

Lazard Ltd
Form 10-Q
May 11, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from _____ to _____

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

Bermuda
(State or Other Jurisdiction of Incorporation
or Organization)

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

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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 April 28, 2006, there were 37,503,059 shares of the registrant's Class A common stock and one share of the registrant's Class B common stock outstanding.

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When we use the terms "Lazard", "we", "us", "our", and "the Company", we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ("Lazard Group"), that is the current holding company for our businesses. Lazard Ltd has no material assets other than indirect ownership of approximately 37.6% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Condensed Consolidated Financial Statements (Unaudited)***

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* These unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of Lazard Ltd, including consolidation of its investment in Lazard Group LLC, formerly known as Lazard LLC and referred to herein as Lazard Group, for all periods presented. Prior to May 10, 2005, the date of Lazard Ltd's equity public offering (as described in Note 1 of the accompanying Notes to Unaudited Condensed Consolidated Financial Statements), the unaudited condensed consolidated financial statements included herein represent the financial statements of Lazard Group. The results of operations and financial condition for certain businesses that Lazard Group no longer owns are reported as discontinued operations. The historical unaudited condensed consolidated financial statements for the three month period ended March 31, 2005 do not reflect what the results of operations of Lazard Ltd or Lazard Group would have been had these companies been stand-alone, public companies for such period. In addition, the results of operations for periods prior to May 10, 2005 are not comparable to results of operations for subsequent periods. Specifically, prior to May 10, 2005, the historical results of operations of Lazard Group do not give effect to the following matters:

Payment for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, prior to May 10, 2005, Lazard Group's operating income included within the accompanying unaudited condensed consolidated financial statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering and financing transactions, the Company now includes all payments for services rendered by its managing directors and distributions to holders of profit participation interests in Lazard Group (profit participation members) in compensation and benefits expense.

U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income had not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically had operated principally through subsidiary corporations and had been subject to local income taxes. Prior to May 10, 2005, income taxes reflected within Lazard Group's results of operations included within the accompanying unaudited condensed consolidated financial statements are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard Group's operations apportioned to New York City. Subsequent to the equity public offering, the unaudited condensed consolidated financial statements of Lazard Ltd include U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

Minority interest in net income relating to LAZ-MD Holdings' ownership interest of Lazard Group's common membership interests since May 10, 2005. Prior to May 10, 2005, Lazard Ltd had no

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ownership interest in Lazard Group and all net income was allocable to the then members of Lazard Group. Commencing May 10, 2005, minority interest in net income includes LAZ-MD Holdings' ownership interest of Lazard Group's common membership interests.

The use of proceeds from the financing transactions.

The net incremental interest expense related to the financing transactions.

Table of Contents**LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****MARCH 31, 2006 AND DECEMBER 31, 2005****(UNAUDITED)****(dollars in thousands, except for per share data)**

	March 31,	December 31,
	2006	2005
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 404,172	\$ 492,309
Cash and securities segregated for regulatory purposes	20,460	20,596
Securities purchased under agreements to resell		23,358
Securities owned at fair value:		
Bonds Corporate	327,100	228,927
Non-U.S. Government and agency securities	17,793	40,285
Equities	4,336	2,964
	<u>349,229</u>	<u>272,176</u>
Swaps and other contractual agreements	166	186
Receivables net:		
Banks	204,201	347,912
Fees	280,968	280,923
Customers	101,996	65,253
Related parties	51,808	53,932
	<u>638,973</u>	<u>748,020</u>
Long-term investments	83,944	80,843
Other investments	4,352	4,473
Property (net of accumulated amortization and depreciation of \$162,022 and \$156,935 at March 31, 2006 and December 31, 2005, respectively)	157,887	156,630
Goodwill	16,145	15,996
Other assets	102,716	96,310
	<u> </u>	<u> </u>
Total assets	\$ 1,778,044	\$ 1,910,897
	<u> </u>	<u> </u>

See notes to unaudited condensed consolidated financial statements.

Table of Contents**LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****MARCH 31, 2006 AND DECEMBER 31, 2005****(UNAUDITED)****(dollars in thousands, except for per share data)**

	March 31,	December 31,
	2006	2005
	<u> </u>	<u> </u>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS DEFICIENCY		
Liabilities:		
Securities sold under agreements to repurchase	\$ 10,410	\$ 31,853
Swaps and other contractual agreements	744	3,028
Payables:		
Banks	372,612	367,565
Customers	171,731	153,868
Related parties	3,786	3,919
	<u> </u>	<u> </u>
	548,129	525,352
Accrued compensation and benefits	179,727	346,090
Senior borrowings	1,015,517	1,022,082
Capital lease obligations	24,178	23,844
Other liabilities	514,555	517,590
Subordinated borrowings	200,000	200,000
	<u> </u>	<u> </u>
Total liabilities	2,493,260	2,669,839
Commitments and contingencies		
Minority interest	107,018	111,729
STOCKHOLDERS DEFICIENCY		
Common stock:		
Class A, par value \$.01 per share (500,000,000 shares authorized; 37,503,059 and 37,500,000 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively)	375	375
Class B, par value \$.01 per share (1 share authorized; 1 share issued and outstanding)		
Additional paid-in-capital	(859,877)	(885,690)
Accumulated other comprehensive income (loss), net of tax	(27,785)	(34,342)
Retained earnings	65,053	48,986
	<u> </u>	<u> </u>
Total stockholders' deficiency	(822,234)	(870,671)
	<u> </u>	<u> </u>
Total liabilities, minority interest and stockholders' deficiency	\$ 1,778,044	\$ 1,910,897
	<u> </u>	<u> </u>

See notes to unaudited condensed consolidated financial statements.

Table of Contents**LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2006 AND 2005****(UNAUDITED)****(dollars in thousands, except for per share data)**

	Three Months Ended March 31,	
	2006	2005
REVENUE		
Investment banking and other advisory fees	\$ 219,583	\$ 155,035
Money management fees	110,569	100,877
Commissions	4,423	3,844
Underwriting	1,679	2,754
Investment gains and losses - net	10,448	(1,810)
Interest income	8,010	6,548
Other	5,545	2,759
	<hr/>	<hr/>
Total revenue	360,257	270,007
Interest expense	23,999	9,908
	<hr/>	<hr/>
Net revenue	336,258	260,099
	<hr/>	<hr/>
OPERATING EXPENSES		
Compensation and benefits (and, commencing May 10, 2005, distributions to profit participation members)(*)	200,139	105,881
Premises and occupancy costs	16,591	16,383
Professional fees	14,877	8,858
Travel and entertainment	8,887	8,975
Communications and information services	7,472	8,042
Equipment costs	5,129	4,832
Other	5,047	8,859
	<hr/>	<hr/>
Total operating expenses	258,142	161,830
	<hr/>	<hr/>
OPERATING INCOME FROM CONTINUING OPERATIONS(*)	78,116	98,269
Provision for income taxes(*)	15,940	7,803
	<hr/>	<hr/>
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST IN NET INCOME(*)	62,176	90,466
Minority interest in net income	42,490	10,260
	<hr/>	<hr/>
INCOME FROM CONTINUING OPERATIONS(*)	19,686	80,206
LOSS FROM DISCONTINUED OPERATIONS(*) (net of income tax provision of \$253)		(6,850)

NET INCOME (NET INCOME ALLOCABLE TO MEMBERS OF LAZARD GROUP PRIOR TO MAY 10, 2005)(*)	\$ 19,686	\$ 73,356
WEIGHTED AVERAGE SHARES OF CLASS A COMMON STOCK OUTSTANDING:		
Basic	37,502,889	
Diluted	41,042,544	
NET INCOME PER SHARE OF CLASS A COMMON STOCK BASIC:		
Income from continuing operations(**)	\$0.52	
NET INCOME PER SHARE OF CLASS A COMMON STOCK DILUTED:		
Income from continuing operations(**)	\$0.51	
DIVIDENDS PAID PER SHARE OF CLASS A COMMON STOCK(**)	\$0.09	

(*) Excludes, as applicable, with respect to periods ended prior to May 10, 2005 (a) payments 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 minority interest, rather than as compensation and benefits expense, and (b) U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes.

(**) Applicable with respect to periods subsequent to May 10, 2005, the date of our equity public offering.

See notes to unaudited condensed consolidated financial statements.

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	Three Months Ended March 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (net income allocable to members of Lazard Group prior to May 10, 2005)	\$ 19,686	\$ 73,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash charges included in net income:		
Depreciation and amortization of property	3,426	3,934
Amortization of deferred expenses, restricted stock units and interest rate hedge	4,834	
Minority interest in net income	42,490	10,260
(Increase) decrease in operating assets:		
Cash and securities segregated for regulatory purposes	642	(4,890)
Securities purchased under agreements to resell	23,806	(2,452)
Securities owned, at fair value and swaps and other contractual agreements	(69,500)	9,185
Receivables	119,434	10,745
Marketable and long-term investments	(1,292)	20,828
Other assets	(5,729)	(8,003)
Assets of discontinued operations		(551,097)
Increase (decrease) in operating liabilities:		
Securities sold under agreements to repurchase	(22,124)	(11,694)
Securities sold, not yet purchased, at fair value and swaps and other contractual agreements	(2,347)	(1,043)
Payables	10,878	125,562
Accrued compensation and other liabilities	(174,881)	(147,896)
Liabilities of discontinued operations		583,117
Net cash provided by (used in) operating activities	<u>(50,677)</u>	<u>109,912</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(1,672)	(849)
Disposals and retirements of property	233	1,315
Net cash provided by (used in) investing activities	<u>(1,439)</u>	<u>466</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to members and capital withdrawals		(157,919)
Distributions to LAZ-MD Holdings	(13,223)	
Repayment of senior borrowings	(6,565)	(15,281)
Repayment of capital lease obligations	(285)	(4,005)
Distributions relating to minority interest	(12,209)	(44,502)
Common stock dividends	(3,375)	

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Additional costs relating to issuance of Class A common stock	(2,677)	
Other net	84	
	<u> </u>	<u> </u>
Net cash used in financing activities	(38,250)	(221,707)
	<u> </u>	<u> </u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,229	(4,157)
	<u> </u>	<u> </u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(88,137)	(115,486)
CASH AND CASH EQUIVALENTS January 1	492,309	305,753
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS March 31	<u>\$ 404,172</u>	<u>\$ 190,267</u>

See notes to unaudited condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS DEFICIENCY

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006

(UNAUDITED)

(dollars in thousands)

	Common Stock		Additional Paid-in- Capital	Accumulated Other Comprehensive Income (Loss), Net of Tax	Retained Earnings	Total Stockholders Deficiency
	Shares	\$				
Balance January 1, 2006	37,500,001	\$ 375	\$ (885,690)	\$ (34,342)	\$ 48,986	\$ (870,671)
Comprehensive income:						
Net income available for Class A common stockholders					19,686	19,686
Other comprehensive income net of tax:						
Currency translation adjustment				6,282		6,282
Amortization of interest rate hedge				275		275
Comprehensive income						26,243
Class A common stock dividends						
Amortization of stock units			4,241		(3,375)	(3,375)
Conversion of DSUs to Class A common stock	3,059					
Additional costs relating to issuance of Class A common stock			(2,677)			(2,677)
RSU dividend-equivalents			244		(244)	
Adjustment to reclassify minority interest share of undistributed net income to additional paid-in-capital			24,005			24,005
Balance March 31, 2006	37,503,060(*)	\$ 375	\$ (859,877)	\$ (27,785)	\$ 65,053	\$ (822,234)

(*) Includes 37,503,059 shares of the Company's Class A common stock and 1 share of the Company's Class B common stock

See notes to unaudited condensed consolidated financial statements.

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LAZARD LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

The accompanying unaudited condensed consolidated financial statements of Lazard Ltd and subsidiaries (collectively referred to as "Lazard Ltd" or the "Company") including, subsequent to May 10, 2005, Lazard Ltd's investment in Lazard Group LLC (a Delaware limited liability company, collectively referred to, with its subsidiaries, as "Lazard Group") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd's annual report on Form 10-K for the year ended December 31, 2005 (the "Form 10-K"). The December 31, 2005 unaudited condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The accompanying unaudited 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 best knowledge of current events and actions that Lazard may undertake in the future, actual results may be different than the estimates. The consolidated results of operations for the three month period ended March 31, 2006 are not necessarily indicative of the results to be expected for any future period or the full fiscal year. Certain prior year amounts have been reclassified to conform to the manner of presentation in the current year.

Lazard Ltd is a Bermuda holding company that was incorporated in October 2004. Pursuant to a Registration Statement on Form S-1 (File No. 333-121407) declared effective by the SEC on May 4, 2005 (the "Registration Statement") for the initial public offering of shares of Lazard Ltd's Class A common stock, par value \$0.01 per share ("Class A common stock"), Lazard Ltd issued on May 10, 2005, at \$25 per share, 34,183,162 shares of its Class A common stock in a registered initial public offering (the "equity public offering"). In addition, on May 10, 2005, pursuant to the IXIS Placements (see Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements) and the cashless exchange of certain of our chief executive officer's interests in Lazard Group with Lazard Ltd, the Company issued 2,000,000 shares of its Class A common stock and 1,316,838 shares of its Class A common stock, respectively. These issuances, together with the 34,183,162 shares of Class A common stock issued pursuant to the equity public offering, resulted in the Company having 37,500,000 shares of its Class A common stock outstanding at the time of the equity public offering. The Company, through a number of newly-formed, wholly-owned subsidiaries, contributed the net proceeds from the equity public offering, along with the net proceeds it received from the financing transactions (as described in Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements), to Lazard Group in exchange for 37,500,000 Lazard Group common membership interests, representing 37.5% of Lazard Group's total common membership interests as of May 10, 2005, and, after giving effect to (i) the repurchase of a portion of the Lazard Group common membership interests held by LAZ-MD Holdings LLC ("LAZ-MD Holdings") subsequent to May 10, 2005, as well as (ii) certain other share issuances by Lazard Ltd subsequent to December 31, 2005, approximately 37.6% of all outstanding Lazard Group common membership interests as of both December 31, 2005 and March 31, 2006. The Company, through its control of the managing members of Lazard Group, controls Lazard Group.

Lazard Group is governed by an Operating Agreement dated as of May 10, 2005, as amended on December 19, 2005 (the "Operating Agreement").

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LAZARD LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company's sole operating asset is its ownership of the common membership interest of Lazard Group and its managing member interest of Lazard Group, whose current principal activities are divided into two business segments:

Financial Advisory, which includes providing advice on mergers, acquisitions, restructurings and other financial matters, and

Asset Management, which includes the management of equity and fixed income securities and merchant banking funds.

In addition, Lazard Group records selected other activities in Corporate, including cash and marketable investments, certain long-term investments, and the commercial banking activities of Lazard Group's Paris-based Lazard Frères Banque SA (LFB). LFB is a registered bank regulated by the Banque de France. LFB's primary commercial banking operations include the management of the treasury positions of Lazard Group's Paris House through its money market desk and, to a lesser extent, credit activities relating to securing loans granted to clients of Lazard Frères Gestion SAS (LFG) and custodial oversight over assets of various clients. In addition, LFB operates many support functions of the Paris House. Lazard Group also allocates outstanding indebtedness to Corporate.

Prior to May 10, 2005, Lazard Group also had a business segment called Capital Markets and Other, which consisted of equity, fixed income and convertibles sales and trading, broking, research and underwriting services and merchant banking fund management activities outside of France as well as other specified non-operating assets and liabilities. This business segment's assets and liabilities (referred to below as the separated businesses) were separated from Lazard Group on May 10, 2005, and the operating results of this former segment are reflected as discontinued operations for the three month period ended March 31, 2005. We refer to the transfer of the separated business as the separation.

The unaudited condensed consolidated financial statements include Lazard Ltd, Lazard Group and Lazard Group's principal operating subsidiaries: Lazard Frères & Co. LLC (LFNYS), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM); Lazard Frères SAS and Maison Lazard SAS, French limited liability companies, along with their respective subsidiaries, including LFB and LFG (collectively referred to as LFP); 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 Separation and Recapitalization Transactions

On May 10, 2005, Lazard completed the separation and recapitalization transactions, including the financing transactions described in Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements.

The Separation

In the separation, Lazard Group transferred the separated businesses to LFCM Holdings LLC (LFCM Holdings) through several steps. First, LAZ-MD Holdings was formed as the new holding company for Lazard Group. Pursuant to this formation, all of the persons who were members of Lazard Group prior to the formation became members of LAZ-MD Holdings and ceased to hold any membership interests in Lazard Group. Lazard Group then contributed the separated businesses to LFCM Holdings, which was then a subsidiary of Lazard Group, and distributed all of the LFCM Holdings interests to LAZ-MD Holdings. After the redemption of the

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LAZARD LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

historical partners described below, LAZ-MD Holdings distributed all of the LFCM Holdings interests to its members. Accordingly, after the separation, LFCM Holdings was wholly owned by the members of LAZ-MD Holdings, including Lazard Group's managing directors at the time of the separation.

In the separation, Lazard Group retained all of the Company's Financial Advisory and Asset Management businesses. In addition, under the business alliance agreement, dated as of May 10, 2005, between Lazard Group and LFCM Holdings (the "business alliance agreement"), Lazard Group was granted the option to acquire the North American and European merchant banking businesses of LFCM Holdings.

The Recapitalization

On the same day as the separation, LAZ-MD Holdings and Lazard Group effected a recapitalization of their companies. The recapitalization had three principal parts: the financing transactions, the redemption of the historical partners' interests and mandatorily redeemable preferred interests of Lazard Group and the issuance of LAZ-MD Holdings exchangeable interests to working members. "Historical partners" refers to certain former members of Lazard Group that existed prior to the recapitalization, which consisted of Eurazeo S.A., descendants and relations of Lazard Group's founders, several historical partners of Lazard Group's predecessor entities, several current and former managing directors and the other members of these classes. "Working members" refers to members of Lazard Group that existed prior to the recapitalization, which consisted of current and former managing directors of Lazard Group and the separated businesses.

The Financing Transactions

On May 10, 2005, the Company completed the financing transactions, which consisted of:

the equity public offering,

the initial offering of equity security units (the "ESU offering"),

the private offering of Lazard Group senior notes, and

the private placement of securities to IXIS Corporate & Investment Bank ("IXIS").

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For a further description of the financing transactions, see Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements.

The Company used the net proceeds from the financing transactions primarily to:

redeem Lazard Group membership interests, including Lazard Group's mandatorily redeemable preferred stock, held by the historical partners for \$1,617,032 (including the value of our chief executive officer's historical interests (\$32,921), which were exchanged for shares of Lazard Ltd Class A common stock in lieu of cash, and the exchange of certain of these membership interests for specific Lazard Group long-term investments valued at \$39,774),

capitalize LFCM Holdings and LAZ-MD Holdings in the amount of \$67,000 and \$83,000, respectively,

repay the 7.53% senior notes due 2011 in aggregate principal amount of \$50,000 as well as a related make-whole payment of \$7,650, and

pay transaction fees and expenses.

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LAZARD LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Redemption of the Historical Partners' Interests

As noted above, a primary purpose of the financing transactions was the redemption of the historical partners' interests. Prior to the separation and recapitalization, Lazard Group had three general classes of membership interests:

the working member interests, which were owned by working members and consisted of capital and the right to participate in profit and the goodwill of Lazard Group if a fundamental transaction occurred,

the historical partner interests, which were owned by the historical partners and consisted of capital and the right to participate in profit and the goodwill of Lazard Group if a fundamental transaction occurred, and

the mandatorily redeemable preferred interests, which were owned by certain of the historical partners and consisted of the right to a preferred dividend of 8% per annum and a fixed liquidation amount.

As part of the recapitalization transactions, historical partner interests and preferred interests generally were redeemed for cash.

Exchange of Working Member Interests for LAZ-MD Holdings Interests

In connection with the formation of LAZ-MD Holdings, the working member interests were exchanged with LAZ-MD Holdings for limited liability company interests in LAZ-MD Holdings. Each holder of a working member interest at the time of the separation and recapitalization transactions received, in exchange for his or her working member interest, a redeemable capital interest in LAZ-MD Holdings consisting of an equivalent amount of capital of LAZ-MD Holdings, an exchangeable interest in LAZ-MD Holdings and, if applicable, a right to receive distributions from LAZ-MD Holdings. The former holders of working member interests hold all of the limited liability company interests in LAZ-MD Holdings.

The separation and recapitalization transactions were consummated pursuant to the master separation agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings (the "master separation agreement").

Basis of Presentation

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The consolidated financial statements are prepared in conformity with U.S. GAAP. The Company's policy is to consolidate all majority-owned subsidiaries in which it has a controlling financial interest as well as variable interest entities (VIEs) where the Company is deemed to be the primary beneficiary. All material intercompany transactions and balances have been eliminated.

In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46 (R), *Consolidation of Variable Interest Entities* (FIN 46 R), the Company also consolidates any VIEs for which it is the primary beneficiary. In connection with the separation, Lazard Group transferred its general partnership interests in various 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. Amounts related to consolidation of such VIEs, for the three month period ended March 31, 2005 are included in loss from discontinued operations on the unaudited condensed consolidated statements of income.

The Company prepared an assessment that considered quantitative factors and qualitative factors that included, but was not limited to, the structure and purpose of the separation and recapitalization transactions, corporate governance and the controlling parties of Lazard Group, and management concluded that Lazard Ltd is the entity that is most closely associated with Lazard Group and therefore should consolidate the operations of Lazard Group. Accordingly, the accompanying unaudited condensed consolidated statements of financial condition as of March 31, 2006 and December 31, 2005 reflect the consolidated statements of financial condition of Lazard Ltd. The

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LAZARD LTD

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

unaudited condensed consolidated statements of income and cash flows for the three month period ended March 31, 2006 reflect the consolidated operating results and cash flows of Lazard Ltd and its subsidiaries. The unaudited condensed consolidated statements of income and cash flows for the three month period ended March 31, 2005 relate to Lazard Group and its subsidiaries.

The accompanying unaudited condensed consolidated statements of income and cash flows for the three month period ended March 31, 2005 do not reflect what the results of operations and cash flows of the Company would have been had it been a stand-alone, public company prior to May 10, 2005. In addition, the results of operations for periods until the equity public offering on May 10, 2005 are not comparable to results of operations for subsequent periods as described below.

Payments for services rendered by the Company'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 minority interest, rather than as compensation and benefits expense, and distributions to profit participation members. As a result, prior to May 10, 2005, Lazard Group's operating income included within the accompanying unaudited condensed consolidated financial statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering and the financing transactions as described in Note 2 of Notes to Unaudited Condensed Consolidated Financial Statements, the Company now includes all payments for services rendered by its managing directors and distributions to profit participation members in compensation and benefits expense.

Payments for services rendered by managing directors of LAM (and employee members of LAM) had, prior to May 10, 2005, been accounted for as minority interest in net income and since that date such payments, together with distributions to profit participation members, have been included within compensation and benefits expense.

The Company's income has not been subject to U.S. corporate federal income taxes, because Lazard Group operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income had not been subject to U.S. corporate federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically had operated principally through subsidiary corporations and had been subject to local income taxes. Prior to May 10, 2005, income taxes reflected within Lazard Group's results of operations are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Taxes (UBT) attributable to Lazard Group's operations apportioned to New York City. For periods subsequent to the equity public offering, the unaudited condensed consolidated financial statements of Lazard Ltd include U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

Commencing May 10, 2005, the unaudited condensed consolidated statements of income include a minority interest in net income relating to LAZ-MD Holdings' ownership interest of Lazard Group's common membership interests. Prior to May 10, 2005, there was no such minority interest, as Lazard Ltd had no ownership interest in Lazard Group, and all net income was allocable to the then members of Lazard Group. As of March 31, 2006, LAZ-MD Holdings' ownership interest in Lazard Group was approximately 62.4%.

The use of proceeds from the financing transactions.

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The net incremental interest expense related to the financing transactions.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In accordance with U.S. GAAP, the results of operations of the separated businesses have been segregated and are reported as discontinued operations in the unaudited condensed consolidated statements of income for the three month period ended March 31, 2005. See Note 15 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information relating to discontinued operations.

2. EQUITY PUBLIC OFFERING AND OTHER FINANCING TRANSACTIONS

Equity Public Offering As described above, on May 10, 2005, Lazard Ltd consummated its equity public offering. The aggregate gross proceeds relating to the offering amounted to \$854,579, and net proceeds to Lazard Ltd, after \$65,844 of estimated expenses incurred by Lazard Ltd in connection with the issuance and distribution of the Lazard Ltd Class A common stock (including underwriting discounts and commissions, expenses paid to the underwriters and certain other expenses), was \$788,735. Lazard Ltd contributed all the net proceeds from this offering to Lazard Group in exchange for a controlling interest in Lazard Group. In the three months ended March 31, 2006, additional costs of \$2,677 relating to issuance of Class A common stock were incurred, representing amounts in excess of estimated costs associated with the equity public offering. Such amount was recorded as a reduction to additional paid-in-capital.

Other Financing Transactions On May 10, 2005, the Company also completed the other financing transactions which are described below.

ESU Offering Concurrently with the equity public offering, the Company issued, for \$25 per unit, equity security units (the ESUs) for an aggregate offering amount of \$287,500 (and net proceeds of \$276,535) in the ESU offering. Each unit consists of (a) a contract which obligates holders to purchase, and the Company to sell, on May 15, 2008, a number of newly-issued shares of Class A common stock equal to a settlement rate based on the trading price of its Class A common stock during a period preceding that date and (b) a 1/40, or 2.5%, ownership interest in a 6.120% senior note due 2035 of an affiliate, Lazard Group Finance LLC, a Delaware limited liability company (Lazard Group Finance), with a principal amount of \$1 (the Lazard Group Finance Senior Notes). Prior to its subsequent merger with Lazard Group discussed below, Lazard Group Finance was a wholly owned subsidiary of Lazard Group that was controlled by Lazard Ltd.

In connection with the quarterly contract adjustment payments on the purchase contracts, the Company recorded a liability as of May 10, 2005 for \$6,013 for the present value of such payments (including the similar contract adjustment payments related to IXIS as described below), with a corresponding charge to additional paid-in-capital. The liability will accrete over the three year period ending May 15, 2008, with a corresponding charge to interest expense.

The Company began making quarterly contract adjustment payments on the purchase contracts at an annual rate of 0.505% on August 15, 2005. The Company has the right to defer these quarterly contract adjustment payments. In general, during any period in which it defers such payments, the Company cannot declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any of its capital stock.

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The Lazard Group Finance Senior Notes, which bear interest at an annual rate of 6.12%, will mature (a) in the event of a successful remarketing, on any date no earlier than May 15, 2010 and no later than May 15, 2035, as we may elect, (b) in the event of a failed remarketing, on May 15, 2008 (the stock purchase date) and (c) otherwise on May 15, 2035. Lazard Group Finance used the proceeds from the ESU offering to purchase 6.120% senior notes from Lazard Group due 2035 (the Lazard Group Notes) with a principal amount of \$287,500. The Lazard Group Notes, which have substantially similar terms to the Lazard Group Finance Senior Notes, were pledged to secure the obligations of the Lazard Group Finance Senior Notes.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

On December 19, 2005, Lazard Group consummated a Plan of Merger (the Merger Agreement) with Lazard Group Finance. The Merger Agreement provided for the merger of Lazard Group Finance with and into Lazard Group (the Merger).

Pursuant to the Merger, Lazard Group Finance merged with and into Lazard Group, with Lazard Group continuing as the surviving company. In addition, Lazard Group Finance ceased to be the managing member of Lazard Group, and the co-managing members of Lazard Group Finance, which are two indirect wholly owned subsidiaries of Lazard Ltd, became the co-managing members of Lazard Group. In connection with the Merger, Lazard Group became the successor registrant for Lazard Group Finance under the Securities Exchange Act of 1934, as amended.

Pursuant to the Merger and in accordance with the Indenture, dated as of May 10, 2005 (the Lazard Group Finance Indenture), Lazard Group assumed the obligations, including the remarketing, of Lazard Group Finance with respect to an aggregate principal amount of \$437,500 of Lazard Group Finance Senior Notes issued pursuant to the Lazard Group Finance Indenture (including an aggregate principal amount of \$150,000 related to IXIS as described below), which notes form a part of the 6.625% ESUs previously issued by Lazard Ltd. Simultaneously with the consummation of the Merger, in accordance with the terms of the Lazard Group Finance Indenture, all of the outstanding Lazard Group Finance Senior Notes were exchanged for, and replaced by, an aggregate principal amount of \$437,500 of Lazard Group Notes issued pursuant to the Indenture, dated as of May 10, 2005 (the Lazard Group Indenture), which Lazard Group Notes were previously held by Lazard Group Finance, and the Lazard Group Finance Indenture was discharged. In accordance with the terms of the Lazard Group Finance Indenture, after the completion of this exchange, the Lazard Group Notes replaced the Lazard Group Finance Senior Notes for all purposes under the ESUs, including by serving as collateral for the obligations of the holders of the ESUs in substitution for the Lazard Group Finance Senior Notes.

Prior to the issuance of the Class A common stock upon settlement of the purchase contracts, the ESUs will be reflected in Lazard Ltd's diluted net income per share using the treasury stock method. See Note 9 of Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding net income per share of Class A common stock.

IXIS Placements Under the IXIS placements, IXIS, which is a subsidiary of Caisse Nationale des Caisses d'Épargne, purchased an aggregate of \$200,000 of the Company's securities on May 10, 2005, \$150,000 of which were ESUs (the IXIS ESU placement) and \$50,000 of which were shares of Class A common stock. The terms of the ESUs issued in connection with the IXIS ESU placement are the same as the ESUs described above. The price per security paid by IXIS was equal, in the case of shares of Class A common stock, to the price per share in the equity public offering and, in the case of ESUs, the price per unit in the ESU offering. The Company contributed the net proceeds from the sale of Class A common stock to Lazard Group. Lazard Group Finance used the net proceeds from the IXIS ESU placement to purchase Lazard Group Notes with a principal amount of \$150,000.

Lazard Group Senior Notes Concurrent with the equity public offering, Lazard Group issued, in a private placement, \$550,000 aggregate principal amount of 7.125% senior notes due May 15, 2015 (the Lazard Group Senior Notes). The Lazard Group Senior Notes were issued net of original issue discount of \$435. Interest on the notes is due May 15 and November 15 of each year, commencing on November 15, 2005. The notes are unsecured. A registration rights agreement, dated as of May 10, 2005, among Lazard Group and the initial purchasers of the Lazard Group senior notes provided the holders of the Lazard Group senior notes with registration rights. In that agreement Lazard Group agreed to

register the offer and sale of substantially identical

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

notes (the exchange notes) in exchange for the privately-placed notes (the old notes). In connection therewith, Lazard Group filed a registration statement on Form S-4 that was declared effective by the SEC on September 28, 2005 and Lazard Group commenced an exchange offer (the exchange offer) on that date to exchange an aggregate principal amount of up to \$550,000 of the old notes for an equal aggregate principal amount of the exchange notes. The exchange offer expired on October 26, 2005. On October 31, 2005, Lazard Group closed the exchange offer, at which time it exchanged \$546,000 in aggregate principal amount of its old notes (approximately 99.3% of the aggregate principal amount of old notes outstanding) for \$546,000 in aggregate principal amount of its exchange notes. The exchange notes are substantially identical to the old notes, except that the exchange notes have been registered under the Securities Act of 1933, as amended; and, as a result, the transfer restrictions applicable to the old notes do not apply to the exchange notes.

The indenture governing the Lazard Group Senior Notes contains covenants that limit Lazard Group's ability and that of its subsidiaries, subject to important exceptions and qualifications, to, among other things, create a lien on any shares of capital stock of any designated subsidiary, and consolidate, merge or transfer all or substantially all of its assets and the assets of its subsidiaries. The indenture also contains a customary make-whole provision in the event of early redemption.

In connection with the issuance of the Lazard Group Senior Notes, on April 1, 2005, Lazard Group entered into an interest rate forward agreement with a bank for a notional amount of \$650,000. By entering into this interest rate forward agreement, Lazard Group was able to ensure that the base rate (excluding market-driven credit spreads) on the Lazard Group Senior Notes would be no greater than 4.5%. Lazard Group settled the interest rate forward agreement with the bank as of May 9, 2005, which required a payment by Lazard Group of \$13,004. Of this amount, in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities* , as amended, \$11,003 was deemed to be the effective portion of the hedge and has been recorded within other comprehensive income (loss) and is being amortized as a charge to interest expense over the ten year term of the Lazard Group Senior Notes.

Credit Facilities Concurrent with the equity public offering, Lazard Group entered into a five year, \$125,000 senior revolving credit facility with a group of lenders. As of March 31, 2006 and December 31, 2005, \$25,000 and \$30,000, respectively, was outstanding under this credit facility. The \$125,000 senior revolving credit facility bears interest at either a Eurodollar or Federal Funds rate, plus an applicable margin, which varies from 125 to 200 basis points, depending on Lazard Group's rating as determined by designated credit rating agencies.

The senior revolving credit facility contains affirmative and negative covenants. Such covenants include, among other things, limitations on the ability of Lazard Group to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets, as well as financial covenants that must be maintained.

3. SIGNIFICANT ACCOUNTING POLICIES

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The policies below represent recent changes to the Company's significant accounting policies. A complete discussion of the Company's significant accounting policies are included in Lazard Ltd's Form 10-K.

Share-Based Payments In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payments* (SFAS 123R). SFAS No. 123R is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and its related guidance. SFAS 123R is effective for the Company's fiscal year beginning January 1, 2006. Prior to May 10, 2005, the date of the equity public offering, Lazard operated as a

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

series of related partnerships under the control of the partners and Lazard did not have a capital structure that permitted share based compensation. In connection with equity awards granted pursuant to the Company's 2005 Equity Incentive Plan (described in more detail in Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements), the Company adopted the fair value recognition provisions under SFAS 123. Accordingly, subsequent to the dates of grant during 2005, Lazard recognized in compensation expense the amortized portion of the fair value of the equity awards, net of an estimated forfeiture rate, over the service period specified in the award.

Effective for the first quarter of 2006, Lazard adopted SFAS 123R. Under SFAS 123R, share-based awards that do not require future service are expensed immediately. Share-based employee awards that require future service are amortized over the requisite service period. Lazard adopted SFAS 123R under the modified prospective method. Under that method, the provisions of SFAS 123R are generally applied only to share-based awards granted subsequent to adoption. Share-based awards granted to employees prior to the adoption of SFAS 123R must continue to be amortized over the stated service periods of the awards, however, should the awards vest upon retirement, any unamortized cost would be recognized when the employee retires.

Additionally, SFAS 123R changed SFAS 123 by eliminating alternative methods for recognition of the costs of equity awards and recognition of award forfeitures. First, SFAS 123R changed SFAS 123 by precluding the use of the intrinsic method as provided for under APB 25 and requiring fair value recognition. Second, SFAS 123R differed from SFAS 123 by precluding the recognition of forfeitures on an actual basis by requiring the application of an estimated forfeiture rate to the amortizable cost of the award for all unvested awards. The Company adopted both the fair value recognition and the estimated forfeiture rate methods required under SFAS 123R in 2005 while accounting for equity awards under the provisions of SFAS 123.

SFAS 123R also requires that the benefits of tax deductions in excess of recognized compensation costs to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under prior accounting standards. This requirement reduces net operating cash flows and increases net financing cash flows in periods beginning with and subsequent to adoption of SFAS 123R. Total net cash flow remains unchanged from what would have been reported under prior accounting rules.

As a result of the Company adopting certain provisions consistent with SFAS 123R upon the introduction of its 2005 Equity Incentive Plan while under the provisions of SFAS 123, there is no significant effect resulting from the adoption of the provisions of SFAS 123R which would require restatement of its prior period financial statements.

Investments in Limited Partnerships On January 1, 2006, the Company adopted, as required, the provisions of Emerging Issues Task Force (EITF) Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or, Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). The EITF consensus requires a general partner in a limited partnership to consolidate the limited partnership unless the presumption of control is overcome. The general partner may overcome this presumption of control and not consolidate the entity if the limited partners have: (a) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without having to show cause; or (b) substantive participating rights in managing the partnership. EITF 04-5 was effective for general partners of all newly-formed limited partnerships and for existing limited partnerships for

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which the partnership agreements are modified after June 29, 2005, and for general partners in all other limited partnerships, no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of the provisions of EITF 04-5 did not have a material impact on the Company's unaudited condensed consolidated financial statements.

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

Recent Accounting Pronouncements In February 2006, the FASB issued SFAS No. 155 *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS 155). SFAS 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company is currently assessing the impact of adopting SFAS 155, but does not expect the standard to have a material impact on the financial condition, results of operations, or cash flows of the Company.

In March 2006, the FASB issued SFAS No. 156 *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* (SFAS 156), which requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and for subsequent measurements, permits an entity to choose either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. SFAS 156 also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS 156 is effective in fiscal years beginning after September 15, 2006. The Company is currently assessing the impact of adopting SFAS 156, but does not expect the standard to have a material impact on the financial condition, results of operations, or cash flows of the Company.

4. MINORITY INTEREST

Minority interest consists of a number of components, including minority interests in LAM and the Company's business in Italy which, through a strategic alliance, is owned 40% by Banca Intesa S.p.A. (Intesa). In addition, the Company consolidates various LAM related general partnership interests that it controls but does not wholly own. As a result of consolidating these companies, the Company recognizes the portion of income not associated with the Company's ownership as minority interest.

Payments for services rendered by managing directors of LAM (and employee members of LAM) had, prior to May 10, 2005, been accounted for as minority interest in net income and since that date such payments, together with distributions to profit participation members, have been included in compensation and benefits expense on the unaudited condensed consolidated statements of income.

Commencing May 10, 2005, the Company records a charge to minority interest in net income relating to LAZ-MD Holdings' ownership interest in Lazard Group (which approximated 62.4% at March 31, 2006), with such minority interest in net income amounting to \$37,228 for the three month period ended March 31, 2006. Accordingly, for the reasons stated in this and the preceding paragraph, amounts recorded as minority interest in net income for periods prior to May 10, 2005 are not comparable to amounts recorded as minority interest in net income for periods commencing May 10, 2005.

The Company classifies LAZ-MD Holdings' ownership of Lazard Group's common membership interests as a reduction of the Company's additional paid-in capital rather than as minority interest, since the balance of such minority interest as of March 31, 2006 and December 31, 2005 of \$513,667 and \$542,713, respectively, is negative. See Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements with

respect to distributions paid to LAZ-MD Holdings.

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

5. STRATEGIC ALLIANCE IN ITALY

Pursuant to the existing strategic alliance in effect since January 2003, Lazard Group and Intesa have conducted selected Italian investment banking business solely through Lazard & Co. S.r.l. (Lazard Italy), an indirect subsidiary of Lazard Group. As part of the strategic alliance, Intesa made the following investments:

the purchase in March 2003 from Lazard Funding Limited LLC (Lazard Funding), a wholly owned subsidiary of Lazard Group, of a \$150,000 subordinated convertible promissory note (the \$150,000 Subordinated Convertible Note) issued by Lazard Funding, which is currently convertible into a contractual right that entitles the holder to receive payments that would be equivalent to the distributions that a holder of a three percent equity goodwill interest in Lazard Group would have been entitled to receive (i.e., distributions of the net proceeds of selected fundamental corporate events affecting Lazard Group, such as a sale of all or substantially all of the assets of Lazard Group or a disposition of a line of business);

the investment in June 2003 in Lazard Italy of an amount of Euros then equal to \$100,000 in exchange for 40% of the capital stock in Lazard Italy (the Intesa JV Interest); and

the purchase in June 2003 of a \$50,000 subordinated promissory note issued by Lazard Italy (the \$50,000 Subordinated Promissory Note).

The \$150,000 Subordinated Convertible Note, which is guaranteed by Lazard Group (the Guarantee), currently has a scheduled maturity date in March 2018 and has interest payable annually at a variable interest rate of not less than 3%, and not more than 3.25%, per annum. The \$50,000 Subordinated Promissory Note currently has a scheduled maturity date in the year 2078 (subject to extension), with interest payable annually at the rate of 3.0% per annum. The strategic alliance was governed by a Master Transaction and Relationship Agreement dated as of March 26, 2003 (the Master Agreement) among Lazard Group, Intesa and Lazard Italy.

As previously disclosed, in connection with the transactions in connection with the equity public offering of Lazard Ltd, Lazard Group and Intesa held various discussions concerning the joint venture relationship and the impact of the equity public offering. In the course of such discussions, Intesa notified Lazard Group of its intention not to extend the term of the joint venture relationship beyond its initial expiration date of December 31, 2007. The strategic alliance accordingly is due to expire on December 31, 2007, as a result of which Lazard Group would be obligated to acquire the Intesa JV Interest and the \$50,000 Subordinated Promissory Note on or about February 4, 2008 for an aggregate amount in cash not to exceed \$150,000.

On March 31, 2006, Lazard Group, Lazard Italy and Intesa reached an agreement regarding their future business relationship in Italy and entered into a Termination Agreement (the Termination Agreement), which provides for the termination of the joint venture relationship and the Master Agreement at the closing of the transactions contemplated by the Termination Agreement and mutual release arrangements with respect to matters concerning the joint venture relationship. At this termination closing, which is expected to occur promptly after receipt of required

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regulatory approvals and satisfaction or waiver of other customary closing conditions, the following adjustments will be made to the terms of Intesa's investment in Lazard Group and its affiliates:

The \$150,000 Subordinated Convertible Note will be amended and restated, among other things, to provide for its convertibility into shares of Lazard Ltd Class A common stock at an effective conversion price of \$57 per share, resulting in an aggregate of approximately 2,632,000 shares of Lazard Ltd Class A common stock being issuable to Intesa if it elects to fully convert the amended \$150,000 Subordinated Convertible Note. The amended \$150,000 Subordinated Convertible Note will mature in

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

September 2016 and have a fixed annual interest rate of 3.25%. One-third of the principal amount of the amended \$150,000 Subordinated Convertible Note will generally be convertible after July 1 in each of 2008, 2009 and 2010, and this note will no longer be convertible after June 30, 2011. Lazard Ltd will enter into a Registration Rights Agreement with Intesa providing for certain customary registration rights with respect to the shares of Lazard Ltd Class A common stock it receives upon conversion of the amended \$150,000 Subordinated Convertible Note. The Guarantee will also be amended to reflect the terms of the amended \$150,000 Subordinated Convertible Note.

The Intesa JV Interest and the \$50,000 Subordinated Promissory Note will be acquired by Lazard Group in exchange for the issuance to Intesa of a \$96,000 senior promissory note of Lazard Group due February 28, 2008 and a \$50,000 subordinated promissory note of Lazard Group due February 28, 2008, respectively. The \$96,000 senior promissory note will have a fixed annual interest rate of 4.25% and the \$50,000 senior promissory note will have a fixed annual interest rate of 4.6%.

Lazard Group will pay to Intesa an amount equal to a 3% annualized return on the Intesa JV Interest from April 1, 2006 through the termination closin