	2010	2009
<b>Components of Net Periodic Benefit Cost (Credit):</b>				
Service cost	\$ (88)	\$ -	\$ 22	\$ 21
Interest cost	6,702	5,901	73	60
Expected return on plan assets	(7,056)	(6,570)	-	-
Amortization of:				
Prior service cost (credit)	725	-	(435)	(345)
Net actuarial (gain) loss	198	227	-	(27)
Net periodic benefit cost (credit)	<u>\$ 481</u>	<u>\$ (442)</u>	<u>\$ (340)</u>	<u>\$ (291)</u>
	Pension Plans		Post-Retirement Medical Plans	
	Six Months Ended June 30,			
	2010	2009	2010	2009
<b>Components of Net Periodic Benefit Cost (Credit):</b>				
Service cost	\$ 260	\$ -	\$ 40	\$ 49
Interest cost	13,787	11,420	146	155
Expected return on plan assets	(14,429)	(12,700)	-	-
Amortization of:				
Prior service cost (credit)	1,476	-	(691)	(691)
Net actuarial loss	399	435	-	-
Net periodic benefit cost (credit)	<u>\$ 1,493</u>	<u>\$ (845)</u>	<u>\$ (505)</u>	<u>\$ (487)</u>

**15. RESTRUCTURING PLANS**

In each of the first quarters of 2010 and 2009, the Company announced a restructuring plan which included certain staff reductions and realignments of personnel (the “2010 Restructuring Plan” and the “2009 Restructuring Plan”, respectively, and collectively the “2010 and 2009 Restructuring Plans”). In connection with the 2010 Restructuring Plan, the Company recorded a pre-tax charge in the first quarter of 2010 of \$87,108, inclusive of \$46,880 relating to the acceleration of RSUs (in aggregate, the “2010 Restructuring Charge”), with this charge partially offset by an associated income tax benefit of \$5,680, and, in connection with the 2009 Restructuring Plan, the Company recorded a charge in the first quarter of 2009 of \$62,550, inclusive of \$24,239 relating to the acceleration of RSUs (in aggregate, the “2009 Restructuring Charge”), with this charge partially offset by an associated income tax benefit of \$6,401 (collectively, the “2010 and 2009 Restructuring Charges”).

The 2010 and 2009 Restructuring Charges primarily consisted of compensation-related expenses, including the acceleration of unrecognized expenses pertaining to RSUs previously granted to individuals who were terminated pursuant to the restructuring, severance and benefit payments and other costs. As of June 30, 2010, the remaining liability associated with the 2010 Restructuring Plan was \$23,417 and, as of June 30, 2010 and December 31, 2009, the remaining liability associated with the 2009 Restructuring Plan was \$6,769 and \$11,500,

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

respectively. During the six month period ended June 30, 2010, other than cash payments of \$16,811 and \$4,731 for the 2010 Restructuring Plan and the 2009 Restructuring Plan, respectively, there were no adjustments to the liabilities with respect to the 2010 and 2009 Restructuring Plans. Such liabilities are reported within “accrued compensation and benefits” and “other liabilities” on the accompanying condensed consolidated statements of financial condition.

**16. INCOME TAXES**

The Company recorded an income tax provision of \$13,040 and \$18,580 for the three month and six month periods ended June 30, 2010, respectively, and \$13,219 and \$8,665 for the three month and six month periods ended June 30, 2009, respectively, representing effective tax rates of 19.3%, 56.1%, 22.7% and (26.4)%, respectively. Excluding (i) the income tax benefits of \$5,680 related to the 2010 Restructuring Charge and \$1,363 related to the charge incurred in connection with the amendment of Lazard’s retirement policy with respect to RSU awards, and (ii) the income tax benefit of \$6,401 related to the 2009 Restructuring Charge, the Company had an income tax provision of \$13,040, and \$25,623 for the three month and six month periods ended June 30, 2010, respectively, and \$13,219 and \$15,066 for the three month and six month periods ended June 30, 2009, respectively, representing effective tax rates of 19.3%, 17.7%, 22.7% and 50.6%, respectively. The effective tax rates herein for the six month period ended June 30, 2010 reflect a benefit from the reductions in unrecognized tax benefits of (i) \$4,480 during the first quarter of 2010 relating to settlements with taxing authorities pertaining to certain prior years and (ii) \$2,149 during the second quarter of 2010 relating to other adjustments to certain prior years.

Although a portion of Lazard Group’s income is subject to U.S. federal income taxes, the principal difference between the U.S. federal statutory tax rate of 35.0% and Lazard Group’s effective tax rates described above is due to Lazard Group primarily operating 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 taxes associated with such income represent obligations of the individual partners. Lazard Group, however, 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.

**17. RELATED PARTIES**

Amounts receivable from, and payable to, related parties as of June 30, 2010 and December 31, 2009 are set forth below:

	June 30, 2010	December 31, 2009
<b>Receivables</b>		
LFCM Holdings	\$ 5,285	\$ 14,212
Lazard Ltd Subsidiaries	26,186	31,684
Other	1,012	203
Total	<u>\$ 32,483</u>	<u>\$ 46,099</u>
<b>Payables</b>		
LFCM Holdings	\$ 118	\$ 1,747
Lazard Ltd Subsidiaries	231,650	240,518
Other	102	19
Total	<u>\$ 231,870</u>	<u>\$ 242,284</u>

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

**LFCM Holdings**

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

For the three month and six month periods ended June 30, 2010, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$513 and \$1,059, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to \$3,384 and \$6,729, respectively. For the three month and six month periods ended June 30, 2009, amounts recorded by Lazard Group relating to the administrative services agreement amounted to \$1,035 and \$2,492, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to \$6,431 and \$6,588, respectively. Amounts relating to the administrative services agreement are reported as reductions to operating expenses. Net referral fees for underwriting transactions under the business alliance agreement are reported in “revenue-other”. Net referral fees for private placement, M&A and restructuring transactions under the business alliance agreement are reported in advisory fee revenue.

Receivables from LFCM Holdings and its subsidiaries as of June 30, 2010 and December 31, 2009 primarily include \$808 and \$5,891, respectively, related to administrative and support services and reimbursement of expenses incurred on behalf of LFCM Holdings and \$3,978 and \$6,202, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at June 30, 2010 and December 31, 2009 relate primarily to referral fees for Financial Advisory transactions of \$118 and \$1,747, respectively.

**Lazard Ltd Subsidiaries**

Lazard Group’s receivables from subsidiaries of Lazard Ltd at June 30, 2010 and December 31, 2009 include interest-bearing loans of \$26,025 and \$29,732, respectively, including accrued interest thereon. Interest income relating to interest-bearing loans with subsidiaries of Lazard Ltd amounted to \$843 and \$1,652 for the three month and six month periods ended June 30, 2010, respectively, and \$2,014 and \$2,857 for the three month and six month periods ended June 30, 2009, respectively.

As of both June 30, 2010 and December 31, 2009, Lazard Group’s payables to subsidiaries of Lazard Ltd included \$64,305 related to the LAM Merger (see Note 7 of Notes to Condensed Consolidated Financial Statements), as well as payables at both June 30, 2010 and December 31, 2009 aggregating \$39,820, in connection with Lazard Group’s acquisition of GAHL and Edgewater’s management vehicles, and with respect to Lazard Ltd’s acquisition of CWC and subsequent contribution of CWC to Lazard Group (see Note 8 of Notes to Condensed Consolidated Financial Statements). In addition, as of both June 30, 2010 and December 31, 2009, Lazard Group’s payables to subsidiaries of Lazard Ltd include interest-bearing loans, plus accrued interest

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

thereon, of \$126,679 and \$136,329, respectively. Interest expense relating to interest-bearing loans with subsidiaries of Lazard Ltd amounted to \$1,080 and \$2,205 for the three month and six month periods ended June 30, 2010, respectively, and \$1,659 and \$3,487 for the three month and six month periods ended June 30, 2009, respectively.

**LAZ-MD Holdings**

Lazard Group provides selected administrative and support services to LAZ-MD Holdings through the administrative services agreement as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group's cost allocation methodology and, for the three month and six month periods ended June 30, 2010, such charges amounted to \$187 and \$375, respectively. For the three month and six month periods ended June 30, 2009, such charges amounted to \$187 and \$375, respectively.

**18. REGULATORY AUTHORITIES**

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Exchange Act"). Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage of total aggregate indebtedness recorded in LFNY's Financial and Operational Combined Uniform Single ("FOCUS") report filed with the Financial Industry Regulatory Authority ("FINRA"), or \$100, whichever is greater. At June 30, 2010, LFNY's regulatory net capital was \$126,471, which exceeded the minimum requirement by \$118,605.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the "U.K. Subsidiaries") are regulated by the Financial Services Authority. At June 30, 2010, the aggregate regulatory net capital of the U.K. Subsidiaries was \$139,448, which exceeded the minimum requirement by \$98,414.

CFLF, through which non-corporate finance advisory activities are carried out in France, is subject to regulation by the Autorité de Contrôle Prudenciel for its banking activities conducted through its subsidiary, LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), are subject to regulation and supervision by the Autorité des Marchés Financiers. At June 30, 2010, the consolidated regulatory net capital of CFLF was \$179,267, which exceeded the minimum requirement set for regulatory capital levels by \$89,473.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At June 30, 2010, for those subsidiaries with regulatory capital requirements, their aggregate net capital was \$80,087, which exceeded the minimum required capital by \$59,364.

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

Lazard Ltd is currently subject to supervision by the SEC as a Supervised Investment Bank Holding Company ("SIBHC"). As a SIBHC, Lazard Ltd is subject to group-wide supervision, which requires it to

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

compute allowable capital and risk allowances on a consolidated basis. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) discussed below will have an impact on the SEC’s SIBHC program.

On December 11, 2009, the U.S. House of Representatives passed The Wall Street Reform and Consumer Protection Act of 2009 (“H.R. 4173”). On May 20, 2010, the U.S. Senate passed the Restoring American Financial Stability Act of 2010 (“S. 3217”). A House-Senate conference committee was established to reconcile the differences between H.R. 4173 and S. 3217. On June 25, 2010, the House-Senate conference committee agreed on a reconciled bill, the Dodd-Frank Act. Congress has enacted the Dodd-Frank Act, and on July 21, 2010, the President signed the Dodd-Frank Act.

The Dodd-Frank Act provides for the eventual elimination of the SEC’s SIBHC program. In addition, the Dodd-Frank Act allows entities seeking consolidated supervision to elect to be regulated by the Federal Reserve. We are currently in the process of examining the potential impact of the elimination of the SIBHC program and the Dodd-Frank Act on us.

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

The Company’s segment information for the three month and six month periods ended June 30, 2010 and 2009 is prepared using the following methodology:

- Revenue and expenses directly associated with each segment are included in determining operating income.
- Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.
- Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

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

Each segment’s operating expenses include (i) compensation and benefits expenses incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
Financial Advisory	Net Revenue	\$245,973	\$252,024	\$ 514,469	\$ 415,001
	Operating Expenses	213,900	205,485	451,700	383,106
	Operating Income (a)	<u>\$ 32,073</u>	<u>\$ 46,539</u>	<u>\$ 62,769</u>	<u>\$ 31,895</u>
Asset Management	Net Revenue	\$189,414	\$131,543	\$ 377,167	\$ 233,066
	Operating Expenses	136,886	103,973	266,326	194,413
	Operating Income (a)	<u>\$ 52,528</u>	<u>\$ 27,570</u>	<u>\$ 110,841</u>	<u>\$ 38,653</u>
Corporate	Net Revenue	\$ (16,579)	\$ (7,532)	\$ (34,881)	\$ (24,165)
	Operating Expenses	332	8,462	105,587	79,176
	Operating Income (Loss) (a)	<u>\$ (16,911)</u>	<u>\$ (15,994)</u>	<u>\$ (140,468)</u>	<u>\$ (103,341)</u>
Total	Net Revenue	\$418,808	\$376,035	\$ 856,755	\$ 623,902
	Operating Expenses	351,118	317,920	823,613	656,695
	Operating Income (Loss) (a)	<u>\$ 67,690</u>	<u>\$ 58,115</u>	<u>\$ 33,142</u>	<u>\$ (32,793)</u>
				As of	
				June 30,	December 31,
				2010	2009
<b>Total Assets:</b>					
Financial Advisory				\$ 627,986	\$ 706,785
Asset Management				679,500	702,775
Corporate				1,476,304	1,705,488
Total				<u>\$ 2,783,790</u>	<u>\$ 3,115,048</u>

**LAZARD GROUP LLC**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(UNAUDITED)**  
**(dollars in thousands, unless otherwise noted)**

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

	Six Months Ended June 30,	
	2010	2009
<b>Financial Advisory</b>		
Operating income, as reported above	\$ 62,769	\$ 31,895
Special item:		
Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards	19,571	-
Operating income, excluding impact of special item	<u>\$ 82,340</u>	<u>\$ 31,895</u>
<b>Asset Management</b>		
Operating income, as reported above	\$ 110,841	\$ 38,653
Special item:		
Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards	2,902	-
Operating income, excluding impact of special item	<u>\$ 113,743</u>	<u>\$ 38,653</u>
<b>Corporate</b>		
Operating loss, as reported above	\$(140,468)	\$(103,341)
Special items:		
Restructuring expense	87,108	62,550
Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards	2,387	-
Operating loss, excluding impact of special items	<u>\$ (50,973)</u>	<u>\$ (40,791)</u>
<b>Consolidated</b>		
Operating income (loss), as reported above	\$ 33,142	\$ (32,793)
Special items:		
Restructuring expense	87,108	\$ 62,550
Acceleration of amortization expense pertaining to the amendment of Lazard's retirement policy with respect to RSU awards	24,860	-
Operating income, excluding impact of special items	<u>\$ 145,110</u>	<u>\$ 29,757</u>

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

*The following discussion should be read in conjunction with Lazard Group’s condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (the “Form 10-Q”), as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations (the “MD&A”) included in our Annual Report on Form 10-K for the year ended December 31, 2009 (the “Form 10-K”). All references to “2010”, “2009”, “second quarter”, “first half”, or “the period” refer to, as the context requires, the three month and six month periods ended June 30, 2010 and June 30, 2009.*

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

Management has included in Parts I and II of this Form 10-Q, including in its MD&A, statements that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “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’ possible or assumed future results of operations and operating cash flows,
- business’ strategies and investment policies,
- business’ financing plans and the availability of short-term borrowing,
- business’ competitive position,
- future acquisitions, including the consideration to be paid and the timing of consummation,



## Table of Contents

- potential growth opportunities available to our businesses,
- recruitment and retention of our managing directors and employees,
- target levels of compensation expense,
- business' potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,
- likelihood of success and impact of litigation,
- expected tax rates,
- changes in interest and tax rates,
- expectations with respect to the economy, securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other industry trends,
- effects of competition on our business, and
- impact of future legislation and regulation on our business.

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

### **Business Summary**

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

- Financial Advisory, which includes providing general strategic and transaction-specific advice on mergers and acquisitions ("M&A") and other strategic matters, restructurings, capital structure, capital raising and various other corporate finance matters, and
- Asset Management, which includes strategies for the management of equity and fixed income securities and alternative investment and private equity funds.

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

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

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

## [Table of Contents](#)

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

We continue to explore and discuss opportunities to expand the scope of our alternative investment and private equity activities in Europe, the U.S. and elsewhere. These opportunities could include internal growth of new funds and direct investments by us, partnerships or strategic relationships, investments with third parties or acquisitions of existing funds or management companies. In that regard, on July 15, 2009, the Company established a private equity business with The Edgewater Funds (“Edgewater”), a Chicago-based private equity firm, through the acquisition of Edgewater’s management vehicles. The acquisition was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the “Edgewater Acquisition”) (see Note 8 of Notes to Condensed Consolidated Financial Statements). Also, consistent with our obligations to LFCM Holdings, we may explore discrete capital markets opportunities.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Financial Advisory	59%	67%	60%	67%
Asset Management	45	35	44	37
Corporate	(4)	(2)	(4)	(4)
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### **Business Environment**

While economic and market conditions in general in the U.S. and globally showed signs of recovery in the first quarter of 2010, global equity markets and foreign currencies experienced significant volatility in the second quarter primarily due to concerns about the state of public finances of certain Euro economies and its impact on the speed of a global economic recovery. As a result, U.S. and global equity market indices declined from both year-end 2009 as well as March 31, 2010 levels. Partially offsetting this volatility were healthier domestic credit markets, improved corporate earnings and continued low interest rates. However, when compared to the first half of 2009, economic and market conditions have improved substantially, which contributed to the improvement in our operating performance in both Financial Advisory and Asset Management during the 2010 first half. However, we believe that going forward certain vulnerabilities to the global economy and, in turn, to the overall business environment, remain.

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

## [Table of Contents](#)

### **Financial Advisory**

Global and trans-atlantic completed and announced M&A transactions for the first half of 2010 increased versus the corresponding prior year periods, but continue to be at relatively low levels. The following table sets forth industry statistics regarding the value of M&A transactions in the periods:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	% Incr/(Decr)	2010	2009	% Incr/(Decr)
(\$ in billions)						
<b>Completed M&amp;A Transactions:</b>						
Global	\$ 440	\$ 303	45%	\$ 822	\$ 797	3%
Trans-Atlantic	42	6	nm	72	62	16%
<b>Announced M&amp;A Transactions:</b>						
Global	523	488	7%	1,019	1,002	2%
Trans-Atlantic	37	30	23%	75	38	97%

Source: Thomson Financial as of July 9, 2010.

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

Global restructuring activity during the first half of 2010 decreased from record levels in 2009, due to a lower level of corporate debt defaults. According to Moody's Investors Service, Inc., in the first half of 2010, a total of 26 issuers defaulted as compared to 175 in the corresponding 2009 period. While we believe that the number and value of corporate defaults may continue to decline throughout the year, we expect that our Restructuring business should remain active from the significant level of corporate defaults in 2009, as well as from advising companies during this period of volatility on matters relating to debt and financing restructuring and other on- and off-balance sheet assignments. Our Restructuring assignments normally are executed over a six- to eighteen-month period.

Our Private Fund Advisory Group, which is part of our Financial Advisory segment and is conducted in the U.S. through Lazard Frères & Co. LLC, an SEC-registered broker-dealer and member of FINRA, acts as placement agent for investment funds, including investment funds that have historically received capital from certain public pension funds. In April 2009, governmental officials in New York announced a new policy banning the use of placement agents by funds seeking investment contributions from the New York State and New York City public pension funds. The use of placement agents has also been prohibited or otherwise restricted with respect to investments by public pension funds in Illinois, Ohio and New Mexico, and similar measures are being considered or have been implemented in other jurisdictions. On June 30, 2010, the SEC approved a rule that, among other things, will prohibit investment advisors from paying a third-party placement agent for soliciting investment advisory business from a U.S. governmental entity, unless the placement agent is (i) an SEC-registered investment advisor or (ii) an SEC-registered broker-dealer that is a member of FINRA and thus subject to FINRA's forthcoming "pay-to-play" rule. We are continuing to evaluate the potential impact of state, local and other restrictions on our Private Fund Advisory Group.

## [Table of Contents](#)

### **Asset Management**

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

	Percentage Change June 30, 2010 vs.		
	March 31, 2010	December 31, 2009	June 30, 2009
MSCI World Index	(13)%	(11)%	8%
CAC 40	(13)%	(13)%	10%
DAX	(3)%	0%	24%
FTSE 100	(13)%	(9)%	16%
TOPIX 100	(16)%	(9)%	(10)%
MSCI Emerging Market	(9)%	(7)%	21%
Dow Jones Industrial Average	(10)%	(6)%	16%
NASDAQ	(12)%	(7)%	15%
S&P 500	(12)%	(8)%	12%

The fees that we receive for providing investment management and advisory services are primarily driven by the level of AUM. Accordingly, since market movements and foreign currency volatility impact the level of our AUM, such items will impact the level of revenues we receive from our Asset Management business. A substantial portion of our AUM is invested in equities, and market movements reflected in the changes in Lazard's AUM during the period generally corresponded to the changes in global market indices. While our AUM at June 30, 2010 decreased versus AUM at December 31, 2009, our average AUM during the second quarter and first half of 2010 increased significantly as compared to our average AUM for the corresponding periods of 2009, reflecting significant market appreciation for the last nine months of 2009, and, to a lesser extent, the first three months of 2010, as well as net inflows over the twelve month period ended June 30, 2010. Such increased AUM resulted in higher management fee revenues in the 2010 periods.

### **Financial Statement Overview**

#### **Net Revenue**

The majority of Lazard's Financial Advisory net revenue is earned from the successful completion of M&A transactions, strategic advisory matters, restructuring and capital structure advisory services, capital raising and similar transactions. The main drivers of Financial Advisory net revenue are overall M&A activity, the level of corporate debt defaults and the environment for capital raising activities, particularly in the industries and geographic markets in which Lazard focuses. In some client engagements, often those involving financially distressed companies, revenue is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment and are not necessarily linked to the completion of a transaction. In addition, Lazard also earns fees from providing strategic advice to clients, with such fees not being dependent on a specific transaction, and from public and private securities offerings for referring opportunities to LFCM Holdings for underwriting and distribution of securities. The referral fees received from LFCM Holdings are generally one-half of the revenue recorded by LFCM Holdings in respect of such activities. Significant fluctuations in Financial Advisory net revenue can occur over the course of any given year because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard's control.

Lazard's Asset Management segment principally includes LAM, Lazard Frères Gestion SAS, FPG (through its disposition on September 30, 2009) and, effective July 15, 2009, Edgewater. Asset Management net revenue is derived from fees for investment management and advisory services provided to institutional and private clients. The main driver of Asset Management net revenue is the level of AUM, which is influenced by Lazard's investment performance, its ability to successfully attract and retain assets, the broader performance of the global equity markets and, to a lesser extent, fixed income markets. As a result, fluctuations in financial markets and

## [Table of Contents](#)

client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. Asset Management fees are generally based on the level of AUM measured as of the end of a quarter or month, and an increase or reduction in AUM at such dates, due to market price fluctuations, currency fluctuations, net client asset flows or otherwise, will result in a corresponding increase or decrease in management fees. The majority of our investment advisory contracts are generally terminable at any time or on notice of 30 days or less. Institutional and individual clients, and firms with which we have strategic alliances, can terminate their relationship with us, reduce the aggregate amount of AUM or shift their funds to other types of accounts with different rate structures for a number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In addition, as Lazard's AUM includes significant assets that are denominated in currencies other than U.S. dollars, changes in the value of the U.S. dollar relative to foreign currencies will impact the value of Lazard's AUM. Fees vary with the type of assets managed, with higher fees earned on equity assets, alternative investments (such as hedge funds) and private equity investments, and lower fees earned on fixed income and cash management products.

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

For hedge funds, incentive fees are calculated based on a specified percentage of a fund's net appreciation, in some cases in excess of established benchmarks. The Company records incentive fees on traditional products and hedge funds at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The incentive fee measurement period is generally an annual period (unless an account terminates during the year), and therefore such incentive fees are usually recorded in the fourth quarter of Lazard's fiscal year. These incentive fees received at the end of the measurement period are not subject to reversal or payback. Incentive fees on hedge funds generally are subject to loss carryforward provisions in which losses incurred by the funds in any year are applied against certain future period net appreciation before any incentive fees can be earned.

For private equity funds, incentive fees may be earned in the form of a "carried interest" if profits arising from realized investments exceed a specified threshold. Typically, such carried interest is ultimately calculated on a whole-fund basis and, therefore, clawback of carried interests during the life of the fund can occur. As a result, incentive fees earned on our private equity funds are not recognized until potential uncertainties regarding the ultimate realizable amounts have been determined, including any potential for clawback.

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

Although Corporate segment net revenue during the first half of 2010 represented (4)% of Lazard's net revenue, total assets in Corporate represented 53% of Lazard's consolidated total assets as of June 30, 2010, which is attributable to assets associated with LFB, investments in government bonds, LAM-managed funds, other securities and cash.

### ***Operating Expenses***

The majority of Lazard's operating expenses relate to compensation and benefits for employees and managing directors. Our compensation and benefits expense includes amortization of the relevant portion of the restricted stock unit awards ("RSUs") under the Lazard Ltd 2005 Equity Incentive Plan ("2005 Plan") and the Lazard Ltd 2008 Incentive Compensation Plan (the "2008 Plan"), with such amortization generally determined on

## [Table of Contents](#)

a straight-line basis over the vesting periods and not on the basis of revenue recognition. Compensation expense in any given period is dependent on many factors, including general economic and market conditions, our operating and financial performance, staffing levels and competitive pay conditions, as well as the mix between current and deferred compensation. Our compensation expense-to-operating revenue ratio was 59.9% and 59.7%, respectively for the second quarters of 2010 and 2009, and for the six month periods of 2010 and 2009 was 60.0% and 65.6%, respectively (with such ratio in the six month period of 2010 excluding the compensation charge of approximately \$25 million in connection with the accelerated vesting of RSUs related to the Company's change in retirement policy). See Note 13 of Notes to Condensed Consolidated Financial Statements for additional information regarding the Company's incentive plans.

Lazard's operating expenses also include "non-compensation expense", amortization of intangible assets related to acquisitions and, in the six month periods of 2010 and 2009, restructuring expense. Non-compensation expense includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services, and other expenses. Amortization of intangibles related to acquisitions relates primarily to the July 2009 acquisition of Edgewater. Restructuring expense relates to the certain staff reductions and realignment of personnel in the first quarters of 2010 and 2009, and includes severance and related benefits expense, the acceleration of unrecognized expense pertaining to RSUs previously granted to individuals who were terminated and certain other costs related to these initiatives.

### ***Provision for Income Taxes***

Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income pertaining to the limited liability company is not subject to U.S. federal income taxes because taxes associated with such income represent obligations of the individual partners. Outside the U.S., Lazard Group operates principally through corporations and is subject to local income taxes. Income taxes shown on Lazard's consolidated statements of operations are related to non-U.S. entities and to New York City Unincorporated Business Tax ("UBT") attributable to Lazard's operations apportioned to New York City.

### ***Noncontrolling Interests***

The Company records a charge (credit) to noncontrolling interests relating to Edgewater and various LAM-related general partnership interests ("GPs") held directly by certain of our LAM managing directors.

See Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding Company's noncontrolling interests.

## **Consolidated Results of Operations**

Lazard's consolidated financial statements are presented in U.S. dollars. Many of our non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars using exchange rates as of the respective balance sheet date while revenue and expenses are translated at average exchange rates during the respective periods based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of members' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of operations.

During the first quarters of 2010 and 2009 the Company reported certain charges (the "2010 special items" and the "2009 special item," respectively, and collectively, the "2010 and 2009 special items") that resulted in a significant adverse impact on its operating results. The impact of such special items on the Company's

## [Table of Contents](#)

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

	Six Months Ended June 30,			2009
	2010		Total	
	Restructuring (a)	RSU Amortization Amendment (b)		
			(\$ in thousands)	
Compensation		\$ 24,860	\$ 24,860	
Restructuring	\$ 87,108		87,108	\$ 62,550
Operating Income (Loss)	(87,108)	(24,860)	(111,968)	(62,550)
Income Tax (Benefit)	(5,680)	(1,363)	(7,043)	(6,401)
Net Income (Loss) Attributable to Lazard Group	\$(81,428)	\$(23,497)	\$(104,925)	\$(56,149)

(a) Restructuring plans announced in the first quarters of 2010 and 2009, respectively.

(b) Additional amortization expense in connection with the accelerated vesting of RSUs related to the amendment of the Company's retirement policy.

A discussion of the Company's consolidated results of operations for the 2010 and 2009 periods is set forth below, followed by a more detailed discussion of business segment results. For comparability purposes in the discussion that follows, the results for the six month periods in 2010 and 2009 are shown in tables below, as applicable, on both an "as reported" U.S. GAAP and "excluding special items" non-U.S. GAAP basis.

	Three Months Ended June 30,	
	2010	2009
	(\$ in thousands)	
<b>Net Revenue</b>	<b>\$418,808</b>	<b>\$376,035</b>
<b>Operating Expenses:</b>		
Compensation and benefits	263,018	239,274
Non-compensation expense	86,331	78,302
Amortization of intangible assets related to acquisitions	1,769	344
Total operating expenses	351,118	317,920
<b>Operating Income</b>	<b>67,690</b>	<b>58,115</b>
Provision for income taxes	13,040	13,219
<b>Net Income</b>	<b>54,650</b>	<b>44,896</b>
<b>Less – Net Income Attributable to Noncontrolling Interests</b>	<b>481</b>	<b>259</b>
<b>Net Income Attributable to Lazard Group</b>	<b>\$ 54,169</b>	<b>\$ 44,637</b>
<b>Operating Income, As A % Of Net Revenue</b>	<b>16%</b>	<b>15%</b>

[Table of Contents](#)

	Six Months Ended June 30,					
	2010			2009		
	U.S. GAAP As Reported	Impact of Special Items (a)	Non-U.S. GAAP Excluding Special Item (b) (\$ in thousands)	U.S. GAAP As Reported	Impact of Special Item (a)	Non-U.S. GAAP Excluding Special Item (b)
<b>Net Revenue</b>	\$856,755		\$ 856,755	\$623,902		\$ 623,902
<b>Operating Expenses:</b>						
Compensation and benefits	563,393	\$ 24,860	538,533	442,806		442,806
Non-compensation expense	169,573		169,573	150,651		150,651
Amortization of intangible assets related to acquisitions	3,539		3,539	688		688
Restructuring	87,108	87,108	-	62,550	\$ 62,550	-
Total operating expenses	823,613	111,968	711,645	656,695	62,550	594,145
<b>Operating Income (Loss)</b>	33,142	(111,968)	145,110	(32,793)	(62,550)	29,757
Provision (benefit) for income taxes	18,580	(7,043)	25,623	8,665	(6,401)	15,066
<b>Net Income (Loss)</b>	14,562	(104,925)	119,487	(41,458)	(56,149)	14,691
<b>Less – Net Income (Loss) Attributable to Noncontrolling Interests</b>	2,839		2,839	(812)		(812)
<b>Net Income (Loss) Attributable to Lazard Group</b>	\$ 11,723	\$(104,925)	\$ 116,648	\$ (40,646)	\$(56,149)	\$ 15,503
<b>Operating Income (Loss), As A % Of Net Revenue</b>	4%		17%	(5)%		5%

- (a) Represents charges related to the previously described special items. See Notes 13, 15 and 19 of Notes to Condensed Consolidated Financial Statements.
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(\$ in thousands)			
<b>Operating revenue</b>				
Total revenue	\$444,006	\$404,702	\$908,622	\$681,374
Add (deduct):				
LFB interest expense (a)	(1,987)	(3,629)	(4,546)	(7,646)
Revenue related to noncontrolling interests (b)	(2,798)	(257)	(7,137)	813
<b>Operating revenue</b>	<u>\$439,221</u>	<u>\$400,816</u>	<u>\$896,939</u>	<u>\$674,541</u>

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



## [Table of Contents](#)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>As a % of Net Revenue, By Revenue Category:</b>				
Investment banking and other advisory fees	59%	63%	60%	64%
Money management fees	43	32	42	35
Interest income	1	2	1	2
Other	3	11	3	8
Interest expense	(6)	(8)	(6)	(9)
Net Revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
			<u>As of June 30,</u>	
			<u>2010</u>	<u>2009</u>
<b>Headcount:</b>				
Managing Directors:				
Financial Advisory			131	147
Asset Management			63	56
Corporate			8	7
Other Employees:				
Business segment professionals			984	975
All other professionals and support staff			1,106	1,091
Total			<u>2,292</u>	<u>2,276</u>

### Operating Results

The Company's quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods. As reflected in the table of consolidated results of operations above, charges related to the 2010 and 2009 special items had a significant impact on the Company's reported operating results for the six month periods in the respective years. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such items.

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

The Company reported net income attributable to Lazard Group of \$54 million, as compared to net income of \$45 million in the 2009 period. The changes in the Company's operating results during the periods are described below.

Net revenue increased \$43 million, or 11%, as compared to the 2009 period, with operating revenue increasing \$38 million, or 10%. Fees from investment banking and other advisory activities increased \$9 million, or 4%, principally due to an increase in M&A and Strategic Advisory fees and from our Private Fund Advisory Group businesses, with the latter due to an increase in the value and number of fund closings, partially offset by a decrease in Restructuring fees. Money management fees, including incentive fees, increased \$61 million, or 50%, due to a \$40 billion, or 44%, increase in average AUM for the 2010 period, primarily as the result of market appreciation experienced most significantly in the last nine months of 2009, and, to a lesser extent, the first three

## [Table of Contents](#)

months of 2010, and net inflows during such periods. Other revenue decreased \$29 million, or 71%, principally due to a decrease in underwriting fees as a result of a decline in equity capital markets transactions, a \$10 million decrease principally resulting from foreign exchange losses as compared to gains in the 2009 period and an \$8 million net reduction in investment income. Interest expense decreased \$3 million, or 12%, principally due to a lower interest rate environment.

Compensation and benefits expense for the 2010 period increased \$24 million, or 10%, principally reflecting an increase in the provision for discretionary compensation and profit pools relating to the increase in operating revenue and a decline in the amortization of share-based and deferred cash incentive awards. Compensation and benefits expense was 59.9% and 59.7% of operating revenue for the 2010 and 2009 periods, respectively.

Non-compensation expense increased \$8 million, or 10%. Factors contributing to the increase were increased spending on travel and other business development activities, and increased fund administration expenses related to the increased level of business activity and AUM. The ratio of non-compensation expense to operating revenue was 19.7% as compared to 19.5% in the 2009 period.

Amortization of intangible assets increased \$1 million principally due to the Edgewater acquisition in July 2009.

Operating income for the 2010 period was \$68 million, as compared to operating income of \$58 million in the prior year period and, as a percentage of net revenue, was 16% as compared to 15% in the 2009 period.

The provision for income taxes was \$13 million in both the 2010 and the 2009 periods.

Net income attributable to noncontrolling interests was unchanged as compared to the 2009 period.

### *Six Months Ended June 30, 2010 versus June 30, 2009*

The Company reported net income attributable to Lazard Group of \$12 million, as compared to a net loss of \$41 million in the 2009 period. The Company's results in both periods were adversely affected by the 2010 and the 2009 special items, which served to increase the net loss attributable to Lazard Group in the 2010 and 2009 periods by \$105 million and \$56 million, respectively. Excluding the after-tax impact of the 2010 and 2009 special items in each year, net income attributable to Lazard Group in the 2010 period was \$117 million, an increase of \$101 million as compared to the 2009 period. The changes in the Company's operating results during the period are described below.

Net revenue increased \$233 million, or 37%, as compared to the 2009 period, with operating revenue increasing \$222 million, or 33%. Fees from investment banking and other advisory activities increased \$117 million, or 29%, including increases of \$62 million in M&A and Strategic Advisory fees, a \$26 million increase in Restructuring fees, and an increase in fees principally from our Private Fund Advisory Group business due to an increase in the value and number of fund closings. Money management fees, including incentive fees, increased \$139 million, or 63%, due to a \$39 billion, or 44%, increase in average AUM for the 2010 period, primarily as the result of market appreciation experienced most significantly in the last nine months of 2009, and, to a lesser extent, the first three months of 2010, and net inflows during such periods, as well as higher incentive fees earned in the 2010 period. Interest income decreased \$4 million, or 24%, due primarily to the lower interest rate environment and lower receivables from banks. Other revenue decreased \$24 million, or 51%, principally due to a decrease in underwriting fees as a result of a decline in equity capital markets transactions, a \$9 million decrease, principally resulting from foreign exchange losses as compared to gains in the 2009 period, and a \$6 million net reduction in investment income, partially offset by increased commission revenue. Interest expense decreased \$6 million, or 10%, due to the lower interest rate environment and reduced levels of LFB's customer deposits.

## [Table of Contents](#)

Compensation and benefits expense for the 2010 period, including the 2010 special item of \$25 million, increased \$121 million, or 27%. When excluding the 2010 special item, compensation and benefits expense increased \$96 million, or 22%, which includes an increase in the provision for discretionary compensation and profit pools relating to the increase in operating revenue and a reduction in the amortization of share-based and deferred cash incentive awards. Compensation and benefits expense, excluding the 2010 special item, was 60.0% and 65.6% of operating revenue for the 2010 and 2009 periods, respectively. The reduction in the compensation ratio for the first half of 2010 is due primarily to execution of our previously announced goal to grow annual compensation expense at a slower rate than operating revenue.

Non-compensation expense increased \$19 million, or 13%. Factors contributing to the increase were increased spending on travel and other business development activities, including technology and increased fund administration expenses related to the increased level of business activity and AUM. The ratio of non-compensation expense to operating revenue was 18.9% as compared to 22.3% of operating revenue for the 2009 period.

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

In the first quarters of 2010 and 2009, the Company announced plans to reduce certain staff and realign personnel. As a result, the 2010 and 2009 special items include restructuring charges of \$87 million and \$63 million, respectively, in connection with severance and benefit payments, the acceleration of unrecognized expense pertaining to RSUs previously granted to individuals who were terminated and certain other costs related to the restructuring initiatives.

Operating income for the 2010 period was \$33 million, as compared to an operating loss of \$33 million in the prior year period (with such amounts including the impact of the 2010 and 2009 special items) and, as a percentage of net revenue, was 4% as compared to (5)% in the 2009 period. Excluding the impact of the 2010 and 2009 special items in each period, operating income was \$145 million, an increase of \$115 million, as compared to operating income of \$30 million in 2009, and, as a percentage of net revenue, was 17%, as compared to 5%, respectively.

The provision for income taxes was \$19 million, an increase of \$10 million, as compared to \$9 million in the 2009 period. When excluding the tax benefits of \$7 million and \$6 million relating to the 2010 and 2009 special items, respectively, the income tax provision was \$26 million in the 2010 period compared to approximately \$15 million in the 2009 period, with the increase principally due to increases in operating income in 2010.

Net income attributable to noncontrolling interests increased \$4 million, as compared to the 2009 period.

### **Business Segments**

The following is a discussion of net revenue and operating income for the Company's business segments - Financial Advisory, Asset Management and Corporate. Each segment's operating expenses include (i) compensation and benefits expenses that are incurred directly in support of the segment and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourcing, and indirect support costs (including compensation and benefits expense and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as, among other items, headcount, square footage and transactional volume. As reflected in the tables below, each segment's operating results are presented, as applicable, on an "as reported" and "excluding special items" basis (see Note 19 of Notes to Condensed Consolidated Financial Statements).

[Table of Contents](#)

**Financial Advisory**

The following table summarizes the operating results of the Financial Advisory segment:

	Three Months Ended June 30,	
	2010	2009
(\$ in thousands)		
M&A and Strategic Advisory	\$ 145,855	\$ 134,854
Restructuring	79,879	93,231
Capital Markets and Other Advisory	20,239	23,939
Net Revenue	245,973	252,024
Operating Expenses	213,900	205,485
Operating Income	<u>\$ 32,073</u>	<u>\$ 46,539</u>
Operating Income, As A Percentage Of Net Revenue	<u>13%</u>	<u>18%</u>

	Six Months Ended June 30,			
	2010		2009	
	U.S. GAAP As Reported	Impact of Special Item (a)	Non- U.S. GAAP Excluding Special Item (b)	U.S. GAAP As Reported
(\$ in thousands)				
M&A and Strategic Advisory	\$ 293,411		\$ 293,411	\$ 231,329
Restructuring	180,067		180,067	154,160
Capital Markets and Other Advisory	40,991		40,991	29,512
Net Revenue	514,469		514,469	415,001
Operating Expenses (c)	451,700	\$ 19,571	432,129	383,106
Operating Income (Loss)	<u>\$ 62,769</u>	<u>\$(19,571)</u>	<u>\$ 82,340</u>	<u>\$ 31,895</u>
Operating Income, As A Percentage Of Net Revenue	<u>12%</u>		<u>16%</u>	<u>8%</u>

	As of June 30,	
	2010	2009
Headcount (d):		
Managing Directors	131	147
Other Employees:		
Business segment professionals	673	671
All other professionals and support staff	215	217
Total	<u>1,019</u>	<u>1,035</u>

- (a) Represents the portion of the 2010 special item attributable to the Financial Advisory segment (see Note 19 of Notes to Condensed Consolidated Financial Statements).
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
- (c) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
- (d) Excludes headcount related to indirect support functions, with such headcount being included in the Corporate segment.

## [Table of Contents](#)

Net revenue trends in Financial Advisory for M&A and Strategic Advisory and Restructuring are generally correlated to the volume of completed industry-wide M&A transactions and restructurings occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, our results can diverge from industry-wide activity where there are material variances from the level of industry-wide M&A activity in a particular market where Lazard has significant market share, or regarding the relative number of our advisory engagements with respect to larger-sized transactions, and where we are involved in significant non-public assignments. Certain Lazard client statistics and global industry statistics are set forth below:

	Six Months Ended June 30,	
	2010	2009
<b>Lazard Statistics:</b>		
Number of Clients:		
Total	383	370
With Fees Greater than \$1 million	125	119
Percentage of Total Financial Advisory Revenue from Top 10 Clients	25%	24%
Number of M&A Transactions Completed Greater than \$1 billion (a)	9	20

(a) Source: Thomson Financial as of July 9, 2010.

The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms. The offices that generate Financial Advisory net revenue are located in the U.S., Europe (principally in the U.K., France, Italy, Spain and Germany) and the rest of the world (principally in Australia).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
United States	54%	53%	54%	53%
Europe	43	41	43	42
Rest of World	3	6	3	5
Total	100%	100%	100%	100%

The Company's managing directors and many of its professionals have significant experience, and many of them are able to use this experience to advise on M&A, strategic advisory matters and restructuring transactions, depending on clients' needs. This flexibility allows Lazard to better match its professionals with the counter-cyclical business cycles of mergers and acquisitions and restructurings. While Lazard measures revenue by practice area, Lazard does not separately measure the costs or profitability of M&A services as compared to restructuring services. Accordingly, Lazard measures performance in its Financial Advisory segment based on overall segment net revenue and operating income margins.

### ***Financial Advisory Results of Operations***

Financial Advisory's quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter or period may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and further periods. As reflected in the table of operating results of the Financial Advisory segment above, the portion of the 2010 special item attributable to the Financial Advisory segment had a significant impact on the segment's reported operating results for the six month period ended June 30, 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.

## [Table of Contents](#)

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

Financial Advisory net revenue decreased \$6 million, or 2%, as compared to the 2009 period, with increases in M&A and Strategic Advisory revenue of \$11 million, or 8%, being offset by decreases in Restructuring revenue of \$13 million, or 14%, and Capital Markets and Other Advisory net revenue of \$4 million, or 15%.

The increase in M&A and Strategic Advisory revenue was principally due to higher average fees per M&A and Strategic Advisory assignment. Our major clients, which in the aggregate represented a significant portion of our M&A and Strategic Advisory revenue for the second quarter of 2010, included the Al Fayed Family Trust, Areva, AXA Private Equity, Cisco Systems, Continental Airlines, Cote d'Ivoire, Newcrest Mining, OSI Pharmaceuticals, Qwest Communications International and Royal Bank of Scotland Group.

Restructuring revenue is derived from various activities, including bankruptcy assignments, global debt and financing restructurings, distressed asset sales and advice on complex on- and off-balance sheet assignments, such as retiree health care obligations. The decrease in Restructuring revenue was principally driven by a decrease in retainer fees, partially offset by an increase in success fees. The decline in retainer fees is related to a lower number of active deals versus that in the 2009 period, consistent with the industry trend previously described. Notable assignments completed in the second quarter of 2010 included Citadel Broadcasting Group, Cooper Standard Automotive, Gala Coral Group, Grupo Reyel Urbis and Smurfit Stone Container. Several of these assignments that were completed in the second quarter of 2010 began in the first half of 2009.

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

Operating expenses increased \$8 million, or 4%, as compared to the 2009 period. Contributing to the increase were higher costs related to travel and other business development expenses, and technology expenses.

Financial Advisory operating income was \$32 million, a decrease of \$14 million, as compared to the 2009 period, and represented 13% of segment net revenues in the 2010 period as compared to 18% in the 2009 period.

### *Six Months Ended June 30, 2010 versus June 30, 2009*

Financial Advisory net revenue increased approximately \$99 million, or 24%, as compared to the 2009 period, reflecting increases in M&A and Strategic Advisory revenue of \$62 million, or 27%, Restructuring revenue of \$26 million, or 17%, and Capital Markets and Other Advisory net revenue of \$11 million, or 39%.

The increase in M&A and Strategic Advisory revenue was principally due to an increase in completed transactions in which we were engaged and higher average fees per M&A and Strategic Advisory assignment.

The increase in Restructuring revenue was principally driven by an increase in success fees, with such increase more than offsetting a decline in retainer fees earned. The decline in retainer fees is related to a lower number of active assignments in the six months of 2010 versus that in the 2009 period, consistent with the industry trend previously described.

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

Operating expenses increased \$69 million, or 18%, as compared to the 2009 period. Excluding the impact of the portion of the 2010 special item attributable to the Financial Advisory segment, operating expenses increased \$49 million, or 13%. Contributing to the increase was a higher provision for discretionary compensation related to

## [Table of Contents](#)

the increase in operating revenue, and higher costs related to travel and other business development expenses and technology expenses. During the 2010 period, the Company has grown its Financial Advisory compensation expense at a slower rate than our corresponding segment revenue, which is consistent with our previously announced goal as described above.

Financial Advisory operating income was \$63 million, an increase of \$31 million, as compared to the 2009 period, and represented 12% of segment net revenues in the 2010 period. Excluding the impact of the portion of the 2010 special item attributable to the Financial Advisory segment, operating income in the 2010 period increased \$50 million, and represented 16% of segment net revenues, as compared to 8% in the 2009 period.

### Asset Management

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

	As of	
	June 30, 2010	December 31, 2009
	(\$ in millions)	
<b>AUM:</b>		
International Equities	\$ 26,562	\$ 32,268
Global Equities	59,862	58,332
U.S. Equities	16,242	16,003
<b>Total Equities</b>	<b>102,666</b>	<b>106,603</b>
European and International Fixed Income	10,720	13,763
Global Fixed Income	1,614	1,794
U.S. Fixed Income	3,135	2,499
<b>Total Fixed Income</b>	<b>15,469</b>	<b>18,056</b>
Alternative Investments	4,336	3,936
Private Equity	950	839
Cash Management	62	109
<b>Total AUM</b>	<b>\$ 123,483</b>	<b>\$ 129,543</b>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(\$ in millions)			
Average AUM	<u>\$ 129,227</u>	<u>\$ 89,551</u>	<u>\$ 129,333</u>	<u>\$ 90,071</u>

Total AUM at June 30, 2010 decreased \$6 billion, or 5%, as compared to that at December 31, 2009. Average AUM for both the three month and six month periods in 2010 was 44% higher than the average AUM for the corresponding 2009 periods, principally the result of market appreciation (which was generally consistent with the industry as a whole) for the last nine months of 2009 and, to a lesser extent, the first three months of 2010, and net inflows occurring over the last twelve month period. International, Global and U.S. equities represented 22%, 48% and 13% of total AUM at June 30, 2010, respectively, versus 25%, 45% and 12% of total AUM at December 31, 2009, respectively.

As of June 30, 2010 and December 31, 2009, approximately 89% of our AUM was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors and, as of both such dates, 11% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

## [Table of Contents](#)

As of June 30, 2010, AUM denominated in foreign currencies represented approximately 42% of our total AUM, as compared to 45% at December 31, 2009. Foreign denominated AUM declines in value with the strengthening of the U.S. dollar and increases in value as the U.S. dollar weakens.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(\$ in millions)			
AUM - Beginning of Period	\$ 134,972	\$ 81,084	\$ 129,543	\$ 91,109
Net Flows(a)	2,064	353	5,031	(2,093)
Market and Foreign Exchange Appreciation (Depreciation)	(13,553)	16,583	(11,091)	9,004
AUM - End of Period	<u>\$ 123,483</u>	<u>\$ 98,020</u>	<u>\$ 123,483</u>	<u>\$ 98,020</u>

(a) Includes inflows of \$9,275 and \$5,748 and outflows of \$7,211 and \$5,395 for the three month periods in 2010 and 2009, respectively, and inflows of \$18,281 and \$9,289 and outflows of \$13,250 and \$11,382 for the six month periods in 2010 and 2009, respectively.

Inflows in the first half of 2010 were principally Global Equity and, to a lesser extent, U.S. Equity products, due to increased investments in existing accounts as well as new accounts gained. Outflows in the period occurred most significantly in Global and International Equity and Fixed Income products.

As of July 26, 2010, AUM was \$132.8 billion, a \$9.3 billion increase since June 30, 2010. The change in AUM was due to market appreciation of \$8.8 billion and net inflows of \$0.5 billion. Market appreciation was approximately 7% of AUM since June 30, 2010, which was generally consistent with the increase in global market indices during that period.

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

	Three Months Ended June 30,	
	2010	2009
	(\$ in thousands)	
Revenue:		
Management Fees	\$ 169,389	\$ 107,123
Incentive Fees	12,635	13,170
Other Income	4,928	10,993
Sub-total	186,952	131,286
Noncontrolling Interest Revenue	2,462	257
Net Revenue	189,414	131,543
Operating Expenses (c)	136,886	103,973
Operating Income	<u>\$ 52,528</u>	<u>\$ 27,570</u>
Operating Income, As A Percentage of Net Revenue	<u>28%</u>	<u>21%</u>



[Table of Contents](#)

	Six Months Ended June 30,			2009
	2010		Non-U.S. GAAP Excluding Special Item (b)	
	U.S. GAAP As Reported	Impact of Special Item (a)		
	(\$ in thousands)			
<b>Revenue:</b>				
Management Fees	\$ 331,185		\$ 331,185	\$ 200,623
Incentive Fees	26,422		26,422	18,605
Other Income	12,817		12,817	14,651
Sub-total	370,424		370,424	233,879
Noncontrolling Interest Revenue	6,743		6,743	(813)
Net Revenue	377,167		377,167	233,066
Operating Expenses (c)	266,326	\$ 2,902	263,424	194,413
Operating Income (Loss)	\$ 110,841	\$ (2,902)	\$ 113,743	\$ 38,653
Operating Income, As A Percentage of Net Revenue	29%		30%	17%

	As of June 30,	
	2010	2009
<b>Headcount(d):</b>		
Managing Directors	63	56
<b>Other Employees:</b>		
Business segment professionals	301	295
All other professionals and support staff functions	276	267
Total	640	618

- (a) Represents the portion of the 2010 special item attributable to the Asset Management segment (see Note 19 of Notes to Condensed Consolidated Financial Statements).
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
- (c) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
- (d) Excludes headcount related to indirect support functions, with such headcount being included in the Corporate segment.

The geographical distribution of Asset Management net revenue is set forth below in percentage terms:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
United States	58%	47%	56%	49%
Europe	31	41	33	39
Rest of World	11	12	11	12
Total	100%	100%	100%	100%

### *Asset Management Results of Operations*

Asset Management's quarterly revenue and profits in any particular quarter or period may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods. As reflected in the table of operating results of the Asset Management segment above, the portion of the 2010 special item attributable to the Asset Management segment had a significant impact on the segment's reported operating results for the six month period ended June 30, 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.

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

Asset Management net revenue increased \$58 million, or 44%, as compared to the 2009 period. Management fees increased \$63 million, or 58%, as compared to 2009, driven by a 44% increase in average AUM. This increase was due largely to the increase in equity market indices as described above, net inflows, and changes in the composition of assets managed. Incentive fees, principally relating to traditional long-only investment strategies, decreased \$1 million, or 4%, as compared to the 2009 period. Other revenue decreased \$4 million as compared to the 2009 period.

Operating expenses increased \$33 million, or 32%, as compared to the 2009 period, principally due to a higher provision for discretionary compensation and profit pools related to the increase in operating revenue, as well as higher fees for outsourced services related to higher AUM and an increase in the amortization of intangible assets relating to the Edgewater acquisition.

Asset Management operating income was \$53 million, an increase of \$25 million, as compared to \$28 million in the 2009 period, and represented 28% of segment net revenue as compared to 21% in the 2009 period.

#### *Six Months Ended June 30, 2010 versus June 30, 2009*

Asset Management net revenue increased \$144 million, or 62%, as compared to the 2009 period. Management fees increased \$130 million, or 65%, as compared to 2009, driven by a 44% increase in average AUM. This increase was due largely to the increase in equity market indices, net inflows, and changes in the composition of assets managed. Incentive fees, primarily relating to traditional long-only investment strategies, increased \$8 million, or 42%, as compared to the 2009 period. Other revenue increased \$6 million as compared to the 2009 period, principally due to increased investment and commission income.

Operating expenses increased \$72 million, or 37%, as compared to the 2009 period. When excluding the 2010 special item, operating expenses increased \$69 million, or 35%, principally due to a higher provision for discretionary compensation and profit pools related to the increase in operating revenue, as well as higher fees for outsourced services related to higher AUM and an increase in the amortization of intangible assets relating to the Edgewater acquisition. During the 2010 period, the Company has grown its Asset Management segment compensation expense at a slower rate than our corresponding segment revenue, which is consistent with our previously announced goal as described above.

Asset Management operating income was \$111 million, an increase of \$72 million, as compared to \$39 million in the 2009 period, and represented 29% of segment net revenue. When excluding the impact of the 2010 special item, operating income increased \$75 million, and represented 30% of segment net revenue as compared to 17% for the 2009 period.

[Table of Contents](#)

**Corporate**

The following table summarizes the results of the Corporate segment:

	Three Months Ended June 30,	
	2010	2009
(\$ in thousands)		
Interest Income	\$ 4,813	\$ 6,401
Interest Expense	(24,916)	(27,329)
Net Interest Income (Expense)	(20,103)	(20,928)
Other Revenue	3,524	13,396
Net Revenue (Expense)	(16,579)	(7,532)
Operating Expenses	332	8,462
Operating Income (Loss)	<u>\$ (16,911)</u>	<u>\$ (15,994)</u>

	Six Months Ended June 30,					
	2010			2009		
	U.S. GAAP As Reported	Impact of Special Items (a)	Non-U.S. GAAP Excluding Special Items (b)	U.S. GAAP As Reported	Impact of Special Item (a)	Non-U.S. GAAP Excluding Special Item (b)
(\$ in thousands)						
Interest Income	\$ 10,102		\$ 10,102	\$ 12,993		\$ 12,993
Interest Expense	(50,689)		(50,689)	(55,264)		(55,264)
Net Interest Income (Expense)	(40,587)		(40,587)	(42,271)		(42,271)
Other Revenue	5,706		5,706	18,106		18,106
Net Revenue (Expense)	(34,881)		(34,881)	(24,165)		(24,165)
Operating Expenses	105,587	\$ 89,495	16,092	79,176	\$ 62,550	16,626
Operating Income (Loss)	<u>\$ (140,468)</u>	<u>\$ (89,495)</u>	<u>\$ (50,973)</u>	<u>\$ (103,341)</u>	<u>\$ (62,550)</u>	<u>\$ (40,791)</u>

	As of June 30,	
	2010	2009
<b>Headcount (c):</b>		
Managing Directors	8	7
<b>Other Employees:</b>		
Business segment professionals	10	9
All other professionals and support staff	615	607
Total	<u>633</u>	<u>623</u>

- (a) Represents the portion of the 2010 and 2009 special items attributable to the Corporate segment (see Note 19 of Notes to Condensed Consolidated Financial Statements).
- (b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
- (c) Includes headcount related to support functions.

### **Corporate Results of Operations**

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

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

Net interest expense decreased \$1 million, or 4%, as compared to the 2009 period. Other revenue declined \$10 million, or 74%, compared to the 2009 period, principally due to lower investment income and a net reduction in foreign exchange gains.

Operating expenses decreased \$8 million, principally relating to a reduction in the amortization of share-based compensation.

#### *Six Months Ended June 30, 2010 versus June 30, 2009*

Net interest expense decreased \$2 million, or 4%, as compared to the 2009 period. Other revenue declined \$12 million, or 68%, compared to the 2009 period, principally due to lower investment income.

Operating expenses increased \$26 million, substantially all of which related to the net impact of the 2010 and 2009 special items attributable to the Corporate segment. When excluding the impact of the 2010 and 2009 special items, operating expenses were unchanged from the 2009 period.

### **Cash Flows**

The Company's cash flows are influenced by the timing of the receipt of Financial Advisory and Asset Management fees, the timing of distributions to shareholders and payments of incentive compensation to managing directors and employees. M&A, Strategic Advisory and Asset Management fees are generally collected within 60 days of billing, while restructuring fee collections may extend beyond 60 days, particularly those that involve bankruptcies with court-ordered holdbacks. Fees from our private fund advisory activities are generally collected over a four-year period from billing and typically include an interest component.

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

[Table of Contents](#)

**Summary of Cash Flows:**

	Six Months Ended June 30,	
	2010	2009
	(\$ in millions)	
<b>Cash Provided By (Used In):</b>		
Operating activities:		
Net income (loss)	\$ 14.6	\$ (41.5)
Noncash charges (a)	220.7	169.6
Other operating activities (b)	(314.3)	(80.8)
Net cash provided (used) by operating activities	(79.0)	47.3
Investing activities (c)	99.0	24.8
Financing activities (d)	(103.0)	(147.9)
Effect of exchange rate changes	(23.8)	14.4
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(106.8)</b>	<b>(61.4)</b>
<b>Cash and Cash Equivalents:</b>		
<b>Beginning of Period</b>	899.7	907.3
<b>End of Period</b>	<b>\$ 792.9</b>	<b>\$ 845.9</b>

(a) Consists of the following:

Depreciation and amortization of property	\$ 10.1	\$ 11.1
Amortization of deferred expenses, share-based compensation and interest rate hedge	206.7	158.1
Amortization of intangible assets related to acquisitions	3.5	0.7
(Gain) loss on extinguishment of debt	0.4	(0.3)
	<u>\$ 220.7</u>	<u>\$ 169.6</u>

(b) Includes net changes in operating assets and liabilities principally relating to accrued compensation and benefits and other liabilities.

(c) Principally relates to purchases and proceeds from sales and maturities of “available-for-sale” and “held-to maturity” securities, and, in the 2010 period, the disposition of our equity method investment in Sapphire (see Note 4 of Notes to Condensed Consolidated Financial Statements).

(d) Primarily includes distributions to members and noncontrolling interest holders, settlements of vested RSUs, repurchases of shares of Class A common stock and activity related to borrowings.

## **Liquidity and Capital Resources**

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

### **Operating Activities**

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

Liquidity is significantly impacted by incentive compensation payments, a significant portion of which historically have been made during the first four months of the year. As a consequence, cash on hand generally declines in the beginning of the year and gradually builds over the remainder of the year. We also pay certain tax advances during the year on behalf of our managing directors, which serve to reduce their respective incentive compensation payments. We expect this seasonal pattern of cash flow to continue.

Lazard's consolidated financial statements are presented in U.S. dollars. Many of Lazard's non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars at the respective balance sheet date exchange rates, while revenue and expenses are translated at average exchange rates during the year based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of members' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of operations.

We regularly monitor our liquidity position, including cash levels, credit lines, principal investment commitments, interest and principal payments on debt, capital expenditures and matters relating to liquidity and to compliance with regulatory net capital requirements. At June 30, 2010, Lazard had approximately \$1 billion of cash and liquid securities, including \$148 million of U.S. government debt and agencies securities and \$74 million of investments in equity securities. We maintain lines of credit in excess of anticipated liquidity requirements. As of June 30, 2010, Lazard had approximately \$259 million in unused lines of credit available to it, including a \$150 million, three-year, senior revolving credit facility with a group of lenders that matures in April 2013 (the "Credit Facility") (see "—Financing" below) and an aggregate of \$89 million of unused lines of credit available to LFB and Edgewater. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

On April 29, 2010, Lazard Group entered into the Credit Facility pursuant to an agreement with the banks parties thereto and Citibank, N.A., as administrative agent. The Credit Facility replaces the prior senior revolving credit facility, which was terminated as a condition to effectiveness of the Credit Facility. The Credit Facility contains customary terms and conditions substantially similar to the prior credit facility. Such terms and conditions include limitations on consolidations, mergers, indebtedness and certain payments, as well as financial condition covenants relating to leverage and interest coverage ratios. Lazard Group's obligations under the Credit Facility may be accelerated upon customary events of default, including non-payment of principal or interest, breaches of covenants, cross-defaults to other material debt, a change in control and specified bankruptcy events.

## [Table of Contents](#)

### **Financing**

Over the past several years, Lazard has entered into several financing agreements designed to strengthen both its capital base and liquidity. Each of these agreements is discussed in more detail in our consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Form 10-K. The table below sets forth our corporate indebtedness as of June 30, 2010 and December 31, 2009.

	<u>Maturity Date</u>	<u>As of</u>		<u>Increase (Decrease)</u>
		<u>June 30, 2010</u>	<u>December 31, 2009</u>	
		(\$ in millions)		
Senior Debt:				
7.125%	2015	\$ 528.5	\$ 538.5	\$ (10.0)
6.85%	2017	548.4	548.4	—
Subordinated Debt:				
3.25%(a)	2016	<u>150.0</u>	<u>150.0</u>	<u>—</u>
Total Senior and Subordinated Debt		<u>\$1,226.9</u>	<u>\$ 1,236.9</u>	<u>\$ (10.0)</u>

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

Lazard's annual cash flow generated from operations historically has been sufficient to enable it to meet its annual obligations. Lazard has not drawn on its Credit Facility and prior revolving credit facility since June 30, 2006. We believe that our cash flows from operating activities, along with the use of our credit lines as needed, should be sufficient for us to fund our current obligations for the next 12 months and beyond.

As long as the lenders' commitments remain in effect, any loan pursuant to the Credit Facility remains outstanding and unpaid or any other amount is owing to the lending bank group, the Credit Facility includes financial condition covenants that require that Lazard Group not permit (i) its Consolidated Leverage Ratio (as defined in the Credit Facility) for the 12-month period ending on the last day of any fiscal quarter to be greater than 4.00 to 1.00 or (ii) its Consolidated Interest Coverage Ratio (as defined in the Credit Facility) for the 12-month period ending on the last day of any fiscal quarter to be less than 3.00 to 1.00. For the 12-month period ended June 30, 2010 Lazard Group was in compliance with such ratios, with its Consolidated Leverage Ratio being 2.20 to 1.00 and its Consolidated Interest Coverage Ratio being 7.03 to 1.00. In any event, no amounts were outstanding under the Credit Facility as of June 30, 2010.

In addition, the Credit Facility, indenture and supplemental indentures relating to Lazard Group's senior notes, as well as its \$150 Million Subordinated Convertible Note, contain certain other covenants (none of which relate to financial condition), events of default and other customary provisions. At June 30, 2010, the Company was in compliance with all of these provisions. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources, which may cause us to be subject to additional restrictions or covenants.

See Note 10 of Notes to Condensed Consolidated Financial Statements for additional information regarding senior and subordinated debt.

## [Table of Contents](#)

### **Members' Equity**

At June 30, 2010, total members' equity was \$346 million as compared to \$283 million at December 31, 2009, including \$130 million and \$128 million of noncontrolling interests on the respective dates. The net activity in members' equity in the six month period ended June 30, 2010 is reflected in the table below (in millions of dollars):

Members' Equity – December 31, 2009	\$283
Increase (decrease) due to:	
Net income	15
Amortization of share-based incentive compensation awards	201
Delivery of Class A common stock for settlement of vested RSUs	(45)
Distributions to members and noncontrolling interests	(30)
Net decreases in AOCI (including noncontrolling interests' portion thereof)(*)	(59)
Purchase of Class A common stock	(23)
Other – net	4
Members' Equity – June 30, 2010	<u>\$346</u>
(*) Includes:	
Net negative foreign currency translation adjustments	(58)
Net mark-ups and adjustments for items reclassified to earnings related to securities designated as “available-for-sale”	2
Employee benefit plan adjustments	(3)
	<u>\$ (59)</u>

On January 27, 2010, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, a share repurchase program permitting the repurchase of up to \$200 million in aggregate cost of its Class A common stock and Lazard Group common membership interests through December 31, 2011 (see Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding the share repurchase program). During the six month period ended June 30, 2010 the Company repurchased 712,950 shares of Class A common stock, at an aggregate cost of \$23 million. Accordingly, at June 30, 2010, \$177 million of the share purchase authorization remained available for future repurchases. In addition to the repurchases of 712,950 shares described above, during the six month period ended June 30, 2010, in order, among other reasons, to help neutralize the dilutive effect of our equity-based incentive compensation plans, Lazard Ltd utilized \$45 million to satisfy certain employees' withholding tax obligations on vested RSUs in lieu of issuing 1,288,331 shares.

### **Regulatory Capital**

We actively monitor our regulatory capital base. Our principal subsidiaries are subject to regulatory requirements in their respective jurisdictions to ensure their general financial soundness and liquidity, which require, among other things, that we comply with certain minimum capital requirements, record-keeping, reporting procedures, relationships with customers, experience and training requirements for employees and certain other requirements and procedures. These regulatory requirements may restrict the flow of funds to affiliates. See Note 18 of Notes to Condensed Consolidated Financial Statements for further information. These regulations differ in the U.S., the U.K., France and other countries in which we operate. Our capital structure is designed to provide each of our subsidiaries with capital and liquidity consistent with its business and regulatory requirements. For a discussion of regulations relating to us, see “Item 1-Business—Regulation” included in the Form 10-K.





## [Table of Contents](#)

and hedge funds at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The incentive fee measurement period is generally an annual period (unless an account terminates during the year), and therefore such incentive fees are usually recorded in the fourth quarter of Lazard's fiscal year. These incentive fees received at the end of the measurement period are not subject to reversal or payback. Incentive fees on hedge funds generally are subject to loss carryforward provisions in which losses incurred by the funds in any year are applied against certain future period net appreciation before any incentive fees can be earned.

For private equity funds, incentive fees may be earned in the form of a "carried interest" if profits arising from realized investments exceed a specified threshold. Typically, such carried interest is ultimately calculated on a whole-fund basis and, therefore, clawback of carried interests during the life of the fund can occur. As a result, incentive fees earned on our private equity funds are not recognized until potential uncertainties regarding the ultimate realizable amounts have been determined, including any potential for clawback.

If, in Lazard's judgment, collection of a fee is not probable, Lazard will not recognize revenue until the uncertainty is removed. We maintain an allowance for doubtful accounts to provide coverage for estimated losses from our fee and customer receivables. We determine the adequacy of the allowance by estimating the probability of loss based on management's analysis of the client's creditworthiness and specifically reserve against exposures where we determine the receivables are impaired, which may include situations where a fee is in dispute.

With respect to fees receivable from Financial Advisory activities, such receivables are generally deemed past due when they are outstanding 60 days from the date of invoice. However, some Financial Advisory transactions include specific contractual payment terms that may vary from one month to four years (as is the case for our Private Fund Advisory fees) following the invoice date or may be subject to court approval (as is the case with restructuring assignments that include bankruptcy proceedings). In such cases, receivables are deemed past due when payment is not received by the agreed-upon contractual date or the court approval date, respectively. Financial Advisory fee receivables past due in excess of 180 days are fully provided for unless there is evidence that the balance is collectible. Asset Management fees are deemed past due and fully provided for when such receivables are outstanding 12 months after the invoice date. Notwithstanding our policy for receivables past due, we specifically reserve against exposures relating to Financial Advisory and Asset Management fees where we determine receivables are impaired.

At June 30, 2010 and December 31, 2009, the Company had receivables past due of approximately \$26 and \$14 million, respectively, and its allowance for doubtful accounts was \$19 and \$12 million, respectively.

### ***Income Taxes***

As part of the process of preparing its consolidated financial statements, Lazard is required to estimate its income taxes in each of the jurisdictions in which it operates. This process requires Lazard to estimate its actual current tax liability and to assess temporary differences resulting from differing book versus tax treatment of items, such as deferred revenue, compensation and benefits expense, unrealized gains or losses on investments and depreciation. These temporary differences result in deferred tax assets and liabilities, which are included within Lazard's consolidated statements of financial condition. Significant management judgment is required in determining Lazard's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized and, when necessary, valuation allowances are established. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the level of historical taxable income, scheduled reversals of deferred taxes, projected future taxable income and tax planning strategies that can be implemented by the Company in making this assessment. If actual results differ from these estimates or Lazard adjusts these estimates in future periods, Lazard may need to adjust its valuation allowance, which could materially impact

## [Table of Contents](#)

Lazard's consolidated financial position and results of operations. Furthermore, management applies the more likely than not criteria prior to the recognition of a financial statement benefit of a tax position taken or expected to be taken in a tax return with respect to uncertainties in income taxes.

Tax contingencies can involve complex issues and may require an extended period of time to resolve. Changes in the geographic mix or estimated level of annual pre-tax income can affect Lazard's overall effective tax rate. Significant management judgment is required in determining Lazard's provision for income taxes, its deferred tax assets and liabilities and any valuation allowance recorded against its net deferred tax assets. Furthermore, Lazard's interpretation of complex tax laws may impact its recognition and measurement of current and deferred income taxes.

### **Investments**

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

These investments are carried at either fair value on the consolidated statements of financial condition, with any increases or decreases in fair value reflected (i) in earnings, to the extent held by our broker-dealer subsidiaries or when designated as "trading" securities within our non-broker-dealer subsidiaries, and (ii) in AOCI, to the extent designated as "available-for-sale" securities until such time they are realized and reclassified to earnings, or, if designated as "held-to-maturity" securities, amortized cost on the consolidated statements of financial condition. Any declines in the fair value of "available-for-sale" and "held-to-maturity" securities that are determined to be other than temporary are charged to earnings.

Gains and losses on investment positions held, which arise from sales or changes in the fair value of the investments, are not predictable and can cause periodic fluctuations in net income or AOCI and therefore subject Lazard to market and credit risk.

At June 30, 2010, net investments (representing total investments, net of securities sold, not yet purchased of \$3 million), totaled \$675 million, or 24% of total assets. Included in this amount is \$368 million of debt securities, representing 55% of net investments that primarily consist of fixed and floating rate European corporate bonds, U.S. Government and agencies and UK and French government debt securities, all of which subject Lazard to market risk. Approximately 54%, 15%, 12%, 10% and 9% of such debt securities are invested in the government, financial, consumer, industrial and other sectors, respectively. At June 30, 2010, approximately 87% of the corporate bonds held investment grade ratings, and approximately \$17 million of pre-tax unrealized losses are included in AOCI related to such portfolio.

Also included in the \$675 million of net investments were \$71 million, or 10%, of investments in equities (net of securities sold, not yet purchased) all of which subject the Company to market risk. We employ hedging strategies to reduce the market risk and, in turn, the volatility to earnings. Approximately 57% of such amount represents the Company's investment in marketable equity securities to seed asset management products and was invested 27%, 25%, 11% and 37% in the consumer, financial, industrial and other sectors, respectively. Asset Management fund investments represent the remaining 43% of total equities. The Company's asset management fund investments are diversified and may incorporate particular strategies; however, there are no investments in funds with single sector specific strategies.

In addition to the equity securities above, at June 30, 2010 Lazard held \$72 million, or 11%, of net investments in LAM alternative asset management funds principally representing GP interests in LAM-managed hedge funds, which subject Lazard to market risk. The fair value of such interests reflects the pro rata value of the ownership of the underlying securities in the funds. Such funds are broadly diversified and may incorporate particular strategies; however, there are no investments in funds with a single sector specific strategy.

## [Table of Contents](#)

Private equity investments owned by Lazard of \$94 million represent approximately 14% of net investments and 3% of total assets at June 30, 2010 and are comprised of investments in private equity funds and direct private equity interests that are generally not subject to short-term market fluctuation, but may subject Lazard to market/credit risk. Private equity investments primarily include (i) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies (the “mezzanine fund”); (ii) CP II, a private equity fund targeting significant noncontrolling investments in established public and private companies; and (iii) Lazard Senior Housing Partners LP, which acquires companies and assets in the senior housing, extended-stay hotel and shopping center sectors.

The remaining \$70 million, or 10%, of net investments at June 30, 2010 represents investments (i) accounted for under the equity method of accounting and (ii) private equity and general partnership interests that are consolidated but not owned by Lazard, and therefore do not subject the Company to market or credit risk. The applicable noncontrolling interests are presented within “members’ equity” on the consolidated statements of financial condition.

At December 31, 2009, net investments (net of securities sold, not yet purchased of \$5 million), totaled \$803 million, or 26% of total assets. Included in this amount is \$461 million of debt securities, representing 57% of net investments that primarily consist of fixed and floating rate European corporate bonds, U.S. Government and agencies and French government debt securities, all of which subject Lazard to market risk. Approximately 45%, 21%, 14%, 12% and 8% of such debt securities are invested in the government, financial, consumer, industrial and other sectors, respectively. At December 31, 2009, approximately 85% of the corporate bonds held investment grade ratings, and approximately \$19 million of pre-tax unrealized losses are included in AOCI related to such portfolio.

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

In addition to the equity securities above, at December 31, 2009 Lazard held \$50 million, or 6%, of net investments in LAM alternative asset management funds principally representing GP interests in LAM-managed hedge funds, which subject Lazard to market risk. The fair value of such interests reflects the pro rata value of the ownership of the underlying securities in the funds. Such funds are broadly diversified and may incorporate particular strategies; however, there are no investments in funds with a single sector specific strategy.

Private equity investments owned by Lazard of \$103 million represent approximately 13% of net investments and 3% of total assets at December 31, 2009 and are comprised of investments in private equity funds and direct private equity interests that are generally not subject to short-term market fluctuation, but may subject Lazard to market/credit risk. Private equity investments primarily include (i) the mezzanine fund; (ii) CP II; and (iii) Lazard Senior Housing Partners LP.

The remaining \$112 million, or 14%, of net investments at December 31, 2009 represents investments (i) accounted for under the equity method of accounting and (ii) private equity and general partnership interests that are consolidated but not owned by Lazard, and therefore do not subject the Company to market or credit risk. The applicable noncontrolling interests are presented within “members’ equity” on the consolidated statements of financial condition.

The decrease in the net investments at June 30, 2010 compared to December 31, 2009 of \$128 million primarily relates to the disposition of the Company’s investment in Sapphire Industrials Corp. in January 2010 (see Note 4 of Notes to Condensed Consolidated Financial Statements) and sales and maturities in the corporate bond portfolio.

## [Table of Contents](#)

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

Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Lazard has the ability to access.

Level 2. Assets and liabilities whose values are based on quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in non-active markets or inputs other than quoted prices that are directly observable or derived principally from or corroborated by market data.

Level 3. Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Items included in Level 3 include securities or other financial assets whose volume and level of activity have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis.

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

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

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

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

Where information reported is based on broker quotes, the Company generally obtains one quote/price per instrument. In some cases, quotes related to corporate bonds obtained through external pricing services represent the average of several broker quotes.

Where information reported is based on data received from fund managers or from external pricing services, the Company reviews such information to ascertain at which level within the fair value hierarchy to classify the investment.

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

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

### ***Assets Under Management***

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

### **Goodwill**

In accordance with current accounting guidance, goodwill has an indefinite life and is tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. In this process, Lazard makes estimates and assumptions in order to determine the fair value of its assets and liabilities and to project future earnings using various valuation techniques. Lazard's assumptions and estimates are used in projecting future earnings as part of the valuation, and actual results could differ from those estimates. See Note 9 of Notes to Condensed Consolidated Financial Statements for additional information regarding goodwill.

### **Consolidation of VIEs**

The consolidated financial statements include the accounts of Lazard Group and all other entities in which it has a controlling interest. Lazard determines whether it has a controlling interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE") under U.S. GAAP.

- **Voting Interest Entities.** Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Lazard is required to consolidate a voting interest entity that it maintains an ownership interest in if it holds a majority of the voting interest in such entity.
- **Variable Interest Entities.** VIEs are entities that lack one or more of the characteristics of a voting interest entity. If Lazard has a variable interest, or a combination of variable interests, in a VIE, it is required to analyze whether it needs to consolidate such VIE.

Lazard is involved with various entities in the normal course of business that are VIEs and holds variable interests in such VIEs. Transactions associated with these entities primarily include investment management, real estate and private equity investments. Those VIEs for which Lazard was determined to be the primary beneficiary were consolidated in accordance with current accounting guidance. Those VIEs included company-sponsored venture capital investment vehicles established in connection with Lazard's compensation plans. In connection with the separation, Lazard Group transferred its general partnership interests in those VIEs to a subsidiary of LFCM Holdings. Lazard Group has determined that it is no longer the primary beneficiary with respect to those VIEs and, as a result, the Company no longer consolidates such VIEs.

### **Risk Management**

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

### **Market and Credit Risks**

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

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

## [Table of Contents](#)

At June 30, 2010 and December 31, 2009, derivative contracts related primarily to interest rate swaps, equity and foreign currency exchange rate contracts, and are recorded at fair value. Derivative assets amounted to \$6 million and \$1 million at June 30, 2010 and December 31, 2009, respectively, and derivative liabilities amounted to \$17 million at both respective dates.

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

The primary market risks associated with LFB's securities portfolio, foreign currency exchange hedging and lending activities are sensitivity to changes in the general level of credit spreads and interest rate and foreign exchange risk. The risk management strategies that we employ use various risk sensitivity metrics to measure such risks and to examine behavior under significant adverse market conditions, such as those we are currently experiencing. The following sensitivity metrics provide the resultant effects on the Company's operating income for the six month period ended June 30, 2010:

- LFB's credit spread risk, as measured by a 100+/- basis point change in credit spreads totaled \$(8) million and \$9 million, respectively.
- LFB's interest rate risk as measured by a 100+/- basis point change in interest rates totaled \$150 thousand.
- Foreign currency risk associated with LFB's open positions, in the aggregate, as measured by a 200+/- basis point change against the U.S. dollar, totaled approximately \$35 thousand.

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

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

We maintain an allowance for doubtful accounts to provide coverage for probable losses from our fee and customer receivables. We determine the adequacy of the allowance by estimating the probability of loss based on management's analysis of the client's creditworthiness and specifically reserve against exposures where we determine the receivables are impaired. At June 30, 2010, total receivables amounted to \$650 million, net of an allowance for doubtful accounts of \$19 million. As of that date, financial advisory fees and asset management fees, inter-bank deposits, customer and related party receivables comprised 61%, 25%, 9% and 5% of total receivables, respectively. At December 31, 2009, total receivables amounted to \$701 million, net of an allowance for doubtful accounts of \$12 million. As of that date, financial advisory fees and asset management fees, inter-bank deposits, customer and related party receivables comprised 62%, 20%, 11% and 7% of total receivables, respectively. See also "—Revenue Recognition" above and Note 3 of Notes to Condensed Consolidated Financial Statements for additional information regarding receivables.

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

## [Table of Contents](#)

### ***Credit Concentration***

To reduce the exposure to concentrations of credit from banking activities within LFB, the Company has established limits for corporate counterparties and monitors the exposure against such limits. At June 30, 2010, LFB had no exposure to an individual counterparty that exceeded \$28 million (with such amount being fully collateralized), excluding deposits with inter-bank counterparties.

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

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

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

As of June 30, 2010, the Company's cash and cash equivalents totaled \$793 million. Approximately 29% of this was invested in short-term interest earning accounts at a number of leading banks throughout the world, or short-term certificates of deposit from such banks. The remaining cash and cash equivalents were invested in highly liquid institutional money market funds, a significant majority of which were invested solely in U.S. government or agency securities, or in institutional money market funds. On a regular basis, management reviews and updates its list of approved depositor banks as well as deposit and investment thresholds.

### **Operational Risks**

Operational risk is inherent in all our business and may, for example, manifest itself in the form of errors, breaches in the system of internal controls, business interruptions, fraud or legal actions due to operating deficiencies or noncompliance. The Company maintains a framework including policies and a system of internal controls designed to monitor and manage operational risk and provide management with timely and accurate information. Management within each of the operating companies is primarily responsible for its operational risk programs. The Company has in place business continuity and disaster recovery programs that manage its capabilities to provide services in the case of a disruption. We purchase insurance programs designed to protect the Company against accidental loss and losses, which may significantly affect our financial objectives, personnel, property, or our ability to continue to meet our responsibilities to our various stakeholder groups.

### **Recent Accounting Developments**

For a discussion of recently issued accounting pronouncements and their impact or potential impact on Lazard's consolidated financial statements, see Note 2 of Notes to Condensed Consolidated Financial Statements.

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

#### **Risk Management**

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

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the



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## [Table of Contents](#)

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

In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent fiscal quarter that has materially affected, or is likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company's businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved from time to time in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses, including proceedings initiated by former employees alleging wrongful termination. The Company reviews such matters on a case-by-case basis and establishes any required reserves if a loss is probable and the amount can be reasonably estimated. Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on the Company's financial condition but might be material to the Company's operating results or cash flows for any particular period, depending upon the operating results for such period.

### Item 1A. Risk Factors

Except as discussed below, there were no material changes from the risk factors previously disclosed in the Company's Form 10-K.

As previously disclosed, on December 11, 2009, the U.S. House of Representatives passed The Wall Street Reform and Consumer Protection Act of 2009 ("H.R. 4173"). On May 20, 2010, the U.S. Senate passed the Restoring American Financial Stability Act of 2010 ("S. 3217"). A House-Senate conference committee was established to reconcile the differences between H.R. 4173 and S. 3217. On June 25, 2010, the House-Senate conference committee agreed on a reconciled bill titled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act"). Congress has enacted the Dodd-Frank Act, and on July, 21, 2010, the President signed the Dodd-Frank Act. We are currently in the process of examining the potential impact of the Dodd-Frank Act on us.

#### **Outcome of future U.S. tax legislation is unknown at the present time.**

On February 1, 2010, the Obama Administration presented its 2011 budget proposals to Congress. The budget proposals included several revenue raisers, including proposals to (i) limit the deduction of certain related party interest; (ii) defer the deduction of interest attributable to foreign source income of foreign subsidiaries; and (iii) repeal the exemption under current law from withholding tax for interest and dividends paid by certain types of U.S. corporations. Each of these proposals would be effective only for taxable years beginning after December 31, 2010. In addition, other members of Congress have proposed legislation that, if enacted, would reclassify certain types of publicly-traded entities as U.S. corporations for tax purposes if the management and control of such entities occurs primarily within the U.S.

We are currently unable to predict the ultimate outcome of any of these proposals. If enacted in their current form, however, some of these proposals may increase Lazard's effective tax rate during future periods.

#### **We have potential conflicts of interest with LAZ-MD Holdings and LFCM Holdings, and LAZ-MD Holdings and LFCM Holdings could each act in a way that favors its interests to our detriment.**

As of June 30, 2010, LAZ-MD Holdings held approximately 11.0% of Lazard Ltd's voting power through Lazard Ltd's single share of Class B common stock and 11.0% of the outstanding Lazard Group common membership interests. In addition, LAZ-MD Holdings' board of directors is composed of 3 individuals, all of whom are managing directors or officers of Lazard Ltd or its affiliates. Lazard Group's board of directors and executive officers are the same as those of Lazard Ltd. The voting and equity ownership of LAZ-MD Holdings and its members, and the service of officers and managing directors of our company as directors of LAZ-MD Holdings, could create conflicts of interest when LAZ-MD Holdings and those directors and officers are faced

## [Table of Contents](#)

with decisions that could have different implications for LAZ-MD Holdings and us, including potential acquisitions of businesses, the issuance or disposition of securities by us, the election of new or additional directors of Lazard Ltd, the payment of dividends by Lazard Ltd and Lazard Group, our relationship with LFCM Holdings and other matters.

Since the members of LAZ-MD Holdings who are parties to the LAZ-MD Holdings stockholders' agreement are entitled to individually direct their proportionate share of the vote of Lazard Ltd's Class B common stock on an as-if-exchanged basis and also own and control LFCM Holdings, their control of LAZ-MD Holdings and the vote of the share of Lazard Ltd's Class B common stock gives rise to potential conflicts between LFCM Holdings and LAZ-MD Holdings, on the one hand, and our company, on the other hand, as discussed below.

**If LAZ-MD Holdings were deemed an "investment company" under the Investment Company Act as a result of its ownership of Lazard Ltd, applicable restrictions could require us to alter our organizational structure which could result in additional costs or changes in our business activities.**

LAZ-MD Holdings has applied for an order exempting it from most provisions of the Investment Company Act as an "employees' securities company." Rule 6b-1 under the Investment Company Act provides that an employees' securities company that applies for such an order is exempt from all provisions of that Act applicable to investment companies, pending a final SEC determination.

The Investment Company Act and the rules thereunder contain detailed prescriptions for the organization and operations of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. Lazard Ltd expects that LAZ-MD Holdings will conduct its operations such that LAZ-MD Holdings will not be subject to regulation as an investment company under the Investment Company Act. However, if anything were to happen which would cause LAZ-MD Holdings to be subject to regulation as an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on its or our capital structure, ability to transact business with affiliates (including LAZ-MD Holdings or us, as the case may be) and ability to compensate key employees, could make it impractical for us to continue our business as currently conducted, impair the agreements and arrangements, including the Master Separation Agreement and related agreements and the transactions contemplated by those agreements, between and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings or any combination thereof and materially adversely affect our business, financial condition and results of operations.

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

Not applicable.

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

None.

### **Item 4. [Removed and Reserved]**

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

None.

## Table of Contents

<b>Item 6.</b>	<b>Exhibits</b>
3.1	Lazard Group LLC's Certificate of Formation (incorporated by reference to Exhibit 3.1 to Lazard Group LLC's Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
3.2	Lazard Group LLC's Certificate of Amendment of Certificate of Formation of Lazard Group LLC, changing name to Lazard Group LLC (incorporated by reference to Exhibit 3.2 to Lazard Group LLC's Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
3.3	Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.2 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
3.4	Amendment No. 1 to the Operating Agreement of Lazard Group LLC, dated as of December 19, 2005 (incorporated by reference to Exhibit 3.01 to Lazard Group LLC's Current Report on Form 8-K (File No. 333-126751) filed on December 19, 2005).
3.5	Amendment No. 2 dated as of May 7, 2008, to the Operating Agreement of Lazard Group LLC dated as of May 10, 2005 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on May 8, 2008).
3.6	Amendment No. 3 dated as of April 27, 2010 to the Operating Agreement of Lazard Group LLC dated as of May 10, 2005 (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on April 30, 2010).
4.1	Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to Lazard Group LLC's Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
4.2	First Supplemental Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.2 to Lazard Group LLC's Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
4.3	Second Supplemental Indenture, dated as of May 10, 2005, by and between Lazard Group LLC and The Bank of New York, as Trustee (incorporated by reference to Exhibit 10.37 to Lazard Group LLC's Registration Statement (File No. 333-126751) on Form S-4 filed on July 21, 2005).
4.4	Amended and Restated Third Supplemental Indenture, dated as of May 15, 2008, by and among Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.01 to Lazard Group LLC's Current Report on Form 8-K (Commission File No. 333-126751) filed on May 16, 2008).
4.5	Form of Senior Note (included in Exhibit 4.4).
4.6	\$546 million 7.125% Senior Notes Due 2015, issued by Lazard Group LLC (incorporated by reference to Exhibit 4.5 to Lazard Group LLC's Quarterly Report (File No. 333-126751) on Form 10-Q filed on November 10, 2005).
4.7	Fourth Supplemental Indenture, dated as of June 21, 2007, between Lazard Group LLC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on June 22, 2007).
10.1	Master Separation Agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 2.1 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
10.2	Amendment No. 1, dated as of November 6, 2006, to the Master Separation Agreement, dated as of May 10, 2005, by and among the Lazard Ltd, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on November 7, 2006).

## Table of Contents

- 10.3 Second Amendment, dated as of May 7, 2008, to the Master Separation Agreement dated as of May 10, 2005, as amended, by and among Lazard Ltd, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on May 8, 2008).
- 10.4 Class B-1 and Class C Members Transaction Agreement (incorporated by reference to Exhibit 2.2 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1 filed on December 17, 2004).
- 10.5 Amended and Restated Stockholders' Agreement, dated as of November 6, 2006, by and among LAZ-MD Holdings LLC, Lazard Ltd and certain members of LAZ-MD Holdings LLC (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on November 7, 2006).
- 10.6 First Amendment dated as of May 7, 2008, to the Amended and Restated Stockholders' Agreement dated as of November 6, 2006, between LAZ- MD Holdings LLC and Lazard Ltd (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on May 9, 2008).
- 10.7 Employee Benefits Agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.4 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.8 Insurance Matters Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.5 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.9 License Agreement, dated as of May 10, 2005, by and among Lazard Strategic Coordination Company, LLC, Lazard Frères & Co. LLC, Lazard Frères S.A.S., Lazard & Co. Holdings Limited and LFCM Holdings LLC (incorporated by reference to Exhibit 10.6 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.10 Administrative Services Agreement, dated as of May 10, 2005, by and among LAZ-MD Holdings LLC, LFCM Holdings LLC and Lazard Group LLC (incorporated by reference to Exhibit 10.7 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.11 Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.8 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.12 Amendment and Consent, dated February 9, 2009, to the Business Alliance Agreement, dated as of May 10, 2005, by and between Lazard Group LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.12 to Registrant's Annual Report (File No. 333-126751) on Form 10-K filed on March 2, 2009).
- 10.13 Amended and Restated Operating Agreement of Lazard Strategic Coordination Company LLC, dated as of January 1, 2002 (incorporated by reference to Exhibit 10.16 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
- 10.14 Lease, dated as of January 27, 1994, by and between Rockefeller Center Properties and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.19 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
- 10.15 Lease with an Option to Purchase, dated as of July 11, 1990, by and between Sicomibail and Finabail and SCI du 121 Boulevard Hausmann (English translation) (incorporated by reference to Exhibit 10.20 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).

## Table of Contents

- 10.16 Occupational Lease, dated as of August 9, 2002, by and among Burford (Stratton) Nominee 1 Limited, Burford (Stratton) Nominee 2 Limited, Burford (Stratton) Limited, Lazard & Co., Limited and Lazard LLC (incorporated by reference to Exhibit 10.21 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).
- 10.17\* Lazard Ltd's 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005).
- 10.18\* Lazard Ltd's 2008 Incentive Compensation Plan (incorporated by reference to Annex B to Lazard Ltd's Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 24, 2008).
- 10.19\* Lazard Ltd's 2005 Bonus Plan (incorporated by reference to Exhibit 10.23 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
- 10.20\* Form of Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 4, 2005, applicable to, and related Schedule I for, each of Michael J. Castellano, Scott D. Hoffman and Charles G. Ward III (incorporated by reference to Exhibit 10.26 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.21\* Form of First Amendment, dated as of May 7, 2008, to Agreement Relating to Retention and Noncompetition and Other Covenants dated as of May 4, 2005, for each of Michael J. Castellano, Scott D. Hoffman and Charles G. Ward, III (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on May 8, 2008).
- 10.22\* Second Amendment, dated as of February 26, 2009, to Agreement Relating to Retention and Noncompetition and Other Covenants dated as of May 4, 2005 (as amended from time to time), for Michael J. Castellano (incorporated by reference to Exhibit 10.26 to Registrant's Annual Report (File No. 333-126751) on Form 10-K filed on March 2, 2009).
- 10.23\* Form of Agreements Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).
- 10.24\* Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004 by and between Lazard Group LLC and Alexander F. Stern (incorporated by reference to Exhibit 10.28 to Registrant's Annual Report (File No. 333-126751) on Form 10-K filed on March 2, 2009).
- 10.25\* First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of October 4, 2004, with Alexander F. Stern (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on March 23, 2010).
- 10.26\* Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, by and between Lazard Group LLC and Kenneth M. Jacobs (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K (File No. 333-126751) filed on March 1, 2010).
- 10.27\* First Amendment, dated as of March 23, 2010, to the Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of March 18, 2005, with Kenneth M. Jacobs (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on March 23, 2010).
- 10.28\* Amended and Restated Letter Agreement, effective as of January 1, 2004, between Vernon E. Jordan, Jr. and Lazard Frères & Co. LLC (incorporated by reference to Exhibit 10.28 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on J16, 2005).

## Table of Contents

- 10.29\* Acknowledgement Letter, dated as of November 6, 2006, from Lazard Group LLC to certain managing directors of Lazard Group LLC modifying the terms of the retention agreements of persons party to the Amended and Restated Stockholders' Agreement, dated as of November 6, 2006 (incorporated by reference to Exhibit 10.23 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on November 7, 2006).
- 10.30 Letter Agreement, dated as of March 15, 2005, from IXIS Corporate and Investment Bank to Lazard LLC and Lazard Ltd (incorporated by reference to Exhibit 10.27 to Lazard Ltd's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
- 10.31 Registration Rights Agreement, dated as of May 10, 2005, by and among Lazard Group Finance LLC, the Registrant, Lazard Group LLC and IXIS Corporate and Investment Bank (incorporated by reference to Exhibit 10.30 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.32 Letter Agreement, dated as of May 10, 2005, with Bruce Wasserstein family trusts (incorporated by reference to Exhibit 10.31 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 10.33 Letter Agreement, dated as of March 16, 2010, among Lazard Ltd, Lazard Group LLC and the Cranberry Dune 1998 Long-term Trust (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on March 22, 2010).
- 10.34\* Description of Non-Executive Director Compensation (incorporated by reference to Exhibit 10.33 to Lazard Ltd's Quarterly Report (File No. 001-32492) on Form 10-Q for the quarter ended June 30, 2005).
- 10.35\* Form of Award Letter for Annual Grant of Deferred Stock Units to Non-Executive Directors (incorporated by reference to Exhibit 99.1 to Lazard Ltd's Current Report on Form 8-K (File No. 001-32492) filed on September 8, 2005).
- 10.36\* Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Lazard Ltd's Current Report on Form 8-K (File No. 001-32492) filed on January 26, 2006).
- 10.37\* Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.41 to Registrant's Annual Report (File No. 333-126751) on Form 10-K filed on March 2, 2009).
- 10.38\* Form of Agreement evidencing a grant of Deferred Cash Awards to Executive Officers under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.42 to Registrant's Annual Report (File No. 333-126751) on Form 10-K filed on March 2, 2009).
- 10.39 Termination Agreement, dated as of March 31, 2006, by and among Banca Intesa S.p.A., Lazard Group LLC, and Lazard & Co. S.r.l. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on April 4, 2006).
- 10.40 Amended and Restated \$150 Million Subordinated Convertible Promissory Note due 2018, issued by Lazard Funding LLC to Banca Intesa S.p.A. (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on May 17, 2006).
- 10.41 Amended and Restated Guaranty of Lazard Group LLC to Banca Intesa S.p.A., dated as of May 15, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on May 17, 2006).
- 10.42\* Directors' Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.37 to the Registrant's Quarterly Report on Form 10-Q (File No. 333-126751) filed on May 11, 2006).

## Table of Contents

10.43*	First Amended Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lazard 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K (File No. 333-126751) filed on March 1, 2007).
10.44	Agreement and Plan of Merger, dated as of August 14, 2008, by and among Lazard Ltd, LAZ Sub I, Lazard Asset Management LLC, and Lazard Asset Management Limited (incorporated by reference to Exhibit 2.1 to Lazard Ltd's Current Report on Form 8-K (file No. 001-32492) filed on August 15, 2008).
10.45*	Letter Agreement regarding employment dated as of April 21, 2010 between Lazard Group LLC and Gary W. Parr (incorporated by reference to Exhibit 10.52 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on April 30, 2010).
10.46	Senior Revolving Credit Agreement, dated as of April 29, 2010 among Lazard Group LLC, the Banks from time to time parties thereto, and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.53 to the Registrant's Quarterly Report (File No. 333-126751) on Form 10-Q filed on April 30, 2010).
10.47*	Form of Agreement evidencing a grant of Restricted Stock under the 2008 Incentive Compensation Plan (incorporated by reference to Exhibit 10.54 to the Registrant's Quarterly Report (File No. 333-126751) filed on April 30, 2010).
10.48*	Letter Agreement, dated as of June 14, 2010, between Lazard Frères & Co. LLC, Lazard Group LLC, Lazard Ltd and Charles G. Ward, III (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 333-126751) filed on June 15, 2010).
12.1	Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a) Certification of Kenneth M. Jacobs.
31.2	Rule 13a-14(a) Certification of Michael J. Castellano.
32.1	Section 1350 Certification for Kenneth M. Jacobs.
32.2	Section 1350 Certification for Michael J. Castellano.

\* Management contract or compensatory plan or arrangement.



**SIGNATURES**

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

Date: July 30, 2010

LAZARD GROUP LLC

By: /s/ Kenneth M. Jacobs

Name: Kenneth M. Jacobs

Title: Chairman and Chief Executive Officer

By: /s/ Michael J. Castellano

Name: Michael J. Castellano

Title: Chief Financial Officer

## LAZARD GROUP LLC

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES (a)(b)

The following table sets forth the ratio of earnings to fixed charges for Lazard Group LLC and its subsidiaries on a consolidated basis.

	Six Months Ended June 30, 2010	Year Ended December 31,				
		2009	2008	2007	2006	2005
		(dollars in thousands)				
Operating income (loss) from continuing operations	\$ 33,142	\$(181,988)	\$ 42,029	\$ 436,064	\$ 333,676	\$ 345,676
Add - Fixed charges	61,387	132,785	161,665	154,790	119,698	94,659
Operating income (loss) from continuing operations before fixed charges	\$ 94,529	\$ (49,203)	\$ 203,694	\$ 590,854	\$ 453,374	\$ 440,335
Fixed Charges:						
Interest (c)	\$ 51,867	\$ 113,280	\$ 141,413	\$ 136,529	\$ 104,348	\$ 78,375
Other (d)	9,520	19,505	20,252	18,261	15,350	16,284
Total fixed charges	\$ 61,387	\$ 132,785	\$ 161,665	\$ 154,790	\$ 119,698	\$ 94,659
Ratio of earnings to fixed charges	1.54(f)	— (g)	1.26(h)	3.82	3.79	4.65(e)
Deficiency in the coverage of operating income (loss) from continuing operations before fixed charges to total fixed charges		\$ 181,988				

(a) Data presented relates to the Company's continuing operations.

(b) For purposes of computing the ratio of earnings to fixed charges:

- earnings for the six month period ended June 30, 2010 and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 represent income from continuing operations before income taxes, and, for the period prior to May 10, 2005, the date of Lazard Ltd's equity public offering, before distributions for services rendered by managing directors and employee members of LAM, and before fixed charges, and
- fixed charges represent the interest expense from continuing operations and the portion of rental expense from continuing operations which represents an appropriate interest factor.

(c) The Company's policy is to include interest expense on unrecognized tax benefits in income tax expense. Accordingly, such interest expense is not included in the computations of the ratio of earnings to fixed charges.

(d) Other fixed charges consist of the interest factor in rentals.

(e) The results of operations for the period prior to Lazard Ltd's equity public offering and the financing transactions on May 10, 2005 are not comparable to results of operations for subsequent periods as described below:

- payment for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members' capital, or in some cases as net income attributable to noncontrolling interests, rather than as compensation and benefits expense. As a result, Lazard Group's operating income historically has not reflected payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering, the consolidated financial statements of Lazard Group include all payments for services rendered by its managing directors in compensation and benefits expense;
- the use of proceeds from the financing transactions; and
- the net incremental expense related to the financing transactions.

(f) Operating income for the six month period ended June 30, 2010 is presented after giving effect to (i) a restructuring expense of \$87,108 in the first quarter of 2010 and (ii) a charge of \$24,860 in the first

quarter of 2010 relating to the amendment of Lazard's retirement policy with respect to RSU awards in such period. Excluding the impact of such items, the ratio of earnings to fixed charges would have been 3.36.

- (g) Operating income (loss) for the year ended December 31, 2009 is presented after giving effect to (i) a restructuring expense of \$62,550 in the first quarter of 2009, (ii) the acceleration of amortization expense of \$86,514 relating to the vesting of RSUs held by Lazard's former Chairman and Chief Executive Officer as the result of his death in October 2009 and (iii) the acceleration of amortization expense of \$60,512 in the fourth quarter of 2009 relating to the accelerated vesting of the unamortized portion of previously awarded deferred cash incentive awards. Excluding the impact of such items, the ratio of earnings to fixed charges would have been 1.21.
- (h) Operating income for the year ended December 31, 2008 is presented after giving effect to a charge of \$199,550 relating to the LAM Merger. Excluding the impact of such charge, the ratio of earnings to fixed charges would have been 2.49.

I, Kenneth M. Jacobs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of Lazard Group LLC (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 30, 2010

/s/ Kenneth M. Jacobs

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Kenneth M. Jacobs

Chairman and Chief Executive Officer

I, Michael J. Castellano, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of Lazard Group LLC (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 30, 2010

/s/ Michael J. Castellano

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Michael J. Castellano  
Chief Financial Officer

July 30, 2010  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lazard Group LLC (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Kenneth M. Jacobs

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Kenneth M. Jacobs  
Chairman and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

July 30, 2010  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lazard Group LLC (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Michael J. Castellano

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Michael J. Castellano  
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.