

Lazard Ltd  
Form 10-Q  
August 01, 2008  
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 June 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)

---

# 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, 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 July 31, 2008, there were 68,650,484 shares of the registrant's Class A common stock (including 5,788,107 shares held by a subsidiary) 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 June 30, 2008 of approximately 56.4% 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>	31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	59
<u>Item 4. Controls and Procedures</u>	59
<b>Part II. Other Information</b>	
<u>Item 1. Legal Proceedings</u>	60
<u>Item 1A. Risk Factors</u>	60
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	60
<u>Item 3. Defaults Upon Senior Securities</u>	61
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	61
<u>Item 5. Other Information</u>	62
<u>Item 6. Exhibits</u>	62
<u>Signatures</u>	67

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

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

	<b>Page</b>
<u>Condensed Consolidated Statements of Financial Condition as of June 30, 2008 and December 31, 2007</u>	2
<u>Condensed Consolidated Statements of Income for the three month and six month periods ended June 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2008 and 2007</u>	5
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity for the six month period ended June 30, 2008</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 758,664	\$ 1,055,844
Cash segregated for regulatory purposes or deposited with clearing organizations	16,993	24,585
Receivables net:		
Banks	824,157	495,821
Fees	379,256	520,883
Customers	97,482	50,187
Related parties	9,961	30,287
	1,310,856	1,097,178
Investments:		
Debt	432,973	585,433
Equities	204,688	333,796
Other	260,874	169,612
	898,535	1,088,841
Property (net of accumulated amortization and depreciation of \$228,578 and \$208,153 at June 30, 2008 and December 31, 2007, respectively)	197,721	185,509
Goodwill and other intangible assets	201,972	187,909
Other assets	247,570	200,547
Total assets	\$ 3,632,311	\$ 3,840,413

See notes to condensed consolidated financial statements.

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Deposits and other customer payables	\$ 1,095,801	\$ 858,733
Accrued compensation and benefits	109,649	498,058
Senior debt	1,150,000	1,587,500
Capital lease obligations	31,559	27,122
Related party payables	20,097	26,707
Other liabilities	501,749	569,179
Subordinated debt	150,000	150,000
Total liabilities	3,058,855	3,717,299
Commitments and contingencies		
Minority interest	220,627	52,775
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, par value \$.01 per share; 15,000,000 shares authorized:		
Series A - 36,607 shares issued and outstanding at June 30, 2008 and December 31, 2007		
Series B - 277 shares issued and outstanding at June 30, 2008 and December 31, 2007		
Common stock:		
Class A, par value \$.01 per share (500,000,000 shares authorized; 68,650,484 and 51,745,825 shares issued at June 30, 2008 and December 31, 2007, respectively, including shares held by a subsidiary as indicated below)	687	517
Class B, par value \$.01 per share (1 share authorized, 1 share issued and outstanding at June 30, 2008 and December 31, 2007)		
Additional paid-in-capital	251,748	(161,924)
Retained earnings	277,111	248,551
Accumulated other comprehensive income, net of tax	41,047	52,491
	570,593	139,635
Less - Class A common stock held by a subsidiary, at cost (5,788,107 and 1,712,846 shares at June 30, 2008 and December 31, 2007, respectively)	(217,764)	(69,296)
Total stockholders equity	352,829	70,339
Total liabilities, minority interest and stockholders equity	\$ 3,632,311	\$ 3,840,413

See notes to condensed consolidated financial statements.



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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>REVENUE</b>				
Investment banking and other advisory fees	\$279,431	\$228,205	\$476,155	\$443,288
Money management fees	165,699	148,518	323,781	284,344
Interest income	20,900	18,334	43,937	40,675
Other	39,615	55,845	8,623	83,038
<b>Total revenue</b>	<b>505,645</b>	<b>450,902</b>	<b>852,496</b>	<b>851,345</b>
Interest expense	38,257	29,542	77,029	60,787
<b>Net revenue</b>	<b>467,388</b>	<b>421,360</b>	<b>775,467</b>	<b>790,558</b>
<b>OPERATING EXPENSES</b>				
Compensation and benefits	280,021	249,046	473,582	469,084
Occupancy and equipment	22,277	24,285	51,771	43,974
Marketing and business development	25,220	16,964	45,684	33,366
Technology and information services	17,089	14,161	33,330	26,767
Professional services	16,237	13,711	29,504	22,529
Fund administration and outsourced services	6,573	4,459	13,143	8,968
Amortization of intangible assets related to acquisitions	2,525		3,745	
Other	9,708	9,571	18,948	18,439
<b>Total operating expenses</b>	<b>379,650</b>	<b>332,197</b>	<b>669,707</b>	<b>623,127</b>
<b>OPERATING INCOME</b>	<b>87,738</b>	<b>89,163</b>	<b>105,760</b>	<b>167,431</b>
Provision for income taxes	18,110	20,313	22,950	37,374
<b>INCOME BEFORE MINORITY INTEREST IN NET INCOME</b>	<b>69,628</b>	<b>68,850</b>	<b>82,810</b>	<b>130,057</b>
Minority interest in net income	35,311	39,554	40,694	74,407
<b>NET INCOME</b>	<b>\$34,317</b>	<b>\$ 29,296</b>	<b>\$42,116</b>	<b>\$ 55,650</b>
<b>WEIGHTED AVERAGE SHARES OF CLASS A COMMON STOCK OUTSTANDING:</b>				
Basic	56,416,850	51,439,125	53,198,522	51,439,097
Diluted	126,711,796	62,737,737	113,713,062	90,477,035
<b>NET INCOME PER SHARE OF CLASS A COMMON STOCK:</b>				



Edgar Filing: Lazard Ltd - Form 10-Q

Basic	\$	0.61	\$0.57	\$	0.80	\$1.08
Diluted	\$	0.54	\$0.52	\$	0.70	\$0.98
<b>DIVIDENDS PAID PER SHARE OF CLASS A COMMON STOCK</b>	\$	0.10	\$0.09	\$	0.20	\$0.18

See notes to condensed consolidated financial statements.

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 42,116	\$ 55,650
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-cash charges (credits) included in net income:		
Depreciation and amortization of property	10,188	7,528
Amortization of deferred expenses, stock units and interest rate hedge	119,330	49,883
Amortization of intangible assets related to acquisitions	3,745	
Minority interest in net income	40,694	74,407
(Increase) decrease in operating assets:		
Cash segregated for regulatory purposes or deposited with clearing organizations	8,982	(15,375)
Receivables-net	(158,102)	359,216
Investments	354,188	(111,160)
Other assets	(42,833)	(32,234)
Increase (decrease) in operating liabilities:		
Deposits and other payables	165,468	(413,474)
Accrued compensation and benefits and other liabilities	(484,955)	(270,821)
Net cash provided by (used in) operating activities	58,821	(296,380)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of equity method investments	(74,855)	
Additions to property	(9,593)	(7,057)
Disposals of property	428	1,646
Purchases of available-for-sale securities	(60,125)	
Proceeds from available-for-sale securities	2,838	
Net cash used in investing activities	(141,307)	(5,411)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from:		
Short-term borrowings-net	4,455	
Senior debt, net of expenses		593,478
Issuance of Class A common stock	437,500	
Other financing activities	359	
Payments for:		
Short-term borrowings-net		(97)
Senior debt	(437,488)	(96,000)
Subordinated debt		(50,000)
Capital lease obligations	(1,621)	(645)

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

Repurchase of common membership interests from members of LAZ-MD Holdings	(3,773)	
Distributions to minority interests	(41,635)	(69,504)
Repurchase of Class A common stock	(162,835)	
Class A common stock dividends	(9,863)	(9,259)
Settlement of vested RSUs and DSUs	(3,337)	(2)
<b>Net cash provided by (used in) financing activities</b>	<b>(214,465)</b>	<b>364,198</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(229)</b>	<b>(2,854)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(297,180)</b>	<b>59,553</b>
<b>CASH AND CASH EQUIVALENTS January 1</b>	<b>1,055,844</b>	<b>969,483</b>
<b>CASH AND CASH EQUIVALENTS June 30</b>	<b>\$ 758,664</b>	<b>\$ 1,029,036</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>Supplemental investing non-cash transaction:</b>		
Class A common stock issuable in connection with acquisitions	\$ 9,282	\$

See notes to condensed consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Class A Common Stock Held By A Subsidiary		Total Stockholders Equity
	Series A	Series B	Shares(*)					Shares	\$	
	Shares	\$	Shares	\$				Shares	\$	
<b>Balance - January 1, 2008</b>	<b>36,607</b>	<b>\$ 277</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:										
Net income						42,116				42,116
Other comprehensive income (loss)										
- net of tax:										
Currency translation adjustments							26,038			26,038
Amortization of interest rate hedge							550			550
Available-for-sale securities:										
Net unrealized loss							(3,604)			(3,604)
Adjustment for items reclassified to earnings							78			78
Employee benefit plans:										
Adjustment for items reclassified to earnings							(452)			(452)
Net actuarial gain							93			93
<b>Comprehensive income</b>										<b>64,819</b>
Class A common stock issuable in connection with prior acquisitions and related amortization					11,246					11,246
Amortization of stock units					113,397					113,397
RSU dividend-equivalents					3,693	(3,693)				(9,863)
Class A common stock dividends						(9,863)				(9,863)
Purchase of Class A common stock by a subsidiary								4,447,500	(162,835)	(162,835)
Lazard Group delivery of Class A common stock for settlement of vested RSUs and DSUs					(17,704)			(372,239)	14,367	(3,337)
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			2,321,909	24	(24)					
Other					359					359
Adjustment to reclassify minority interest share of stockholders equity to minority interest					(134,649)		(34,147)			(168,796)

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

<b>Balance - June 30, 2008</b>	<b>36,607 \$</b>	<b>277 \$</b>	<b>68,650,485 \$</b>	<b>687 \$</b>	<b>251,748 \$</b>	<b>277,111 \$</b>	<b>41,047</b>	<b>5,788,107</b>	<b>\$(217,764)</b>	<b>\$ 352,829</b>
--------------------------------	------------------	---------------	----------------------	---------------	-------------------	-------------------	---------------	------------------	--------------------	-------------------

(\*) Includes 51,745,825 and 68,650,484 shares of the Company's Class A common stock issued at January 1, 2008 and June 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.

**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**

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 56.4% and 48.3% of all outstanding Lazard Group common membership interests as of June 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**

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

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 six month periods ended June 30, 2008 are not necessarily indicative of the results to be expected for any future period or the full fiscal year.

---

**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 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) replaces 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 establishes 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



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

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

---

**Table of Contents****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 4 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) would 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. The Company has not yet determined the impact that SFAS No. 160 will have 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 would have a material impact on its disclosures of derivative instruments and hedging activities.

**4. FAIR VALUE MEASUREMENTS**

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

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

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

No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, ( 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* .

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

	June 30, 2008	December 31, 2007
Debt:		
Bonds - Corporate	\$ 375,906	\$ 534,825
Non-U.S. Government and agency securities	57,067	50,608
	432,973	585,433
Equities	204,688	333,796
Other:		
Interest in LAM alternative asset management funds:		
General partnership interests owned by Lazard	42,886	43,313
General partnership interests consolidated by Lazard	45,879	51,493
Private equity investments	96,055	74,051
Equity method investments	76,054	755
	260,874	169,612
Total investments	898,535	1,088,841
Less equity method investments	76,054	755
Investments, at fair value	\$ 822,481	\$ 1,088,086
Securities sold, not yet purchased (included in other liabilities )	\$ 25,712	\$ 21,864

Debt securities primarily consist of investments of 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 June 30, 2008 and December 31, 2007 as follows:

Edgar Filing: Lazard Ltd - Form 10-Q

	June 30, 2008	December 31, 2007
Trading securities:		
Bonds - Corporate	\$243,982	\$462,472
Non-U.S. Government and agency securities	57,067	50,608
	301,049	513,080
Available-for-sale securities:		
Bonds - Corporate	131,924	72,353
Total debt securities	\$432,973	\$585,433

**Table of Contents****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.

Interests in LAM alternative asset management funds represent (i) general partnership interests owned by Lazard in LAM-managed hedge funds and (ii) general partnership interests consolidated by Lazard pertaining to minority interests in LAM alternative asset management funds. Such minority interests represent general partnership 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 5 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 recent investments in Sapphire Industrials Corp. (Sapphire) (see Note 9 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 are comprised of 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 June 30, 2008 and December 31, 2007:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Total derivative assets	\$16,814	\$9,840
Total derivative liabilities	\$ 3,664	\$4,488

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:

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

- 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.

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

*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 and liabilities 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 June 30, 2008.

	Fair Value Measurements on a Recurring Basis			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments:				
Debt	\$ 64,050	\$ 368,923	\$	\$ 432,973
Equities	184,622	15,601	4,465	204,688
Other (excluding equity method investments):				
Interest in LAM alternative asset management funds:				
General partnership interests owned by Lazard		42,886		42,886
General partnership interests consolidated by Lazard		45,879		45,879
Private equity investments				