

Lazard Ltd  
Form 10-Q  
May 09, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

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

001-32492

(Commission File Number)

---

# LAZARD LTD

(Exact name of registrant as specified in its charter)

**Bermuda**  
(State or Other Jurisdiction of Incorporation  
or Organization)

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

---

**Clarendon House**

**2 Church Street**

**Hamilton HM11, Bermuda**

(Address of principal executive offices)

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

---

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of April 30, 2007, there were 51,554,068 shares of the registrant's Class A common stock and one share of the registrant's Class B common stock outstanding.

---

**Table of Contents**

**TABLE OF CONTENTS**

*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 March 31, 2007 of approximately 47.9% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

	<b>Page</b>
<b>Part I. Financial Information</b>	
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	47
<u>Item 4. Controls and Procedures</u>	47
<b>Part II. Other Information</b>	
<u>Item 1. Legal Proceedings</u>	48
<u>Item 1A. Risk Factors</u>	48
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3. Defaults Upon Senior Securities</u>	48
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	48
<u>Item 5. Other Information</u>	49
<u>Item 6. Exhibits</u>	49
<b><u>Signatures</u></b>	54

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

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

	<b>Page</b>
<u>Condensed Consolidated Statements of Financial Condition as of March 31, 2007 and December 31, 2006</u>	2
<u>Condensed Consolidated Statements of Income for the three month periods ended March 31, 2007 and 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the three month periods ended March 31, 2007 and 2006</u>	5
<u>Condensed Consolidated Statement of Changes in Stockholders Deficiency for the three month period ended March 31, 2007</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****MARCH 31, 2007 AND DECEMBER 31, 2006****(UNAUDITED)****(dollars in thousands, except for per share data)**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 682,227	\$ 969,483
Cash segregated for regulatory purposes or deposited with clearing organizations	32,387	16,023
Securities owned at fair value:		
Bonds Corporate	472,739	527,421
Equities	106,989	23,185
Non-U.S. Government and agency securities	29,035	28,729
	<u>608,763</u>	<u>579,335</u>
Receivables net:		
Banks	424,860	721,002
Fees	314,185	417,519
Customers	83,101	77,832
Related parties	17,159	18,543
	<u>839,305</u>	<u>1,234,896</u>
Long-term investments at fair value	127,008	99,057
Property (net of accumulated amortization and depreciation of \$186,112 and \$181,812 at March 31, 2007 and December 31, 2006, respectively)	169,372	168,310
Goodwill	16,960	16,945
Other assets	138,768	124,616
	<u>\$ 2,614,790</u>	<u>\$ 3,208,665</u>

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****MARCH 31, 2007 AND DECEMBER 31, 2006****(UNAUDITED)****(dollars in thousands, except for per share data)**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	<u>          </u>	<u>          </u>
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS DEFICIENCY</b>		
Liabilities:		
Deposits and other customer payables	\$ 800,718	\$ 1,195,014
Accrued compensation and benefits	186,406	437,738
Senior borrowings	1,083,508	1,087,057
Capital lease obligations	25,387	25,445
Related party payables	9,540	9,794
Other liabilities	460,371	438,473
Subordinated borrowings	200,000	200,000
	<u>          </u>	<u>          </u>
Total liabilities	2,765,930	3,393,521
Commitments and contingencies		
Minority interest	55,726	55,497
<b>STOCKHOLDERS DEFICIENCY</b>		
Common stock:		
Class A, par value \$.01 per share (500,000,000 shares authorized; 51,554,068 shares issued and outstanding at March 31, 2007 and December 31, 2006)	516	516
Class B, par value \$.01 per share (1 share authorized, 1 share issued and outstanding at March 31, 2007 and December 31, 2006)		
Additional paid-in-capital	(371,238)	(396,792)
Accumulated other comprehensive income, net of tax	32,590	32,494
Retained earnings	135,445	127,608
	<u>          </u>	<u>          </u>
	(202,687)	(236,174)
Less - Class A common stock held in treasury, at cost (115,000 shares at March 31, 2007 and December 31, 2006)	(4,179)	(4,179)
	<u>          </u>	<u>          </u>
Total stockholders' deficiency	(206,866)	(240,353)
	<u>          </u>	<u>          </u>
Total liabilities, minority interest and stockholders' deficiency	\$ 2,614,790	\$ 3,208,665
	<u>          </u>	<u>          </u>

See notes to condensed consolidated financial statements.



Table of Contents

## LAZARD LTD

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2007 AND 2006

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended March 31,	
	2007	2006
<b>REVENUE</b>		
Investment banking and other advisory fees	\$215,083	\$219,583
Money management fees	135,826	110,569
Interest income	22,341	8,010
Other	27,193	22,095
<b>Total revenue</b>	<b>400,443</b>	<b>360,257</b>
Interest expense	31,245	23,999
<b>Net revenue</b>	<b>369,198</b>	<b>336,258</b>
<b>OPERATING EXPENSES</b>		
Compensation and benefits	220,038	200,139
Premises and occupancy costs	18,106	16,591
Professional fees	16,214	14,877
Travel and entertainment	12,547	8,887
Communications and information services	8,389	7,472
Equipment costs	5,057	5,129
Other	10,579	5,047
<b>Total operating expenses</b>	<b>290,930</b>	<b>258,142</b>
<b>OPERATING INCOME</b>	<b>78,268</b>	<b>78,116</b>
Provision for income taxes	17,061	15,940
<b>INCOME BEFORE MINORITY INTEREST IN NET INCOME</b>	<b>61,207</b>	<b>62,176</b>
Minority interest in net income	34,853	42,490
<b>NET INCOME</b>	<b>\$ 26,354</b>	<b>\$ 19,686</b>
<b>WEIGHTED AVERAGE SHARES OF CLASS A COMMON STOCK OUTSTANDING:</b>		
Basic	51,439,068	37,502,889
Diluted	118,216,333	41,042,544



Edgar Filing: Lazard Ltd - Form 10-Q

**NET INCOME PER SHARE OF CLASS A COMMON STOCK:**

Basic	\$0.51	\$0.52
Diluted	\$0.47	\$0.51
<b>DIVIDENDS PAID PER SHARE OF CLASS A COMMON STOCK</b>	<b>\$0.09</b>	<b>\$0.09</b>

See notes to condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2007 AND 2006****(UNAUDITED)****(dollars in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 26,354	\$ 19,686
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash charges included in net income:		
Depreciation and amortization of property	3,565	3,426
Amortization of deferred expenses, stock units and interest rate hedge	24,631	4,898
Minority interest in net income	34,853	42,490
(Increase) decrease in operating assets:		
Cash segregated for regulatory purposes or deposited with clearing organizations	(15,941)	642
Securities owned, at fair value	(24,217)	(71,103)
Receivables	399,710	143,240
Long-term investments, at fair value	(27,181)	286
Other assets	(14,032)	(5,684)
Increase (decrease) in operating liabilities:		
Deposits and other payables	(400,914)	(11,246)
Accrued compensation and other liabilities	(246,504)	(177,228)
Net cash used in operating activities	<u>(239,676)</u>	<u>(50,593)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property	(3,400)	(1,672)
Disposals and retirements of property	224	233
Net cash used in investing activities	<u>(3,176)</u>	<u>(1,439)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of senior borrowings	(3,549)	(6,565)
Repayment of capital lease obligations	(338)	(285)
Distributions relating to minority interest, including \$32,096 and \$13,223 to LAZ-MD Holdings in 2007 and 2006, respectively	(34,369)	(25,432)
Class A common stock dividends	(4,629)	(3,375)
Other financing activities		(2,677)
Net cash used in financing activities	<u>(42,885)</u>	<u>(38,334)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(1,519)</b>	<b>2,229</b>

Edgar Filing: Lazard Ltd - Form 10-Q

<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(287,256)</u>	<u>(88,137)</u>
<b>CASH AND CASH EQUIVALENTS January 1</b>	969,483	492,309
<b>CASH AND CASH EQUIVALENTS March 31</b>	<u>\$ 682,227</u>	<u>\$ 404,172</u>

See notes to condensed consolidated financial statements.

Table of Contents

## LAZARD LTD

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN  
STOCKHOLDERS DEFICIENCY  
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2007**

(UNAUDITED)

(dollars in thousands)

	Common Stock		Additional Paid-in- Capital	Accumulated Other Comprehensive Income, Net of Tax	Retained Earnings	Class A Common Stock Held In Treasury	Total Stockholders Deficiency
	Shares(*)	\$					
<b>Balance, as previously reported January 1, 2007</b>	<b>51,554,069</b>	<b>\$ 516</b>	<b>\$ (396,792)</b>	<b>\$ 32,494</b>	<b>\$ 127,608</b>	<b>\$ (4,179)</b>	<b>\$ (240,353)</b>
Adjustment for the cumulative effect on prior years from the adoption of FIN 48					(13,221)		(13,221)
<b>Balance, as adjusted January 1, 2007</b>	<b>51,554,069</b>	<b>516</b>	<b>(396,792)</b>	<b>32,494</b>	<b>114,387</b>	<b>(4,179)</b>	<b>(253,574)</b>
Comprehensive income:							
Net income					26,354		26,354
Other comprehensive income (loss) net of tax:							
Currency translation adjustments				(179)			(179)
Amortization of interest rate hedge				275			275
<b>Comprehensive income</b>							<b>26,450</b>
Class A common stock dividends							
Amortization and issuance of stock units			23,963		(4,629)		(4,629)
RSU dividend-equivalents			667		(667)		23,963
Adjustment to reclassify minority interest share of undistributed net income to additional paid-in-capital			924				924
<b>Balance March 31, 2007</b>	<b>51,554,069</b>	<b>\$ 516</b>	<b>\$ (371,238)</b>	<b>\$ 32,590</b>	<b>\$ 135,445</b>	<b>\$ (4,179)</b>	<b>\$ (206,866)</b>

(\*) Includes 51,554,068 shares of the Company's Class A common stock at March 31, 2007 and December 31, 2006 and 1 share of the Company's Class B common stock at each such date.

See notes to condensed consolidated financial statements.

---

**Table of Contents**

**LAZARD LTD**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

**1. ORGANIZATION AND BASIS OF PRESENTATION**

***Organization***

The accompanying condensed consolidated financial statements of 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"), 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, 2006 (the "Form 10-K"). The December 31, 2006 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. 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 period ended March 31, 2007 are not necessarily indicative of the results to be expected for any future period or the full fiscal year.

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

On May 10, 2005, Lazard Ltd consummated an equity public offering (the "equity public offering") of its Class A common stock, par value \$0.01 per share ("Class A common stock"). Lazard Ltd, through a number of newly-formed, wholly-owned subsidiaries, contributed the net proceeds from the equity public offering, along with the net proceeds it received from the financing transactions (as described in Note 2 of Notes to Condensed Consolidated Financial Statements), to Lazard Group in exchange for 37,500,000 Lazard Group common membership interests, representing ownership of 37.5% of Lazard Group's total common membership interests as of May 10, 2005, and, after giving effect to (i) the repurchase and forfeiture of a portion of the Lazard Group common membership interests held by LAZ-MD Holdings LLC ("LAZ-MD Holdings"), as well as (ii) certain subsequent share issuances by Lazard Ltd (principally related to the primary and secondary offerings of Class A common stock as described in Note 2 of Notes to Condensed Consolidated Financial Statements), it held approximately 47.9% of all outstanding Lazard Group common membership interests as of both March 31, 2007 and December 31, 2006. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group.

## Edgar Filing: Lazard Ltd - Form 10-Q

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

**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 sole operating asset is its indirect ownership of common membership interests of Lazard Group and its managing member interest of Lazard Group, whose current principal activities are divided into two business segments:

Financial Advisory, which includes providing advice on mergers and acquisitions, restructurings, capital raising and similar transactions, and

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

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

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

***Basis of Presentation***

The condensed consolidated financial statements are prepared in conformity with U.S. GAAP. The Company's policy is to consolidate (i) all majority-owned subsidiaries in which it has a controlling financial interest, (ii) variable interest entities (VIEs) where the Company has a variable interest and is deemed to be the primary beneficiary and (iii) limited partnerships where the Company is the general partner, unless the presumption of control is overcome. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity's operating and financial decisions, the Company applies the equity method of accounting. All material intercompany transactions and balances have been eliminated.

The Company prepared an assessment that considered quantitative and qualitative factors that included, but was not limited to, the structure and purpose of the separation and recapitalization transactions, corporate governance and the Company's control of Lazard Group through its control of the managing members of Lazard Group, and concluded that Lazard Ltd is the entity that is most closely associated with Lazard Group and

## Edgar Filing: Lazard Ltd - Form 10-Q

therefore should consolidate Lazard Group. Accordingly, the accompanying condensed consolidated financial statements include the consolidated financial position, results of operations and cash flows of Lazard Group.

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

### **2. *THE SEPARATION AND RECAPITALIZATION TRANSACTIONS IN MAY, 2005, AND PRIMARY AND SECONDARY OFFERINGS IN DECEMBER, 2006***

As more fully described in the Form 10-K, on May 10, 2005, Lazard completed the separation and recapitalization transactions, including the financing transactions, pursuant to the master separation agreement.



**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

dated as of May 10, 2005, by and among Lazard Ltd, Lazard Group, LAZ-MD Holdings and LFCM Holdings LLC ( LFCM Holdings ) (the master separation agreement ).

***The Separation***

In the separation, Lazard Group transferred the separated businesses to LFCM Holdings through several steps. First, LAZ-MD Holdings was formed as the new holding company for Lazard Group. Pursuant to this formation, all of the persons who were members of Lazard Group prior to the formation became members of LAZ-MD Holdings and ceased to hold any membership interests in Lazard Group. Lazard Group then contributed the separated businesses to LFCM Holdings, which was then a subsidiary of Lazard Group, and distributed all of the LFCM Holdings interests to LAZ-MD Holdings. After the redemption of the historical partners described below, LAZ-MD Holdings distributed all of the LFCM Holdings interests to its members. Accordingly, after the separation, LFCM Holdings was wholly-owned by the members of LAZ-MD Holdings, including Lazard Group s managing directors at the time of the separation.

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

***The Recapitalization***

On the same day as the separation, LAZ-MD Holdings and Lazard Group effected a recapitalization of their companies. The recapitalization had three principal parts the financing transactions, the redemption of the historical partners interests and mandatorily redeemable preferred interests of Lazard Group and the issuance of LAZ-MD Holdings exchangeable interests to working members.

***The Financing Transactions***

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

## Edgar Filing: Lazard Ltd - Form 10-Q

the equity public offering,

the initial offering (the ESU offering ) of equity security units (the ESUs ) in an aggregate principal amount of \$287,500,

the private offering of Lazard Group senior notes in an aggregate principal amount of \$550,000, and

the private placement of securities to IXIS Corporate & Investment Bank ( IXIS ), consisting of \$150,000 principal amount of ESUs and \$50,000 in shares of Class A common stock.

### ***The Redemption of the Historical Partners' Interests***

As noted above, a primary purpose of the financing transactions was the redemption of the historical partners' interests and mandatorily redeemable preferred interests of Lazard Group. As part of the recapitalization transactions, historical partner interests and preferred interests generally were redeemed for cash.

### ***Exchange of Working Member Interests for LAZ-MD Holdings Interests***

In connection with the formation of LAZ-MD Holdings, the working member interests were exchanged with LAZ-MD Holdings for limited liability company interests in LAZ-MD Holdings. Each holder of a working

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

member interest at the time of the separation and recapitalization transactions received, in exchange for his or her working member interest, a redeemable capital interest in LAZ-MD Holdings consisting of an equivalent amount of capital of LAZ-MD Holdings, an exchangeable interest in LAZ-MD Holdings and, in certain instances, a right to receive distributions from LAZ-MD Holdings. The former holders of working member interests hold all of the limited liability company interests in LAZ-MD Holdings.

**Credit Facility** Concurrent with the equity public offering, Lazard Group entered into a five year, \$125,000 senior revolving credit facility (the Credit Facility ) with a group of lenders. On May 17, 2006, the Credit Facility was amended to provide for an increase in the aggregate commitments from \$125,000 to \$150,000.

**Primary and Secondary Offerings in December, 2006** As described in more detail in the Form 10-K, on December 6, 2006, Lazard Ltd closed an underwritten public offering of additional shares of its Class A common stock. The offering was comprised of a primary offering (the Primary Offering ) of 8,050,400 newly-issued shares by Lazard Ltd and a secondary offering (the Secondary Offering ) of 6,000,000 shares offered to the public by certain current and former managing directors of Lazard and their permitted transferees (the Selling Shareholders ).

The primary offering provided Lazard Ltd with net proceeds, after underwriters' discounts and other estimated expenses, of \$349,137. Lazard Ltd did not receive any net proceeds from the sales of common stock offered by the Selling Shareholders. Immediately following the Primary Offering, Lazard Ltd and its subsidiaries received 8,050,400 additional Lazard Group common membership interests in exchange for the net proceeds from the Primary Offering. In the Secondary Offering, Lazard Ltd and its subsidiaries received an additional 6,000,000 Lazard Group common membership interests from the exchanging LAZ-MD members in exchange for the issuance to them of 6,000,000 shares of Class A common stock. LAZ-MD members then sold those shares to the public.

As a result of the offerings, Lazard Ltd's ownership interest in Lazard Group increased from 37.7% prior to the offerings to 47.9% subsequent thereto. Correspondingly, LAZ-MD's ownership in Lazard Group decreased from 62.3% prior to the offerings to 52.1% subsequent thereto.

Lazard Capital Markets LLC ( LCM ), a wholly-owned subsidiary of LFCM Holdings, was a member of the underwriting group for both the Primary and Secondary Offerings, and, in such capacity, earned revenue, net of estimated underwriting expenses, of \$4,118. 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. In that connection, as of December 31, 2006 Lazard Group's condensed consolidated statement of financial condition included a receivable from LFCM Holdings of \$2,059, with the portion of such amount relating to the Primary Offering of \$1,180 being recorded as an increase to its members' equity in the fourth quarter of 2006 and the portion of such amount relating to the Secondary Offering of \$879 being recorded in other revenue in such period. See Note 12 of Notes to Condensed Consolidated Financial Statements for additional information regarding the business alliance agreement.

## Edgar Filing: Lazard Ltd - Form 10-Q

During the three month period ended March 31, 2007, the Company invested a portion of the net proceeds from the Primary Offering in accounts managed by LAM that are primarily invested in equities. Securities owned - equities on the condensed consolidated statement of financial condition as of March 31, 2007 principally reflects such investments.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies below represent changes to the Company's significant accounting policies occurring during the quarter ended March 31, 2007. A complete discussion of the Company's significant accounting policies are included in the Form 10-K.

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

On January 1, 2007, the Company adopted the Financial Accounting Standards Board (the "FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for and reporting of income tax uncertainties and requires additional disclosures related to uncertain tax positions. The Company's accounting policy provides that interest and penalties related to income taxes be included in income tax expense. See Note 11 of Notes to Condensed Consolidated Financial Statements for additional information relating to the adoption of FIN 48.

**Recent Accounting Pronouncements** In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157 *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require the use of fair value measurements. SFAS 157 is effective for interim and annual financial statements issued for fiscal years beginning after November 15, 2007. We are currently assessing the impact of adopting SFAS 157 on the financial condition, results of operations, and cash flows of the Company.

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 159"). SFAS 159 permits an entity to choose 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. This Statement requires that a business entity report unrealized gains and losses, on items for which the fair value option has been elected, in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of the first annual period beginning after November 15, 2007. We are currently assessing the impact of adopting SFAS 159 on the financial condition, results of operations, and cash flows of the Company.

**4. MINORITY INTEREST**

The Company records a charge to minority interest in net income relating to LAZ-MD Holdings' ownership interest in Lazard Group (which approximated 52.1% and 62.4% at March 31, 2007 and 2006, respectively), with such minority interest in net income amounting to \$33,020 and \$37,228 for the three month periods ended March 31, 2007 and 2006, respectively. The Company classifies LAZ-MD Holdings' ownership of Lazard Group's common membership interests as a reduction of the Company's stockholders' equity rather than as minority interest, since the balance of such minority interest as of March 31, 2007 and December 31, 2006 of \$118,739 and \$127,863, respectively, is negative. See Note 8 of Notes to Condensed Consolidated Financial Statements with respect to distributions paid to LAZ-MD Holdings.

Minority interest also includes minority interest in LAM and in various LAM-related general partnership interests that it controls but does not wholly own. As a result of consolidating these companies, the Company recognizes the portion of income not associated with the Company's ownership as minority interest.

5. *TERMINATION OF STRATEGIC ALLIANCE IN ITALY*

On May 15, 2006, Lazard Group completed the termination of its strategic alliance with Banca Intesa S.p.A ( Intesa ), which conducted selected Italian investment banking business solely through Lazard & Co. S.r.l. ( Lazard Italy ), an indirect subsidiary of Lazard Group. In accordance with the provisions of the Termination Agreement, dated as of March 31, 2006, by and among Intesa, Lazard Group and Lazard Italy, the following

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

adjustments were made to the terms of Intesa's investment in Lazard Italy and Lazard Funding Limited LLC (Lazard Funding), a wholly-owned subsidiary of Lazard Group:

The \$150,000 Subordinated Convertible Note Intesa purchased in March 2003 from Lazard Funding was amended and restated, among other things, to provide for its convertibility into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of \$57 per share. The amended \$150,000 subordinated convertible note (the Amended \$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 will generally be 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.

Intesa's 40% equity interest in Lazard Italy and a \$50,000 subordinated promissory note of Lazard Italy held by Intesa were acquired by Lazard Group in exchange for the issuance by Lazard Group to Intesa of a \$96,000 senior promissory note (the \$96,000 Senior Promissory Note) and a \$50,000 subordinated promissory note (the \$50,000 Subordinated Promissory Note), respectively, with both Notes due February 28, 2008. The \$96,000 Senior Promissory Note and the \$50,000 Subordinated Promissory Note have fixed interest rates of 4.25% and 4.6% per annum, respectively, and each Note contains customary events of default for indebtedness of its type. On May 15, 2006, Intesa sold and assigned all its rights and interests relating to both Notes to a commercial bank.

Lazard Group paid Intesa an amount equal to a 3% annualized return on Intesa's ownership interest from April 1, 2006 through the May 15, 2006 termination closing and the accrued and unpaid interest on the \$50,000 Subordinated Promissory Note as of the termination closing.

As a result of the termination of the strategic alliance with Intesa and Lazard Group's repurchase of Intesa's ownership interest, the Company realized a gain in the second quarter of 2006 of \$13,695 that, after transaction and other costs, resulted in an increase in operating income of \$5,274.

**6. SENIOR AND SUBORDINATED DEBT**

*Senior Debt* Senior debt is comprised of the following as of March 31, 2007 and December 31, 2006:

Principal	Maturity	Annual	Outstanding As Of	
Amount	Date	Interest	March 31, 2007	December 31, 2006
<u>          </u>	<u>          </u>	Rate	<u>          </u>	<u>          </u>

Edgar Filing: Lazard Ltd - Form 10-Q

Lazard Group Senior Notes(a)	\$ 550,000	2015	7.125%	\$ 550,000	\$ 550,000
Lazard Group Senior Note(b)	96,000	2008	4.25%	96,000	96,000
Lazard Group Notes issued in connection with the ESUs(a)	437,500	2008-2035(c)	6.12%	437,500	437,500
Other		2007-2008	Various	8	3,557
<b>Total</b>				<b>\$ 1,083,508</b>	<b>\$ 1,087,057</b>

(a) See Note 2 of Notes to Condensed Consolidated Financial Statements.

(b) See Note 5 of Notes to Condensed Consolidated Financial Statements.

(c) Maturity date can vary based on a remarketing of the Lazard Group Notes, and will mature (i) in the event of a successful remarketing, on any date no earlier than May 15, 2010 and no later than May 15, 2035, as we may elect, (ii) in the event of a failed remarketing, on May 15, 2008 and (iii) otherwise on May 15, 2035.



**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

As of March 31, 2007 and December 31, 2006 there were no amounts outstanding under the Credit Facility. The Credit Facility bears interest at either a Eurodollar or Federal Funds rate, plus an applicable margin, which varies from 125 to 200 basis points, depending on Lazard Group's rating as determined by designated credit rating agencies. The Credit Facility contains affirmative and negative covenants. Such covenants include, among other things, limitations on the ability of Lazard Group to incur debt, grant liens, pay dividends, enter into mergers or to sell all or substantially all of its assets, as well as financial maintenance covenants.

**Subordinated Debt** Subordinated debt at March 31, 2007 and December 31, 2006 amounted to \$200,000 and consists of amounts associated with the termination of the strategic alliance transaction in Italy (see Note 5 of Notes to Condensed Consolidated Financial Statements).

As of March 31, 2007, the Company is in compliance with all obligations under its various senior and subordinated borrowing arrangements.

**7. 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.

With respect to abandoned lease facilities in the U.K., at March 31, 2007 and December 31, 2006 the Company has recognized liabilities of \$29,177 and \$31,910, respectively, exclusive of the indemnification described below, which are included in other liabilities on the condensed consolidated statements of financial condition. Payments toward the liabilities continue through the remaining term of the leases. Such liabilities are based on the discounted future commitment, net of expected sublease income.

Under the master separation agreement and a related lease indemnity agreement, dated as of May 10, 2005, LFCM Holdings is obligated to indemnify Lazard Group for certain liabilities relating to abandoned leased space in the U.K. During the fourth quarter of 2005, Lazard Group entered into an agreement with LFCM Holdings which provided for LFCM Holdings to pay to Lazard Group \$25,000 in full satisfaction of its indemnification obligations with respect to the abandoned leased space. The net present value of the balance due at March 31, 2007 and December 31, 2006 of \$10,065 and \$9,989, respectively, after giving effect to payments received through the respective dates, is included in receivables - related parties on the condensed consolidated statements of financial condition (see Note 12 of Notes to Condensed Consolidated Financial Statements). The balance is due based on a schedule of periodic payments through May 10, 2010.

## Edgar Filing: Lazard Ltd - Form 10-Q

**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 aggregate approximately \$25,600. These managing directors have pledged their interests in LAZ-MD Holdings (which are exchangeable into shares of Class A common stock) to collateralize such guarantee, with the value of such collateral exceeding the guarantee provided by Lazard.

**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 its reserves in accordance

---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

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. In addition, the Company received requests for information from the NASD, SEC and the U.S. Attorney's Office for the District of Massachusetts seeking information concerning gifts and entertainment involving an unaffiliated mutual fund company, which are also focused on that same business. In the course of an internal review of these matters, there were resignations or discipline of certain individuals associated with Lazard's former Capital Markets business. These investigations are continuing and the Company cannot predict their potential outcomes. Accordingly, the Company has not recorded an accrual for losses related to any such judicial, regulatory or arbitration proceedings.

Lazard Ltd and Goldman Sachs & Co., the lead underwriter of Lazard Ltd's equity public offering of its common stock, as well as several members of Lazard Ltd's management and board of directors, were named as defendants in several putative class action and stockholder derivative lawsuits filed in the U.S. District Court for the Southern District of New York and the Supreme Court of the State of New York. Those lawsuits alleged, respectively, various violations of the federal securities laws and breaches by Lazard Ltd directors of their fiduciary duties, all in connection with matters related to the equity public offering. On February 7, 2007, the U.S. District Court for the Southern District of New York issued a Decision and Order dismissing plaintiffs' claims in the putative class action and allowing plaintiffs twenty days to file an amended complaint replacing any of the dismissed claims. Plaintiffs allowed this twenty-day period to pass without filing an amended complaint. Subsequent to the dismissal of the putative class action in the U.S. District Court, plaintiffs in the putative class action in the Supreme Court of the State of New York, as well as plaintiffs in the putative derivative actions in both the U.S. District Court and the Supreme Court of the State of New York, voluntarily dismissed their actions. Accordingly, all of the lawsuits against Lazard Ltd and members of its management and board of directors concerning the public offering of Lazard Ltd's common stock have been dismissed.

**8. STOCKHOLDERS DEFICIENCY**

At March 31, 2007 and 2006, Lazard Group common membership interests held by subsidiaries of Lazard Ltd amounted to 47.9% and 37.6%, respectively, and by LAZ-MD Holdings amounted to 52.1% and 62.4%, 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 the Company 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 three month periods ended March 31, 2007 and 2006, Lazard Group distributed \$5,049 and \$5,591, respectively, to LAZ-MD Holdings and \$4,629 and \$3,375, 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 three month periods ended March 31, 2007 and 2006, Lazard Group made tax distributions of \$45,488 and \$12,239, respectively, including \$27,047 and \$7,632, respectively, paid to LAZ-MD Holdings and \$18,441 and \$4,607, respectively, paid to subsidiaries of Lazard Ltd.



---

**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

On May 8, 2007, the Board of Directors of Lazard Ltd declared a quarterly dividend of \$0.09 per share on its Class A common stock, totaling \$4,640, payable on May 31, 2007 to stockholders of record on May 18, 2007.

A description of Lazard Ltd's 2005 Equity Incentive Plan (the "Equity Incentive Plan"), and activity with respect thereto during the three month periods ended March 31, 2007 and 2006, is presented below.

***Shares Available Under the Equity Incentive 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.

***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 123, *Accounting for Share Based Compensation*, or SFAS 123R, *Share Based Payments*, and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. Expense relating to RSUs is charged to compensation and benefits within the condensed consolidated statements of income, and amounted to \$23,934 and \$4,177 for the three month periods ended March 31, 2007 and 2006, 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 three month periods ended March 31, 2007 and 2006, such dividend participation rights required the issuance of 13,118 and 6,341 RSUs, respectively, and resulted in a charge to retained earnings and a credit to additional paid-in-capital, net of estimated forfeitures, of \$667 and \$244, respectively.

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

## Edgar Filing: Lazard Ltd - Form 10-Q

Non-executive members of the Board of Directors receive approximately 50% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs, which are convertible into Class A common stock at the time of cessation of service to the Board. Their remaining compensation is paid in cash. 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 totaled \$29 and \$64 during the three month periods ended March 31, 2007 and 2006, respectively.

On May 9, 2006, the Board of Directors adopted the Directors' Fee Deferral Unit Plan, which allows the Company's Non-Executive Directors to elect to receive additional DSUs pursuant to the Equity Incentive Plan in lieu of some or all of their cash fees. The number of DSUs that shall be granted to a Non-Executive Director pursuant to this election shall equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date on which the foregone cash fees would otherwise have been paid. For the three month period ended March 31, 2007, 552 DSUs were granted pursuant to the Directors' Fee Deferral Unit Plan.

**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 is a summary of activity relating to RSUs and DSUs during the three month periods ended March 31, 2006 and 2007:

	RSUs		DSUs	
	<u>Grant Date</u>		<u>Grant Date</u>	
	<u>Weighted</u>		<u>Weighted</u>	
	<u>Average</u>		<u>Average</u>	
	<u>Units</u>	<u>Fair Value</u>	<u>Units</u>	<u>Fair Value</u>
Balance, January 1, 2006	1,033,733	\$ 23.87	9,968	\$ 25.33
Granted (including 6,341 RSU units relating to dividend participation)	2,717,382	\$ 34.76	1,625	\$ 39.10
Forfeited	(36,943)	\$ 33.56		
Converted			(3,059)	\$ 25.33
<b>Balance, March 31, 2006</b>	<b>3,714,172</b>	<b>\$ 31.74</b>	<b>8,534</b>	<b>\$ 27.95</b>

  

	RSUs		DSUs	
	<u>Grant Date</u>		<u>Grant Date</u>	
	<u>Weighted</u>		<u>Weighted</u>	
	<u>Average</u>		<u>Average</u>	
	<u>Units</u>	<u>Fair Value</u>	<u>Units</u>	<u>Fair Value</u>
Balance, January 1, 2007	4,009,382	\$ 32.13	19,690	\$35.71
Granted (including 13,118 RSUs relating to dividend participation)	4,973,269	\$ 49.69	552	\$53.23
Forfeited	(38,156)	\$ 42.25		
<b>Balance, March 31, 2007</b>	<b>8,944,495</b>	<b>\$ 42.07</b>	<b>20,242</b>	<b>\$36.19</b>

## Edgar Filing: Lazard Ltd - Form 10-Q

As of March 31, 2007, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately \$265,343, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 3.0 years. The ultimate amount of such expense is dependent upon the actual number of RSUs that will 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*

On February 7, 2006, the Board of Directors of Lazard Ltd authorized the repurchase of up to \$100,000 in aggregate cost of its Class A common stock. The Company's intention is that the share repurchase program will be used primarily to offset shares to be issued under the Equity Incentive Plan. Purchases may be made in the open market or through privately negotiated transactions in 2006 and 2007. During the three month period ended June 30, 2006, Lazard Group purchased 115,000 shares of Class A common stock in the open market at an average price of \$36.34 per share, which are reported, at cost, as Class A common stock held in treasury on the condensed consolidated statements of financial condition as of March 31, 2007 and December 31, 2006.

### *Preference Shares*

Lazard Ltd currently has 15,000,000 authorized preference shares, par value of \$0.01 per share. As of March 31, 2007, no preference shares have been issued.



**Table of Contents**

**LAZARD LTD**

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

**(UNAUDITED)**

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

**9. NET INCOME PER SHARE OF CLASS A COMMON STOCK**

The Company's basic and diluted net income per share calculations for the three month periods ended March 31, 2007 and 2006 are computed as described below.

***Basic Net Income Per Share***

*Numerator* utilizes net income for the three month periods ended March 31, 2007 and 2006.

*Denominator* utilizes the weighted average shares of Class A common stock for the three month periods ended March 31, 2007 and 2006, which amounts to 51,439,068 and 37,502,889 shares, respectively.

***Diluted Net Income Per Share***

*Numerator* utilizes net income for the three month periods ended March 31, 2007 and 2006 as in the basic net income per share calculation described above, plus, to the extent applicable and dilutive, (i) interest expense on convertible debt, (ii) changes in minority interest in net income resulting from assumed share issuances in connection with DSUs, RSUs, ESUs and convertible debt and (iii) on an as-if-exchanged basis, amounts applicable to LAZ-MD Holdings exchangeable interests, and (iv) income tax related to (i) (ii) and (iii) herein.

*Denominator* utilizes the weighted average number of shares of Class A common stock for the three month periods ended March 31, 2007 and 2006 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 (i) DSU and RSU awards, as calculated using the treasury stock method, (ii) convertible debt, as calculated using the if converted method, (iii) ESUs, using the treasury stock method and (iv) LAZ-MD Holdings exchangeable interests, on an as-if-exchanged basis.

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 calculations of the Company's basic and diluted net income per share and weighted average shares outstanding for the three month periods ended March 31, 2007 and 2006 are presented below:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Basic Net Income Per Share of Class A Common Stock</b>		
Numerator:		
Net income	\$26,354	\$19,686
Denominator:		
Weighted average number of shares of Class A common stock outstanding	51,439,068	37,502,889
Basic net income per share of Class A common stock	\$0.51	\$0.52
<b>Diluted Net Income Per Share of Class A Common Stock</b>		
Numerator:		