

Lazard Ltd  
Form 10-Q  
November 04, 2008  
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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 September 30, 2008

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)

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# 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.)

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**Clarendon House**

**2 Church Street**

**Hamilton HM11, Bermuda**

(Address of principal executive offices)

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

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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 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.

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller Reporting Company

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

As of October 30, 2008, there were 76,029,301 shares of the registrant's Class A common stock (including 6,822,444 shares held by a subsidiary) and one share of the registrant's Class B common stock outstanding.

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*When we use the terms "Lazard", "we", "us", "our", and "the Company", we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ("Lazard Group"), that is the current holding company for our businesses. Lazard Ltd has no material assets other than indirect ownership as of September 30, 2008 of approximately 62.2% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

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**PART I. FINANCIAL INFORMATION**

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

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**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****SEPTEMBER 30, 2008 AND DECEMBER 31, 2007****(UNAUDITED)****(dollars in thousands, except for per share data)**

|   | <b>September 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|-------------------------------|------------------------------|
| <b>ASSETS</b>   |                               |                              |
| Cash and cash equivalents   | \$ 774,948                    | \$ 1,055,844                 |
| Cash segregated for regulatory purposes or deposited with clearing organizations  | 10,649                        | 24,585                       |
| Receivables net:  |                               |                              |
| Banks   | 655,737                       | 495,821                      |
| Fees  | 366,492                       | 520,883                      |
| Customers and other   | 162,828                       | 50,187                       |
| Related parties   | 9,361                         | 30,287                       |
|   | 1,194,418                     | 1,097,178                    |
| Investments:  |                               |                              |
| Debt  | 378,229                       | 585,433                      |
| Equities  | 112,016                       | 333,796                      |
| Other   | 245,680                       | 169,612                      |
|   | 735,925                       | 1,088,841                    |
| Property (net of accumulated amortization and depreciation of \$219,292 and \$208,153 at September 30, 2008 and December 31, 2007, respectively)          | 179,987                       | 185,509                      |
| Goodwill and other intangible assets (net of accumulated amortization of \$25,775 and \$21,523 at September 30, 2008 and December 31, 2007, respectively) | 186,235                       | 187,909                      |
| Other assets  | 242,577                       | 200,547                      |
| Total assets  | \$ 3,324,739                  | \$ 3,840,413                 |

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****SEPTEMBER 30, 2008 AND DECEMBER 31, 2007****(UNAUDITED)****(dollars in thousands, except for per share data)**

|   | <b>September 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|-------------------------------|------------------------------|
| <b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY</b>   |                               |                              |
| Liabilities:  |                               |                              |
| Deposits and other customer payables  | \$ 873,665                    | \$ 858,733                   |
| Accrued compensation and benefits   | 137,427                       | 498,058                      |
| Senior debt   | 1,150,000                     | 1,587,500                    |
| Capital lease obligations   | 28,298                        | 27,122                       |
| Related party payables  | 21,779                        | 26,707                       |
| Other liabilities   | 571,253                       | 569,179                      |
| Subordinated debt   | 150,000                       | 150,000                      |
| Total liabilities   | 2,932,422                     | 3,717,299                    |
| Commitments and contingencies   |                               |                              |
| Minority interest   | 98,985                        | 52,775                       |
| <b>STOCKHOLDERS EQUITY</b>  |                               |                              |
| Preferred stock, par value \$.01 per share; 15,000,000 shares authorized:<br>Series A - 31,975 and 36,607 shares issued and outstanding at September 30, 2008 and December 31, 2007,<br>respectively                                  |                               |                              |
| Series B - none and 277 shares issued and outstanding at September 30, 2008 and December 31, 2007,<br>respectively  |                               |                              |
| Common stock:   |                               |                              |
| Class A, par value \$.01 per share (500,000,000 shares authorized; 76,009,211 and 51,745,825 shares issued at<br>September 30, 2008 and December 31, 2007, respectively, including shares held by a subsidiary as indicated<br>below) | 760                           | 517                          |
| Class B, par value \$.01 per share (1 share authorized, 1 share issued and outstanding at September 30, 2008<br>and December 31, 2007)  |                               |                              |
| Additional paid-in-capital  | 366,712                       | (161,924)                    |
| Retained earnings   | 192,361                       | 248,551                      |
| Accumulated other comprehensive income (loss), net of tax   | (11,715)                      | 52,491                       |
|   | 548,118                       | 139,635                      |
| Less - Class A common stock held by a subsidiary, at cost (6,822,444 and 1,712,846 shares at September 30,<br>2008 and December 31, 2007, respectively)   | (254,786)                     | (69,296)                     |
| Total stockholders equity   | 293,332                       | 70,339                       |
| Total liabilities, minority interest and stockholders equity  | \$ 3,324,739                  | \$ 3,840,413                 |

See notes to condensed consolidated financial statements.



**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007****(UNAUDITED)****(dollars in thousands, except for per share data)**

|   | <b>Three Months Ended<br/>September 30,</b> |                  | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---|---|------------------|--|------------------|
|   | <b>2008</b>                                 | <b>2007</b>      | <b>2008</b>                                | <b>2007</b>      |
| <b>REVENUE</b>  |   |                  |  |                  |
| Investment banking and other advisory fees                              | \$260,708                                   | \$369,857        | \$ 736,863                                 | \$ 813,145       |
| Money management fees   | 155,920                                     | 164,405          | 479,701                                    | 448,749          |
| Interest income   | 23,590                                      | 23,832           | 67,527                                     | 64,507           |
| Other   | (754)                                       | 22,028           | 7,869                                      | 105,066          |
| <b>Total revenue</b>  | <b>439,464</b>                              | <b>580,122</b>   | <b>1,291,960</b>                           | <b>1,431,467</b> |
| Interest expense  | 33,644                                      | 38,074           | 110,673                                    | 98,861           |
| <b>Net revenue</b>  | <b>405,820</b>                              | <b>542,048</b>   | <b>1,181,287</b>                           | <b>1,332,606</b> |
| <b>OPERATING EXPENSES</b>   |   |                  |  |                  |
| Compensation and benefits   | 432,777                                     | 323,152          | 906,359                                    | 792,236          |
| Occupancy and equipment   | 22,872                                      | 21,462           | 74,643                                     | 65,436           |
| Marketing and business development                                      | 18,368                                      | 16,898           | 64,052                                     | 50,264           |
| Technology and information services                                     | 17,683                                      | 15,204           | 51,013                                     | 41,971           |
| Professional services   | 16,017                                      | 13,166           | 45,521                                     | 35,695           |
| Fund administration and outsourced services                             | 8,569                                       | 6,074            | 21,712                                     | 15,042           |
| Amortization of intangible assets related to acquisitions               | 507   | 18,156           | 4,252                                      | 18,156           |
| Other   | 23,740                                      | 9,350            | 42,688                                     | 27,789           |
| <b>Total operating expenses</b>   | <b>540,533</b>                              | <b>423,462</b>   | <b>1,210,240</b>                           | <b>1,046,589</b> |
| <b>OPERATING INCOME (LOSS)</b>  | <b>(134,713)</b>                            | <b>118,586</b>   | <b>(28,953)</b>                            | <b>286,017</b>   |
| Provision for income taxes  | 8,304                                       | 28,284           | 31,254                                     | 65,658           |
| <b>INCOME (LOSS) BEFORE MINORITY INTEREST</b>                           | <b>(143,017)</b>                            | <b>90,302</b>    | <b>(60,207)</b>                            | <b>220,359</b>   |
| Minority interest in net income (loss)                                  | (66,060)                                    | 50,035           | (25,366)                                   | 124,442          |
| <b>NET INCOME (LOSS)</b>  | <b>\$(76,957)</b>                           | <b>\$ 40,267</b> | <b>\$ (34,841)</b>                         | <b>\$ 95,917</b> |
| <b>WEIGHTED AVERAGE SHARES OF CLASS A COMMON STOCK<br/>OUTSTANDING:</b> |   |                  |  |                  |
| Basic   | 66,002,049                                  | 51,078,444       | 57,466,364                                 | 51,318,879       |
| Diluted   | 66,002,049                                  | 116,344,656      | 57,466,364                                 | 61,879,027       |
| <b>NET INCOME (LOSS) PER SHARE OF CLASS A<br/>COMMON STOCK:</b>         |   |                  |  |                  |



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|   |          |        |          |        |
|---|----------|--------|----------|--------|
| Basic   | \$(1.17) | \$0.79 | \$(0.61) | \$1.87 |
| Diluted   | \$(1.17) | \$0.73 | \$(0.61) | \$1.72 |
| <b>DIVIDENDS PAID PER SHARE OF CLASS A<br/>COMMON STOCK</b> | \$ 0.10  | \$0.09 | \$ 0.30  | \$0.27 |

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008 AND 2007****(UNAUDITED)****(dollars in thousands)**

|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                                | <b>2007</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |             |
| Net income (loss)   | \$ (34,841)                                | \$ 95,917   |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:  |  |             |
| Non-cash charges (credits) included in net income (loss):   |  |             |
| Depreciation and amortization of property   | 15,338                                     | 11,691      |
| Amortization of deferred expenses, stock units and interest rate hedge                              | 186,994                                    | 78,689      |
| Amortization of intangible assets related to acquisitions   | 4,252                                      | 18,156      |
| Minority interest in net income (loss)  | (25,366)                                   | 124,442     |
| Stock portion of charge related to LAM Merger   | 64,305                                     |             |
| (Increase) decrease in operating assets:  |  |             |
| Cash segregated for regulatory purposes or deposited with clearing organizations                    | 13,989                                     | (12,073)    |
| Receivables-net   | (129,862)                                  | 274,167     |
| Investments   | 453,143                                    | (235,226)   |
| Other assets  | (45,855)                                   | (43,445)    |
| Increase (decrease) in operating liabilities:   |  |             |
| Deposits and other payables   | 36,471                                     | (348,919)   |
| Accrued compensation and benefits and other liabilities   | (379,301)                                  | (83,968)    |
| Net cash provided by (used in) operating activities   | 159,267                                    | (120,569)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |             |
| Acquisitions of businesses in 2007, net of cash acquired of \$19,002, and equity method investments | (74,855)                                   | (135,385)   |
| Additions to property   | (12,444)                                   | (10,524)    |
| Disposals of property   | 470  | 1,795       |
| Purchases of available-for-sale securities  | (146,959)                                  |             |
| Proceeds from sales/maturities of available-for-sale securities                                     | 91,430                                     |             |
| Net cash used in investing activities   | (142,358)                                  | (144,114)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |  |             |
| Proceeds from:  |  |             |
| Short-term borrowings-net   | 7,233                                      | 1,794       |
| Senior debt, net of expenses  |  | 593,478     |
| Issuance of Class A common stock  | 437,500                                    |             |
| Other financing activities  | 353  |             |
| Payments for:   |  |             |
| Senior debt   | (437,488)                                  | (96,000)    |
| Subordinated debt   |  | (50,000)    |
| Capital lease obligations   | (2,317)                                    | (1,030)     |

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|  |                   |                   |
|--|-------------------|-------------------|
| Repurchase of common membership interests from members of LAZ-MD Holdings                              | (2,559)           | (21,840)          |
| Distributions to minority interests  | (62,377)          | (86,752)          |
| Repurchase of Class A common stock   | (209,353)         | (68,052)          |
| Class A common stock dividends   | (16,184)          | (13,812)          |
| Settlement of vested RSUs and DSUs   | (4,105)           | (21)              |
| <b>Net cash provided by (used in) financing activities</b>   | <b>(289,297)</b>  | <b>257,765</b>    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>   | <b>(8,508)</b>    | <b>(3,443)</b>    |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>(280,896)</b>  | <b>(10,361)</b>   |
| <b>CASH AND CASH EQUIVALENTS January 1</b>   | <b>1,055,844</b>  | <b>969,483</b>    |
| <b>CASH AND CASH EQUIVALENTS September 30</b>  | <b>\$ 774,948</b> | <b>\$ 959,122</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>  |                   |                   |
| <b>Supplemental investing non-cash transaction:</b>  |                   |                   |
| Preferred stock and Class A common stock issued/issuable in connection with acquisitions of businesses | \$ 9,282          | \$ 46,716         |

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY****FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2008****(UNAUDITED)****(dollars in thousands)**

|  | Preferred Stock |           | Common Stock |           |                   | Additional<br>Paid-in-<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss),<br>Net of<br>Tax | Class A Common<br>Stock Held By A<br>Subsidiary |                  | Total<br>Stockholders<br>Equity |                  |
|--|-----------------|-----------|--------------|-----------|-------------------|-----------------------------------|----------------------|--|---|------------------|---------------------------------|------------------|
|  | Series A        | Series B  | Shares(*)    |           |                   |                                   |                      |  | Shares  | \$               |                                 |                  |
|  | Shares          | \$        | Shares       | \$        | Shares(*)         | \$                                |                      |  | Shares  | \$               |                                 |                  |
| <b>Balance - January 1, 2008</b>   | <b>36,607</b>   | <b>\$</b> | <b>277</b>   | <b>\$</b> | <b>51,745,826</b> | <b>\$ 517</b>                     | <b>\$ (161,924)</b>  | <b>\$ 248,551</b>  | <b>\$ 52,491</b>                                | <b>1,712,846</b> | <b>\$ (69,296)</b>              | <b>\$ 70,339</b> |
| Comprehensive income (loss):   |                 |           |              |           |                   |                                   |                      |  |   |                  |                                 |                  |
| Net income (loss)  |                 |           |              |           |                   |                                   | (34,841)             |  |   |                  |                                 | (34,841)         |
| Other comprehensive income (loss)<br>- net of tax:   |                 |           |              |           |                   |                                   |                      |  |   |                  |                                 |                  |
| Currency translation adjustments   |                 |           |              |           |                   |                                   |                      | (54,016)   |   |                  |                                 | (54,016)         |
| Amortization of interest rate hedge  |                 |           |              |           |                   |                                   |                      | 825  |   |                  |                                 | 825              |
| Available-for-sale securities:   |                 |           |              |           |                   |                                   |                      |  |   |                  |                                 |                  |
| Net unrealized loss  |                 |           |              |           |                   |                                   |                      | (15,619)   |   |                  |                                 | (15,619)         |
| Adjustment for items reclassified to<br>earnings   |                 |           |              |           |                   |                                   |                      | 5  |   |                  |                                 | 5                |
| Employee benefit plans:  |                 |           |              |           |                   |                                   |                      |  |   |                  |                                 |                  |
| Net actuarial gain   |                 |           |              |           |                   |                                   |                      | 93   |   |                  |                                 | 93               |
| Adjustment for items reclassified to<br>earnings   |                 |           |              |           |                   |                                   |                      | (681)  |   |                  |                                 | (681)            |
| <b>Comprehensive income (loss)</b>   |                 |           |              |           |                   |                                   |                      |  |   |                  |                                 | <b>(104,234)</b> |
| Class A common stock<br>issued/issuable in connection with<br>prior<br>business acquisitions and related<br>amortization                       |                 |           |              |           | 203,890           | 2                                 | 12,130               |  |   |                  |                                 | 12,132           |
| Conversion of Series A and Series<br>B preferred stock issued in<br>connection with prior business<br>acquisition into Class A common<br>stock | (4,632)         |           | (277)        |           | 430,169           | 4                                 | (4)                  |  |   |                  |                                 |                  |
| Class A common stock issuable in<br>connection with LAM Merger   |                 |           |              |           |                   |                                   | 64,305               |  |   |                  |                                 | 64,305           |
| Repurchase of common<br>membership interest from LAZ-MD<br>Holdings  |                 |           |              |           |                   |                                   | (2,559)              |  |   |                  |                                 | (2,559)          |
| Amortization of stock units  |                 |           |              |           |                   |                                   | 179,098              |  |   |                  |                                 | 179,098          |
| RSU and DSU<br>dividend-equivalents  |                 |           |              |           |                   |                                   | 5,159                | (5,165)  |   |                  |                                 | (6)              |
| Class A common stock dividends   |                 |           |              |           |                   |                                   |                      | (16,184)   |   |                  |                                 | (16,184)         |
| Purchase of Class A common stock<br>by a subsidiary  |                 |           |              |           |                   |                                   |                      |  |   | 5,734,413        | (209,353)                       | (209,353)        |
| Lazard Group delivery of Class A<br>common stock for settlement of<br>vested RSUs and DSUs   |                 |           |              |           |                   |                                   | (27,968)             |  |   | (624,815)        | 23,863                          | (4,105)          |

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|  |               |           |                      |               |                   |                   |                    |                  |                     |                   |
|--|---------------|-----------|----------------------|---------------|-------------------|-------------------|--------------------|------------------|---------------------|-------------------|
| Class A common stock issued in connection with the settlement of the purchase contracts forming part of the ESUs             | 14,582,750    | 146       | 437,354              |               |                   |                   |                    |                  | 437,500             |                   |
| Class A common stock issued in exchange for Lazard Group common membership interests   | 2,645,046     | 27        | (27)                 |               |                   |                   |                    |                  |                     |                   |
| Class A common stock issued upon exchange for Lazard Group common membership interests in connection with secondary offering | 6,401,531     | 64        | (64)                 |               |                   |                   |                    |                  |                     |                   |
| Other  |               |           | 359                  |               |                   |                   |                    |                  | 359                 |                   |
| Adjustment to reclassify minority interest share of stockholders equity to minority interest                                 |               |           | (139,147)            |               | 5,187             |                   |                    |                  | (133,960)           |                   |
| <b>Balance - September 30, 2008</b>  | <b>31,975</b> | <b>\$</b> | <b>\$ 76,009,212</b> | <b>\$ 760</b> | <b>\$ 366,712</b> | <b>\$ 192,361</b> | <b>\$ (11,715)</b> | <b>6,822,444</b> | <b>\$ (254,786)</b> | <b>\$ 293,332</b> |

(\*) Includes 51,745,825 and 76,009,211 shares of the Company's Class A common stock issued at January 1, 2008 and September 30, 2008, respectively, and 1 share of the Company's Class B common stock at each such date.

See notes to condensed consolidated financial statements.

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

**1. ORGANIZATION**

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

Lazard Ltd held approximately 62.2% and 48.3% of all outstanding Lazard Group common membership interests as of September 30, 2008 and December 31, 2007, respectively. Lazard Ltd, 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 (the Operating Agreement).

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

Financial Advisory, which includes providing advice on mergers and acquisitions and strategic advisory matters, restructurings, capital raising and other transactions, 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 Lazard Group's Paris-based Lazard Frères Banque SA (LFB). LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group's Paris House 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. The Company also allocates outstanding indebtedness to its Corporate segment.

**2. BASIS OF PRESENTATION**

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The accompanying condensed consolidated financial statements of Lazard Ltd 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 notes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd's annual report on Form 10-K for the year ended December 31, 2007 (the Form 10-K). The accompanying December 31, 2007 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 nine month periods ended September 30, 2008 are not necessarily indicative of the results to be expected for any future period or the full fiscal year.

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

The 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 ); its French limited liability companies Compagnie Financière Lazard Frères SAS ( CFLF ) along with its subsidiaries, LFB and Lazard Freres Gestion SAS ( LFG ), and Maison Lazard SAS; 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) all majority-owned subsidiaries in which it has a controlling financial interest, (ii) variable interest entities 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. 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.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2007, the Financial Accounting Standards Board (the FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141(R) ). SFAS No. 141(R) replaced SFAS No. 141, *Business Combinations* ( SFAS No. 141 ) and supersedes or amends other related authoritative literature although it retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) also established principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R) also requires the acquirer to expense costs relating to any acquisitions that close after December 31, 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which, among other things, defines fair value, establishes a framework for measuring fair value and enhances disclosure requirements about fair value measurements. SFAS No. 157 applies to those accounting pronouncements that require or permit the use of fair value measurements for recognition or disclosure purposes and to those accounting pronouncements that require fair value measurements for other reasons such as the requirement to measure reporting units at fair value for annual goodwill impairment testing. In February 2008, the FASB issued FASB Staff Position ( FSP ) 157-2 ( FSP 157-2 ), which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair



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value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items would include, for example, reporting units measured at fair value in a goodwill impairment test as mentioned above and

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, the Company adopted SFAS No. 157 for those assets and liabilities not subject to the delayed adoption provision of FSP 157-2. The partial adoption of SFAS No. 157 did not have a material impact on the Company's condensed consolidated financial statements. For additional disclosures about fair value measurements, see Note 5 of Notes to Condensed Consolidated Financial Statements. The Company does not anticipate that the adoption of the remaining provisions of SFAS No. 157 in the first quarter of 2009 (subject to the delayed adoption provision of FSP 157-2) will have a material impact on the Company's consolidated financial statements.

On September 30, 2008, the SEC's Office of the Chief Accountant and the FASB staff jointly issued interpretive guidance on the application of SFAS No. 157 with respect to estimating the fair value of financial instruments in the current market environment. The release also provides clarification of the factors that should be considered when determining when investments accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, (SFAS No. 115) are other than temporarily impaired such that an impairment charge must be recognized through earnings. On October 10, 2008, the FASB issued FSP FAS 157-3, which provided additional interpretive guidance on the application of SFAS No. 157 in markets that are not active. FSP FAS 157-3 was effective upon issuance, including for prior periods for which financial statements have not yet been issued. The issuance of interpretive guidance on the application of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits an entity to elect to measure various financial instruments and certain other items at fair value. It provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 became effective January 1, 2008 and did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In addition, it also changes the way the consolidated income statement is presented by requiring consolidated net income to include amounts attributable to both the parent and the noncontrolling interest with separate disclosure of each component on the face of the consolidated income statement. It does not, however, impact the calculation of net income per share as such calculation will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. Except for changes in financial statement presentation, the Company does not anticipate that the adoption of SFAS No. 160 will have a material impact on its consolidated financial statements.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of SFAS No. 133* ( SFAS No. 161 ). SFAS No. 161 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ( SFAS No. 133 ), to enhance the current disclosure framework in SFAS No. 133 for derivative instruments and hedging activities. Entities will be required to provide

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods upon initial adoption. The Company does not anticipate the adoption of SFAS No. 161 will have a material impact on its disclosures of derivative instruments and hedging activities.

**4. RECEIVABLES NET**

Receivables net is comprised of receivables from banks, which represent those related to LFB's short-term inter-bank lending with registered banks, fees, customers and other, including those related to LFB's lending and collateralized financing activities, and related parties.

Customers and other receivables at September 30, 2008 also includes a \$77,644 receivable from the Reserve Primary Fund (the Primary Fund), a money market fund based in New York. As of September 15, 2008, the Company held an investment in the Primary Fund. On September 15 and 16, 2008, the Company requested the redemption of its entire investment. Effective September 17, 2008, before the Company's investment was redeemed, the SEC issued an order temporarily suspending the Primary Fund's obligation to honor redemption requests and calling for the orderly winding up of the Primary Fund and the ultimate disposition of the holdings of all investors in the Primary Fund. At the present time, the Primary Fund is engaged in the liquidation of its assets for distribution to investors under the supervision of the SEC. The Company expects to receive the full amount of its receivable relating to its investment in the Primary Fund, but it is possible that the process of liquidating the Primary Fund may ultimately result in some diminution in value of the Company's investment position. The Company is closely monitoring the situation and reserving all of its rights. On October 31, 2008, the Company received its first partial redemption aggregating \$39,431.

**5. FAIR VALUE MEASUREMENTS**

Lazard accounts for its investments (other than equity method investments), securities sold not yet purchased and derivative instruments at fair value based on various accounting guidance, including SFAS No. 115, SFAS No. 133 and applicable industry guidance, such as broker-dealer accounting guidance. Lazard accounts for its equity method investments under Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

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

The Company's investments and securities sold, not yet purchased consist of the following at September 30, 2008 and December 31, 2007:

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
| Debt:   |                       |                      |
| Bonds - Corporate   | \$ 326,546            | \$ 534,825           |
| Non-U.S. Government and agency securities                           | 51,683                | 50,608               |
|   | 378,229               | 585,433              |
| Equities  | 112,016               | 333,796              |
| Other:  |                       |                      |
| Interest in LAM alternative asset management funds:                 |                       |                      |
| GP interests owned by Lazard  | 40,963                | 43,313               |
| GP interests consolidated by Lazard                                 | 34,962                | 51,493               |
| Private equity investments  | 93,778                | 74,051               |
| Equity method investments   | 75,977                | 755                  |
|   | 245,680               | 169,612              |
| Total investments   | 735,925               | 1,088,841            |
| Less equity method investments                                      | 75,977                | 755                  |
| Investments, at fair value  | \$ 659,948            | \$ 1,088,086         |
| Securities sold, not yet purchased (included in other liabilities ) | \$ 7,485              | \$ 21,864            |

Debt securities primarily consist of investments by LFB which typically holds them long-term, as part of its asset-liability management program. Debt securities are accounted for as either trading or available-for-sale securities at September 30, 2008 and December 31, 2007 as follows:

|   | September 30,<br>2008 | December 31,<br>2007 |
|---|-----------------------|----------------------|
| Trading securities:                       |                       |                      |
| Bonds - Corporate                         | \$ 5,984              | \$ 462,472           |
| Non-U.S. Government and agency securities | 51,683                | 50,608               |

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|                                |            |            |
|--------------------------------|------------|------------|
| Available-for-sale securities: | 57,667     | 513,080    |
| Bonds - Corporate              | 320,562    | 72,353     |
| Total debt securities          | \$ 378,229 | \$ 585,433 |

Effective July 1, 2008, certain debt securities held by LFB with a carrying value of \$236,999, which were previously designated as trading securities were re-designated as available-for-sale securities as permitted under SFAS No. 115. Such re-designation represents a non-cash transaction between trading and available-for-sale securities. During the three month period ended September 30, 2008, the Company recorded markdowns of \$15,934 related to such re-designated debt securities, which are included in accumulated other comprehensive income (loss) .

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

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

Equities principally represent the Company's investments in marketable equity securities either held directly or indirectly through asset management funds and are either designated as trading securities under SFAS No. 115 or accounted for pursuant to broker-dealer accounting guidelines depending upon the entity in which such equities are held.

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 administration and the evolving situation and proceedings expose Lazard to possible loss due to counterparty credit and other risk. We have fully reserved the entire amount of such possible loss as of September 30, 2008. We are actively seeking recovery of all amounts.

Interests in LAM alternative asset management funds represent (i) general partnership ( GP ) interests owned by Lazard in LAM-managed hedge funds and (ii) GP interests consolidated by Lazard pertaining to minority interests in LAM alternative asset management funds. Such minority interests represent GP interests held directly by certain of our LAM managing directors or employees of the Company but controlled by Lazard. The associated minority interest is included in minority interest on the condensed consolidated statements of financial condition (see Note 6 of Notes to Condensed Consolidated Financial Statements).

Private equity investments are comprised of investments in private equity funds and direct private equity interests.

Equity method investments include investments made in the first quarter of 2008 in Sapphire Industrials Corp. ( Sapphire ) (see Note 11 of Notes to Condensed Consolidated Financial Statements) and Merchant Bankers Asociados, an Argentina-based financial advisory services firm with offices across Central and South America and the parent company of MBA Banco de Inversiones.

The table below represents the fair values of the Company's derivative assets and liabilities, which may include interest rate swaps, foreign exchange rate contracts and equity swaps, and are reported within other assets and other liabilities on the accompanying condensed consolidated statements of financial condition, respectively, as of September 30, 2008 and December 31, 2007:

|  | September 30,<br>2008 | December 31,<br>2007 |
|--|-----------------------|----------------------|
|--|-----------------------|----------------------|

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|                              |          |         |
|------------------------------|----------|---------|
| Total derivative assets      | \$19,993 | \$9,840 |
| Total derivative liabilities | \$11,120 | \$4,488 |



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

In accordance with SFAS No. 157, 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. Lazard's Level 3 assets primarily consist of private equity investments that are valued, in the absence of observable market prices, initially at cost, which is subsequently adjusted for additional capital raising transactions such as the issuance of new member interests or through a sale of existing equity to a third party or other events that are indicative of fair value. In the absence of third party transactions, the carrying value of such investments may be adjusted if it is determined that the expected realizable value of the investment differs from the carrying value. In reaching that determination, consideration is given to many factors including, but not limited to, the operating cash flows and financial performance of the investee, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features, liquidation preferences or restrictions. With respect to the majority of private equity investments, Lazard utilizes information derived from fund managers for the determination of such fair values.

The following table presents Lazard's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2008.

|   | Fair Value Measurements on a Recurring Basis |            |         |            |
|---|--|------------|---------|------------|
|   | Level 1                                      | Level 2    | Level 3 | Total      |
| <b>Assets:</b>                                      |  |            |         |            |
| Investments:  |  |            |         |            |
| Debt  | \$ 57,667                                    | \$ 320,562 | \$      | \$ 378,229 |
| Equities  | 94,110                                       | 14,430     | 3,476   | 112,016    |
| Other (excluding equity method investments):        |  |            |         |            |
| Interest in LAM alternative asset management funds: |  |            |         |            |
| GP interests owned by Lazard                        |  | 40,963     |         | 40,963     |
| GP interests consolidated by Lazard                 |  | 34,962     |         | 34,962     |
| Private equity investments                          |  |            | 93,778  | 93,778     |

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|                                   |                   |                   |                  |                   |        |
|-----------------------------------|-------------------|-------------------|------------------|-------------------|--------|
| Derivatives                       |                   |                   | 19,993           |                   | 19,993 |
| <b>Total Assets</b>               | <b>\$ 151,777</b> | <b>\$ 430,910</b> | <b>\$ 97,254</b> | <b>\$ 679,941</b> |        |
| <b>Liabilities:</b>               |                   |                   |                  |                   |        |
| Securities sold not yet purchased | \$ 7,485          | \$                | \$               | \$ 7,485          |        |
| Derivatives                       |                   |                   | 11,120           |                   | 11,120 |
| <b>Total Liabilities</b>          | <b>\$ 7,485</b>   | <b>\$ 11,120</b>  | <b>\$</b>        | <b>\$ 18,605</b>  |        |

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

The following table provides a summary of changes in fair value of Lazard's Level 3 assets and liabilities for the three month and nine month periods ended September 30, 2008.

|                             | <b>Level 3 Assets and Liabilities</b>                      |  |   |   |                           |
|-----------------------------|--|--|---|---|---------------------------|
|                             | <b>For the Three Month Period Ended September 30, 2008</b> |  |   |   |                           |
|                             | <b>Beginning<br/>Balance</b>                               | <b>Unrealized/<br/>Realized<br/>Gains (Losses)<br/>Included In<br/>Other<br/>Revenue</b> | <b>Net<br/>Purchases,<br/>Issuances<br/>and<br/>Settlements</b> | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Ending<br/>Balance</b> |
| <b>Level 3 Assets:</b>      |  |  |   |   |                           |
| Investments:                |  |  |   |   |                           |
| Equities                    | \$ 4,465   | \$ (372)   | \$ (226)  | \$ (391)  | \$ 3,476                  |
| Private equity investments  | 96,055   | (920)  | 3,020   | (4,377)   | 93,778                    |
| <b>Total Level 3 Assets</b> | <b>\$ 100,520</b>  | <b>\$ (1,292)</b>  | <b>\$ 2,794</b>   | <b>\$ (4,768)</b>   | <b>\$ 97,254</b>          |

|                             | <b>Level 3 Assets and Liabilities</b>                     |  |   |   |                           |
|-----------------------------|---|--|---|---|---------------------------|
|                             | <b>For the Nine Month Period Ended September 30, 2008</b> |  |   |   |                           |
|                             | <b>Beginning<br/>Balance</b>                              | <b>Unrealized/<br/>Realized<br/>Gains (Losses)<br/>Included In<br/>Other<br/>Revenue</b> | <b>Net<br/>Purchases,<br/>Issuances<br/>and<br/>Settlements</b> | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustments</b> | <b>Ending<br/>Balance</b> |
| <b>Level 3 Assets:</b>      |   |  |   |   |                           |
| Investments:                |   |  |   |   |                           |
| Equities                    | \$ 4,469  | \$ (411)   | \$ (492)  | \$ (90)   | \$ 3,476                  |
| Private equity investments  | 74,051  | 1,001  | 21,054  | (2,328)   | 93,778                    |
| <b>Total Level 3 Assets</b> | <b>\$ 78,520</b>  | <b>\$ 590</b>  | <b>\$ 20,562</b>  | <b>\$ (2,418)</b>   | <b>\$ 97,254</b>          |

There were realized gains of \$801 included in income during the three month and nine month periods ended September 30, 2008 with respect to Level 3 assets and liabilities.

**6. MINORITY INTEREST**

As of September 30, 2008 and December 31, 2007, LAZ-MD Holdings LLC ( LAZ-MD Holdings ), an entity owned by Lazard Group's historical managing directors, held approximately 37.8% and 51.7%, respectively, of the outstanding Lazard Group common membership interests. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd Class B common stock which provided LAZ-MD Holdings with approximately 37.8% and 51.7% of the voting power but no economic rights in Lazard Ltd at September 30, 2008 and December 31, 2007, 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 ).

The Company records either a charge or (credit) to minority interest in net income (loss) relating to LAZ-MD Holdings' ownership interest in Lazard Group with such minority interest in net income (loss) amounting to \$(57,899) and \$(15,596) for the three month and nine month periods ended September 30, 2008, respectively, and \$47,512 and \$116,361 for the three month and nine month periods ended September 30, 2007, respectively. At September 30, 2008, the balance of such minority interest, \$63,059, is classified within minority interest in the

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accompanying condensed consolidated statement of financial condition. At December 31, 2007, the Company classified 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 a minority interest since the balance of such minority interest, (\$14,120), was negative. See Note 12 of Notes to Condensed Consolidated Financial Statements with respect to distributions paid to LAZ-MD Holdings.

The following table summarizes the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings subsequent to January 1, 2007, including information for the nine month periods ended September 30, 2008 and 2007:

|  | Lazard Ltd                        |                | LAZ-MD Holdings                   |                | Total<br>Lazard<br>Group<br>Common<br>Membership<br>Interests |
|--|-----------------------------------|----------------|-----------------------------------|----------------|---|
|  | Common<br>Membership<br>Interests | %<br>Ownership | Common<br>Membership<br>Interests | %<br>Ownership |   |
| Balance, January 1, 2007   | 51,554,068                        | 47.9%          | 56,098,448                        | 52.1%          | 107,652,516   |
| Activity January 1, 2007 to September 30, 2007:  |                                   |                |                                   |                |   |
| Repurchase of common membership interests from LAZ-MD Holdings   |                                   |                | (583,899)                         |                | (583,899)   |
| Exchanges of common membership interests for Class A common stock  | 191,757                           |                | (191,757)                         |                |   |
| Balance, September 30, 2007  | 51,745,825                        | 48.3%          | 55,322,792                        | 51.7%          | 107,068,617   |
| Balance, January 1, 2008 (*)   | 51,745,825                        | 48.3%          | 55,322,792                        | 51.7%          | 107,068,617   |
| Activity January 1, 2008 to September 30, 2008:  |                                   |                |                                   |                |   |
| Exchanges of common membership interests for Class A common stock  | 2,645,046                         |                | (2,645,046)                       |                |   |
| Common membership interests issued in connection with the settlement of the purchase contracts related to the ESUs (see Note 10) | 14,582,750                        |                |                                   |                | 14,582,750  |
| Common membership interests issued in connection with acquisitions (see Note 8)  | 634,059                           |                |                                   |                | 634,059   |
| Common membership interests exchanged in connection with the secondary offering (see Note 12)                                    | 6,401,531                         |                | (6,401,531)                       |                |   |
| Repurchase of common membership interests from LAZ-MD Holdings   |                                   |                | (71,852)                          |                | (71,852)  |
| Balance, September 30, 2008  | 76,009,211                        | 62.2%          | 46,204,363                        | 37.8%          | 122,213,574   |

(\*) There were no changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings in the three month period ended December 31, 2007.

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Minority interest also includes minority interests in various LAM-related GP interests that the Company controls but does not wholly own. As a result of consolidating these entities, the Company recognizes the portion of income not associated with the Company's ownership as minority interest. At December 31, 2007, minority interest also includes minority interests in LAM (see Note 7 of Notes to Condensed Consolidated Financial Statements).

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**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**7. LAM MERGER TRANSACTION**

On September 25, 2008, pursuant to a definitive merger agreement dated August 14, 2008, the Company, LAM and Laz Sub I, LLC, a newly formed subsidiary of LFNy, completed the merger of Laz Sub I, LLC with and into LAM (the LAM Merger). Lazard's after-tax income was reduced by \$108,628 in connection with the LAM Merger, consisting of compensation and benefits expense of \$197,550 related to the equity interests of LAM held by present and former employees of LAM, as described below, and \$2,000 of non-compensation-related transaction costs (together aggregating to a reduction of operating income of \$199,550), with these charges partially offset by income tax and minority interest credits of \$7,427 and \$83,495, respectively. In addition, the LAM Merger is expected to result in annual pre-tax charges of approximately \$7,000 per year through October 31, 2011.

The common equity interests of LAM were held by LFNy and certain other equity interests of LAM, representing contingent payments should a fundamental transaction occur, as described below, 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. As more fully discussed in the Company's Form 10-K, the equity interests of LAM that were held, prior to the LAM Merger, by present and former employees of LAM and its subsidiaries (and certain related phantom rights issued as incentive compensation) entitled the holders to payments totaling approximately 23% of the net proceeds or imputed valuation of LAM (after deductions for payments to creditors of LAM and the return of capital in LAM) in connection with certain specified fundamental transactions concerning LAM or Lazard, including a sale of LAM or Lazard, certain non-ordinary course asset sales and major acquisitions.

The aggregate non-contingent consideration to be paid as part of the LAM Merger with respect to the equity interests of LAM (and the phantom rights referred to above) held by present and former employees of LAM and its subsidiaries (the Transaction Consideration) consists of (i) a cash payment on or about the closing of the LAM Merger (and, in certain cases, on January 2, 2009) of \$60,232, (ii) a cash payment on October 31, 2011 of \$90,348 and (iii) an issuance on October 31, 2011 of 2,201,457 shares of our Class A common stock (plus additional shares of Class A common stock in an amount determined by reference to the cash dividends paid on our Class A common stock since the closing of the LAM Merger, if any), subject, in the case of clause (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 the Company 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 cash consideration have been recorded in accrued compensation and benefits and other liabilities, in the amounts of \$23,322 and \$108,423, respectively.

**8. BUSINESS ACQUISITIONS**

On August 13, 2007, Lazard Group acquired all of the outstanding ownership interests of Goldsmith, Agio, Helms & Lynner, LLC (GAHL), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies. On July 31, 2007, Lazard Ltd acquired all of the outstanding shares of Carnegie, Wylie & Company (Holdings) PTY LTD (CWC), an Australia-based financial advisory firm, and concurrently sold such investment to Lazard Group. These purchases were effected through an exchange of a combination of cash, Class A

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common stock, and by Lazard Ltd issuing 36,607 shares of non-participating convertible Series A preferred stock and 277 shares of non-participating convertible Series B preferred stock (the Series A preferred stock and Series B preferred stock, respectively, which are or were each convertible into Class A common stock). The total



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number of Class A common shares to be issued in connection with the acquisitions will depend, in part, upon the future performance of each of GAHL and CWC. See Note 12 of Notes to the Condensed Consolidated Financial Statements for additional information regarding the Series A preferred stock and Series B preferred stock.

The aggregate non-contingent consideration relating to the GAHL and the CWC acquisitions (before transaction costs) consisted of cash and Lazard Ltd stock and aggregated approximately \$216,200 and \$206,900 as of September 30, 2008 and December 31, 2007, respectively. At September 30, 2008 and December 31, 2007, 981,392 and 815,558 shares of Class A common stock were issuable on a non-contingent basis, respectively. Additionally, at September 30, 2008 and December 31, 2007, 7,523 and 12,155 shares of Series A preferred stock, respectively, and, at December 31, 2007, 277 shares of Series B 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 September 30, 2008 and December 31, 2007, 960,263 and 1,329,987 shares of Class A common stock, respectively, were contingently issuable and 24,452 shares of Series A preferred stock were contingently convertible into shares of Class A common stock as of each respective date, dependent upon the future performance of GAHL and CWC. A substantial portion of any contingent consideration will represent goodwill, and would be recognized in the periods through March 31, 2012, when all of such contingencies should have been resolved. The operating results related to the acquisitions described above are primarily included in the Company's Financial Advisory segment.

The Class A common stock payable as consideration for the GAHL and CWC acquisitions is issuable over multi-year periods.

**9. GOODWILL AND OTHER INTANGIBLE ASSETS**

The components of goodwill and other intangible assets at September 30, 2008 and December 31, 2007, which primarily pertain to the Company's Financial Advisory segment, are described below.

|   | <b>September 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|-------------------------------|------------------------------|
| Goodwill  | \$ 181,024                    | \$ 178,446                   |
| Other intangible assets (net of accumulated amortization) | 5,211                         | 9,463                        |
|   | <b>\$ 186,235</b>             | <b>\$ 187,909</b>            |

Changes in the carrying amount of goodwill for the nine month periods ended September 30, 2008 and 2007 are as follows:

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|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2008</b>              | <b>2007</b> |
| Balance, January 1   | \$ 178,446               | \$ 16,945   |
| Business acquisitions (additional contingent consideration earned) | 9,282                    | 153,474     |
| Foreign currency translation adjustments                           | (6,704)                  | 726         |
| Balance, September 30  | \$ 181,024               | \$ 171,145  |

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## LAZARD LTD

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

The gross cost and accumulated amortization as of September 30, 2008 and December 31, 2007, by major intangible asset category, is as follows:

|  | September 30, 2008 |                          |                     | December 31, 2007 |                          |                     |
|--|--------------------|--------------------------|---------------------|-------------------|--------------------------|---------------------|
|  | Gross Cost         | Accumulated Amortization | Net Carrying Amount | Gross Cost        | Accumulated Amortization | Net Carrying Amount |
| Success fee contracts  | \$ 23,969          | \$ 23,969                | \$                  | \$ 23,969         | \$ 20,783                | \$ 3,186            |
| Management fees, customer relationships and non-compete agreements | 7,017              | 1,806                    | 5,211               | 7,017             | 740                      | 6,277               |
|  | \$ 30,986          | \$ 25,775                | \$ 5,211            | \$ 30,986         | \$ 21,523                | \$ 9,463            |

Amortization expense of intangible assets for the three month and nine month periods ended September 30, 2008 was \$507 and \$4,252, respectively. For each of the three month and nine month periods ended September 30, 2007, such charges amounted to \$18,156. Estimated future amortization expense is as follows:

| Year Ending December 31,             | Amortization Expense |
|--------------------------------------|----------------------|
| 2008 (October 1 through December 31) | \$ 344               |
| 2009                                 | 1,272                |
| 2010                                 | 1,127                |
| 2011                                 | 903                  |
| 2012                                 | 511                  |
| Thereafter                           | 1,054                |
| Total amortization expense           | \$ 5,211             |

**10. SENIOR AND SUBORDINATED DEBT**

**Senior Debt** Senior debt is comprised of the following as of September 30, 2008 and December 31, 2007:

Outstanding As Of

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|                                     | <b>Principal<br/>Amount</b> | <b>Maturity<br/>Date</b> | <b>Annual<br/>Interest<br/>Rate</b> | <b>September 30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-------------------------------------|-----------------------------|--------------------------|-------------------------------------|-------------------------------|------------------------------|
| Lazard Group 7.125% Senior Notes(a) | \$ 550,000                  | 2015                     | 7.125%                              | \$ 550,000                    | \$ 550,000                   |
| Lazard Group 6.12% Senior Notes(b)  | 437,500                     | 2008                     | 6.12%                               |                               | 437,500                      |
| Lazard Group 6.85% Senior Notes(c)  | 600,000                     | 2017                     | 6.85%                               | 600,000                       | 600,000                      |
| Lazard Group Credit Facility(d)     | 150,000                     | 2010                     | 4.50%                               |                               |                              |
| <b>Total</b>                        |                             |                          |                                     | <b>\$ 1,150,000</b>           | <b>\$ 1,587,500</b>          |

- (a) Concurrent with Lazard Ltd's equity public offering on May 10, 2005, Lazard Group issued, in a private placement, \$550,000 aggregate principal amount of 7.125% senior notes due May 15, 2015. On October 31, 2005, pursuant to an exchange offer, Lazard Group exchanged \$546,000 in aggregate principal amount of its privately placed 7.125% senior notes for \$546,000 in aggregate principal amount of its 7.125% senior notes (the "7.125% exchange notes") that were registered under the Securities Act of 1933, as amended (the "Securities Act"). The 7.125% exchange notes are substantially identical to the privately placed 7.125% senior notes, except that the transfer restrictions applicable to the privately placed 7.125% senior notes do not apply to the 7.125% exchange notes.

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In connection with the issuance of the Lazard Group 7.125% 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 to ensure that the base rate (excluding market-driven credit spreads) on the Lazard Group 7.125% 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 SFAS No. 133, \$11,003 was deemed to be the effective portion of the hedge and has been recorded within accumulated other comprehensive income (loss), net of tax and is being amortized as a charge to interest expense over the ten year term of the Lazard Group 7.125% exchange notes.

- (b) Concurrently with Lazard Ltd's equity public offering on May 10, 2005, Lazard Ltd consummated an initial offering of equity security units (the ESUs) in an aggregate offering amount of \$287,500. In addition, on May 10, 2005, Lazard Ltd issued \$150,000 aggregate principal amount of ESUs to Natixis, an affiliate of Caisse Nationale des Caisses d'Epargne. Each ESU was issued for \$25 and consisted of (i) a purchase contract (the purchase contract) which obligated holders to purchase, and Lazard Ltd to sell, on May 15, 2008, a number of newly issued shares of Class A common stock equal to a settlement rate (the settlement rate) based on the trading price of its Class A common stock during a period preceding that date and (ii) a 1/40, or 2.5%, ownership interest in a 6.12% senior note due 2035 of Lazard Group (the 6.12% Senior Notes).

The terms of the ESUs provided for a remarketing of the 6.12% Senior Notes which commenced on May 2, 2008 (the remarketing). In connection with the remarketing, on May 15, 2008 (i) \$437,488 aggregate principal amount of the 6.12% Senior Notes was purchased by Lazard Group, (ii) the stated maturity of the 6.12% Senior Notes was reset to May 15, 2010 and (iii) the interest rate on the 6.12% Senior Notes was reset to 4.00% per annum. The \$12 aggregate principal amount of the 6.12% Senior Notes remaining outstanding has been reclassified to other liabilities on the condensed consolidated statement of financial condition at September 30, 2008.

On May 15, 2008, the purchase contracts were settled at the settlement rate and, in connection therewith, Lazard Ltd issued 14,582,750 shares of its Class A common stock. This resulted in an increase in Class A common stock and additional paid-in-capital of \$146 and \$437,354, respectively.

- (c) On June 21, 2007, Lazard Group completed a private placement of \$600,000 aggregate principal amount of 6.85% senior notes due June 15, 2017. On August 16, 2007, pursuant to an exchange offer, Lazard Group exchanged \$599,300 in aggregate principal amount of its privately placed 6.85% senior notes for \$599,300 in aggregate principal amount of 6.85% senior notes (the 6.85% exchange notes) that were registered under the Securities Act. The 6.85% exchange notes are substantially identical to the privately placed 6.85% senior notes, except that the transfer restrictions applicable to the privately placed 6.85% senior notes do not apply to the 6.85% exchange notes.
- (d) Lazard Group maintains a \$150,000 senior revolving credit facility with a group of lenders. Interest rates under the credit facility vary and are based on either a Federal Funds rate or a Eurodollar rate, in each case plus an applicable margin. As of September 30, 2008 and December 31, 2007, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 4.50% and 5.75%, respectively. At September 30, 2008 and December 31, 2007, no amounts were outstanding under the Lazard Group credit facility.

**Subordinated Debt** Subordinated debt at September 30, 2008 and December 31, 2007 amounted to \$150,000 at both dates and arose in connection with the termination of a strategic alliance transaction in Italy on May 15, 2006. The amount outstanding consists of an amended

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\$150,000 subordinated convertible note that is convertible into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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\$57 per share. The \$150,000 subordinated convertible note matures on September 30, 2016 and has a fixed interest rate of 3.25% per annum. One third in principal amount became convertible after July 1, 2008, an additional one third after July 1, 2009 and the last one third after July 1, 2010, and no principal amount will be convertible after June 30, 2011. As of September 30, 2008, there have been no conversions of the \$150,000 subordinated convertible note.

As of September 30, 2008 and December 31, 2007, the Company was in compliance with all obligations under its various senior and subordinated borrowing arrangements.

**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 September 30, 2008, aggregate to \$22,950. These managing directors have pledged their interests in LAZ-MD Holdings (which are exchangeable into shares of Class A common stock) and unsold shares of Class A common stock received in exchange for such interests to collateralize such guarantee, 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 September 30, 2008, LFB had \$11,885 of such indemnifications and held \$9,363 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 condensed consolidated statement of financial condition.

**Other Commitments** In the normal course of business, LFB enters into commitments to extend credit, predominately at variable interest rates. The commitments have an expiration date and, once drawn upon, may require the counterparty to post collateral depending on the counterparty's creditworthiness. Outstanding commitments at September 30, 2008 were \$11,239. This amount may not represent future cash requirements as commitments may expire without being drawn upon.

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On January 24, 2008, Sapphire, a newly organized special purpose acquisition company formed by Lazard Funding Limited LLC ( Lazard Funding ), a wholly-owned subsidiary of Lazard Group, completed an initial public offering which, prior to offering costs, raised \$800,000 through the sale of 80,000,000 units at an offering price of \$10.00 per unit (the Sapphire IPO ). Each unit consists of one share of Sapphire common stock and one warrant, with such warrant entitling the holder to purchase one share of Sapphire common stock for \$7.00.

Sapphire was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more operating businesses, primarily with general industrial companies in North America (collectively referred to as the Initial Business Combination ).

In connection with the formation of Sapphire, Lazard Funding purchased from Sapphire 15,144,000 units ( founders units ) at a total cost of approximately \$95. Each founders unit consists of one share of Sapphire common stock and one warrant, with such warrant entitling the holder to purchase one share of Sapphire



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common stock for \$7.50. On January 24, 2008, in connection with the Sapphire IPO, Lazard Funding purchased (i) 5,000,000 units in the Sapphire IPO at a purchase price equal to the public offering price of \$10.00 per unit (for an aggregate purchase price of \$50,000), and (ii) an aggregate of 12,500,000 warrants from Sapphire at a price of \$1.00 per warrant (for a total purchase price of \$12,500). Furthermore, Lazard Funding entered into an agreement with the underwriter to purchase, subsequent to the Sapphire IPO and prior to the closing of the Initial Business Combination, up to an additional \$37,500 worth of Sapphire common shares in open market purchases.

In connection with the Sapphire IPO, and pursuant to certain rights afforded LFCM Holdings LLC ( LFCM Holdings ) under the business alliance agreement, dated as of May 10, 2005, between Lazard Group and LFCM Holdings ( the business alliance agreement ), Lazard Funding offered Corporate Partners II Limited, a private equity fund formed by Lazard Group, the right, through the date of a public announcement of the Initial Business Combination, to purchase from Lazard Funding, at a cost of \$10.00 per unit, up to 2,000,000 Sapphire units (for an aggregate purchase price of up to \$20,000).

Our investment in Sapphire is being accounted for using the equity method of accounting and is included in investments other on the accompanying condensed consolidated statement of financial condition as of September 30, 2008.

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

**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 in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses. The Company reviews such matters on a case by case basis and establishes any required reserves in accordance with SFAS No. 5, *Accounting For Contingencies*. Management believes, based on currently available 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.

In 2004, we received a request for information from the NASD as part of an industry investigation relating to gifts and gratuities, which was focused primarily on the Company's former Capital Markets business, which business was transferred to LFCM Holdings as a part of the separation from Lazard Group on May 10, 2005. In addition, the Company received requests for information from various legal and regulatory authorities seeking information concerning gifts and entertainment involving an unaffiliated mutual fund company, which were also focused on that same business. On October 30, 2008, Lazard Capital Markets LLC ( LCM ), a wholly-owned, subsidiary of LFCM Holdings, entered into a settlement agreement with the SEC relating to this matter.

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On September 8, 2008, an action was commenced in the Federal District Court for the Southern District of New York by Leslie Dick Worldwide, Ltd. and Leslie Dick arising out of the bankruptcy of Conseco Inc. The lawsuit names as defendants: George Soros, Soros Fund Management LLC, SFM Management LLC, Conseco Inc., Vornado Realty Trust, German American Capital Corp., Deutsche Bank AG, EastDil Secured LLC, Harry Macklowe, Fortress Investment Group LLC, Cerberus Capital Management, Kirkland & Ellis LLP, Fried, Frank, Harris, Shriver & Jacobson LLP, Carmel Fifth LLC, 767 Manager LLC, Donald J. Trump and LFNY. The complaint alleges RICO and antitrust violations by defendants in connection with the sale of Conseco's assets, including the General Motors Building. Lazard believes that the lawsuit is without merit and does not state any

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legally actionable claim against LFNY for any matter, including the court-authorized professional services LFNY rendered to Conseco. The plaintiffs previously sued, and lost, on a similar claim arising out of the same set of alleged facts in New York State court, resulting in a dismissal of his complaint by the state trial court and affirmance of that dismissal by the appellate court. LFNY was not named as a defendant in that state court action. LFNY may be indemnified by Conseco against any expenses, losses or damages that LFNY may incur in relation to this federal court action. Lazard intends to defend the lawsuit vigorously and will seek to have the claims against LFNY dismissed at the earliest opportunity.

**12. STOCKHOLDERS EQUITY**

At September 30, 2008 and 2007, Lazard Group common membership interests held by subsidiaries of Lazard Ltd amounted to 62.2% and 48.3%, respectively, and by LAZ-MD Holdings amounted to 37.8% and 51.7%, 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 nine month periods ended September 30, 2008 and 2007, Lazard Group distributed \$16,100 and \$15,077, respectively, to LAZ-MD Holdings and \$16,184 and \$13,812, 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 nine month periods ended September 30, 2008 and 2007, Lazard Group made tax distributions of \$83,358 and \$103,839, respectively, including \$39,205 and \$57,197, respectively, paid to LAZ-MD Holdings and \$44,153 and \$46,642 respectively, paid to subsidiaries of Lazard Ltd.

On May 12, 2008 and August 7, 2008, Lazard Ltd issued 2,321,909 shares and 323,137 shares of Class A common stock, respectively, in connection with the exchange of a like number of common membership interests of Lazard Group held by certain members of LAZ-MD Holdings.

As described in more detail in Note 10 of Notes to Condensed Consolidated Financial Statements, on May 15, 2008 the Company issued 14,582,750 shares of its Class A common stock in connection with the settlement of the purchase contracts related to the ESUs.

On October 28, 2008, the Board of Directors of Lazard Ltd declared a quarterly dividend of \$0.10 per share on its Class A common stock, totaling approximately \$7,603, payable on November 28, 2008 to stockholders of record on November 7, 2008.

Pursuant to a Prospectus Supplement dated September 3, 2008, certain selling shareholders (the Selling Shareholders) of Lazard Ltd (which include current and former managing directors who hold LAZ-MD Holdings exchangeable interests and/or Class A common stock) offered to sell 6,442,721 shares of Class A common stock pursuant to an underwriting agreement and pricing agreement. Lazard Ltd did not receive any

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net proceeds from the sales of such common stock.

Pursuant to the underwriting agreement and the pricing agreement, the underwriters had the option to purchase up to an additional 715,858 shares of Class A common stock from the Selling Shareholders (together with the offering of 6,442,721 shares of Class A common stock by the Selling Shareholders, the Offering ). To the extent that this option was not exercised in full, Lazard Group agreed to separately purchase from the Selling

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Shareholders, at the public offering price less the underwriting discount, all of those shares covered by the option and not purchased pursuant to the option. Pursuant to that separate purchase agreement, Lazard Group purchased 68,238 shares of Class A common stock for an aggregate cost of \$2,430 (\$35.61 per share). In addition, pursuant to the underwriting agreement, Lazard Group also separately purchased 715,858 shares of Class A common stock from the Selling Shareholders for an aggregate cost of \$25,493 (\$35.61 per share). The shares of Class A common stock described in this paragraph purchased by Lazard Group were purchased as part of the share repurchase program described below. In the aggregate, the Selling Shareholders sold a total of 7,874,437 shares of Class A common stock (including 1,472,906 shares of Class A common stock previously exchanged for LAZ-MD Holdings exchangeable interests).

LCM was a member of the underwriting group for the Offering, and, in such capacity, earned revenue, net of estimated underwriting expenses, of approximately \$1,581. The business alliance agreement provides for Lazard Group to receive a referral fee equal to approximately half of the net revenue obtained by LCM in respect of any underwriting or distribution opportunity referred to it by Lazard Group. Due to this referral arrangement, as of September 30, 2008 Lazard Group has recorded a receivable from LCM of approximately \$790, and a corresponding amount recorded in other revenue in the three month period ended September 30, 2008. See Note 16 of Notes to Condensed Consolidated Financial Statements for additional information regarding the business alliance agreement.

A description of Lazard Ltd's 2005 Equity Incentive Plan (the Equity Incentive Plan) and 2008 Incentive Compensation Plan (the 2008 Plan), and activity with respect thereto during the nine month periods ended September 30, 2008 and 2007, is presented below.

***Shares Available Under the Equity Incentive Plan and 2008 Plan***

The Equity Incentive 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 Equity Incentive 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 Equity Incentive 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 of Lazard Ltd (treating, for this purpose, the then-outstanding exchangeable interests of LAZ-MD Holdings on a fully-exchanged basis as described in the Equity Incentive Plan).

*Restricted Stock Unit Grants ( RSUs )*

RSUs require future service as a condition for the delivery of the underlying shares of Class A common stock and convert into Class A common stock on a one-for-one basis after the stipulated vesting periods. The fair value of the RSUs, net of an estimated forfeiture rate, is amortized over the vesting periods or requisite service periods as required under SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS No. 123R ), and, for

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purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. Expense relating to RSUs is charged to compensation and benefits expense within the condensed consolidated statements of operations, and amounted to \$65,514 and \$177,844 for the three month and nine month periods ended September 30, 2008, respectively, and \$27,032 and \$75,025 for the three month and nine month periods ended September 30, 2007, respectively. RSUs issued subsequent to December 31, 2005 generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any ordinary quarterly dividends paid on Class A common stock during such period. During the nine month period ended September 30, 2008, dividend participation rights resulted in a charge to retained earnings and a credit to additional paid-in-capital, net of estimated forfeitures, of \$5,159.

During the nine month period ended September 30, 2008, 729,328 RSUs vested. In connection therewith, and after considering the withholding tax obligations pertaining thereto, 618,977 shares of Class A common stock held by Lazard Group were delivered.

***Deferred Stock Unit Grants ( DSUs )***

Non-executive members of the Board of Directors receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs. 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. 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. 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 \$187 and \$1,254 during the three month and nine month periods ended September 30, 2008, respectively, and \$38 and \$783 during the three month and nine month periods ended September 30, 2007, respectively.

The following is a summary of activity relating to RSUs and DSUs during the nine month periods ended September 30, 2007 and 2008:

|  | RSUs      |   | DSUs   |   |
|--|-----------|---|--------|---|
|  | Units     | Weighted<br>Average<br>Grant Date<br>Fair Value | Units  | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Balance, January 1, 2007   | 4,009,382 | \$ 32.13  | 19,690 | \$ 35.71  |
| Granted (including 41,595 RSUs relating to dividend participation) | 5,621,605 | \$ 49.49  | 14,747 | \$ 53.10  |
| Forfeited  | (255,614) | \$ 40.01  |        |   |
| Vested/Converted   | (1,195)   | \$ 37.80  |        |   |

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|                             |           |    |       |        |    |       |
|-----------------------------|-----------|----|-------|--------|----|-------|
| Balance, September 30, 2007 | 9,374,178 | \$ | 42.33 | 34,437 | \$ | 43.16 |
|-----------------------------|-----------|----|-------|--------|----|-------|



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|   | RSUs       |   | DSUs    |   |
|---|------------|---|---------|---|
|   |            | Weighted<br>Average<br>Grant Date<br>Fair Value |         | Weighted<br>Average<br>Grant Date<br>Fair Value |
|   | Units      |   | Units   |   |
| Balance, January 1, 2008  | 9,507,935  | \$ 42.35  | 35,310  | \$ 43.16  |
| Granted (including 145,966 RSUs relating to dividend participation) | 13,653,186 | \$ 37.31  | 32,825  | \$ 38.22  |
| Forfeited   | (434,970)  | \$ 40.10  |         |   |
| Vested/Converted  | (729,328)  | \$ 38.10  | (5,839) | \$ 38.28  |
| Balance, September 30, 2008   | 21,996,823 | \$ 39.40  | 62,296  | \$ 41.01  |

As of September 30, 2008, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately \$507,240, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 2.4 years subsequent to September 30, 2008. 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.

**Share Repurchase Program**

Through September 30, 2008, the Board of Directors of Lazard Ltd has authorized on a cumulative basis the repurchase of up to \$500,000 in aggregate cost of its Class A common stock and Lazard Group common membership interests through December 31, 2009. The Company expects that the share repurchase program, with respect to the Class A common stock, will be used primarily to offset a portion of the shares that have been or will be issued under the Equity Incentive Plan and the 2008 Plan. Class A common shares repurchased by Lazard Group are reported, at cost, as Class A common stock held by a subsidiary on the condensed consolidated statements of financial condition. Purchases may be made in the open market or through privately negotiated transactions. During the nine month period ended September 30, 2008 (including the shares purchased separately from, but in connection with, the Offering described above), Lazard Group purchased 5,734,413 shares of Class A common stock at an average price of \$36.51 per share and 71,852 Lazard Group common membership interests at an average price of \$35.61 per common membership interest.

As of September 30, 2008, \$194,017 of the initial \$500,000 remained available under the share repurchase program.

*Preferred Stock*

Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value \$0.01 per share, inclusive of its Series A preferred stock and Series B preferred stock. As of September 30, 2008 and December 31, 2007, 31,975 and 36,607 shares of Series A preferred stock were outstanding, respectively. As of December 31, 2007, 277 shares of Series B preferred stock were outstanding. Such shares were issued in connection with the acquisition of CWC as described in Note 8 of Notes to the Condensed Consolidated Financial Statements. These shares of preferred stock have no voting or dividend rights.

At September 30, 2008, 7,523 of the Series A preferred shares outstanding were convertible into shares of Class A common stock. At December 31, 2007, the 277 shares of Series B preferred stock and 12,155 shares of

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**(UNAUDITED)**

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

the Series A preferred stock outstanding were convertible into shares of Class A common stock. The remaining 24,452 shares of Series A preferred stock outstanding at September 30, 2008 and December 31, 2007 may be convertible into shares of Class A common stock upon completion or satisfaction of specified obligations in the CWC acquisition agreement.

The initial conversion rate, at the time of the acquisition was 100 shares of Class A common stock to one share of Series A or Series B preferred stock, with the ultimate conversion rate dependent on certain variables, including the value of the Class A common stock, as defined, and the currency exchange rate on the date of conversion.

The Series A preferred stock and Series B preferred stock have been issued pursuant to Section 4(2) of the Securities Act of 1933 and Regulation S thereunder.

**13. NET INCOME (LOSS) PER SHARE OF CLASS A COMMON STOCK**

The Company's basic and diluted net income (loss) per share calculations for the three month and nine month periods ended September 30, 2008 and 2007 are computed as described below.

***Basic Net Income (Loss) Per Share***

*Numerator* utilizes net income (loss) for the three month and nine month periods ended September 30, 2008 and 2007, plus applicable adjustments to net income (loss) for such periods associated with the inclusion of shares of Class A common stock issuable in connection with both the LAM Merger and business acquisition, as described in Notes 7 and 8, respectively, of Notes to Condensed Consolidated Financial Statements.

*Denominator* utilizes the weighted average number of shares of Class A common stock outstanding for the three month and nine month periods ended September 30, 2008 and 2007, plus applicable adjustments to the weighted average number of shares of Class A common stock outstanding for such periods associated with shares of Class A common stock issuable in connection with the LAM Merger and business acquisition.

***Diluted Net Income (Loss) Per Share***

*Numerator* utilizes net income (loss) for the three month and nine month periods ended September 30, 2008 and 2007 as in the basic net income (loss) per share calculation described above, plus, to the extent applicable and dilutive, (i) interest expense on convertible debt and the ESUs, (ii) changes in minority interest in net income (loss) resulting from assumed share issuances in connection with DSUs, RSUs, ESUs, convertible debt, convertible preferred stock and, on an as-if-exchanged basis, amounts applicable to LAZ-MD Holdings exchangeable interests, and (iii) income tax related to (i) and (ii) above.

*Denominator* utilizes the weighted average number of shares of Class A common stock outstanding for the three month and nine month periods ended September 30, 2008 and 2007 as in the basic net income per share calculation described above, plus, to the extent dilutive, the incremental number of shares of Class A common stock to settle DSU and RSU awards, ESUs, convertible debt, convertible preferred stock and LAZ-MD Holdings exchangeable interests, using the treasury stock method, the if converted method or the as-if-exchanged method, as applicable.

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The calculations of the Company's basic and diluted net income (loss) per share and weighted average shares outstanding for the three month and nine month periods ended September 30, 2008 and 2007 are presented below:

|  | Three Months Ended September 30, |             | Nine Months Ended September 30, |            |
|--|----------------------------------|-------------|---------------------------------|------------|
|  | 2008                             | 2007        | 2008                            | 2007       |
| Net income (loss)  | \$(76,957)                       | \$40,267    | \$(34,841)                      | \$95,917   |
| Add - adjustment associated with Class A common stock issuable relating to the LAM Merger and business acquisition   | (492)                            | 173         | (95)                            | 173        |
| Net income (loss) - basic  | (77,449)                         | 40,440      | (34,936)                        | 96,090     |
| Add - dilutive effect of:  |                                  |             |                                 |            |
| Adjustments to income (loss) relating to interest expense and changes in minority interest in net income (loss) resulting from assumed share issuances in connection with DSUs, RSUs, ESUs, convertible debt, convertible preferred stock and LAZ-MD Holdings exchangeable interests, net of tax |                                  | 44,002      |                                 | 10,392     |
| Net income (loss) - diluted  | \$(77,449)                       | \$84,442    | \$(34,936)                      | \$106,482  |
| Weighted average number of shares of Class A common stock outstanding  | 64,781,787                       | 50,652,935  | 56,269,421                      | 51,177,043 |
| Add - adjustment for shares of Class A common stock issuable relating to the LAM Merger and business acquisition   | 1,220,262                        | 425,509     | 1,196,943                       | 141,836    |
| Weighted average number of shares of Class A common stock outstanding - basic  | 66,002,049                       | 51,078,444  | 57,466,364                      | 51,318,879 |
| Add - dilutive effect of:  |                                  |             |                                 |            |
| Weighted average number of incremental shares issuable from DSUs, RSUs, ESUs, convertible debt, convertible preferred stock and LAZ-MD Holdings exchangeable interests   |                                  | 65,266,212  |                                 | 10,560,148 |
| Weighted average number of shares of Class A common stock outstanding - diluted  | 66,002,049                       | 116,344,656 | 57,466,364                      | 61,879,027 |
| Net income (loss) per share of Class A common stock:   |                                  |             |                                 |            |
| Basic  | \$(1.17)                         | \$0.79      | \$(0.61)                        | \$1.87     |
| Diluted  | \$(1.17)                         | \$0.73      | \$(0.61)                        | \$1.72     |

**14. EMPLOYEE BENEFIT PLANS**

The Company, through its subsidiaries, provides retirement and other post-employment benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement benefit plans. The Company has the right to amend or terminate its benefit plans at any time subject to the terms of such plans. Expenses (benefits) related to the Company's employee benefit plans are included in compensation and benefits expense on the condensed consolidated statements of operations. The Company uses December 31 as the measurement date for its employee benefit plans.

**Employer Contributions to Pension Plans** The Company contributed approximately \$16,000 (8.2 million British pounds) in each of the nine month periods ended September 30, 2008 and 2007, in full satisfaction of its obligation to fund LCH's pension plans for the years ended December 31, 2008 and 2007, respectively. No other contributions to defined benefit plans were made by the Company during the nine month periods ended September 30, 2008 and September 30, 2007.

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The following tables summarize the components of net periodic benefit cost (credit) for the three month and nine month periods ended September 30, 2008 and 2007:

|  | Pension Plans |            | Pension Plan Supplement |       | Post-Retirement Medical Plans |          |
|--|---------------|------------|-------------------------|-------|-------------------------------|----------|
|  | 2008          | 2007       | 2008                    | 2007  | 2008                          | 2007     |
| <b>Components of Net Periodic Benefit Cost (Credit):</b> |               |            |                         |       |                               |          |
| Service cost   |               |            |                         |       | \$ 30                         | \$ 41    |
| Interest cost  | \$ 7,430      | \$ 6,684   | \$ 17                   | \$ 14 | 103                           | 108      |
| Expected return on plan assets                           | (8,580)       | (8,204)    |                         |       |                               |          |
| Amortization of:   |               |            |                         |       |                               |          |
| Prior service credit                                     |               |            |                         |       | (345)                         | (345)    |
| Net actuarial loss                                       | 94            | 95         |                         |       | 22                            | 146      |
| LCH post-retirement medical plan termination             |               |            |                         |       |                               | (96)     |
| Net periodic benefit cost (credit)                       | \$ (1,056)    | \$ (1,425) | \$ 17                   | \$ 14 | \$ (190)                      | \$ (146) |

|  | Pension Plans |            | Pension Plan Supplement |       | Post-Retirement Medical Plans |            |
|--|---------------|------------|-------------------------|-------|-------------------------------|------------|
|  | 2008          | 2007       | 2008                    | 2007  | 2008                          | 2007       |
| <b>Components of Net Periodic Benefit Cost (Credit):</b> |               |            |                         |       |                               |            |
| Service cost   |               |            |                         |       | \$ 88                         | \$ 124     |
| Interest cost  | \$ 22,935     | \$ 20,385  | \$ 50                   | \$ 43 | 309                           | 326        |
| Expected return on plan assets                           | (26,495)      | (25,014)   |                         |       |                               |            |
| Amortization of:   |               |            |                         |       |                               |            |
| Prior service credit                                     |               |            |                         |       | (1,036)                       | (1,036)    |
| Net actuarial loss                                       | 289           | 284        |                         |       | 66                            | 438        |
| LCH post-retirement medical plan termination             |               |            |                         |       | (198)                         | (1,683)    |
| Net periodic benefit cost (credit)                       | \$ (3,271)    | \$ (4,345) | \$ 50                   | \$ 43 | \$ (771)                      | \$ (1,831) |

**15. INCOME TAXES**

The Company's provision for income taxes for the three month and nine month periods ended September 30, 2008 and for the three month and nine month periods ended September 30, 2007 was \$8,304, \$31,254, \$28,284 and \$65,658, respectively, representing effective tax rates on operating income (loss) of (6.2)%, (107.9)%, 23.9% and 23.0%, respectively. Excluding the impact of the LAM Merger (see Note 7 of Notes to

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Condensed Consolidated Financial Statements), which served to reduce operating income by \$199,550 and includes an income tax benefit of \$7,427, the Company's effective tax rates on operating income for the three month and nine month periods ended September 30, 2008 would have been 24.3% and 22.7%, respectively. The effective tax rates above, after excluding the impact of the LAM Merger, are blended rates comprised of (i) Lazard Ltd's effective tax rates of 25% in the three month and nine month periods ended September 30, 2008 and 28% in the three month and nine month periods ended September 30, 2007, related to its ownership interest in Lazard Group's operating income (loss) (excluding its applicable share of LAM GP related gains and losses) and (ii) Lazard Group's effective tax rates for the three month and nine month periods ended September 30, 2008 (excluding the impact of the LAM Merger) and for the three month and nine month periods ended September 30, 2007 of 19.0%, 18.0%, 20.6% and 19.0%, respectively, applicable to the ownership interest in Lazard Group not held by Lazard Ltd.



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With respect to Lazard Ltd's ownership interest in Lazard Group, the difference between the U.S. federal statutory rate of 35% and the effective tax rates described above for the three month and nine month periods ended September 30, 2008 and 2007, principally relates to (i) foreign source income not subject to U.S. income taxes, (ii) the release of a valuation allowance associated with the amortization of the tax basis step-up resulting from the Company's separation and recapitalization that occurred in May, 2005 and from the exchange of LAZ-MD Holdings exchangeable interests for shares of Class A common stock in connection with the secondary offerings in 2006 and 2008, and (iii) U.S. state and local taxes, which are incremental to the U.S. federal statutory tax rate, partially offsetting (i) and (ii) above.

With respect to the ownership interests in Lazard Group not held by Lazard Ltd, while 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% and Lazard Group's effective tax rates 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 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.

With few exceptions, the Company is no longer subject to income tax examination by foreign tax authorities for years prior to 2003 and by U.S. federal, state and local tax authorities for years prior to 2004. While we are under examination in various tax jurisdictions with respect to certain open years, the Company believes that the result of any final determination related to these examinations is not expected to have a material impact on its financial statements. Developments with respect to such examinations are monitored each period and adjustments to tax liabilities are made as appropriate.

***Tax Receivable Agreement***

The redemption of historical partner interests in connection with the Company's separation and recapitalization that occurred in May, 2005 and the exchange of LAZ-MD Holdings exchangeable interests for shares of Class A common stock in connection with the secondary offerings in 2006 and 2008 have resulted, and the exchanges of additional LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, in increases in the tax basis of the tangible and/or intangible assets of Lazard Group. The tax receivable agreement with LFCM Holdings, dated as of May 10, 2005, requires the Company to pay LFCM Holdings 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of the above-mentioned increases in tax basis. The Company calculates this provision annually and includes such amounts in operating expenses on its consolidated statement of operations once the results of operations for the full year are known. As a result, there is no provision for such payments in the three month and nine month periods ended September 30, 2008 and 2007. If any provision is required pursuant to the tax receivable agreement, such amount would be fully offset by a reduction in the Company's income tax expense.



**Table of Contents****LAZARD LTD****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(dollars in thousands, except for per share data, unless otherwise noted)****16. RELATED PARTIES**

Amounts receivable from, and payable to, related parties as of September 30, 2008 and December 31, 2007 are set forth below:

|                    | September 30,<br>2008 | December 31,<br>2007 |
|--------------------|-----------------------|----------------------|
| <b>Receivables</b> |                       |                      |
| LFCM Holdings      | \$ 9,254              | \$ 28,906            |
| LAZ-MD Holdings    | 89                    | 1,280                |
| Other              | 18                    | 101                  |
| <b>Total</b>       | <b>\$ 9,361</b>       | <b>\$ 30,287</b>     |
| <b>Payables</b>    |                       |                      |
| LFCM Holdings      | \$ 19,463             | \$ 26,707            |
| Other              | 2,316                 |                      |
| <b>Total</b>       | <b>\$ 21,779</b>      | <b>\$ 26,707</b>     |

**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 by Lazard Group (referred to as "the separated businesses") in May, 2005 and is owned by the working members, including Lazard's managing directors (which also include our executive officers) who are also members of LAZ-MD Holdings. In addition to a master separation agreement, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings, which effected the separation and recapitalization that occurred in May, 2005, LFCM Holdings entered into an insurance matters agreement and a license agreement that addressed various business matters associated with the separation, as well as employee benefits, administrative services, business alliance and lease indemnity agreements, all of which are described in the Company's Form 10-K.

For the three month and nine month periods ended September 30, 2008, amounts recorded by Lazard Group relating to administrative and support services under the administrative services agreement amounted to \$1,014 and \$2,953, respectively, and referral fees for underwriting and private placement transactions under the business alliance agreement amounted to \$3,148 and \$22,837 respectively. For the three month and nine month periods ended September 30, 2007, amounts recorded by Lazard Group relating to administrative and support services amounted to \$920 and \$2,711, respectively, and referral fees for underwriting and private placement transactions amounted to \$5,529 and \$23,102,

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respectively. Such amounts are reported as reductions to operating expenses and as other revenue, respectively.

In connection with the separation, Lazard Group transferred to LFCM Holdings its ownership interest in Panmure Gordon & Co. plc ( PG&C ). Lazard Group and LFCM Holdings agreed to share any net cash proceeds derived prior to May, 2013 from any subsequent sale by LFCM Holdings of the shares it owns in PG&C. As a result of LFCM Holdings selling a portion of its interest in PG&C in June, 2007, the Company recorded a gain of \$9,296 in the nine month period ended September 30, 2007. Such amount is included in the receivable from LFCM Holdings as of December 31, 2007 and was subsequently paid on April 30, 2008. As of September 30, 2008 and December 31, 2007, LFCM Holdings owned approximately 15.9% and 17.5% of PG&C, respectively.

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With respect to the lease indemnity agreement, the net present value of the receivable due from LFCM Holdings with respect to its indemnification for obligations relating to abandoned lease space in the U.K. at September 30, 2008 and December 31, 2007 was \$5,637 and \$7,037, respectively. The balance is due based on a schedule of periodic payments through May 10, 2010.

The remaining receivables from LFCM Holdings and its subsidiaries as of September 30, 2008 and December 31, 2007 primarily include \$1,248 and \$5,312, respectively, related to administrative and support services and reimbursement of expenses incurred on behalf of LFCM Holdings and \$2,079 and \$5,853, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at September 30, 2008 and December 31, 2007 principally relates to obligations pursuant to the tax receivable agreement described in Note 15 of Notes to Condensed Consolidated Financial Statements.

See Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding the Company's secondary offering in September, 2008, and for which LCM participated as an underwriter.

**LAZ-MD Holdings**

Lazard Group provides selected administrative and support services to LAZ-MD Holdings through the administrative services agreement, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group's cost allocation methodology and, for the three month and nine month periods ended September 30, 2008 such charges amounted to \$188 and \$563, respectively. For the three month and nine month periods ended September 30, 2007 such charges amounted to \$50 and \$150, respectively.

**Other**

For the three month and nine month periods ended September 30, 2008, amounts recorded by Lazard Group relating to referral fees for restructuring transactions and fee shares with Merchant Bankers Asociados amounted to \$1,710 and \$2,316, respectively. At September 30, 2008, the balance of such related party transactions are included within Related party payables in the accompanying condensed consolidated statement of financial condition. There were no such amounts payable at December 31, 2007.

**17. REGULATORY AUTHORITIES**

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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, as amended. Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage of total aggregate indebtedness recorded in LFNY's Financial and Operational Combined Uniform Single ( FOCUS ) report filed with the Financial Industry Regulatory Authority ( FINRA ), or \$100, whichever is greater. At September 30, 2008, LFNY's regulatory net capital was \$112,513 which exceeded the minimum requirement by \$105,715.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries ) are regulated by the Financial Services Authority. At September 30, 2008, the aggregate regulatory net capital of the U.K. Subsidiaries was \$199,050, which exceeded the minimum requirement by \$160,628.

CFLF, through which non-corporate finance advisory activities are carried out in France, is subject to regulation by the Commission Bancaire and the Comité des Etablissements de Crédit et des Entreprises

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d Investissement 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) and Fonds Partenaires Gestion (private equity), are subject to regulation and supervision by the Autorité des Marchés Financiers. At September 30, 2008, the consolidated regulatory net capital of CFLF was \$210,251, which exceeded the minimum requirement set for regulatory capital levels by \$105,588.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At September 30, 2008, for those subsidiaries with regulatory capital requirements, their aggregate net capital was \$67,151, which exceeded the minimum required capital by \$52,833. At September 30, 2008, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

Effective April 1, 2008, the Company became subject to supervision by the SEC as a Supervised Investment Bank Holding Company ( SIBHC ). As a SIBHC, the Company is subject to group-wide supervision, which requires the Company to compute allowable capital and risk allowances on a consolidated basis. Reporting as a SIBHC began in the second quarter of 2008.

**18. SEGMENT OPERATING RESULTS**

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. As described above, the Company's principal operating activities are included in two business segments: Financial Advisory and Asset Management. In addition, the Company records selected other activities in its Corporate segment.

The Company's segment information for the three month and nine month periods ended September 30, 2008 and 2007 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.

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



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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 to operations with respect to net revenue, operating income and total assets:

|                    |                             | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |              |
|--------------------|-----------------------------|---|-------------|--|--------------|
|                    |                             | <b>2008</b>                                 | <b>2007</b> | <b>2008</b>                                | <b>2007</b>  |
| Financial Advisory | Net Revenue                 | \$ 269,740                                  | \$ 379,772  | \$ 770,699                                 | \$ 847,315   |
|                    | Operating Expenses          | 197,494                                     | 279,728     | 601,927                                    | 644,290      |
|                    | Operating Income            | \$ 72,246                                   | \$ 100,044  | \$ 168,772                                 | \$ 203,025   |
| Asset Management   | Net Revenue                 | \$ 147,780                                  | \$ 179,941  | \$ 493,183                                 | \$ 493,715   |
|                    | Operating Expenses (a)      | 317,915                                     | 135,411     | 574,850                                    | 368,444      |
|                    | Operating Income (Loss) (a) | \$ (170,135)                                | \$ 44,530   | \$ (81,667)                                | \$ 125,271   |
| Corporate          | Net Revenue                 | \$ (11,700)                                 | \$ (17,665) | \$ (82,595)                                | \$ (8,424)   |
|                    | Operating Expenses (a)      | 25,124                                      | 8,323       | 33,463                                     | 33,855       |
|                    | Operating Income (Loss) (a) | \$ (36,824)                                 | \$ (25,988) | \$ (116,058)                               | \$ (42,279)  |
| Total              | Net Revenue                 | \$ 405,820                                  | \$ 542,048  | \$ 1,181,287                               | \$ 1,332,606 |
|                    | Operating Expenses          | 540,533                                     | 423,462     | 1,210,240                                  | 1,046,589    |
|                    | Operating Income (Loss)     | \$ (134,713)                                | \$ 118,586  | \$ (28,953)                                | \$ 286,017   |

- (a) Includes, in the three month and nine month periods ended September 30, 2008, compensation and benefits expense in the Asset Management segment of \$197,550 related to the LAM Merger (see Note 7 of Notes to Condensed Consolidated Financial Statements), and non-compensation-related transaction costs in the Corporate segment of \$2,000 in such periods relating to the LAM Merger.

|               | <b>As of</b>         |                     |
|---------------|----------------------|---------------------|
|               | <b>September 30,</b> | <b>December 31,</b> |
|               | <b>2008</b>          | <b>2007</b>         |
| Total Assets: |                      |                     |

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|                    |              |              |
|--------------------|--------------|--------------|
| Financial Advisory | \$ 625,219   | \$ 811,752   |
| Asset Management   | 459,424      | 580,716      |
| Corporate          | 2,240,096    | 2,447,945    |
| Total              | \$ 3,324,739 | \$ 3,840,413 |

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

*The following discussion should be read in conjunction with Lazard Ltd's condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q.*

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

Management has included in Parts I and II of this Quarterly Report on Form 10-Q (the "Form 10-Q"), including in its Management's Discussion and Analysis of Financial Condition and Results of Operations (the "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, 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 Annual Report on Form 10-K for the year ended December 31, 2007 (the "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.

The Company operates 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.

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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,

potential growth opportunities available to our businesses,

recruitment and retention of managing directors and employees,

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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 rate,

changes in interest and tax rates,

expectation with respect to the economy, securities markets, the market for mergers, acquisitions and strategic advisory 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.

Lazard Ltd 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 its 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. Monthly updates of these funds are posted to the Lazard Asset Management website ([www.lazardnet.com](http://www.lazardnet.com)) on the third business day following the end of each month. Investors can link to Lazard and its operating company websites through [www.lazard.com](http://www.lazard.com). Our websites and the information contained therein or connected thereto are not incorporated into this quarterly report.

## **Business Summary**

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

Financial Advisory, which includes providing advice on mergers and acquisitions ( M&A ) and strategic advisory matters, restructurings, capital raising and other transactions, 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 Lazard Group's Paris-based Lazard Frères Banque SA ( LFB ). LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group's Paris House 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.

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The Company also allocates outstanding indebtedness to its Corporate segment.

Lazard 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 ( FPG ), our private equity business in France. We also transferred to LFCM Holdings 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.

We continue to explore and discuss opportunities to expand the scope of our alternative investment and private equity activities in Europe, the United States and elsewhere. These opportunities could include internal growth of new funds and direct investments by us, partnerships or strategic relationships and investments with third parties and acquisitions of existing funds or management companies.

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At the time of Lazard Ltd's equity public offering, and as part of the separation, we also transferred substantially all of our capital markets activities to LFCM Holdings, other than those activities undertaken by LFB, which is regulated by the Commission Bancaire. LFB continues to engage in underwritten offerings of securities in France and we expect that it may expand its scope to include placements elsewhere in Europe.

On August 13, 2007, Lazard Group acquired Goldsmith, Agio, Helms & Lynner, LLC ( GAHL ), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies. On July 31, 2007, Lazard Ltd acquired Carnegie, Wylie & Company (Holdings) PTY LTD ( CWC ) and concurrently sold such investment to Lazard Group. See Note 8 of Notes to Condensed Consolidated Financial Statements for additional information relating to the acquisitions of GAHL and CWC.

As disclosed in our Form 10-K, Lazard and Natixis entered into a cooperation arrangement in April, 2004 (and expanded such arrangement in March, 2005) to place and underwrite securities on the French equity primary capital markets and cooperate in their respective origination, syndication and placement activities. Although set to expire during the third quarter of 2008, the arrangement continues to be applied in accordance with its general terms pending the outcome of the currently ongoing discussions regarding its formal extension.

For the three month and nine month periods ended September 30, 2008 and 2007, the Company's consolidated net revenue was derived from the following business segments:

|                    | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|--------------------|-------------------------------------|------|------------------------------------|------|
|                    | 2008                                | 2007 | 2008                               | 2007 |
| Financial Advisory | 67%                                 | 70%  | 65%                                | 64%  |
| Asset Management   | 36                                  | 33   | 42                                 | 37   |
| Corporate          | (3)                                 | (3)  | (7)                                | (1)  |
| Total              | 100%                                | 100% | 100%                               | 100% |

**Business Environment**

The financial environment in the U.S. and globally has been volatile during 2008 and challenging market conditions have persisted throughout most of the year. Contraction in worldwide credit markets due in part to sub-prime lending issues, volatile currency markets, major write-downs within the financial sector and record high oil prices have raised significant uncertainty about the state of the U.S. and global economies. As demonstrated in the third quarter 2008, economic and market conditions have affected our financial performance in both the Financial Advisory and Asset Management businesses. The significant volatility with respect to equity and credit markets has also impacted our corporate portfolio of debt securities and investments that are used to seed new Asset Management products. 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 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 the Form 10-K. 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.

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Global M&A activity for the three month and nine month periods ended September 30, 2008 decreased substantially versus the corresponding prior year periods for both global and trans-atlantic completed and announced transactions, as evidenced by the following industry statistics regarding the volume of transactions:

|  | Three Months Ended September 30, |        |                    | Nine Months Ended September 30, |          |                    |
|--|----------------------------------|--------|--------------------|---------------------------------|----------|--------------------|
|  | 2008                             | 2007   | %<br>Incr / (Decr) | 2008                            | 2007     | %<br>Incr / (Decr) |
|  | (\$ in billions)                 |        |                    |                                 |          |                    |
| <b>Completed M&amp;A Transactions:</b> |                                  |        |                    |                                 |          |                    |
| Global                                 | \$ 629                           | \$ 866 | (27)%              | \$ 2,000                        | \$ 2,716 | (26)%              |
| Trans-Atlantic                         | 67                               | 86     | (22)%              | 177                             | 222      | (20)%              |
| <b>Announced M&amp;A Transactions:</b> |                                  |        |                    |                                 |          |                    |
| Global                                 | 846                              | 994    | (15)%              | 2,182                           | 3,341    | (35)%              |
| Trans-Atlantic                         | 92                               | 66     | 39%                | 275                             | 280      | (2)%               |

Source: Thomson Financial as of October 13, 2008

While overall M&A industry statistics regarding the number and size of announced transactions declined in the nine months of 2008 and the industry outlook for 2008 and 2009 remains challenging, we believe that we are reasonably well positioned, due to the expertise and insights of our bankers, the investments we have made in our business, and the diversity of our products, even in the current environment. However, 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 price competition among financial services companies seeking such engagements.

Activity in financial restructuring during the nine month period ended September 30, 2008 increased significantly with the amount of corporate debt defaults, according to Moody's Investors Service, Inc, amounting to \$174 billion, significantly higher than the \$4 billion recorded for the corresponding period in 2007 principally due to the Lehman Brothers and Washington Mutual bankruptcy filings. Moody's is expecting further increases in the default rates this year and next. We expect that our Financial Restructuring practice will benefit over the next several years from the increase in the level of corporate defaults, 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 Financial Restructuring assignments normally are executed over a six to eighteen month period.

**Asset Management**

As shown in the table below, global market indices at September 30, 2008 decreased significantly as compared to such indices at December 31, 2007 and June 30, 2008 principally as a result of a significant deterioration in the global equity markets.

|                  | Percentage Change September 30, 2008 vs. |               |
|------------------|--|---------------|
|                  | December 31, 2007                        | June 30, 2008 |
| MSCI World Index | (26)%                                    | (16)%         |



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|                              |      |      |
|------------------------------|------|------|
| CAC 40                       | (28) | (9)  |
| DAX                          | (28) | (9)  |
| FTSE 100                     | (24) | (13) |
| TOPIX 100                    | (27) | (19) |
| MSCI Emerging Market         | (37) | (28) |
| Dow Jones Industrial Average | (18) | (4)  |
| NASDAQ                       | (21) | (9)  |
| S&P 500                      | (21) | (9)  |

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Market depreciation reflected in Lazard's AUM during the three month and nine month periods ended September 30, 2008 generally corresponds to the changes in global market indices. Because the fees that we receive for providing investment management and advisory services are primarily driven by the level of AUM, market downturns or volatility in foreign currencies that reduce the level of AUM reduce the revenues we receive from our Asset Management business. Our Asset Management business may be further impacted should there be continued or further credit market contractions or a sustained market downturn.

## **Financial Statement Overview**

### ***Net Revenue***

The majority of Lazard's Financial Advisory net revenue is earned from the successful completion of mergers, acquisitions, strategic advisory matters, restructurings, capital raising and similar transactions. The main driver of Financial Advisory net revenue is 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. Lazard's Financial Advisory segment also earns revenue from public and private securities offerings in the form of referral fees for referring to LFCM Holdings opportunities for underwriting and distribution of securities. The referral fees received from LFCM Holdings is generally half of the revenue recorded by LFCM Holdings in respect of such activities.

Lazard's Asset Management segment principally includes Lazard Asset Management LLC and its subsidiaries (collectively referred to as "LAM"), Lazard Frères Gestion SAS ("LFG") and FPG. 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 in large part by Lazard's investment performance and by Lazard's ability to successfully attract and retain assets, as well as the broader performance of the global equity markets and, to a lesser extent, fixed income markets. As a result, fluctuations in financial markets and client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. In addition, as Lazard's AUM include significant assets that are denominated in currencies other than U.S. dollars, changes in the value of the U.S. dollar relative to non-U.S. 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 also earns performance-based incentive fees on various investment products, including alternative investment funds such as hedge funds, private equity funds, and traditional products. Incentive fees are calculated based on a specified percentage of a fund's net appreciation, in some cases in excess of established benchmarks. Incentive fees on private equity funds also may be earned in the form of a carried interest if profits from investments exceed a specified threshold. These incentive fees are paid at the end of the measurement period. Incentive fees on hedge funds generally are subject to loss carry-forward 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.

The Company records incentive fees at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The performance fee measurement period is generally an annual period, unless an account terminates during the year. These incentive fees received at the end of the measurement period are not subject to reversal or payback.

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Corporate net revenue consists primarily of net interest income, including amounts earned at LFB, and investment gains and losses on debt securities at LFB, LAM-managed equity funds and principal investments in equities and alternative investment funds managed by Lazard Alternative Investments Holding LLC ( LAI ), a subsidiary of LFCM Holdings LLC. Interest expense related to the financing transactions associated with the

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equity public offering is 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, as well as changes in interest and currency exchange rates and in the levels of cash, investments and indebtedness. Effective July 1, 2008, as permitted by Statement of Financial Accounting Standards ( SFAS ) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ( SFAS No. 115 ), the portion of LFB s corporate debt portfolio that had been previously designated as trading was re-designated to available-for-sale . During the three month period ended September 30, 2008, the Company recorded markdowns of \$16 million in accumulated other comprehensive income (loss) related to such re-designated debt securities.

Total assets in Corporate represented 67% of Lazard s consolidated total assets as of September 30, 2008, principally attributable to assets associated with LFB and, to a lesser extent, investments in LAM-managed funds, other securities and cash.

Lazard expects to experience significant fluctuations in net revenue and operating income during the course of any given year. These fluctuations arise because a significant portion of Financial Advisory net revenue is earned upon the successful completion of a transaction, financial restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard s control. Asset Management net revenue is also subject to periodic fluctuations. Asset Management fees are generally based on 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. In addition, incentive fees earned on AUM are generally not recorded until potential uncertainties regarding the ultimate realizable amounts have been determined. For most of our funds that determination is made at year-end, and therefore such incentive fees are recorded in the fourth quarter of Lazard s fiscal year. Also, as noted above, Corporate net revenue is subject to fluctuations due to the recognition of changes in fair market value, realization and impairment of investments, as well as changes in interest and currency exchange rates.

### ***Operating Expenses***

The majority of Lazard s operating expenses relate to compensation and benefits for employees and managing directors. The balance of Lazard s operating expenses are referred to below as non-compensation expense , which includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and other expenses.

### ***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 condensed consolidated statements of operations are attributable to taxes incurred by non-U.S. entities and by New York City Unincorporated Business Tax attributable to Lazard s operations apportioned to New York City. The Company s provision for income taxes also includes a U.S. income tax provision attributable to Lazard Ltd s ownership interest in Lazard Group s operating income.

### ***Minority Interest in Net Income***

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Minority interest in net income (loss) principally consists of a charge (credit) relating to LAZ-MD Holdings' ownership interest in Lazard Group, which approximated 45.6% and 52.0% during the nine month periods ended September 30, 2008 and 2007, respectively, with such expense (benefit) amounting to \$(58) million and \$(16) million for the three month and nine month periods ended September 30, 2008,

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respectively, and \$48 million and \$116 million for the three month and nine month periods ended September 30, 2007, respectively. Also included in minority interest in net income are minority interests in various LAM-related general partnerships ( LAM GPs ) held directly by certain of our LAM managing directors.

See Note 6 of Notes to Condensed Consolidated Financial Statements for additional information regarding minority interest.

## **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' or stockholders' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of operations.

As more fully described in Note 7 of Notes to Condensed Consolidated Financial Statements, on September 25, 2008, pursuant to a definitive merger agreement dated August 14, 2008, the Company, LAM and Laz Sub I, LLC, a newly formed subsidiary of LFNy, completed the merger of Laz Sub I, LLC with and into LAM (the LAM Merger). Lazard's after-tax income was reduced by \$108.6 million as a result of the LAM Merger, consisting of compensation and benefits expense of \$197.5 million related to the equity interests of LAM held by present and former employees of LAM, and \$2.0 million of non-compensation-related transaction costs (together aggregating a reduction of operating income of \$199.5 million), with these charges partially offset by income tax and minority interest credits of \$7.4 million and \$83.5 million, respectively. In addition, the LAM Merger is expected to result in annual pre-tax charges of approximately \$7.0 million per year through October 31, 2011.

A discussion of the Company's consolidated results of operations for the three month and nine month periods ended September 30, 2008 and 2007 is set forth below, followed by a more detailed discussion of business segment results.

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The following tables summarize the Company's consolidated operating results:

|   | Three Months Ended September 30, 2008 |                          |                          | Three Months Ended September 30, 2007 |
|---|---------------------------------------|--------------------------|--------------------------|---------------------------------------|
|   | As Reported                           | Impact of LAM Merger (a) | Excluding LAM Merger (b) |                                       |
|   | (\$ in thousands)                     |                          |                          |                                       |
| <b>Revenue:</b>                               |                                       |                          |                          |                                       |
| Investment banking and other advisory fees    | \$ 260,708                            |                          | \$ 260,708               | \$ 369,857                            |
| Money management fees                         | 155,920                               |                          | 155,920                  | 164,405                               |
| Interest income                               | 23,590                                |                          | 23,590                   | 23,832                                |
| Other   | (754)                                 |                          | (754)                    | 22,028                                |
| Total revenue                                 | 439,464                               |                          | 439,464                  | 580,122                               |
| Interest expense                              | 33,644                                |                          | 33,644                   | 38,074                                |
| Net revenue                                   | 405,820                               |                          | 405,820                  | 542,048                               |
| <b>Operating Expenses:</b>                    |                                       |                          |                          |                                       |
| Compensation and benefits                     | 432,777                               | \$ 197,550               | 235,227                  | 323,152                               |
| Non-compensation expense (c)                  | 107,756                               | 2,000                    | 105,756                  | 100,310                               |
| Total operating expenses                      | 540,533                               | 199,550                  | 340,983                  | 423,462                               |
| <b>Operating Income (Loss)</b>                | (134,713)                             | (199,550)                | 64,837                   | 118,586                               |
| Provision (benefit) for income taxes          | 8,304                                 | (7,427)                  | 15,731                   | 28,284                                |
| <b>Income (Loss) Before Minority Interest</b> | (143,017)                             | (192,123)                | 49,106                   | 90,302                                |
| Minority interest in net income (loss)        | (66,060)                              | (83,495)                 | 17,435                   | 50,035                                |
| <b>Net Income (Loss)</b>                      | \$ (76,957)                           | \$ (108,628)             | \$ 31,671                | \$ 40,267                             |

|  | Nine Months Ended September 30, 2008 |                          |                          | Nine Months Ended September 30, 2007 |
|--|--------------------------------------|--------------------------|--------------------------|--------------------------------------|
|  | As Reported                          | Impact of LAM Merger (a) | Excluding LAM Merger (b) |                                      |
|  | (\$ in thousands)                    |                          |                          |                                      |
| <b>Revenue:</b>                            |                                      |                          |                          |                                      |
| Investment banking and other advisory fees | \$ 736,863                           |                          | \$ 736,863               | \$ 813,145                           |
| Money management fees                      | 479,701                              |                          | 479,701                  | 448,749                              |
| Interest income                            | 67,527                               |                          | 67,527                   | 64,507                               |
| Other                                      | 7,869                                |                          | 7,869                    | 105,066                              |
| Total revenue                              | 1,291,960                            |                          | 1,291,960                | 1,431,467                            |
| Interest expense                           | 110,673                              |                          | 110,673                  | 98,861                               |
| Net revenue                                | 1,181,287                            |                          | 1,181,287                | 1,332,606                            |
| <b>Operating Expenses:</b>                 |                                      |                          |                          |                                      |
| Compensation and benefits                  | 906,359                              | \$ 197,550               | 708,809                  | 792,236                              |
| Non-compensation expense (c)               | 303,881                              | 2,000                    | 301,881                  | 254,353                              |

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|   |             |              |           |           |
|---|-------------|--------------|-----------|-----------|
| Total operating expenses                      | 1,210,240   | 199,550      | 1,010,690 | 1,046,589 |
| <b>Operating Income (Loss)</b>                | (28,953)    | (199,550)    | 170,597   | 286,017   |
| Provision (benefit) for income taxes          | 31,254      | (7,427)      | 38,681    | 65,658    |
| <b>Income (Loss) Before Minority Interest</b> | (60,207)    | (192,123)    | 131,916   | 220,359   |
| Minority interest in net income (loss)        | (25,366)    | (83,495)     | 58,129    | 124,442   |
| <b>Net Income (Loss)</b>                      | \$ (34,841) | \$ (108,628) | \$ 73,787 | \$ 95,917 |

- (a) See Note 7 of Notes to Condensed Consolidated Financial Statements for information regarding the LAM Merger.
- (b) A non-GAAP measure.
- (c) Including, in the three month and nine month periods ended September 30, 2008 and September 30, 2007, amortization of intangible assets relating to acquisitions of \$.5 million, \$4.3 million, \$18.2 million and \$18.2 million, respectively.



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The table below describe the components of operating revenue, a non-GAAP measure used by the Company to manage total compensation and benefits expense to managing directors and employees. The LAM Merger had no impact on operating revenue. Management believes operating revenue provides the most meaningful basis for comparison among present, historical and future periods.

|  | Three Months Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                     |
|--|-------------------------------------|-------------------|------------------------------------|---------------------|
|  | 2008                                | 2007              | 2008                               | 2007                |
|  | (\$ in thousands)                   |                   |                                    |                     |
| Total revenue  | \$ 439,464                          | \$ 580,122        | \$ 1,291,960                       | \$ 1,431,467        |
| Add (deduct):  |                                     |                   |                                    |                     |
| LFB interest expense (*)                                   | (10,319)                            | (8,083)           | (29,183)                           | (26,150)            |
| (Revenue) loss related to consolidation of<br>LAM GPs (**) | 8,161                               | (2,521)           | 9,771                              | (8,076)             |
| <b>Operating revenue</b>                                   | <b>\$ 437,306</b>                   | <b>\$ 569,518</b> | <b>\$ 1,272,548</b>                | <b>\$ 1,397,241</b> |

(\*) 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.

(\*\*) LAM GP revenue (loss) is excluded because we do not deem such amounts as operating in nature as it is directly offset by a charge (credit) to minority interest for the corresponding amount.

Certain key ratios, statistics and headcount information for the three month and nine month periods ended September 30, 2008 and 2007 are set forth below:

|  | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|--|-------------------------------------|------|------------------------------------|------|
|  | 2008                                | 2007 | 2008                               | 2007 |
| <b>As a % of Net Revenue, By Revenue Category:</b> |                                     |      |                                    |      |
| Investment banking and other advisory fees         | 64%                                 | 68%  | 62%                                | 61%  |
| Money management fees                              | 38                                  | 30   | 41                                 | 33   |
| Interest income                                    | 6                                   | 5    | 5                                  | 5    |
| Other  | 0                                   | 4    | 1                                  | 8    |
| Interest expense                                   | (8)                                 | (7)  | (9)                                | (7)  |
| Net Revenue  | 100%                                | 100% | 100%                               | 100% |
| <b>As a % of Net Revenue:</b>                      |                                     |      |                                    |      |
| Operating Income                                   | 16%(*)                              | 22%  | 14%(*)                             | 21%  |

(\*) Excludes, in both the three month and nine month periods ended September 30, 2008, the impact of the LAM Merger, which reduced operating income by approximately \$200 million.

As of September 30,

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|   | 2008         | 2007         |
|---|--------------|--------------|
| <b>Headcount:</b>                         |              |              |
| Managing Directors:                       |              |              |
| Financial Advisory                        | 152          | 142          |
| Asset Management                          | 55           | 47           |
| Corporate                                 | 8            | 8            |
| Limited Managing Directors                | 6            | 6            |
| Other Employees:                          |              |              |
| Business segment professionals            | 1,041        | 952          |
| All other professionals and support staff | 1,212        | 1,255        |
| <b>Total</b>                              | <b>2,474</b> | <b>2,410</b> |

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**Table of Contents*****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 comparisons between periods are most meaningful after excluding the 2008 impact of the LAM Merger. Accordingly, the comparison of the operating results that follows are described on that basis. Further, Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods.**

***Three Months Ended September 30, 2008 versus September 30, 2007***

The Company reported a net loss of \$77 million for the three month period ended September 30, 2008, a decline of \$117 million as compared to net income of \$40 million for the corresponding period in 2007. Such decline was principally the result of the impact of the LAM Merger, which reduced net income in the 2008 period by \$108 million. Excluding the impact of the LAM Merger, the Company had net income in the 2008 period of \$32 million, or 21% lower than the 2007 period.

Net revenue decreased \$136 million, or 25%, for the three month period ended September 30, 2008, compared to the corresponding period in 2007, with operating revenue decreasing \$132 million, or 23%, compared to the 2007 period. Commensurate with the general decline in overall industry transactions, our fees from investment banking and other advisory activities decreased by \$109 million, or 30%, versus the corresponding period in 2007. Money management fees, including incentive fees, decreased \$8 million, or 5%, as compared to the corresponding period in the prior year principally as the result of a \$15 billion, or 11%, decrease in average AUM (primarily due to market depreciation) for the three month period ended September 30, 2008 versus the corresponding period in 2007, partially offset by change in mix of investment products and levels of management fees on certain products. Other revenue decreased \$23 million, or 103%, in the three month period ended September 30, 2008 versus the corresponding period in 2007. The decline was principally due to an \$11 million reduction in LAM GP-related revenues (which are fully offset in minority interest in net income) and markdowns in our portfolios of equity securities, including seed investments for new Asset Management products, partially offset by an increase in foreign exchange gains. Interest expense for the three month period ended September 30, 2008 decreased \$4 million, or 12%, primarily related to the Company's May 2008 repurchase of \$437 million aggregate principal amount of its 6.12% senior notes in connection with the remarketing of such notes, partially offset by increased interest on average customer deposits in LFB.

Compensation and benefits expense, excluding the \$198 million charge relating to the LAM Merger, decreased \$88 million, or 27%, for the three month period ended September 30, 2008. Such decrease was consistent with the decrease in operating revenue, which more than offset increased amortization of an increased amount of Restricted Stock Units (RSUs) and additional compensation associated with the strategic headcount growth of managing directors and business segment professionals. Compensation and benefits expense represented 53.8% of operating revenue in the 2008 period, as compared to 56.7% in the corresponding 2007 period.

Non-compensation expense in the three month period ended September 30, 2008, excluding the \$2 million charge relating to the LAM Merger, increased \$5 million, or 5%. Contributing to the quarter-over-quarter increase was (i) a \$12.4 million provision for losses from counterparty defaults related primarily to the bankruptcy filing of one of our prime brokers, and (ii) increased business development expenses for market related data, with these items partially offset by lower amortization of intangible assets related to prior year acquisitions. Non-compensation expense, excluding the amortization of intangibles in the 2008 and 2007 periods of \$0.5 million and \$18 million, respectively, was 24.1% and 14.4% of operating revenue for the 2008 and 2007 periods, respectively, with such increased percentage primarily attributable to the decline in operating revenue in the 2008 period as well as the provision for losses from counterparty defaults described above.



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Operating income for the three month period ended September 30, 2008, excluding the \$200 million charge relating to the LAM Merger, decreased \$54 million, or 45%, versus the corresponding period in 2007. Excluding the impact of the LAM Merger, operating income, as a percentage of net revenue, was 16% in the 2008 period vs 22% in the 2007 period.

The provision for income taxes for the three month period ended September 30, 2008, excluding the \$7 million tax benefit relating to the LAM Merger, decreased \$13 million versus the prior year period, with the Company reflecting an effective tax rate of 24.3% for the three month period ended September 30, 2008 as compared to 23.9% for the corresponding period in 2007.

Minority interest in net income for the three month period ended September 30, 2008, excluding the \$83 million credit relating to the LAM Merger, decreased \$33 million, or 65%, versus the corresponding 2007 period, which principally reflected the lower level of Lazard Group net income in the 2008 period as well as a decrease in LAZ-MD Holdings' ownership interest of Lazard Group in the 2008 period (approximately 42.3%) versus the 2007 period (approximately 51.8%). In addition, minority interest in the 2008 period include an \$8 million credit related to various LAM-related GPs held directly by certain of our LAM managing directors, as compared to a \$3 million charge recorded in the corresponding period in 2007.

*Nine Months Ended September 30, 2008 versus September 30, 2007*

The Company reported a net loss of \$35 million for the nine month period ended September 30, 2008, a decline of \$131 million as compared to net income of \$96 million for the corresponding period in 2007. Such decline was principally the result of the impact of the LAM Merger, which reduced net income in the 2008 period by \$108 million. Excluding the impact of the LAM Merger, the Company had net income in the 2008 period of \$74 million, or 23% lower than the 2007 period. As described above, the Company acquired GAHL and CWC during the third quarter of 2007. Accordingly, results for the nine month periods ended September 30, 2008 and 2007 include the results of such acquired businesses from the respective acquisition dates.

Net revenue decreased \$151 million, or 11%, for the nine month period ended September 30, 2008, compared to the corresponding period in 2007, with operating revenue decreasing \$125 million, or 9% compared to the corresponding 2007 period. Commensurate with the general decline in overall industry transactions, our fees from investment banking and other advisory activities decreased \$76 million, or 9%, versus the corresponding 2007 period. Money management fees, including incentive fees, increased \$31 million, or 7%, as compared to the prior year period principally as the result of a \$3 billion, or 2%, increase in average AUM for the nine month period ended September 30, 2008 versus the corresponding 2007 period, as well as a change in the mix of investment products and levels of management fees on certain products. Interest income increased \$3 million, or 5%. Other revenue decreased \$97 million, or 93%, in the nine month period ended September 30, 2008 versus the corresponding period in 2007. The decline was principally attributable to markdowns in the first quarter of 2008 in LFB's corporate debt portfolio held as an integral part of its asset-liability management program and markdowns in the Company's investment in corporate equities to seed new Asset Management products and for temporary investments. Other contributing factors to the decrease was an \$18 million reduction in LAM GP-related revenues (which are fully offset in minority interest in net income) and a \$9 million gain recorded in the 2007 period in connection with the Company's interest in the net proceeds related to the sale of a portion of LFCM Holdings' ownership interest in Panmure Gordon & Co. plc (PG&C) (see Note 16 of Notes to Condensed Consolidated Financial Statements), partially offset by increased foreign exchange gains. Interest expense for the nine month period ended September 30, 2008 increased \$12 million, or 12%, primarily related to the Company's June 2007 issuance of \$600 million aggregate principal amount of its 6.85% senior notes and increased interest on average customer deposits in LFB, partially offset by a reduction in interest expense related to the Company's May 2008 repurchase of \$437 million aggregate principal amount of its 6.12% senior notes in connection with the remarketing of such notes.

Compensation and benefits expense, excluding the \$198 million charge relating to the LAM Merger, decreased \$83 million, or 11%, for the nine month period ended September 30, 2008. Such decrease was consistent with the decrease in operating revenue, which more than offset the

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increased amortization of an increased amount of RSUs and additional compensation associated with the strategic headcount growth of

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managing directors and business segment professionals. Compensation and benefits expense represented 55.7% of operating revenue in the 2008 period, compared to 56.7% in the corresponding 2007 period.

Non-compensation expense in the nine month period ended September 30, 2008, excluding the \$2 million charge relating to the LAM Merger, increased \$48 million, or 19%. Factors contributing to the increase include (i) the impact of investments in our business and operating expenses related to companies acquired in the third quarter of 2007, (ii) the provision for losses from counterparty defaults from one of our prime brokers, (iii) increased business development expenses for market related data, and (iv) the impact in the 2008 period of the weakened U.S. dollar, with these items partially offset by a reduction in the amortization of intangible assets related to the GAHL and CWC acquisitions made in 2007. Non-compensation expense, excluding the amortization of intangibles in the 2008 and 2007 periods of \$4 million and \$18 million, respectively, was 23.4% of operating revenue for the 2008 period, compared to 16.9% of operating revenue for the 2007 period, with such increased percentage primarily attributable to the decline in operating revenues in the 2008 period as well as the provision for losses from counterparty defaults described above.

Operating income for the nine month period ended September 30, 2008, excluding the \$200 million charge relating to the LAM Merger, decreased \$115 million, or 40%, versus the corresponding period in 2007. Excluding the impact of the LAM Merger, operating income, as a percentage of net revenue, was 14% and 21% in the 2008 and 2007 periods, respectively.

The provision for income taxes for the nine month period ended September 30, 2008, excluding the \$7 million tax benefit relating to the LAM Merger, decreased \$27 million versus the prior year period. Such decrease was principally due to lower levels of income in the 2008 period. Excluding the impact of the LAM Merger in the 2008 period, the Company's effective tax rate was 22.7% for the nine month period ended September 30, 2008 as compared to 23.0% for the corresponding period in 2007.

Minority interest in net income for the nine month period ended September 30, 2008, excluding the \$83 million credit relating to of the LAM Merger, decreased \$66 million, or 53%, versus the 2007 period, which principally reflected the lower level of Lazard Group net income in the 2008 period as well as a decrease in LAZ-MD Holdings ownership interest of Lazard Group in the 2008 period (approximately 45.6%) versus the 2007 period (approximately 52.0%). In addition, minority interest in the 2008 period includes a \$10 million credit related to various LAM-GPs held directly by certain of our LAM managing directors, as compared to an \$8 million charge recorded in the corresponding period in 2007.

## **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.

**Table of Contents****Financial Advisory**

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

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2008                                | 2007       | 2008                               | 2007       |
|   | (\$ in thousands)                   |            |                                    |            |
| M&A and Strategic Advisory  | \$ 230,890                          | \$ 295,401 | \$ 621,982                         | \$ 655,787 |
| Financial Restructuring   | 23,944                              | 56,161     | 72,148                             | 94,854     |
| Corporate Finance and Other   | 14,906                              | 28,210     | 76,569                             | 96,674     |
| Net Revenue   | 269,740                             | 379,772    | 770,699                            | 847,315    |
| Operating Expenses (a)  | 197,494                             | 279,728    | 601,927                            | 644,290    |
| Operating Income  | \$ 72,246                           | \$ 100,044 | \$ 168,772                         | \$ 203,025 |
| Operating Income, Excluding Amortization of Intangible Assets<br>Related To Acquisitions (b)                                | \$ 72,472                           | \$ 118,200 | \$ 172,179                         | \$ 221,181 |
| Operating Income as a Percentage of Net Revenue   | 27%                                 | 26%        | 22%                                | 24%        |
| Operating Income as a Percentage of Net Revenue, Excluding<br>Amortization of Intangible Assets Related To Acquisitions (b) | 27%                                 | 31%        | 22%                                | 26%        |
|   | As of September 30,                 |            |                                    |            |
|   | 2008                                | 2007       |                                    |            |
| Headcount (c):  |                                     |            |                                    |            |
| Managing Directors  | 152                                 | 142        |                                    |            |
| Limited Managing Directors  | 5                                   | 3          |                                    |            |
| Other Employees:  |                                     |            |                                    |            |
| Business segment professionals  | 698                                 | 635        |                                    |            |
| All other professionals and support staff   | 258                                 | 274        |                                    |            |
| Total   | 1,113                               | 1,054      |                                    |            |

- (a) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto) and, in the three and nine month periods ended September 30, 2008 and both 2007 periods, amortization of intangible assets related to the acquisitions of GAHL and CWC of \$0.2 million, \$3.4 million, and \$18.2 million, respectively.
- (b) Excludes the amortization of intangible assets related to the acquisitions of GAHL and CWC as described in (a) above.
- (c) Excludes headcount related to indirect support functions, with such headcount being included in the Corporate segment.



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Net revenue trends in Financial Advisory for M&A and Strategic Advisory and Financial Restructuring are generally correlated to the volume of completed industry-wide merger and acquisition 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, material variances in the level of merger and acquisition activity in a particular geography where Lazard has significant market share or the number of its strategic advisory engagements with respect to larger-sized transactions can cause its results to diverge from industry-wide activity. Certain Lazard client statistics and global industry statistics are set forth below:

|  | Nine Months Ended<br>September 30, |      |
|--|------------------------------------|------|
|  | 2008                               | 2007 |
| <b>Lazard Statistics:</b>  |                                    |      |
| Number of Clients:   |                                    |      |
| Total  | 571                                | 460  |
| With Fees Greater than \$1 million                                 | 176                                | 158  |
| Percentage of Total Financial Advisory Revenue from Top 10 Clients | 24%                                | 23%  |
| Number of M&A Transactions Completed Greater than \$1 billion (a)  | 33                                 | 37   |

(a) Source: Thomson Financial as of October 13, 2008

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 United States, Europe (principally in the U.K., France, Italy, Spain and Germany) and the rest of the world (principally in Australia).

|               | Three Months<br>Ended September 30, |      | Nine Months<br>Ended September 30, |      |
|---------------|-------------------------------------|------|------------------------------------|------|
|               | 2008                                | 2007 | 2008                               | 2007 |
| United States | 46%                                 | 46%  | 51%                                | 49%  |
| Europe        | 50                                  | 43   | 43                                 | 44   |
| Rest of World | 4                                   | 11   | 6                                  | 7    |
| Total         | 100%                                | 100% | 100%                               | 100% |

The change in the distribution of geographical revenues demonstrates that our revenue can fluctuate materially from quarter to quarter due to the number, size and timing of closings of completed transactions, as well as seasonality and other factors. As such, the geographical distribution of revenues in any particular quarter may not be indicative of future results.

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 financial 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 financial restructurings. While Lazard measures revenue by practice area, Lazard does not separately measure the separate costs or profitability of mergers and acquisitions services as compared to financial restructuring services. Accordingly, Lazard measures performance in its Financial Advisory segment based on overall segment net revenue and operating income margins.

**Operating Results**

**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 future periods.**

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### *Three Months Ended September 30, 2008 versus September 30, 2007*

In the 2008 period, Financial Advisory net revenue decreased \$110 million, or 29%, as compared to the corresponding 2007 period, with M&A and Strategic Advisory revenue decreasing \$65 million, or 22%, and Financial Restructuring revenue decreasing \$32 million, or 57%, while Corporate Finance and Other net revenue decreased \$13 million, or 47%.

The decrease in M&A and Strategic Advisory revenue in 2008 was generally consistent with the industry. Clients which, in the aggregate, represented a significant portion of our M&A and Strategic Advisory revenue for the 2008 period included APP Pharmaceuticals, Gaz de France, Geodis, ING, International Paper, Penn National Gaming, Royal Bank of Scotland, Signet Group, Tele2 and TM International.

Financial Restructuring revenue is derived from various activities including bankruptcy assignments, global debt and financing restructurings and advice on complex on- and off-balance sheet assignments, such as retiree health care obligations. The decrease in revenue was the result of a strong 2007 period that included fees in connection with the Eurotunnel restructuring. Notable restructuring assignments completed in the third quarter of 2008 include advising Inmobiliaria Colonial, Petroleos de Venezuela and WCI Communities. Revenues for the 2008 period do not include several significant recently announced Financial Restructuring transactions, such as Lehman Brothers, Pilgrim's Pride, CIFG and Hawaiian Telcom which were in progress at September 30, 2008.

Corporate Finance and Other net revenue decreased versus the 2007 period reflecting a decrease in the value of fund closings by our Private Fund Advisory Group and private placements by our Capital Markets Group, both of which have been negatively impacted by the deterioration of the financial markets during the 2008 period. During the 2008 period, our Equity Capital Markets Group transaction assignments included advising Natixis and Energy Solutions on their follow-on capital raising transactions and Westport Innovations on its U.S. IPO. Our Alternative Capital Finance Group served as a placement agent on a number of Private Investment in Public Equity transactions ( PIPES ) and Registered Direct Offerings ( RDs ). During the 2008 period, notable assignments for PIPES included Achillion Pharmaceuticals and Threshold Pharmaceuticals and an RD for Jazz Pharmaceuticals.

Operating expenses for the three month period ended September 30, 2008 decreased \$82 million, or 29%, versus the corresponding 2007 period primarily due to decreased compensation consistent with lower operating revenue and a decrease in the amortization of intangible assets associated with the GAHL and CWC acquisitions. Such decreases were partially offset by increases in amortization of an increased amount of RSUs and increased costs from the strategic headcount growth of senior bankers, as well as increased expenses related to companies acquired in the three month period ended September 30, 2007 (and whose operating expenses were only included in the 2007 period subsequent to the respective acquisition date) and other new offices, as well as increases in business development expenses for travel and market related data.

Financial Advisory operating income for the 2008 period decreased \$28 million, or 28%, versus the corresponding 2007 period. Operating income represented 27% and 26% of segment net revenues for the 2008 and 2007 periods, respectively.

### *Nine Months Ended September 30, 2008 versus September 30, 2007*

In the 2008 period, Financial Advisory net revenue decreased \$77 million, or 9%, as compared to the corresponding 2007 period, with M&A and Strategic Advisory revenue decreasing \$34 million, or 5%, and Financial Restructuring revenue decreasing \$23 million, or 24%, while Corporate Finance and Other net revenue decreased \$20 million, or 21%.

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Operating expenses for the nine month period ended September 30, 2008 decreased \$42 million, or 7%, versus the corresponding 2007 period primarily due to decreased compensation expense consistent with lower operating revenue and reduced amortization of intangible assets associated with the GAHL and CWC acquisitions. Such

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decreases were partially offset by increases related to the amortization of an increased amount of RSUs, increased costs from the strategic headcount growth of senior bankers and relating to companies acquired in the three month period ended September 30, 2007 and other new offices, as well as increases in business development expenses for travel and market related data.

Financial Advisory operating income for the 2008 period decreased \$34 million, or 17%, versus the corresponding 2007 period. Operating income represented 22% and 24% of segment net revenues for the 2008 and 2007 periods, respectively.

**Asset Management**

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

|   | September 30,<br>2008 | As of<br>December 31,<br>2007<br>(\$ in millions) |
|---|-----------------------|---|
| <b>AUM:</b>                             |                       |   |
| International Equities                  | \$ 32,945             | \$ 50,535   |
| Global Equities                         | 40,305                | 47,814  |
| U.S. Equities                           | 17,052                | 20,927  |
| <b>Total Equities</b>                   | <b>90,302</b>         | <b>119,276</b>                                    |
| European and International Fixed Income | 9,569                 | 10,255  |
| Global Fixed Income                     | 1,773                 | 2,161   |
| U.S. Fixed Income                       | 1,935                 | 1,817   |
| <b>Total Fixed Income</b>               | <b>13,277</b>         | <b>14,233</b>                                     |
| Alternative Investments                 | 4,270                 | 3,577   |
| Private Equity(a)                       | 1,557                 | 1,401   |
| Cash Management                         | 3,881                 | 2,926   |
| <b>Total AUM</b>                        | <b>\$ 113,287</b>     | <b>\$ 141,413</b>                                 |

- (a) Includes \$1.1 billion and \$1.0 billion as of September 30, 2008 and December 31, 2007, respectively, held by an investment company for which Lazard may earn carried interests.

Average AUM for the three month and nine month periods ended September 30, 2008 and 2007 is set forth below. Average AUM is based on an average of quarterly ending balances for the respective periods.

| Three Months Ended<br>September 30, | Nine Months Ended<br>September 30, |
|-------------------------------------|------------------------------------|
|-------------------------------------|------------------------------------|

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|             | 2008             | 2007       | 2008       | 2007       |
|-------------|------------------|------------|------------|------------|
|             | (\$ in millions) |            |            |            |
| Average AUM | \$ 123,713       | \$ 138,717 | \$ 130,758 | \$ 128,181 |

The following is a summary of changes in AUM for the three month and nine month periods ended September 30, 2008 and 2007.

|                                    | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                    | 2008                                | 2007       | 2008                               | 2007       |
|                                    | (\$ in millions)                    |            |                                    |            |
| AUM Beginning of Period            | \$ 134,139                          | \$ 135,350 | \$ 141,413                         | \$ 110,437 |
| Net Flows                          | (660)                               | 3,295      | 3,604                              | 17,485     |
| Market Appreciation (Depreciation) | (18,801)                            | 2,733      | (31,372)                           | 13,122     |
| Foreign Currency Adjustments       | (1,391)                             | 706        | (358)                              | 1,040      |
| AUM End of Period                  | \$ 113,287                          | \$ 142,084 | \$ 113,287                         | \$ 142,084 |

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Total AUM at September 30, 2008 decreased \$28 billion, or 20%, versus that at December 31, 2007, with average AUM for the three and nine month periods ended September 30, 2008 decreasing 11% and increasing 2%, respectively, versus the average AUM for the corresponding periods in 2007. International, Global and U.S. equities represented 29%, 36% and 15% of total AUM at September 30, 2008, respectively, versus 36%, 34% and 15% of total AUM at December 31, 2007, respectively. During the nine month period ended September 30, 2008, the \$28 billion decrease in AUM was principally attributable to market depreciation, partially offset by net inflows.

The following tables summarize the operating results of the Asset Management segment.

|  | Three Months Ended<br>September 30, 2008 |                                |                                | Three Months<br>Ended<br>September 30,<br>2007 |
|--|--|--------------------------------|--------------------------------|--|
|  | As<br>Reported                           | Impact of<br>LAM<br>Merger (a) | Excluding<br>LAM<br>Merger (b) |  |
|  | (\$ in thousands)                        |                                |                                |  |
| Management Fees  | \$ 145,332                               |                                | \$ 145,332                     | \$ 157,424                                     |
| Incentive Fees   | 10,179                                   |                                | 10,179                         | 7,315  |
| Other Income   | 430                                      |                                | 430                            | 12,681   |
| Sub-total  | 155,941                                  |                                | 155,941                        | 177,420  |
| LAM GP-Related Revenue (Loss)  | (8,161)                                  |                                | (8,161)                        | 2,521  |
| Net Revenue  | 147,780                                  |                                | 147,780                        | 179,941  |
| Operating Expenses (c)   | 317,915                                  | 197,550                        | 120,365                        | 135,411  |
| Operating Income (Loss)  | (170,135)                                | (197,550)                      | 27,415                         | 44,530   |
| Add (Deduct):  |  |                                |                                |  |
| LAM GP-Related Revenue (Loss)  | 8,161                                    |                                | 8,161                          | (2,521)  |
| Amortization of Intangible Assets  | 282                                      |                                | 282                            | 0  |
| Operating Income (Loss), excluding the impact of LAM GP-Related Revenue (Loss) (d) and Amortization of Intangible Assets                 | \$ (161,692)                             | \$ (197,550)                   | \$ 35,858                      | \$ 42,009                                      |
| Operating Income, as a Percentage of Net Revenue   |  |                                | 19%                            | 25%  |
| Operating Income, as a Percentage of Net Revenue, each excluding LAM GP-Related Revenue (Loss) (d) and Amortization of Intangible Assets |  |                                | 23%                            | 24%  |

|                               | Nine Months Ended<br>September 30, 2008 |                                |                                | Nine Months<br>Ended<br>September<br>30,<br>2007 |
|-------------------------------|---|--------------------------------|--------------------------------|--|
|                               | As<br>Reported                          | Impact of<br>LAM<br>Merger (a) | Excluding<br>LAM<br>Merger (b) |  |
|                               | (\$ in thousands)                       |                                |                                |  |
| Management Fees               | \$ 460,449                              |                                | \$ 460,449                     | \$ 430,293                                       |
| Incentive Fees                | 18,608                                  |                                | 18,608                         | 18,073   |
| Other Income                  | 23,897                                  |                                | 23,897                         | 37,273   |
| Sub-total                     | 502,954                                 |                                | 502,954                        | 485,639  |
| LAM GP-Related Revenue (Loss) | (9,771)                                 |                                | (9,771)                        | 8,076  |
| Net Revenue                   | 493,183                                 |                                | 493,183                        | 493,715  |

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|  |             |              |            |            |
|--|-------------|--------------|------------|------------|
| Operating Expenses (c)   | 574,850     | 197,550      | 377,300    | 368,444    |
| Operating Income (Loss)  | (81,667)    | (197,550)    | 115,883    | 125,271    |
| Add (Deduct):  |             |              |            |            |
| LAM GP-Related Revenue (Loss)  | 9,771       |              | 9,771      | (8,076)    |
| Amortization of Intangible Assets  | 845         |              | 845        | 0          |
| Operating Income (Loss), excluding the impact of LAM GP-Related Revenue (Loss) (d) and Amortization of Intangible Assets                 | \$ (71,051) | \$ (197,550) | \$ 126,499 | \$ 117,195 |
| Operating Income, as a Percentage of Net Revenue   |             |              | 23%        | 25%        |
| Operating Income, as a Percentage of Net Revenue, each excluding LAM GP-Related Revenue (Loss) (d) and Amortization of Intangible Assets |             |              | 25%        | 24%        |



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|   | As of September 30, |            |
|---|---------------------|------------|
|   | 2008                | 2007       |
| Headcount (e):                                      |                     |            |
| Managing Directors                                  | 55                  | 47         |
| Limited Managing Directors                          | 1                   | 3          |
| Other Employees:                                    |                     |            |
| Business segment professionals                      | 335                 | 308        |
| All other professionals and support staff functions | 320                 | 366        |
| <b>Total</b>  | <b>711</b>          | <b>724</b> |

- (a) See Note 7 of Notes to Condensed Consolidated Financial Statements for information regarding the LAM Merger.
- (b) A non-GAAP measure.
- (c) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
- (d) Management also evaluates the results of Asset Management based on operating income excluding the LAM GP-related revenue (loss) since such LAM GP-related amounts are directly offset by a charge (credit) to minority interest which is not a charge (credit) to operating income.
- (e) Excludes headcount related to indirect support functions. Such headcount is included in the Corporate headcount.

Effective August 11, 2008, LAM outsourced a portion of its operations to State Street Corporation ( State Street ), a leading provider of investment operations outsourcing. Among other things, we believe that outsourcing will benefit LAM by allowing us to focus on our core strengths of portfolio management and client service, and improve our global processing, scalability and cost structure. In connection with the outsourcing transaction, 68 LAM employees became employed by State Street. Accordingly, immediately following the outsourcing, LAM's compensation costs decreased with respect to such employees, while its non-compensation costs increased. We did not incur any significant upfront costs associated with this transaction.

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

|               | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|---------------|-------------------------------------|-------------|------------------------------------|-------------|
|               | 2008                                | 2007        | 2008                               | 2007        |
| United States | 53%                                 | 53%         | 52%                                | 53%         |
| Europe        | 36                                  | 37          | 37                                 | 37          |
| Rest of World | 11                                  | 10          | 11                                 | 10          |
| <b>Total</b>  | <b>100%</b>                         | <b>100%</b> | <b>100%</b>                        | <b>100%</b> |

**Operating Results**

Asset Management's quarterly revenue and profits in any particular quarter or period may not be indicative of future results. Lazard management believes that comparisons between periods are most meaningful after excluding the 2008 impact of the LAM Merger. Accordingly, the comparison of the operating results that follows are described on that basis. Further, Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods.

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*Three Months Ended September 30, 2008 versus September 30, 2007*

Asset Management net revenue decreased \$32 million, or 18%, versus the corresponding 2007 period. Management fees for the 2008 period decreased \$12 million, or 8%, versus the corresponding 2007 period driven by the impact of a \$15 billion, or 11%, decrease in average AUM in the 2008 period, partially offset by a change in the

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mix of investment products and levels of management fees on certain products. Incentive fees grew \$3 million, or 39%, in the 2008 period as compared to the corresponding 2007 period. Other income decreased \$23 million, or 151%, versus the corresponding 2007 period, principally as a result of lower LAM GP-related revenue, other investment losses and foreign exchange losses.

Operating expenses for the 2008 period, excluding the \$198 million charge relating to the LAM Merger, decreased \$15 million, or 11%, versus the corresponding 2007 period, and was attributable to decreased compensation consistent with lower operating revenue, partially offset by increased business development expenses for travel, market related data, and outsourced services.

Asset Management operating income (loss) was \$(170) million for the three month period ended September 30, 2008, a decline of \$215 million as compared to \$45 million for the corresponding period in 2007. Such decline was principally the result of the impact of the LAM Merger, which reduced operating income in the 2008 period by \$198 million. Excluding the impact of the LAM Merger, the Company had operating income in the 2008 period of \$27 million, a decline of \$17 million, or 38%, as compared to the 2007 period, with operating income as a percentage of segment revenue being 19% for the 2008 period versus 25% for the 2007 period. Excluding the impact of the LAM Merger, LAM GP-related revenue (loss) and amortization of intangible assets, operating income in the 2008 period was \$36 million, or 23% of segment net revenue excluding LAM GP-related revenue (loss), as compared to \$42 million, or 24% for the 2007 period.

*Nine Months Ended September 30, 2008 versus September 30, 2007*

Asset Management net revenue was flat versus the corresponding 2007 period. Management fees for the 2008 period increased \$30 million, or 7%, versus the corresponding 2007 period driven by a 2% increase in average AUM as well as the impact of a change in the mix of investment products and levels of management fees on certain products. Incentive fees increased \$1 million, or 3%, for the 2008 period, as compared to the corresponding 2007 period. Other income decreased \$31 million, or 69%, versus the corresponding 2007 period, principally as a result of lower LAM GP-related revenue, other investment losses and foreign exchange losses.

Operating expenses for the 2008 period, excluding the \$198 million charge relating to the LAM Merger, increased \$9 million, or 2%, versus the corresponding 2007 period, and was principally due to increased outsourced services, business development expenses for travel, market related data as well as for amortization of an increased amount of RSUs and additional salaries related to headcount growth, partially offset by decreased compensation related to lower operating revenue.

Asset Management operating income (loss) was \$(82) million for the nine month period ended September 30, 2008, a decline of \$207 million as compared to \$125 million for the corresponding period in 2007. Such decline was principally the result of the impact of the LAM Merger, which reduced operating income in the 2008 period by \$198 million. Excluding the impact of the LAM Merger, the Company had operating income in the 2008 period of \$116 million, a decline of \$9 million, or 7%, as compared of the 2007 period, with operating income as a percentage of segment net revenue being 23% for the 2008 period versus 25% for the 2007 period. Excluding the impact of the LAM Merger, LAM GP-related revenue (loss) and amortization of intangible assets, operating income was \$126 million, or 25% of segment net revenue excluding LAM GP-related revenue (loss), as compared to \$117 million, or 24% for the 2007 period.

**Table of Contents****Corporate**

The following table summarizes the results of the Corporate segment:

|                         | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|-------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                         | 2008                                | 2007        | 2008                               | 2007        |
|                         | (\$ in thousands)                   |             |                                    |             |
| Interest Income         | \$ 19,190                           | \$ 22,020   | \$ 52,927                          | \$ 50,457   |
| Interest Expense        | (32,842)                            | (42,197)    | (109,232)                          | (97,737)    |
| Net Interest Expense    | (13,652)                            | (20,177)    | (56,305)                           | (47,280)    |
| Other Revenue (Expense) | 1,952                               | 2,512       | (26,290)                           | 38,856      |
| Net Revenue (Expense)   | (11,700)                            | (17,665)    | (82,595)                           | (8,424)     |
| Operating Expenses (a)  | 25,124                              | 8,323       | 33,463                             | 33,855      |
| Operating Loss          | \$ (36,824)                         | \$ (25,988) | \$ (116,058)                       | \$ (42,279) |

|   | As of September 30, |      |
|---|---------------------|------|
|   | 2008                | 2007 |
| Headcount (b):                            |                     |      |
| Managing Directors                        | 8                   | 8    |
| Limited Managing Directors                |                     |      |
| Other Employees:                          |                     |      |
| Business segment professionals            | 8                   | 9    |
| All other professionals and support staff | 634                 | 615  |
| Total                                     | 650                 | 632  |

- (a) Includes, in the three month and nine month periods ended September 30, 2008 non compensation-related transaction costs of \$2 million relating to the LAM Merger.
- (b) Includes headcount related to support functions.

**Corporate Results of Operations***Three Months Ended September 30, 2008 versus September 30, 2007*

Net interest expense in the three month period ended September 30, 2008 decreased \$7 million, or 32%, versus the corresponding period in 2007 principally as a result of the reduction in interest expense related to the Company's May, 2008 repurchase of \$437 million aggregate principal amount of its 6.12% Senior Notes in connection with the remarketing of such Notes.

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Other revenue declined \$1 million in the three month period ended September 30, 2008 versus the corresponding period in 2007. The decline was principally attributable to net investment losses in the 2008 period, including markdowns resulting from the continued volatility in the equity and credit markets relating to the Company's investment in corporate equities used to seed new Asset Management products and for temporary investments. Such decreases were partially offset by foreign exchange gains.

Excluding the \$2 million charge relating to the LAM Merger, operating expenses in the 2008 period increased \$15 million, or 178%, versus the corresponding 2007 period. Such increase was principally due to the provisions of \$12.4 million for losses from counterparty defaults primarily relating to the bankruptcy of one of our prime brokers.

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### *Nine Months Ended September 30, 2008 versus September 30, 2007*

Net interest expense in the nine month period ended September 30, 2008 increased \$9 million, or 19%, versus the corresponding period in 2007 principally as a result of the June 2007 issuance of \$600 million aggregate principal amount of 6.85% senior notes, partially offset by the reduction in interest expense related to the Company's May, 2008 purchase of \$437 million aggregate principal amount of its 6.12% Senior Notes in connection with the remarketing of such Notes and by the repayment of certain senior and subordinated notes in June, 2007.

Other revenue declined \$65 million in the nine month period ended September 30, 2008 versus the corresponding period in 2007, due to broad-based illiquidity in the credit markets and volatility in the equity and credit markets during 2008 which adversely impacted investment income. This adverse impact related to markdowns in the first quarter of 2008 of LFB's portfolio of debt securities of corporate issuers and markdowns in the corporate portfolio of equity securities used to seed new Asset Management products and for temporary investments.

Excluding the \$2 million charge relating to the LAM Merger, operating expenses in the 2008 period decreased \$2 million, or 7%, versus the corresponding 2007 period. While the 2008 period included reductions in compensation and benefits related to lower incentive compensation as a result of the lower level of revenue and a higher level of indirect support costs allocated to the business segments, such decreases were partially offset by the provisions of \$12.4 million for losses from counterparty defaults primarily relating to the bankruptcy of one of our prime brokers.

## **Cash Flows**

The Company's cash flows are influenced primarily by the timing of the receipt of Financial Advisory and Asset Management fees, the timing of distributions to shareholders and payment of incentive compensation bonuses 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 makes payments of 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:**

|   | Nine Months Ended<br>September 30,<br>2008                      2007<br>(\$ in millions) |          |
|---|--|----------|
| <b>Cash Provided By (Used In):</b>                  |  |          |
| Operating activities:                               |  |          |
| Net income (loss)                                   | \$ (34.8)  | \$ 95.9  |
| Noncash charges (a)                                 | 245.5  | 233.0    |
| Other operating activities (b)                      | (51.4)   | (449.5)  |
| Net cash provided by (used in) operating activities | 159.3  | (120.6)  |
| Investing activities (c)                            | (142.4)  | (144.1)  |
| Financing activities (d)                            | (289.3)  | 257.7    |
| Effect of exchange rate changes                     | (8.5)  | (3.4)    |
| <b>Net Decrease in Cash and Cash Equivalents</b>    | (280.9)  | (10.4)   |
| <b>Cash and Cash Equivalents:</b>                   |  |          |
| <b>Beginning of Period</b>                          | 1,055.8  | 969.5    |
| <b>End of Period</b>                                | \$ 774.9   | \$ 959.1 |

(a) Consists of the following:

|  |          |          |
|--|----------|----------|
| Depreciation and amortization of property                              | \$ 15.3  | \$ 11.7  |
| Amortization of deferred expenses, stock units and interest rate hedge | 187.0    | 78.7     |
| Amortization of intangible assets related to acquisitions              | 4.3      | 18.2     |
| Minority interest in net income (loss)                                 | (25.4)   | 124.4    |
| Non-cash portion of charge related to LAM Merger                       | 64.3     |          |
|  | \$ 245.5 | \$ 233.0 |

(b) Includes net changes in operating assets and liabilities.

(c) Principally relates to the acquisition of our equity method investment in Sapphire Industrials Corp. ( "Sapphire" ) (see Note 11 of Notes to Condensed Consolidated Financial Statements), purchases of available-for-sale securities by LFB and our equity method investment in Merchant Bankers Asociados, an Argentina-based financial advisory services firm with offices across Central and South America and the parent company of MBA Banco de Inversiones.

(d) Primarily includes distributions to minority interest holders, Class A common stock dividends, repurchases of Lazard Group common membership interests from members of LAZ-MD Holdings and shares of Class A common stock, and, activity related to borrowings, including, in the 2008 period, the Company's purchase of \$437 million aggregate principal amount of its 6.12% Senior Notes in connection with the remarketing and the concurrent settlement of the purchase contract component of the equity security units ( "ESUs" ), which resulted in Lazard Ltd issuing 14,582,750 shares of Class A common stock for aggregate proceeds of \$437 million.

**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 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



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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 that are 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.

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. We maintain lines of credit in excess of anticipated liquidity requirements. As of September 30, 2008, Lazard had approximately \$217 million in unused lines of credit available to it, including \$59 million of unused lines of credit available to LFB.

Lazard's annual cash flow generated from operations historically has been sufficient to enable it to meet its annual obligations. We believe that our cash flows from operating activities, including 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 noted above, we intend to maintain lines of credit that can be utilized should the need arise. These credit lines include a \$150 million senior revolving credit facility with a group of lenders that expires in May, 2010. As of September 30, 2008, there were no amounts outstanding under this credit facility. The senior revolving credit facility contains customary affirmative and negative covenants and events of default for facilities of this type which, among other things, limit the ability of the borrower to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets and contains financial covenants that must be maintained. We may, to the extent required and subject to restrictions contained in our financing arrangements, use other financing sources in addition to any new credit facilities. In addition, the indenture and supplemental indentures relating to Lazard Group's senior notes contain certain covenants, events of default and other customary provisions.

**Financing Agreements**

Over the past several years, Lazard has entered into several financing agreements designed to strengthen both its capital base and liquidity, the most significant of which are described below. Each of these agreements is discussed in more detail in our consolidated financial statements and related notes included in the Form 10-K. The table below sets forth our corporate indebtedness as of September 30, 2008 and December 31, 2007.

|   | Maturity Date | As of<br>September 30,<br>2008<br>(\$ in millions) | As of<br>December 31,<br>2007 | Increase<br>(Decrease) |
|---|---------------|--|-------------------------------|------------------------|
| <b>Senior Debt:</b>                       |               |  |                               |                        |
| 6.85%                                     | 2017          | \$ 600.0   | \$ 600.0                      | \$                     |
| 7.125%                                    | 2015          | 550.0  | 550.0                         |                        |
| 6.12%(a)                                  | 2008          |  | 437.5                         | (437.5)                |
| <b>Subordinated Debt:</b>                 |               |  |                               |                        |
| 3.25%(b)                                  | 2016          | 150.0  | 150.0                         |                        |
| <b>Total Senior and Subordinated Debt</b> |               | <b>\$ 1,300.0</b>                                  | <b>\$ 1,737.5</b>             | <b>\$ (437.5)</b>      |

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- (a) In connection with the remarketing under the terms of the ESUs, on May 15, 2008 (i) \$437.5 million aggregate principal amount of the 6.12% Senior Notes were purchased by Lazard Group, (ii) the stated maturity of the 6.12% Senior Notes was reset to May 15, 2010 and (iii) the interest rate on the 6.12% Senior Notes was reset to 4.00% per annum. See Note 10 of Notes to Condensed Consolidated Financial Statements.

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- (b) 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 July 1, 2008, and an additional one third in principal amount will generally be convertible after July 1, 2009 and July 1, 2010, with no principal amounts convertible after June 30, 2011. See Note 10 of Notes to Condensed Consolidated Financial Statements.

As of September 30, 2008, Lazard was in compliance with all of its obligations under its various borrowing arrangements.

**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 17 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.

**Contractual Obligations**

The following table sets forth information relating to Lazard's contractual obligations for future payments as of September 30, 2008:

|   | Contractual Obligations Payment Due by Period |                     |                   |                  |                      |
|---|---|---------------------|-------------------|------------------|----------------------|
|   | Total   | Less than<br>1 Year | 1-3 Years         | 3-5 Years        | More than<br>5 Years |
|   | (\$ in thousands)                             |                     |                   |                  |                      |
| Senior and Subordinated Debt (including interest) (a)       | \$ 1,985,651                                  | \$ 85,163           | \$ 170,325        | \$ 170,325       | \$ 1,559,838         |
| Operating Leases (exclusive of \$56,014 of sublease income) | 515,365                                       | 65,981              | 122,150           | 79,337           | 247,897              |
| LAM Merger cash consideration (c)                           | 150,580                                       | 60,232              |                   | 90,348           |                      |
| Capital Leases (including interest)                         | 37,270  | 5,050               | 7,409             | 6,286            | 18,525               |
| Investment Commitments:                                     |   |                     |                   |                  |                      |
| LAI-managed funds (b)                                       | 70,749  | 39,499              | 31,250            |                  |                      |
| Other   | 12,472  | 11,598              | 299               | 541              | 34                   |
| <b>Total (d)</b>  | <b>\$2,772,087</b>                            | <b>\$ 267,523</b>   | <b>\$ 331,433</b> | <b>\$346,837</b> | <b>\$1,826,294</b>   |

- (a) See Note 10 of Notes to Condensed Consolidated Financial Statements.  
 (b) See Note 9 of Notes to Consolidated Financial Statements included in the Form 10-K.  
 (c) See Note 7 of Notes to Condensed Consolidated Financial Statements for additional information regarding the LAM Merger.  
 (d) The table above excludes contingent obligations and any possible payments for uncertain tax positions given the inability to estimate the timing of the latter payments. See Note 17 of Notes to Consolidated Financial Statements included in the Form 10-K regarding information in connection with Lazard's uncertain tax positions.



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### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our consolidated financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in conformity with U.S. GAAP pursuant to the rules and regulations of the SEC regarding interim financial reporting as discussed in Note 2 of Notes to Condensed Consolidated Financial Statements. The preparation of Lazard's condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Lazard evaluates its estimates, including those related to revenue recognition, compensation liabilities, income taxes, investing activities and goodwill. Lazard bases these estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Lazard believes that the critical accounting policies set forth below comprise the most significant estimates and judgments used in the preparation of its consolidated financial statements.

#### ***Revenue Recognition***

Lazard generates substantially all of its net revenue from providing financial advisory and asset management services to clients. Lazard recognizes revenue when the following criteria are met:

there is persuasive evidence of an arrangement with a client,

the agreed-upon services have been provided,

fees are fixed or determinable, and

collection is probable.

Lazard's clients generally enter into agreements with Lazard that vary in duration depending on the nature of the service provided. Lazard typically bills clients for the full amounts due under the applicable agreements on or after the dates on which the specified service has been provided. Generally, payments are collected within 60 days of billing (or over longer periods of time with respect to billings related to restructurings and our private fund advisory activities).

The Company also earns performance-based incentive fees on various investment products, including alternative investment funds such as hedge funds, private equity funds, and traditional products. Incentive fees are calculated based on a specified percentage of a fund's net appreciation, in some cases in excess of established benchmarks. Incentive fees on private equity funds also may be earned in the form of a carried interest if profits from investments exceed a specified threshold. These incentive fees are paid at the end of the measurement period. Incentive fees on hedge funds generally are subject to loss carry-forward 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.

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The Company records incentive fees at the end of the relevant performance measurement period when potential uncertainties regarding the ultimate realizable amounts have been determined. The performance fee measurement period is generally an annual period, unless an account terminates during the year. These incentive fees received at the end of the measurement period are not subject to reversal or payback.

Lazard assesses whether collection is probable based on a number of factors, including past transaction history with the client and an assessment of the client's current creditworthiness. If, in Lazard's judgment, collection of a fee is not probable, Lazard will not recognize revenue until the uncertainty is removed. In rare cases, an allowance for doubtful accounts may be established, for example, if a fee is in dispute or litigation has commenced.

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**Table of Contents*****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 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. In addition, as a result of the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48) on January 1, 2007, a higher standard must be met before tax benefits can be recognized in the Company's consolidated financial statements. 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 Lazard's consolidated financial position and results of operations.

In addition, in order to determine its quarterly tax rate, Lazard is required to estimate full year pre-tax income and the related annual income tax expense in each jurisdiction. Tax exposures 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 measurement of current and deferred income taxes.

***Valuation of Investments***

Investments consist principally of debt securities, equities, investments in alternative asset management funds and other private equity investments. These investments are carried at fair value on the condensed 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 under SFAS No. 115, within our non broker-dealer subsidiaries, and (ii) in accumulated other comprehensive income (loss), to the extent designated as available-for-sale securities under SFAS No. 115 until such time they are realized and reclassified to earnings. Any declines in the fair value of available-for-sale 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 accumulated other comprehensive income (loss).

Debt securities are primarily investments of LFB which typically holds them long-term as part of its asset-liability management program. As described above, effective July 1, 2008, as permitted under SFAS No. 115, certain debt securities held by LFB which were previously designated as trading securities were re-designated as available-for-sale securities.

Equities principally represent the Company's investments in marketable equity securities either held directly or indirectly through asset management funds, and are either designated as trading securities under SFAS No. 115 or accounted for pursuant to broker-dealer accounting guidelines depending upon the entity in which such equities are held.





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Interests in LAM alternative asset management funds principally represent general partnership interests in LAM-managed hedge funds. The fair value of such interests reflects the pro rata value of the ownership of the underlying securities in the funds, the fair market value of which is determined through quoted market values of the underlying securities as provided by external pricing sources.

Minority interests in LAM alternative asset management funds represent general partnership interests held directly by certain of our LAM managing directors or employees of the Company but controlled and consolidated by Lazard. The associated minority interest amounting to approximately \$35 million at September 30, 2008 and \$51 million at December 31, 2007, respectively, is included in minority interest on the condensed consolidated statements of financial condition (see Note 6 of Notes to Condensed Consolidated Financial Statements).

Private equity investments, which represent approximately 2.8% at September 30, 2008 and 1.9% of total assets at December 31, 2007, respectively, are comprised of investments in private equity funds and direct private equity interests that are valued, in the absence of observable market prices, initially at cost, which is subsequently adjusted for additional capital raising transactions such as the issuance of new member interests or through a sale of existing equity to a third party or other events that are indicative of fair value. In the absence of third party transactions, the carrying value of such investments may be adjusted if it is determined that the expected realizable value of the investment differs from the carrying value. In reaching that determination, consideration is given to many factors including, but not limited to, the operating cash flows and financial performance of the investee, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and any specific rights or terms associated with the investment, such as conversion features, liquidation preferences or restrictions. With respect to the majority of private equity investments, Lazard utilizes information derived from fund managers for the determination of such fair values.

See Note 5 of Notes to Condensed Consolidated Financial Statements for additional information regarding investments and certain other assets and liabilities measured at fair value, including a discussion of the inputs utilized by Lazard in measuring fair value and the levels of fair value within which such measurements fall, pursuant to the disclosure requirements of SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which the Company adopted on January 1, 2008.

### ***Goodwill***

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, 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 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.

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**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 and it will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both, it is required 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 FIN 46R. 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 as part of the normal course of business and therefore we have designed risk management processes to help manage 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.

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.

At September 30, 2008, \$524 million, or 72%, of the \$728 million of investments (net of securities sold not yet purchased of \$7 million classified as other liabilities) represented investments in debt securities held by LFB and Corporate investments in equity securities that are held indirectly through asset management funds, non-publicly traded funds or through general partnership interests in LAM-managed funds, and are therefore subject to market risks. These investment portfolios are monitored daily by management. Included in the amount above was \$378 million of debt securities (representing approximately 72% of investments subject to market risk), substantially all of which were in LFB's portfolio, consisting primarily of corporate bonds (93% of which carried investment grade ratings at September 30, 2008), and secondarily, non-U.S. government securities. These securities are held long-term as part of LFB's asset-liability management program.

The remaining 28% of the investments at September 30, 2008 represent (i) private equity and equity method investments that are generally not subject to short-term market fluctuations, and (ii) general partnership interests in LAM alternative asset management funds held directly by certain of our managing directors and employees but which are controlled and consolidated by the Company, and therefore the associated risk remains with the minority interest holders.

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At December 31, 2007, \$941 million, or 88%, of the \$1,067 million of investments (net of securities sold not yet purchased of \$22 million) represented investments in debt securities held by LFB and Corporate

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investments in equity securities that are either held directly or indirectly through asset management funds, non-publicly traded funds or through general partnership interests in LAM-managed funds, and are therefore subject to market risks. Included in this amount was \$585 million of debt securities (representing approximately 62% of investments subject to market risk), substantially all of which were in LFB's portfolio, consisting primarily of corporate bonds (84% of which held investment grade ratings at December 31, 2007), and secondarily, non-U.S. government securities.

The remaining 12% of the investments at December 31, 2007 represent (i) private equity and equity method investments that are generally not subject to short-term market fluctuations and (ii) general partnership interests in LAM alternative asset management funds held directly by certain of our managing directors and employees but which are controlled and consolidated by the Company, and therefore the associated risk remains with the minority interest holders.

Lazard enters into interest rate swaps and foreign currency exchange contracts to hedge exposures to interest rates and currency exchange rates and, beginning in the second quarter of 2008, uses equity swap contracts to hedge a portion of its market exposure with respect to certain equity investments.

At September 30, 2008 and December 31, 2007, derivative contracts related primarily to interest rate swaps and equity and exchange rate contracts and are recorded at fair value. Derivative assets amounted to \$20 million and \$10 million at September 30, 2008 and December 31, 2007, respectively, with derivative liabilities amounting to \$11 million and \$4 million at September 30, 2008 and December 31, 2007, respectively.

The primary market risks associated with LFB's securities portfolio, foreign exchange hedging and lending activities are sensitivity to changes in the general level of credit spreads and interest rate and foreign currency risks. 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 Lazard's condensed consolidated financial statements as of September 30, 2008:

LFB's credit spread risk, as measured by a 100 +/- basis point change in credit spreads totaled \$(13) million and \$14 million, respectively.

LFB's interest rate risk as measured by a 100 +/- basis point change in interest rates totaled \$400 thousand.

Foreign currency risk associated with LFB's open positions, in aggregate, as measured by a 200 +/- basis point change against the U.S. dollar, totaled approximately \$51 thousand.

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

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

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We maintain an allowance for bad debts 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, in our judgment, the receivables are impaired. At September 30, 2008, total receivables amounted to \$1.2 billion, net of an allowance for bad debts of \$20 million. As of that date, inter-bank lending, financial advisory and asset management fee, customer and other and related party receivables comprised 55%, 31%, 13% and 1% of total receivables, respectively. At December 31, 2007, total receivables amounted to \$1.1 billion, net of allowance for bad debts of \$13 million. As of that date, inter-bank lending, financial advisory and asset management fee, customer and other and related party receivables comprised 45%, 47%, 5% and 3% of total receivables, respectively. The M&A and asset management fee receivables collection periods generally are within 60 days of invoice. However, as discussed above, the collection period for restructuring transactions may extend beyond 60 days, and fee receivables from our private fund advisory activities are generally collected over a four year period.

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Customers and other receivables at September 30, 2008 also includes a \$78 million receivable from the Reserve Primary Fund (the Primary Fund), a money market fund based in New York. As of September 15, 2008, the Company held an investment in the Primary Fund. On September 15 and 16, 2008, the Company requested the redemption of its entire investment. Effective September 17, 2008, before the Company's investment was redeemed, the SEC issued an order temporarily suspending the Primary Fund's obligation to honor redemption requests and calling for the orderly winding up of the Primary Fund and the ultimate disposition of the holdings of all investors in the Primary Fund. At the present time, the Primary Fund is engaged in the liquidation of its assets for distribution to investors under the supervision of the SEC. The Company expects to receive the full amount of its receivable relating to its investment in the Primary Fund, but it is possible that the process of liquidating the Primary Fund may ultimately result in some diminution in value of the Company's investment position. The Company is closely monitoring the situation and reserving all of its rights. On October 31, 2008, the Company received its first partial redemption aggregating approximately \$39 million.

### ***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 September 30, 2008, LFB had no exposure to an individual counterparty that exceeded \$36 million, in the aggregate, excluding inter-bank counterparties.

With respect to activities outside LFB, as discussed above, as of September 30, 2008 the Company had a receivable related to its investment in the Primary Fund, for which the Company had an individual counterparty exposure of \$78 million.

### ***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 September 30, 2008, Lazard estimates that operating income relating to cash and short-term investments and corporate indebtedness would change by approximately \$9 million, on an annual basis, in the event interest rates were to increase or decrease by 1%.

As of September 30, 2008, the Company's cash and cash equivalents totaled \$775 million. Approximately two-thirds of this balance was invested in highly liquid institutional money market funds that were invested in U.S. government or agency securities, or in institutional money market funds that have announced that they are (or will be) participating in the U.S. Treasury Department's Temporary Guarantee Program for Money Market Funds. The remainder of the Company's cash and cash equivalents was placed in short-term interest earning accounts at a number of leading banks throughout the world, or was used to buy short-term certificates of deposit from such banks. 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 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

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Company has in place business continuity and disaster recovery programs that manages 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.



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**Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board (the FASB) issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) replaced SFAS No. 141, *Business Combinations* (SFAS No. 141), and supersedes or amends other related authoritative literature although it retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) also established principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R) also requires the acquirer to expense costs relating to any acquisitions that close after December 31, 2008.

In September 2006, the FASB issued SFAS No. 157, which, among other things, defines fair value, establishes a framework for measuring fair value and enhances disclosure requirements about fair value measurements. SFAS No. 157 applies to those accounting pronouncements that require or permit the use of fair value measurements for recognition or disclosure purposes and to those accounting pronouncements that require fair value measurements for other reasons such as the requirement to measure reporting units at fair value for annual goodwill impairment testing. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2 (FSP 157-2), which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items would include, for example, reporting units measured at fair value in a goodwill impairment test as mentioned above and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, the Company adopted SFAS No. 157 for those assets and liabilities not subject to the delayed adoption provision of FSP 157-2. The partial adoption of SFAS No. 157 did not have a material impact on the Company's condensed consolidated financial statements. For additional disclosures about fair value measurements, see Note 5 of Notes to Condensed Consolidated Financial Statements. The Company does not anticipate that the adoption of the remaining provisions of SFAS No. 157 in the first quarter of 2009 (subject to the delayed adoption provision of FSP 157-2) will have a material impact on the Company's consolidated financial statements.

On September 30, 2008, the SEC's Office of the Chief Accountant and the FASB staff jointly issued interpretative guidance on the application of SFAS No. 157 with respect to estimating the fair value of financial instruments in the current market environment. The release also provides clarification of the factors that should be considered when determining when investments accounted for under SFAS No. 115, are other than temporarily impaired such that an impairment charge must be recognized through earnings. On October 10, 2008, the FASB issued FSP FAS 157-3, which provided additional interpretative guidance on the application of SFAS No. 157 in markets that are not active. FSP FAS 157-3 was effective upon issuance, including for prior periods for which financial statements have not yet been issued. The issuance of interpretative guidance on the application of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits an entity to elect to measure various financial instruments and certain other items at fair value. It provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 became effective January 1, 2008 and did not have a material impact on the Company's consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ( SFAS No. 160 ). SFAS No. 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. In addition, it also changes the way the consolidated income statement is presented by requiring consolidated net income to include amounts attributable to both the parent and the noncontrolling interest with separate disclosure of each component on the face of the consolidated income statement. It does not, however, impact the calculation of net income per share as such calculation will continue to be based on amounts attributable to the parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and shall be applied prospectively as of the beginning of the fiscal year in which it is initially applied except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. Except for changes in financial statement presentation, the Company does not anticipate that the adoption of SFAS No. 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133* ( SFAS No. 161 ). SFAS No. 161 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ( SFAS No. 133 ), to enhance the current disclosure framework in SFAS No. 133 for derivative instruments and hedging activities. Entities will be required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods upon initial adoption. The Company does not anticipate the adoption of SFAS No. 161 will have a material impact on its disclosures of derivative instruments and hedging activities.

**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 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.



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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Our Company's businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses. The Company reviews such matters on a case by case basis and establishes any required reserves in accordance with SFAS No. 5, *Accounting For Contingencies*. 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.

In 2004, we received a request for information from the NASD as part of an industry investigation relating to gifts and gratuities, which was focused primarily on the Company's former Capital Markets business, which business was transferred to LFCM Holdings as a part of the separation from Lazard Group on May 10, 2005. In addition, the Company received requests for information from various legal and regulatory authorities seeking information concerning gifts and entertainment involving an unaffiliated mutual fund company, which were also focused on that same business. On October 30, 2008, Lazard Capital Markets LLC, a wholly-owned subsidiary of LFCM Holdings, entered into a settlement agreement with the SEC relating to this matter.

On September 8, 2008, an action was commenced in the Federal District Court for the Southern District of New York by Leslie Dick Worldwide, Ltd. and Leslie Dick arising out of the bankruptcy of Conseco Inc. The lawsuit names as defendants: George Soros, Soros Fund Management LLC, SFM Management LLC, Conseco Inc., Vornado Realty Trust, German American Capital Corp., Deutsche Bank AG, EastDil Secured LLC, Harry Macklowe, Fortress Investment Group LLC, Cerberus Capital Management, Kirkland & Ellis LLP, Fried, Frank, Harris, Shriver & Jacobson LLP, Carmel Fifth LLC, 767 Manager LLC, Donald J. Trump and LFNY. The complaint alleges RICO and antitrust violations by defendants in connection with the sale of Conseco's assets, including the General Motors Building. Lazard believes that the lawsuit is without merit and does not state any legally actionable claim against LFNY for any matter, including the court-authorized professional services LFNY rendered to Conseco. The plaintiffs previously sued, and lost, on a similar claim arising out of the same set of alleged facts in New York State court, resulting in a dismissal of his complaint by the state trial court and affirmance of that dismissal by the appellate court. LFNY was not named as a defendant in that state court action. LFNY may be indemnified by Conseco against any expenses, losses or damages that LFNY may incur in relation to this federal court action. Lazard intends to defend the lawsuit vigorously and will seek to have the claims against LFNY dismissed at the earliest opportunity.

**Item 1A. Risk Factors**

There were no material changes from the risk factors previously disclosed in the Company's Form 10-K.

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

As described in Note 8 of Notes to Condensed Consolidated Financial Statements, in July and August of 2007, Lazard Ltd acquired all of the outstanding shares of CWC and GAHL, respectively, for a combination of cash, common stock and preferred stock of Lazard Ltd. On August 1, 2008, Lazard Ltd issued 25,565 shares of Class A common stock in reliance on Section 4(2) of the Securities Act of 1933 (transactions not involving a public offering) in connection with the conversion of 277 shares of Series B preferred stock of Lazard Ltd that were issued in the CWC acquisition. On August 13, 2008, Lazard Ltd issued 203,890 shares of Class A common stock in reliance on Section 4(2) of the Securities Act of 1933 to the sellers in the GAHL transaction pursuant to the terms of the equity purchase agreement between Lazard Group, GAHL and

the selling members of GAHL.

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As described in Note 12 of Notes to Condensed Consolidated Financial Statements, on August 7, 2008, Lazard Ltd issued 323,137 shares of Class A common stock in reliance on Section 4(2) of the Securities Act of 1933 in connection with the exchange of 323,137 common membership interests of Lazard Group held by certain members of LAZ-MD Holdings as provided for in the Master Separation Agreement, dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings and other related documents.

**Issuer Repurchases of Equity Securities**

The following table sets forth information regarding Lazard's purchases of its Class A common stock on a monthly basis during the third quarter of 2008. Share repurchases are recorded on a trade date basis.

| Period                                 | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|--|----------------------------------|------------------------------|---|---|
| July 1, 2008 - July 30, 2008           |                                  |                              |   | \$ million  |
| August 1, 2008 - August 31, 2008       |                                  |                              |   | \$ million  |
| September 1, 2008 - September 30, 2008 | 1,286,913                        | \$36.15                      | 1,286,913   | \$194.0 million   |
| Total                                  | 1,286,913                        | \$36.15                      | 1,286,913   |   |

- (1) From the inception of our share repurchase program in February 2006, the Board of Directors of Lazard Ltd has authorized on a cumulative basis the repurchase of up to \$500 million in aggregate cost of Lazard Ltd Class A common stock and Lazard Group common membership interests through December 31, 2009. The share repurchase program will be used primarily to offset a portion of the shares to be issued under Lazard Ltd's 2005 Equity Incentive Plan and the 2008 Incentive Compensation Plan (which was approved by the stockholders of Lazard Ltd on May 6, 2008). Purchases under the share repurchase program may be made in the open market or through privately negotiated transactions.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 2.1 Master Separation Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 2.2 Amendment No. 1, dated as of November 6, 2006, to the Master Separation Agreement,  
  
dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC and LAZ-MD Holdings LLC (incorporated by reference to Exhibit 2.2 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).

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- 2.3 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. 001-32492) filed on May 8, 2008).
- 2.4 Class B-1 and Class C Members Transaction Agreement (incorporated by reference to Exhibit 2.2 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1 filed on December 17, 2004).
- 3.1 Certificate of Incorporation and Memorandum of Association of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
- 3.2 Certificate of Incorporation in Change of Name of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).
- 3.3 Amended and Restated Bye-laws of Lazard Ltd (incorporated by reference to Exhibit 3.3 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).
- 3.4 First Amendment to Amended and Restated Bye-Laws of Lazard Ltd (incorporated by reference to Exhibit 3.4 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008).
- 4.1 Form of Specimen Certificate for Class A common stock (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).
- 4.2 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).
- 4.3 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 (and incorporated by reference to Exhibit 4.1 to the Registrants' Current Report on Form 8-K (Commission File No. 333-126751) filed on May 16, 2008).
- 4.4 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. 001-32492) filed on June 22, 2007).
- 4.5 Form of Senior Note (included in Exhibit 4.3).
- 10.1 Amended and Restated Stockholders' Agreement, dated as of November 6, 2006, by and among LAZ-MD Holdings LLC, the Registrant and certain members of LAZ-MD Holdings LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on November 7, 2006).
- 10.2 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 10.2 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 9, 2008).
- 10.3 Operating Agreement of Lazard Group LLC, dated as of May 10, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).



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| 10.4   | 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).   |
| 10.5   | 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 10.3 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on May 8, 2008).   |
| 10.6   | Tax Receivable Agreement, dated as of May 10, 2005, by and among Ltd Sub A, Ltd Sub B and LFCM Holdings LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).   |
| 10.7   | Employee Benefits Agreement, dated as of May 10, 2005, by and among the Registrant, Lazard Group LLC, LAZ-MD Holdings LLC and LFCM Holdings LLC (incorporated by reference to Exhibit 10.4 to the Registrant'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 the Registrant'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 the Registrant'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 the Registrant'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 the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).  |
| 10.12  | 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 the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).   |
| 10.13  | 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 the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).  |
| 10.14  | 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 the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005).                                  |
| 10.15  | Occupational Lease, dated as of August 9, 2002, 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 the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on February 11, 2005). |
| 10.16* | 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on May 2, 2005).   |

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| 10.17* | Lazard Ltd's 2008 Incentive Compensation Plan (incorporated by reference to Annex B to the Registrant's Definitive Proxy Statement on Schedule 14A (File No. 001-32492) filed on March 24, 2008).  |
| 10.18* | 2005 Bonus Plan (incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).   |
| 10.19* | Amended and Restated Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of January 29, 2008, by and among Lazard Ltd, Lazard Group LLC and Bruce Wasserstein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report (File No. 001-32492) on Form 8-K filed on February 1, 2008).  |
| 10.20* | Agreement Relating to Reorganization of Lazard, dated as of May 10, 2005, by and among Lazard LLC and Bruce Wasserstein (incorporated by reference to Exhibit 10.24 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).  |
| 10.21* | Amended and Restated Agreement Relating to Retention and Noncompetition and Other Covenants, dated as of May 7, 2008, by and among the Registrant, Lazard Group LLC and Steven J. Golub (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report (File No. 001-32492) on Form 8-K filed on May 8, 2008).  |
| 10.22* | 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 the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).  |
| 10.23* | 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. 001-32492) filed on May 8, 2008).   |
| 10.24* | Agreements Relating to Retention and Noncompetition and Other Covenants (incorporated by reference to Exhibit 10.27 to the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on April 11, 2005).   |
| 10.25* | 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 the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).  |
| 10.26* | 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. 001-32492) on Form 10-Q filed on November 7, 2006). |
| 10.27  | 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 the Registrant's Registration Statement (File No. 333-121407) on Form S-1/A filed on March 21, 2005).  |
| 10.28  | 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 the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).  |
| 10.29  | Letter Agreement, dated as of May 10, 2005, with Bruce Wasserstein family trusts (incorporated by reference to Exhibit 10.31 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).   |

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| 10.30  | Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.32 to the Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on June 16, 2005).  |
| 10.31  | First Amendment, dated as of March 28, 2006, to the Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.34 to Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006). |
| 10.32  | Second Amendment, dated as of May 17, 2006, to the Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on May 17, 2006).  |
| 10.33  | Third Amendment, dated as of June 18, 2007, to the Senior Revolving Credit Agreement, dated as of May 10, 2005, among Lazard Group LLC, the Banks from time to time parties thereto, Citibank, N.A., The Bank of New York, New York Branch, JP Morgan Chase Bank, N.A. and JP Morgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on June 22, 2007). |
| 10.34* | Description of Non-Executive Director Compensation (incorporated by reference to Exhibit 10.33 to the Registrant'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 the Registrant'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 the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on January 26, 2006).   |
| 10.37  | 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. 001-32492) filed on April 4, 2006).  |
| 10.38  | 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. 001-32492) filed on May 17, 2006).   |
| 10.39  | 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. 001-32492) filed on May 17, 2006).  |
| 10.40* | Directors' Fee Deferral Unit Plan (incorporated by reference to Exhibit 10.39 to Registrant's Quarterly Report (File No. 001-32492) on Form 10-Q filed on May 11, 2006).   |
| 10.41* | 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 10.43 to Registrant's Annual Report (File No. 001-32492) on Form 10-K filed on March 1, 2007).  |

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| 10.42 | 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 the Registrant's Current Report on Form 8-K (File No. 001-32492) filed on August 15, 2008). |
| 12.1  | Computation of Ratio of Earnings to Fixed Charges.  |
| 31.1  | Rule 13a-14(a) Certification of Bruce Wasserstein.  |
| 31.2  | Rule 13a-14(a) Certification of Michael J. Castellano.  |
| 32.1  | Section 1350 Certification for Bruce Wasserstein.   |
| 32.2  | Section 1350 Certification for Michael J. Castellano.   |

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\* Management contract or compensatory plan or arrangement.

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**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: November 3, 2008

LAZARD LTD

By: /s/ Bruce Wasserstein  
Name: Bruce Wasserstein

Title: Chairman and Chief Executive Officer

By: /s/ Michael J. Castellano  
Name: Michael J. Castellano

Title: Chief Financial Officer