

Lazard Ltd
Form S-1/A
April 18, 2005
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As filed with the Securities and Exchange Commission on April 18, 2005

Registration No. 333-123463

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

LAZARD LTD

LAZARD GROUP FINANCE LLC

(Exact name of registrant as specified in its charter)

Bermuda	6199	98-0437848
Delaware	6199	20-2281724
<i>(State or other jurisdiction of incorporation or organization)</i>	<i>(Primary Standard Industrial Classification Code Number)</i>	<i>(I.R.S. Employer Identification Number)</i>

Lazard Ltd

Lazard Group Finance LLC

Clarendon House

30 Rockefeller Plaza

2 Church Street

New York, New York 10020

Hamilton HM 11, Bermuda

(212) 632-6000

(441) 295-1422

(Name, address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Scott D. Hoffman, Esq.

Lazard Ltd

Lazard Group Finance LLC

30 Rockefeller Plaza

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(212) 632-6000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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New York, New York 10019

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(212) 474-1000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed Maximum Offering Price Per Security	Proposed maximum aggregate offering price(1)(2)	Amount of registration fee(3)
Equity Security Units	11,500,000	\$ 25	\$ 287,500,000	\$ 33,839
Lazard Group Finance LLC Senior Notes due 2035(4)				
Class A common stock, par value \$0.01 per share(5)			\$ 287,500,000	\$ 33,839
Purchase Contracts(6)				

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933.

(2) Exclusive of accrued interest, if any.

(3) Registration fee previously paid in connection with the initial filing of this Registration Statement.

(4) The Lazard Group Finance LLC Senior Notes are offered as a component of the equity security units for no additional consideration.

(5) Shares of Class A common stock of Lazard Ltd to be issued to the holders of equity security units upon settlement of the purchase contracts, for a purchase price of \$25 per unit. The actual number of shares of Class A common stock to be issued will not be determined until the date of settlement of the related equity security units. Also includes an indeterminate number of shares of Class A common stock issuable in the event certain contract adjustment payments become payable in such shares, for which no additional consideration will be paid.

(6) The purchase contracts are offered as a component of the equity securities units for no additional consideration.

The Registrants hereby amend this registration statement on such date as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated April 18, 2005.

10,000,000 Units

% Equity Security Units

This is an offering of equity security units of Lazard Ltd, or Lazard. Each equity security unit has a stated amount of \$25 and will consist of (a) a contract pursuant to which you agree to purchase, for \$25, shares of Class A common stock of Lazard on _____, 2008 and (b) a 1/40, or 2.5%, ownership interest in a senior note of Lazard's affiliate, Lazard Group Finance LLC, or Lazard Group Finance, a Delaware limited liability company, with a principal amount of \$1,000. The ownership interest in the senior note initially will be held as a component of your unit and be pledged to secure your obligation to purchase shares of common stock of Lazard under the related purchase contract.

Lazard will make quarterly contract adjustment payments to you under the purchase contract at the annual rate of _____ % of the stated amount of \$25 per purchase contract. In addition, Lazard Group Finance will make quarterly interest payments on the senior notes at the initial annual rate of _____ %. Lazard has the right to defer the contract adjustment payments on the purchase contracts, but Lazard Group Finance does not have the right to defer the interest payments on the senior notes. The senior notes will be remarketed and, in connection with the remarketing, the interest rate, payment dates and maturity date on the senior notes will be reset. The senior notes will be secured by a pledge of senior, unsecured notes issued by Lazard LLC, which holds the Lazard financial advisory and asset management businesses described in this prospectus. Lazard Group Finance will purchase the Lazard LLC notes with the proceeds from this offering. The units will be sold initially by the underwriters in a minimum number of 40 units.

Prior to this offering and the concurrent initial public offering of Class A common stock of Lazard, there has been no public market for the units or Lazard's Class A common stock.

In addition to offering these units, Lazard concurrently is offering pursuant to a separate prospectus 30,464,579 shares of its Class A common stock, or the common stock, plus up to an additional 4,569,686 shares of common stock if the underwriters for that offering exercise their option to purchase additional shares of common stock. Lazard LLC also is offering \$650 million in principal amount of senior, unsecured notes concurrently in a private placement. The completion of this offering of equity security units is subject to the completion of the initial public offering of Class A common stock of Lazard and the private placement of the Lazard

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LLC senior notes and also is subject to satisfaction of conditions to the separation described in this prospectus. Lazard also intends to sell \$150 million of securities that are the same as the equity security units and \$50 million of our common stock to a third party in a private placement upon closing of this offering.

The equity security units and the shares of common stock that will be issued in the concurrent equity public offering have each been approved for listing on the New York Stock Exchange under the symbols LDZ and LAZ, respectively.

See *Risk Factors* beginning on page 36 to read about important factors you should consider before buying units.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Unit	Total
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Lazard	\$	\$

The initial public offering price set forth above does not include accumulated contract adjustment payments and accrued interest, if any. Contract adjustment payments on the purchase contracts and interest on the senior notes will accrue from the date of original issuance, which is expected to be _____, 2005.

To the extent that the underwriters sell more than 10,000,000 units, the underwriters have the option to purchase up to an additional 1,500,000 units from Lazard at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the units against payment in New York, New York on _____, 2005.

Goldman, Sachs & Co.

Citigroup

Lazard

Merrill Lynch & Co.

Morgan Stanley

Credit Suisse First Boston

JPMorgan

Prospectus dated _____, 2005.

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Established 1848

Presence in 27 cities in 15 countries

Executive offices in Paris, London, Milan and New York

Financial Advisory

2004 Net Revenue of \$655 million

131 managing directors and 512 other professionals as of
December 31, 2004

2004 Net Revenue

Asset Management

2004 Net Revenue of \$417 million

35 managing directors and 260 other professionals as of
December 31, 2004

Assets Under Management

\$86 Billion as of December 31, 2004

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PROSPECTUS SUMMARY

This is a public offering of equity security units by Lazard Ltd, which we refer to in this prospectus as the ESU offering. Unless the context otherwise requires, the terms:

Lazard, we, us and our refer to Lazard Ltd, a newly-formed company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group (as defined below) and the businesses, subsidiaries, assets and liabilities that Lazard Group will retain after the completion of the transactions described in this prospectus, and

Lazard Group refers to Lazard LLC, a Delaware limited liability company that is the current holding company for our businesses, which will be renamed Lazard Group LLC in connection with this offering and in which Lazard Ltd will acquire a controlling interest upon completion of this offering.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. The distribution of this prospectus and sale of these securities in certain jurisdictions may be restricted by law. Persons in possession of this prospectus are required to inform themselves about and observe any such restrictions. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our % equity security units, which we refer to in this prospectus as our equity security units. You should read this entire prospectus carefully, especially the risks of investing in our equity security units discussed under Risk Factors.

Lazard

We are 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. We believe that what sets us apart is our dedication to:

competing on the basis of our intellectual (rather than financial) capital, which is personified by our team of highly skilled professionals,

demanding excellence and superior quality in all that we do,

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cultivating long-term, senior-level relationships with clients, through deep roots in local markets,

linking together our local offices through a global network of industry expertise,

remaining focused on our chosen lines of business to provide the highest degree of expertise and continuous innovation,

emphasizing our tradition of integrity in all our dealings, and

offering independent, trusted and unbiased advice.

Lazard was founded in 1848, expanded shortly thereafter to provision the needs of the California gold rush, and eventually evolved its business exclusively into financial services. Having recently united the historical New York, Paris and London Houses of Lazard under Lazard Group, we operate

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today from 27 cities in key business and financial centers across 15 countries in Europe, North America, Asia and Australia. We believe that the mix of our activities across business segments, geographic regions, industries and investment strategies helps to diversify and stabilize our revenue stream.

Our Strategic Positioning

We focus primarily on two business segments, Financial Advisory (including our Mergers and Acquisitions and Financial Restructuring practices) and Asset Management. Since January 2002, when new senior management joined our firm, we have made significant reinvestments in the intellectual capital of our business to strengthen ourselves for future growth and profitability. As a result of our strategic initiatives, we believe that we are now positioned such that:

Our Mergers and Acquisitions practice is poised to capitalize on any future growth in the mergers and acquisitions market. This practice comprised 44% of our net revenue from continuing operations (as defined below in Glossary) for the year ended December 31, 2004. During the fourth quarter of 2004, we experienced a 28% increase in net revenue as compared to the corresponding period in 2003, which contributed to a 15% increase in net revenue for the full year 2004 as compared to 2003. During the first quarter of 2005, net revenue in this practice increased by 64% in comparison to the first quarter of 2004. Revenue in a particular quarter may not be indicative, however, of future results.

Our Financial Restructuring practice, which comprised 9% of our net revenue from continuing operations for the year ended December 31, 2004, provides counter-cyclical balance to our Mergers and Acquisitions practice. Following the recent economic recovery, and consistent with our expectation, this practice has experienced a 61% cyclical decline in net revenue over the last year. During the first quarter of 2005, net revenue in our Financial Restructuring practice increased 36% in comparison to the first quarter of 2004. Revenue in a particular quarter may not be indicative, however, of future results. With our leading position in this practice area, we believe that we are positioned to benefit from any resurgence in corporate credit defaults and financial distress.

Our Asset Management business, which comprised 38% of our net revenue from continuing operations for the year ended December 31, 2004, is benefiting from new strategic and management initiatives. We have recently transitioned the senior management of our largest Asset Management subsidiary to the next generation of leadership. We have been making significant efforts to improve our investment management capabilities and to enhance and expand our platform of traditional and alternative investment products. During 2004, we grew our management and other fees by 25% versus 2003.

Our Business Model

We have a focused business model. We generate Financial Advisory revenue primarily from fees earned upon the closing of mergers and acquisitions, restructurings and other engagements on which we have provided advisory services. We generate Asset Management revenue primarily from investment advisory fees calculated as a percentage of the assets under our management, or AUM. Employment costs are our largest expense, a significant portion of which is paid in the form of discretionary bonuses. Our policy will be to set our total compensation and benefits expense, including amounts payable to our managing directors, at a level not to exceed 57.5% of our operating revenue, such that after considering other operating costs, we may realize our operating profit margin goal. For more information on our compensation and benefits expenses, see Unaudited Pro Forma Financial

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Information and Risk Factors Risks Related to the Separation Our financial performance depends on our ability to achieve our target compensation expense level, and the failure to achieve this target level may materially adversely affect our results of operations and financial position.

Financial Advisory

Our Financial Advisory business provides advice in connection with a wide range of strategic and financial matters that are typically of great importance to our clients. Our goal is to continue to grow our business by fostering long-term, senior-level relationships with existing and new clients as their independent advisor on strategic transactions such as mergers, acquisitions, restructurings and other financial matters. Our Mergers and Acquisitions services include general strategic advice and transaction-specific advice regarding domestic and cross-border mergers and acquisitions, divestitures, privatizations, special committee assignments, takeover defenses, strategic partnerships, joint ventures and specialized real estate advisory services. We provide advice to managements and boards of directors, business owners, governments, institutions, investors and other interested parties on a worldwide basis. Our dedicated industry specialty groups include: consumer, financial institutions, financial sponsors, healthcare and life sciences, industrial, power and energy, real estate and technology, media and telecommunications. We also currently provide various corporate finance services, such as fund-raising for alternative investment firms and public and private financings.

Our Financial Restructuring practice, which specializes in helping companies in financial distress, is an important strategic component of our Financial Advisory business. We believe we are the leading financial restructuring advisory firm in the world, having advised on most of the largest and highest profile corporate restructurings over the last several years. We believe that we have been able to secure our leading position in this practice area through a combination of our restructuring and industry-related expertise and our independent position. This practice complements our Mergers and Acquisitions practice because it is generally more active when our Mergers and Acquisitions practice is less active. In addition, our Financial Restructuring practice often generates follow-on relationships and assignments that survive the completion of restructuring-related engagements.

In 2004, Financial Advisory net revenue totaled \$655 million, accounting for 60% of our net revenue from continuing operations, and was earned from a diverse group of 435 clients. Fifty-four percent of this net revenue was generated in Europe, 45% in North America and 1% in the rest of the world.

Since January 2002, when new senior management joined our firm, our focus in our Financial Advisory business has been on:

making a significant reinvestment in our intellectual capital with the addition of many senior professionals who we believe have strong client relationships and industry expertise. We have recruited or promoted 68 new managing directors from January 2002 through December 2004, contributing to a 48% increase, net of departures, in Financial Advisory managing director headcount over that period, with the result that approximately half of our Financial Advisory managing directors have joined our firm or been promoted since January 2002. While we will continue opportunistically to hire outstanding individuals to this practice, we anticipate that our recent managing director expansion program in this practice is now substantially complete,

increasing our contacts with existing clients to further enhance our long-term relationships and our efforts in developing new client relationships,

expanding the breadth and depth of our industry expertise and adding new practice areas,

coordinating our industry specialty groups on a global basis, and

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broadening our global presence by adding six new regional offices and entering into strategic alliances in new geographies.

As a result, our Financial Advisory practice today consists of an experienced group of advisors with specialties across a wide range of industries and practice areas, operating, we believe, with increased quality and frequency of client contact. We made these investments during a period of financial market weakness, when many of our competitors were reducing senior staffing, to position us to capitalize more fully on any financial services industry recovery. We believe that it generally takes a new managing director from one to two years from the date of hiring to produce revenue at his or her full capacity. As a result, we believe that many of our new managing directors have not yet reached their full revenue generating potential.

In addition to the recent expansion of our Financial Advisory team, we believe that the following external market factors may enable our Financial Advisory practice to benefit from future growth in the global mergers and acquisitions advisory business:

increasing demand for independent, unbiased financial advice, and

a potential increase in cross-border mergers and acquisitions and large capitalization mergers and acquisitions, two of our areas of historical specialization, which have experienced greater than average declines in recent years.

Asset Management

Our Asset Management business provides investment management and advisory services to institutional clients, financial intermediaries, private clients and investment vehicles around the world. Our goal in our Asset Management business is to produce superior risk-adjusted investment returns and provide investment solutions customized for our clients. As of December 31, 2004, total AUM was \$86.4 billion, of which approximately 80% was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors. As of the same date, approximately 20% of our AUM was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

Many of our equity investment strategies share an investment philosophy that centers on fundamental security selection with a focus on the trade-off between a company's valuation and its financial productivity. As of December 31, 2004, 81% of our AUM was invested in equities, 13% in fixed income, 3% in alternative investments, 3% in cash and less than 1% in merchant banking funds. As of the same date, approximately 56% of our AUM was invested in international (*i.e.*, non-U.S.) investment strategies, 23% was invested in global investment strategies and 21% was invested in U.S. investment strategies.

We operate our Asset Management business through two principal subsidiaries, Lazard Asset Management LLC, or LAM, in New York, San Francisco, London, Milan, Frankfurt, Hamburg, Tokyo, Sydney and Seoul (aggregating \$76.5 billion in total AUM as of December 31, 2004), and Lazard Frères Gestion, or LFG, in Paris (aggregating \$9.4 billion in total AUM as of December 31, 2004). These operations provide our business with a global presence and a local identity. We also manage \$0.5 billion of merchant banking funds.

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In 2004, Asset Management net revenue was \$417 million, accounting for 38% of our net revenue from continuing operations. Fifty-nine percent of this net revenue was generated in North America, 33% in Europe and 8% in the rest of the world.

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Our strategic plan in our Asset Management business is to focus on delivering superior investment performance and client service and broadening our product offerings and distribution in selected areas in order to continue to drive business results. In March 2004, we undertook a senior management transition at LAM to put in place the next generation of leadership and to better position the business to execute our strategic plan. Over the past several years, in an effort to improve LAM's operations and expand our business, we have:

focused on enhancing our investment performance,

improved our investment management platform by hiring ten senior equity analysts and filling the newly established position of Head of Risk Management,

strengthened our marketing capabilities by establishing a global consultant relations effort aimed at improving our relations with the independent consultants who advise many of our clients on the selection of investment managers,

expanded our product platform by lifting-out experienced portfolio managers to establish new products in the hedge fund area and in thematic investing, and

launched new products such as Lazard European Explorer, a European long/short strategy, and Lazard Global Total Return and Income Fund, Inc., a closed-end fund.

We believe that LAM has long maintained an outstanding team of portfolio managers and global research analysts. We intend to maintain and supplement our intellectual capital to achieve our goals. We also believe that LAM's specific investment strategies, global reach, brand identity and access to multiple distribution channels will allow it to leverage into new investment products, strategies and geographic locations. In addition, we plan to expand our participation in merchant banking activities through investments in new and successor funds.

Competitive Advantages

We attribute our success and distinctiveness to a combination of long-standing advantages from which we and our predecessor partnerships have benefited, including:

Experienced People. Our professionals concentrate on solving complex financial problems and executing specialized investment strategies. We strive to maintain and enhance our base of highly talented professionals and pride ourselves on being able to offer clients more senior-level attention than may be available from many of our competitors.

Independence. We are an independent firm, free of many of the conflicts that can arise at larger financial institutions as a result of their varied sales, trading, underwriting, research and lending activities. We believe that recent instances of perceived or actual conflicts of interest, and a desire to avoid any potential future conflicts, have increased the demand by managements and boards of directors for trusted, unbiased advice from professionals whose main product is advice.

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Reputation. Our firm has a brand name with over 150 years of history. We are focused on providing world-class professional advice in complex strategic and financial assignments, utilizing both our global capabilities and deeply rooted, local know-how.

Focus. We are focused on two primary businesses: Financial Advisory and Asset Management, rather than on a broad range of financial services. We believe this focus has helped, and will continue to help, us attract clients and recruit professionals who want to work in a firm where these activities are the central focus.

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Global Presence with Local Relationships. We believe that linking our talented indigenous professionals, deep local roots and industry expertise across offices enables us to be a global firm while maintaining a local identity. We believe this approach enables us to build close, local relationships with our clients and to develop insight into both local and international commercial, economic and political issues affecting their businesses. We do not regard any single jurisdiction as our home country.

Balance. Our Financial Advisory business includes both our Mergers and Acquisitions practice and our Financial Restructuring practice, which historically have been counter-cyclical to each other, thus helping to stabilize our revenue stream. Our Asset Management business helps provide further stability, principally because we generate significant recurring client business from year to year. Our revenue is also geographically diversified: in 2004 we derived 50% of our net revenue from continuing operations from offices in North America, 47% from offices in Europe and 3% from offices in the rest of the world.

Strong Culture. We believe that our people are united by a desire to be a part of an independent firm in which their activities are at the core and by a commitment to excellence and integrity in their activities. This is reinforced by the significant economic stake our managing directors have in our success. In our opinion, the strength of our many long-term client relationships is a testament to our distinctive culture and approach to providing superior advice to our clients.

Selected Risk Factors

We face a number of competitive challenges and potential risks. See **Risk Factors** for a discussion of the factors you should consider before buying our securities. Some of the more significant challenges and risks include the following:

Retention of Our Managing Directors and Other Key Professionals. Our business depends upon our retention and recruitment of talented people, and we face competitive pressures for retaining and recruiting top talent. Because of these competitive pressures and our goal of achieving our target ratio of compensation expense-to-operating revenue, we may not be able to retain our managing directors or recruit new managing directors.

Our Results Will Fluctuate. The level and source of our revenue fluctuates from period to period. In particular, despite the improvement in our Mergers and Acquisitions and Asset Management net revenue during 2004 and the first quarter of 2005, these businesses remain subject to cyclical economic and market influences. The cyclical downturn in the financial services industry between 2000 and 2003, the year prior to the recent recovery, in combination with our having undertaken to invest significantly in the intellectual capital of our business commencing in 2002, resulted in substantial declines in our net revenue and net income allocable to members from 2000 to 2004.

Dependence on Market Conditions. As a financial services firm, our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. The performance of our Financial Advisory business depends, in part, upon the level of merger and acquisition activity and the rate of financial restructurings. The performance of our Asset Management business, including both management and incentive fees that we earn, depend, in part, upon the performance of securities markets generally. As a result, market and economic conditions significantly affect our performance.

Retention of Asset Management Clients. In addition to being dependent upon general market conditions, our Asset Management business also is dependent upon performance

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relative to our competitors. If our AUM underperform relative to our competitors, our clients may withdraw funds from our Asset Management business, which would decrease the amount of AUM upon which we earn management fees.

Competition from Other Financial Institutions. The financial services industry is intensely competitive. Many of our competitors have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services. These competitors have the ability to support their investment banking services, including financial advisory services, with commercial banking, insurance and other financial services revenue. Such cross-subsidization could result in pricing pressure in our businesses.

Industry Litigation and Regulation. The financial services industry faces substantial litigation and regulatory risks, and we may face legal liability and damage to our professional reputation if our services are not regarded as satisfactory or do not meet regulatory requirements.

Our Initial Public Offering

We decided to become a public company in order to:

incentivize our key employees, who also will be our primary owners, to grow the profitability of our business and enhance our ability to retain and recruit talented professionals,

better align the interests of all of our owners by using the net proceeds from this offering, and the net proceeds from the additional financing transactions, primarily to redeem membership interests in our firm held by the historical partners, and

provide us with publicly traded securities, which we could use to finance strategic acquisitions in the future.

This offering is a public offering of equity security units of Lazard Ltd, which will be the holding company for the public's common equity interests in Lazard Group. Lazard Group holds our Financial Advisory and Asset Management businesses.

This offering is one of a series of concurrent securities offerings that Lazard Ltd, Lazard Group and one or more of their subsidiaries intend to complete, which other offerings we refer to in this prospectus as the additional financing transactions. The additional financing transactions consist of an offering, by means of a separate prospectus, of Class A common stock of Lazard Ltd, which we refer to in this prospectus as the equity public offering, a private placement of senior unsecured notes of Lazard Group, by means of a separate offering memorandum, which we refer to in this prospectus as the debt offering, and an investment agreement with IXIS Corporate & Investment Bank, which we refer to in this prospectus as the IXIS investment agreement. This prospectus shall not be deemed to be an offer to sell or a solicitation of an offer to buy any securities offered in the equity public offering or the debt offering or any securities to be acquired pursuant to the IXIS investment agreement. See Description of Capital Stock IXIS Investment in Our Common Stock, Description of Indebtedness IXIS Investment in Exchangeable Debt Securities and Description of Indebtedness Lazard Group Senior Notes.

Our History

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Our origins date back to 1848 when our founders, the Lazard brothers, formed Lazard Frères & Co. as a dry goods business in New Orleans, Louisiana, with a combined contribution of \$9,000. Shortly thereafter, the Lazard brothers moved to the gold rush town of San Francisco, California, where

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they opened a business selling imported goods and exporting gold bullion. The business progressively became involved in financial transactions, first with its retail clients and then increasingly with commercial clients. Over time, the business expanded into the banking and foreign exchange businesses.

Seeking to expand operations to Europe, the Lazard brothers opened offices in Paris and London in 1858 and 1870, respectively. By 1876, Lazard's businesses had become solely focused on providing financial services. In 1880, Alexander Weill, the founding brothers' cousin, assumed control of Lazard.

Through the early and mid-twentieth century, the three Lazard Houses in London, Paris and New York continued to grow their respective operations independently of each other, with the New York House coming under the leadership of André Meyer in 1944. Under Mr. Meyer and continuing with Felix Rohatyn, the New York House further developed its reputation as a preeminent mergers and acquisitions advisory firm. Michel David-Weill, a descendant of the founding families, joined Lazard Frères et Cie. in Paris in 1956, ascended to a leadership role within the French operations and later moved to the New York House, where he became senior partner in 1977.

Lazard has conducted an asset management business in Paris since 1969, establishing a separate subsidiary, LFG, for those operations in 1995. In 1970, the New York House entered the institutional asset management business by establishing LAM to complement its financial advisory business.

Throughout the twentieth century, Lazard's Paris and New York Houses were owned by the Houses' individual partners and by relations of their founders. For much of that period, the London House was majority-owned by Pearson plc, until the sale in 2000 by Pearson of its interests to a predecessor of Eurazeo S.A.

The unification of the Houses of Lazard under a single global firm was completed as of January 3, 2000, with their merger to form Lazard LLC. We believe that this combination has enabled us to offer our clients the benefits of a more unified global firm while preserving the advantages of our century-old, local roots. Bruce Wasserstein joined Lazard in early 2002 as Head of Lazard. Under Mr. Wasserstein's direction, Lazard has pursued a strategy of growing its Financial Advisory and Asset Management businesses by attracting senior investment bankers and investment advisory professionals to our firm.

Lazard's history as a preeminent financial advisor has contributed to its ability to secure key advisory roles in some of the most important, complex and recognizable mergers and acquisitions of the last 75 years. Since 1999, we have advised on nearly 1,000 completed mergers and acquisitions, having a cumulative value in excess of \$1 trillion. During this period, we have participated in many prominent transactions, advising:

MCI, Inc. in evaluating its strategic alternatives, including its announced agreement to engage in a merger,

Nextel Communications in its pending merger-of-equals with Sprint Corporation (to create a company with a combined equity market value of approximately \$70 billion as of December 15, 2004),

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Telecom Italia Mobile in its pending €21 billion sale of the remaining public interests to Telecom Italia (integrating Italy's largest phone carrier and leading mobile operator),

Mitsubishi Tokyo Financial Group in its \$41 billion acquisition of UFJ Holdings (the first contested transaction among Japanese banks, creating the world's largest financial institution as measured by assets as of the date of this prospectus),

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Hollinger International Inc. in its £730 million sale of the Telegraph Group Limited to Press Holdings International (owned by the Barclay brothers) in 2004 (the largest single title newspaper transaction as of the date of this prospectus),

Fisher Scientific International Inc. in its \$3.7 billion acquisition of Apogent Technologies Inc. in 2004 (creating a leading life sciences business),

Bank One Corporation in its \$59 billion sale to JPMorgan Chase & Co. in 2004 (creating the second largest bank in the U.S. as of the date of this prospectus),

Canary Wharf Group PLC in its £5 billion sale of a majority interest to an investment consortium in 2004 (the largest ever public-to-private transaction for a listed real estate company as of the date of this prospectus),

Alcan Inc. in its \$7 billion acquisition of Pechiney in 2004 (creating the world's largest aluminum company based on revenue as of the date of this prospectus),

Telecom Italia in its €25 billion sale of minority stockholder interests to Olivetti in 2003 (simplifying the ownership structure of one of Europe's largest telecommunications firms),

Caisse des Dépôts et Consignations in its €16 billion partnership with Group Caisse d'Épargne in 2003 (completing the restructuring of the French public finance sector and creating a major universal bank), and

Pfizer Inc. in its \$89 billion acquisition of Warner-Lambert Company in 2000 (the largest unsolicited acquisition at the time) and in its \$61 billion acquisition of Pharmacia (the largest announced acquisition in 2002).

In recent years, we have been an advisor in most of the largest and highest profile corporate restructurings around the world. Since 1999, we have advised on over 100 in and out-of-court restructurings comprising in excess of \$300 billion of debt restructured. Our restructuring assignments have included, in the U.S., WorldCom Inc. (\$38 billion of debt) and Reliant Resources (\$9 billion of debt), in Italy, Parmalat (\$27 billion of debt), in the U.K., Marconi Corporation plc (\$8 billion of debt), in France and the U.K., Eurotunnel plc (\$12 billion of debt) and in Korea, Daewoo (\$50 billion of debt).

We were incorporated in Bermuda on October 25, 2004. Our registered office in Bermuda is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, with a general telephone number of (441) 295-1422. Our principal executive offices are located in the U.S. at 30 Rockefeller Plaza, New York, New York 10020, with a general telephone number of (212) 632-6000, in France at 121 Boulevard Haussmann, 75382 Paris Cedex 08, with a general telephone number of 33-1-44-13-01-11, in the U.K. at 50 Stratton Street, London W1J 8LL, with a general telephone number of 44-207-187-2000 and in Italy at via Dell'Orso 2, 20121 Milan, with a general telephone number of 39-02-723121. In total, we maintain offices in 27 cities worldwide. We maintain an Internet site at www.lazard.com. **Our website and the information contained on that site, or connected to that site, are not incorporated into this prospectus, and you should not rely on any such information in making your decision whether to purchase our securities.**

Lazard's Organizational Structure

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Lazard Ltd is a Bermuda holding company. After completion of this offering, Lazard Ltd will have no material assets other than ownership of approximately 33.7% of the common membership interests of Lazard Group, the Delaware limited liability company that holds our business. The remaining 66.3% of Lazard Group's common membership interests will be held by LAZ-MD Holdings, a holding company

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that will be owned by current and former managing directors of Lazard Group. The Lazard Group common membership interests held by LAZ-MD Holdings will be effectively exchangeable over time on a one-for-one basis for shares of our common stock, as described in The Separation and Recapitalization Transactions and the Lazard Organizational Structure.

Lazard Ltd will hold a controlling interest in, and consolidate the financial statements of, Lazard Group. LAZ-MD Holdings ownership interests in Lazard Group will be accounted for as a minority interest in our consolidated financial results after this offering.

Lazard Group distributions will be allocated to holders of Lazard Group common membership interests on a pro rata basis. As we will hold approximately 33.7% of the outstanding Lazard Group common membership interests immediately after this offering, we will receive approximately 33.7% of the aggregate distributions in respect of the Lazard Group common membership interests.

Lazard Ltd's stockholders will experience significant dilution upon the completion of the equity public offering, since Lazard Ltd will use the net proceeds of the equity public offering and the additional financing transactions primarily to recapitalize Lazard Group, which transaction we refer to in this prospectus as the recapitalization. As part of the recapitalization, Lazard Group will use the proceeds from this offering and the additional financing transactions primarily to redeem outstanding membership interests of its historical partners. See Dilution and Use of Proceeds.

Prior to completing the recapitalization, Lazard Group will transfer its capital markets business, which consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, its merchant banking fund management activities other than its existing merchant banking business in France and specified non-operating assets and liabilities, to LFCM Holdings. We refer to these businesses, assets and liabilities as the separated businesses and these transfers collectively as the separation. For a more detailed description of the separation and the separated businesses, see The Separation and Recapitalization Transactions and the Lazard Organizational Structure, Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement and Risk Factors Risks Related to the Separation.

Except as otherwise expressly noted, this prospectus describes Lazard Group's business as if the separation were complete for all purposes and for all periods described. The historical consolidated financial data of Lazard Group included in this prospectus, however, reflect the historical results of operations and financial position of Lazard Group, including the separated businesses. In addition to other adjustments, the pro forma financial data included in this prospectus reflect financial data for Lazard Group and Lazard Ltd giving effect to the separation, as well as other adjustments made as a result of this offering and the additional financing transactions.

Each share of our common stock will entitle its holder to one vote per share. The share of our Class B common stock is intended to allow our managing directors to individually vote in proportion to their indirect economic interests in us. This will be effected by LAZ-MD Holdings, which holds our Class B common stock, entering into a stockholders' agreement with its members pursuant to which the members individually will be entitled to direct LAZ-MD Holdings how to vote their proportionate interest in our Class B common stock on an as-if-exchanged basis. This means that if a member held a LAZ-MD Holdings exchangeable interest that was effectively exchangeable for 1,000 shares of our common stock, that member would be entitled to direct LAZ-MD Holdings how to vote 1,000 votes represented by our Class B common stock. Our Class B common stock will be entitled, on all matters submitted to a vote of the stockholders of Lazard Ltd, to the number of votes equal to the number of

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shares of our common stock that would be issuable if all of the then outstanding Lazard Group common membership interests issued to LAZ-MD Holdings were exchanged for shares of our common stock. We refer to this stockholders' agreement as the LAZ-MD Holdings stockholders' agreement. Immediately after this offering, our Class B common stock will have 66.3% of the voting power of our company, which percentage will decrease proportionately as Lazard Group common membership interests are exchanged for shares of our common stock. In order to seek to avoid the possibility that LAZ-MD Holdings would be deemed to be an investment company for purposes of the U.S. Investment Company Act of 1940, as amended, or the Investment Company Act, the voting power of our outstanding Class B common stock will, however, represent no less than 50.1% of the voting power of our company until December 31, 2007. In addition, the board of directors of LAZ-MD Holdings will have the ability to vote the entire voting interest represented by our Class B common stock in its discretion if the LAZ-MD Holdings board of directors determines that it is in the best interests of LAZ-MD Holdings.

Our public stockholders, including IXIS and our Chief Executive Officer, who has elected to exchange his historical partner interests for shares of our common stock, initially will hold all of the outstanding shares of our common stock, representing approximately 33.7% of the voting power in Lazard Ltd and 100% of Lazard Ltd's capital stock on an economic basis. The Class B common stock will not have any economic rights in Lazard Ltd. As noted above, Lazard Ltd will hold approximately 33.7% of the Lazard Group common membership interests immediately after this offering, entitling our company to an equivalent percentage of any distributions made by Lazard Group in respect of its common membership interests. The remaining approximately 66.3% of Lazard Group common membership interests outstanding immediately after this offering will be held by LAZ-MD Holdings, entitling LAZ-MD Holdings to an equivalent percentage of any distributions made by Lazard Group in respect of its common membership interests.

The graphic below illustrates our expected pro forma ownership structure immediately following completion of this offering, assuming no exercise of the underwriters' over-allotment option. The graphic below does not display all of the subsidiaries of Lazard Ltd, Lazard Group and LAZ-MD Holdings (including those through which Lazard Ltd holds its interests in Lazard Group), all of the minority interests in Lazard Group (including the participatory interests to be granted to managing directors), the equity security units offered pursuant to this prospectus or other securities we expect to issue or grant in connection with the additional financing transactions. The Public Stockholders' caption on the graphic below includes shares of common stock that will be issued to IXIS pursuant to the IXIS investment agreement and to our Chief Executive Officer, who has elected to exchange his historical partner interests for shares of our common stock. For a more detailed graphic, we refer you to The Separation and Recapitalization Transactions and the Lazard Organizational Structure and, for a further discussion of minority interests, to Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures and Indicators Minority Interest.

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The working members will receive, in exchange for their interests in Lazard Group, membership interests in LAZ-MD Holdings, including LAZ-MD Holdings exchangeable interests, in connection with the separation and recapitalization transactions. These LAZ-MD Holdings exchangeable interests are effectively exchangeable for shares of our common stock on the eighth anniversary of this offering. In addition, the LAZ-MD Holdings exchangeable interests held by our working members who continue to provide services to us or LFCM Holdings will, subject to certain conditions, generally be effectively exchangeable for shares of our common stock in equal increments on and after each of the third, fourth and fifth anniversaries of this offering. LAZ-MD Holdings and certain subsidiaries of Lazard Ltd (which will effect the exchanges), with the consent of the Lazard Ltd board of directors, also have the right to cause the holders of LAZ-MD Holdings exchangeable interests to exchange all such remaining interests during the 30-day period following the ninth anniversary of this offering and under certain other circumstances. Upon full exchange of the LAZ-MD Holdings exchangeable interests for shares of our common stock, the Class B common stock would cease to be outstanding, and all of the Lazard Group common membership interests formerly owned by LAZ-MD Holdings would be owned indirectly by Lazard Ltd. See [Certain Relationships and Related Transactions](#) Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement LAZ-MD Holdings Exchangeable Interests.

In connection with the separation and recapitalization transactions, our managing directors who are managing directors of LAM will retain their equity interests and phantom equity rights in LAM, which we refer to in this prospectus as LAM equity units, and, accordingly, will not hold any membership interests in LAZ-MD Holdings. For a discussion of the LAM equity units, see [Management's Discussion and Analysis of Financial Condition and Results of Operation](#) Key Financial Measures and Indicators Minority Interest.

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We intend to undertake several transactions concurrently with this offering, including the additional financing transactions, in order to establish this organizational structure and effect the recapitalization of Lazard Group. For more information about these transactions, see [The Separation and Recapitalization Transactions and the Lazard Organizational Structure](#). Under the terms of the master separation agreement that we intend to enter into regarding the separation, we may withdraw the proposed transactions, including this offering, without liability at any time prior to the time that this offering is effected. See [Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement](#) and [Risk Factors Risks Related to the Separation](#).

Material U.S. Federal Income Tax and Bermuda Tax Considerations

Lazard Ltd is not subject to any Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax. In addition, under current Bermuda law, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by our stockholders in respect of our common stock.

We intend to operate our business so that, with respect to our common shares, each stockholder will generally be required to report on its U.S. federal income tax return only the amount of cash actually distributed to such stockholder. Lazard Ltd, the parent holding company, has made an election to be treated as a partnership for U.S. federal income tax purposes. As a result, each stockholder will be required to report on its income tax return its allocable share of Lazard Ltd's income, gains, losses and deductions.

Because Lazard Ltd is a partnership for U.S. federal income tax purposes, Lazard Ltd itself will not pay any U.S. federal income tax, although Lazard Ltd's U.S. subsidiaries generally will be subject to U.S. federal income tax on a net income basis on their share of the income of Lazard Group and its subsidiaries, and Lazard Ltd's non-U.S. subsidiaries generally will be subject to U.S. federal income tax on a net income basis on the income of Lazard Group and its subsidiaries that is effectively connected with their conduct of a trade or business in the U.S.

For additional information concerning the material tax consequences of investing in our equity security units, see [Material U.S. Federal Income Tax and Bermuda Tax Considerations](#).

Relationship with LAZ-MD Holdings and LFCM Holdings

In addition to LAZ-MD Holdings' equity and voting interests in Lazard Ltd and Lazard Group as described above in [Lazard's Organizational Structure](#), we will have ongoing relationships with LAZ-MD Holdings and LFCM Holdings and its subsidiaries after the separation and this offering, including several agreements with LAZ-MD Holdings and LFCM Holdings that are intended to define and regulate Lazard's ongoing relationship with LAZ-MD Holdings and LFCM Holdings after the separation and this offering. For a further discussion, see [Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings](#).

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Bermuda Law

The Companies Act 1981 of Bermuda, as amended, which we refer to in this prospectus as the Companies Act, which applies to Lazard Ltd, differs in certain material respects from laws generally applicable to U.S. corporations and their stockholders. These differences include:

Voting rights of stockholders. Under Bermuda law, voting rights of stockholders are regulated by the company's bye-laws and, in certain circumstances, the Companies Act. While we have generally sought to provide for voting rights that are similar to those of a Delaware corporation, our bye-laws and Bermuda law contain selected provisions that differ from what would require a stockholder vote in a Delaware corporation. For example, at any annual or general meeting of our stockholders, two or more persons present in person and generally representing greater than 50% of the votes are required to form a quorum for the transaction of business. Generally, except as otherwise provided in the bye-laws, any action or resolution requiring approval of the stockholders may be passed by a simple majority of votes cast. Delaware law provides that a majority of the shares entitled to vote constitutes a quorum at a meeting of stockholders. For a Delaware corporation, in matters other than the election of directors, with the exception of special voting requirements related to extraordinary transactions, the affirmative vote of the majority is required for stockholder action, and the affirmative vote of a plurality is required for the election of directors.

In Bermuda, mergers and amalgamations (other than between certain affiliated companies) generally require the approval of a company's board of directors and, unless the company's bye-laws provide otherwise, the approval of 75% of the stockholders. Our bye-laws provide that a merger or an amalgamation (other than with a wholly-owned subsidiary) approved by our board of directors must be approved by a majority of the combined voting power of all of the shares voting together as a single class. In Delaware, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon.

The ability of a company to pay dividends. Under the Companies Act, we may declare or pay a dividend or make a distribution out of distributable reserves only if we have reasonable grounds for believing that we are, or would after the payment be, able to pay our liabilities as they become due and if the realizable value of our assets would thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts. A Delaware company, subject to any restrictions contained in the company's certificate of incorporation, may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year, but the company may not pay dividends out of net profits if, after the payment of the dividend, capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Stockholders' ability to call meetings. Bermuda law provides that a special general meeting must be called upon the request of stockholders holding not less than 10% of the paid-up share capital of the company carrying the right to vote. Delaware law permits the certificate of incorporation of a Delaware corporation to bar stockholder ability to call a special meeting.

Access to books and records by the general public and stockholders. Members of the general public have the right to inspect the public documents of a Bermuda company available at the office of the Registrar of Companies in Bermuda. Delaware law permits any stockholder to inspect or obtain copies of a corporation's stockholder list and its other books and records for any purpose reasonably related to such person's interest as a stockholder.

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Duties of directors. Under Bermuda law, the duties of directors and officers of a company are generally owed to the company only. In exercising their powers, directors of a Delaware corporation are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its stockholders.

The scope of indemnification available to directors and officers. The Companies Act provides that a Bermuda company may indemnify its directors and officers in respect of any loss arising or liability attaching to them as a result of any negligence, default or breach of trust of which they may be guilty in relation to the company in question, but any provision indemnifying a director or officer (other than in an action by or in the right of the corporation) against any liability which would attach to him or her in respect of his or her fraud or dishonesty will be void. Under Delaware law, a corporation may indemnify its director or officer against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if such director or officer (i) acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and (ii) with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

The Bermuda Monetary Authority has classified us as a non-resident of Bermuda for exchange control purposes. Accordingly, the Bermuda Monetary Authority does not restrict our ability to engage in transactions in currencies other than Bermuda dollars, to transfer funds in and out of Bermuda or to pay dividends to non-Bermuda residents who are stockholders, other than in Bermuda dollars. We have received consent under the Exchange Control Act 1972 from the Bermuda Monetary Authority for the issue and transfer of the common stock to and between non-residents of Bermuda for exchange control purposes, provided that our shares remain listed on an appointed stock exchange, which includes the New York Stock Exchange, or the NYSE. This prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for our financial soundness or the correctness of any of the statements made or opinions expressed in this prospectus.

For more information on the rights under the Companies Act, including where relevant, information on Lazard Ltd's bye-laws, and a comparison to Delaware corporate law, see [Description of Capital Stock Delaware Law](#) and [Certain Relationships and Related Transactions Certain Relationships with Our Directors, Executive Officers and Employees Director and Officer Indemnification](#).

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The ESU Offering

What are the equity security units?

Each equity security unit, which we refer to as a unit, will consist of and represent:

- (1) a purchase contract pursuant to which:

you will agree to purchase, and Lazard Ltd will agree to sell, for \$25, shares of Lazard Ltd's common stock on _____, 2008, which we refer to as the stock purchase date, the number of which will be determined based on the trading price of Lazard Ltd's common stock during a period preceding that date, calculated in the manner described below, and

Lazard Ltd will pay you contract adjustment payments on a quarterly basis at the annual rate of _____ % of the stated amount of \$25, subject to its right to defer such payments, as specified below, and

- (2) a 1/40, or 2.5%, ownership interest in a senior note of Lazard Group Finance with a principal amount of \$1,000, on which Lazard Group Finance will pay interest at the initial annual rate of _____ % until a successful remarketing of the senior notes and at the reset rate, which is described below, thereafter. Interest will be payable quarterly in arrears through and including the stock purchase date and, thereafter, semi-annually in arrears.

Lazard Ltd will be permitted to assign its rights and obligations under the purchase contracts, including settlement and the making of the contract adjustment payments, to any wholly-owned subsidiary of Lazard Ltd, but only if, and for so long as, the assignment does not adversely affect the holders of the purchase contracts. Any incremental cost, including tax, that would be imposed on or payable by a holder as a result of an assignment will be considered to be an adverse affect, except to the extent Lazard Ltd or its assignee fully compensates the holders for the cost. Notwithstanding any assignment, Lazard Ltd will remain a primary obligor under the purchase contracts and will satisfy, or cause the assignee to satisfy, the obligations under the purchase contracts.

The ownership interests in the senior notes that are a component of your units will be owned by you but initially will be pledged to the collateral agent for Lazard Ltd's benefit to secure your obligations under the related purchase contracts. We refer in this prospectus to the purchase contracts, together with the pledged ownership interest in the senior notes (or, after a special event redemption, described below, the pledged treasury securities), as normal units.

Each holder of normal units may elect at any time on or before the thirteenth business day prior to the stock purchase date (subject to certain exceptions) to withdraw from the pledge the pledged ownership interest in the senior notes (or, after a special event redemption, described below, the pledged treasury securities) underlying the normal units, thereby creating what we refer to in this prospectus as stripped units. To create stripped units, the holder must substitute, as pledged securities, specifically identified treasury securities that will pay \$25 (the amount due under the purchase contract) per unit on the stock purchase date, and the pledged ownership interest in the senior notes or treasury securities will be released from the pledge and delivered to the holder. Holders of stripped units may recreate normal units by re-substituting the senior notes (or, after a special event redemption, the

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applicable treasury securities) for the treasury securities underlying the stripped units on or before the thirteenth business day prior to the stock purchase date.

If a special event redemption occurs, as described in this prospectus, the applicable ownership interest in the treasury securities will replace the ownership interest in a senior note as a component of

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each unit and will be pledged to the collateral agent for Lazard Ltd's benefit to secure your obligations under the purchase contract.

What are the purchase contracts?

The purchase contract underlying a unit obligates you to purchase, and Lazard Ltd to sell, for \$25, on the stock purchase date, a number of newly issued shares of common stock equal to the settlement rate described below. The settlement rate will be based on the trading price of Lazard's common stock during a period preceding that date, calculated in the manner described below.

You will not have any voting or other rights with respect to Lazard Ltd's common stock until you pay the \$25 purchase price and acquire the shares of common stock upon settlement of the purchase contracts.

What payments will be made to holders of the units and the senior notes?

If you hold normal units, Lazard Ltd will pay you quarterly contract adjustment payments on the underlying purchase contracts at the annual rate of _____ % of the \$25 stated amount through and including the stock purchase date, and Lazard Group Finance will pay you quarterly interest payments on the ownership interests in senior notes that are pledged in respect of your normal units at the initial annual rate of _____ % through but excluding the stock purchase date.

If you hold stripped units and do not separately hold senior notes, you will receive only the quarterly contract adjustment payments payable by Lazard Ltd at the annual rate of _____ % of the \$25 stated amount.

The contract adjustment payments on normal and stripped units are subject to Lazard Ltd's deferral right as described below. Lazard Group Finance is not entitled to defer interest payments on any senior notes, whether held as part of, or separately from, the units.

If you hold senior notes separately from the units and do not separately hold stripped units, you will receive only the interest payable on the senior notes. The senior notes, whether held separately from or as part of the normal units, will pay interest at the initial annual rate of _____ % until the settlement date of a successful remarketing, as described below. If the senior notes are successfully remarketed, the rate of interest payable from the settlement date of the successful remarketing until their maturity will be the reset rate, which will be a rate established by the remarketing agent that meets the requirements described in this prospectus. If the remarketing agent cannot establish a reset rate on a remarketing date, the remarketing agent will not reset the interest rate on the senior notes and the interest rate will continue to be the initial annual interest rate of _____ %.

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Lazard Ltd and Lazard Group Finance are holding companies with no operations of their own. Lazard Group Finance will own no material assets other than its controlling voting equity interests in Lazard Group and the notes issued by Lazard Group, the terms of which are described below. The Lazard Group notes will be pledged to secure the obligations of Lazard Group Finance under the senior notes. The ability of Lazard Group Finance to pay its obligations under the senior notes depends on its ability to obtain interest and principal payments on the Lazard Group notes. The ability of Lazard Ltd to pay its obligations with respect to the purchase contracts depends on its ability to obtain cash dividends or other cash payments or obtain loans from its subsidiaries, which are separate and distinct legal entities that will have no obligations to pay any dividends or to lend or advance funds to Lazard Ltd and which may be restricted from doing so by other financing arrangements, charter provisions or regulatory requirements.

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What are the payment dates?

Subject to Lazard Ltd's deferral right in respect of the contract adjustment payments described below, contract adjustment payments will be made quarterly in arrears on each of _____, _____, _____ and _____, commencing on _____, 2005 and ending on the stock purchase date. Interest payments on the senior notes initially will be made quarterly in arrears on each of _____, _____, _____ and _____, commencing on _____, 2005 and, following the stock purchase date, semi-annually in arrears on each of _____ and _____ until maturity.

When can Lazard Ltd and Lazard Group Finance defer payments?

Lazard Ltd can defer payment of all or part of the contract adjustment payments on the purchase contracts until no later than the stock purchase date. Lazard Ltd will accrue additional contract adjustment payments on any deferred installments of contract adjustment payments at a rate of _____ % per year until paid, compounded quarterly, to but excluding the stock purchase date, unless your purchase contract has been earlier settled or terminated.

Lazard Group Finance is not entitled to defer interest payments on the senior notes.

What is the reset rate?

To facilitate the remarketing of the senior notes at the remarketing price described below, the remarketing agent will reset the rate of interest on the senior notes, effective from the settlement date of a successful remarketing until their maturity. The reset rate will be the rate sufficient to cause the then-current market value of each outstanding senior note to be equal to 100.5% of the principal amount of the senior notes.

The reset rate will be determined by the remarketing agent during the seven business day period beginning on the ninth business day prior to the stock purchase date and ending on the third business day prior to the stock purchase date.

The reset of the interest rate on the senior notes in connection with a successful remarketing will not change the amount of the interest due to holders of normal units on the stock purchase date, which will be at the initial annual rate of _____ %.

The reset rate may not exceed the maximum rate, if any, permitted by applicable law.

What is the remarketing?

The remarketing agent will attempt to remarket the senior notes of holders of normal units and will use the proceeds to settle the purchase contracts directly on the stock purchase date. Holders of normal units may elect not to participate in any remarketing by following the procedures set forth in the remarketing notice described in this prospectus. This will be one method for holders of normal units to satisfy their obligations to purchase shares of common stock under the related purchase contracts.

As described below, a holder of a senior note in which interests are not held as part of normal units may elect to have the separately held senior note remarketed along with the senior notes in which interests are held as part of the normal units.

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We will enter into a remarketing agreement with a nationally recognized investment banking firm that will act as remarketing agent. The remarketing agent will agree to use reasonable best efforts to remarket the senior notes that are included in normal units (as well as separately held senior notes) that are participating in the remarketing, at a price per senior note that will result in net cash proceeds equal to 100.5% of the principal amount of the senior notes. We anticipate that the settlement date of any successful remarketing will be on or before _____, 2008.

The remarketing agent will deduct out of the proceeds in excess of the principal amount of the senior notes as a remarketing fee an amount not exceeding 25 basis points (0.25%) of the total proceeds from the remarketing.

The proceeds of the remarketing of the senior notes of holders of normal units, less the remarketing fee, will be paid directly to Lazard Ltd in settlement of the obligations of those holders to purchase shares of our common stock. The remarketing agent will remit the remaining portion of those proceeds, if any, for payment to the holders of the normal units participating in the remarketing. The proceeds of the remarketing of senior notes not held as part of normal units, less the remarketing fee, will be paid to the holders of such senior notes participating in the remarketing.

Upon a remarketing of the senior notes, the interest rate, payment dates and maturity date on the Lazard Group notes also will be reset on the same terms such that the interest rate, payment dates and maturity date on the Lazard Group notes are the same as those for the senior notes.

A holder of normal units may elect not to participate in any remarketing and, instead, may retain the ownership interests in senior notes underlying those normal units by delivering to the collateral agent, in respect of each senior note to be retained, cash in the amount and on the date specified in the remarketing notice to satisfy its obligations under the related purchase contracts. Whether or not a holder of normal units participates in the remarketing, the interest rate, payment dates and maturity date on the senior notes that form part of those units nevertheless will be reset if the remarketing is successful.

Prior to any remarketing, Lazard Group Finance and Lazard Ltd plan to file and obtain effectiveness of a registration statement if so required under the U.S. federal securities laws in effect at such time.

What happens if the remarketing agent does not successfully remarket the senior notes on the remarketing date?

If the remarketing agent cannot establish a reset rate meeting the requirements described above on the ninth business day prior to the stock purchase date and, therefore, cannot remarket the senior notes participating in the remarketing at a price per senior note that will result in net cash proceeds equal to 100.5% of the principal amount of the senior notes, the remarketing agent will attempt to establish a reset rate meeting these requirements on each of the six business days immediately following the initial proposed remarketing date. We refer to this period as the remarketing period. The maturity date of the senior notes will be the stock purchase date in the event that the remarketing agent fails to remarket the senior notes participating in the remarketing by the end of the third business day immediately preceding the stock purchase date. On such maturity date, the principal amount of, and any accrued and unpaid interest on, such senior notes shall be due and payable to holders of the senior notes. The proceeds from the repayment of the principal amount of the senior notes that form part of the normal units will be used by the collateral agent to settle the respective stock purchase contracts on the stock purchase date. If there is a failed remarketing, the maturity date of the Lazard Group notes

also will be the stock purchase date. If Lazard Group Finance does not satisfy its

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obligation to pay the principal amount of the applicable senior notes on the stock purchase date because Lazard Group has not repaid the principal amount of the Lazard Group notes, then the collateral agent will retain such senior notes as collateral and deliver the senior notes to Lazard Ltd, which will exercise its rights as a secured party with respect to the senior notes and, subject to applicable law, may retain the pledged senior notes or sell them in one or more public or private sales to satisfy in full such holder's obligation to purchase shares of common stock under the related purchase contracts.

If I am not a party to a purchase contract, may I still participate in a remarketing of my senior notes?

Holders of senior notes in which interests are not included as part of normal units may elect to have their senior notes included in the remarketing in the manner described in Description of the Equity Security Units Optional Remarketing. The remarketing agent will use reasonable best efforts to remarket the separately held senior notes included in the remarketing at a price per senior note that will result in net cash proceeds equal to at least 100.5% of the principal amount of the senior notes, determined on the same basis as for the other senior notes being remarketed. After deducting as a remarketing fee an amount not exceeding 25 basis points (0.25%) of the total proceeds from such remarketing, the remaining portion of the proceeds, if any, will be remitted for payment to the holders whose separate senior notes were remarketed in the remarketing.

What is the settlement rate?

The settlement rate is the number of newly issued shares of common stock that Lazard Ltd is obligated to sell, and you are obligated to purchase, upon settlement of a purchase contract on the stock purchase date. The number of shares of common stock you will receive will depend on the price of Lazard Ltd's common stock on each of the 20 trading days beginning on 2008. On each of those 20 trading days, a formula will be applied to that day's closing price for Lazard Ltd's common stock, and the results of the 20 days' calculations will be added to determine the total number of shares of common stock that you will receive on the stock purchase date. Under that formula, the settlement rate for each purchase contract, subject to any then applicable anti-dilution adjustments, will be an amount equal to the sum of:

for each of those 20 trading days on which the closing price for Lazard Ltd's common stock is less than or equal to the reference price (as defined below), a fraction of a share of Lazard Ltd's common stock per purchase contract equal to:

$$1/20 \times \$25/\text{reference price},$$

for each of those 20 trading days on which the closing price for Lazard Ltd's common stock is greater than the reference price but less than the threshold appreciation price (as defined below), a fraction of a share of Lazard Ltd's common stock per purchase contract equal to:

$$1/20 \times \$25/\text{closing price},$$

and

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for each of those 20 trading days on which the closing price for Lazard Ltd's common stock is greater than or equal to the threshold appreciation price, a fraction of a share of Lazard Ltd's common stock per purchase contract equal to:

$$1/20 \times \$25/\text{threshold appreciation price}.$$

The reference price is \$ _____, which is the initial public offering price of Lazard Ltd's common stock. The threshold appreciation price is \$ _____, which is _____ % of the reference price.

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For a series of diagrams that explain some of the key features of the units, including the settlement rate and the reference price (as defined below), see [The ESU Offering Explanatory Diagrams](#) below.

At the option of each holder, a purchase contract may be settled early by the early delivery of cash to the purchase contract agent, as described below, in which case the settlement rate will be _____ shares of common stock per purchase contract, subject to then applicable anti-dilution adjustments, provided that at the time of such early settlement, Lazard Ltd has an effective shelf registration statement covering such shares of common stock (subject to customary black-out periods) unless Lazard Ltd has been advised by counsel that no prospectus is required to be delivered in connection with the sale of the shares of common stock.

Besides participating in a remarketing, how else can my obligations under the purchase contract be satisfied?

Besides participating in a remarketing, your obligations under the purchase contract also may be satisfied:

if you have created stripped units, by delivering and pledging specified treasury securities in substitution for your senior notes and applying the cash payments received upon maturity of those pledged treasury securities,

through the early delivery of cash to the purchase contract agent on or prior to the thirteenth business day prior to the stock purchase date in the manner described in [Description of the Equity Security Units Early Settlement](#),

by delivering a notice to settle for cash along with the requisite amount of cash on the thirteenth business day prior to the stock purchase date for settlement of the purchase contracts in the manner described in [Description of the Equity Security Units Notice to Settle with Cash](#), or

if Lazard Ltd is involved in a merger, amalgamation, acquisition or consolidation other than with one of its subsidiaries prior to the stock purchase date in which at least 30% of the consideration for the shares of common stock consists of cash or cash equivalents, through an early settlement of the purchase contract as described in [Description of the Equity Security Units Early Settlement upon Cash Merger](#).

If a holder of a unit (1) elects not to participate in a remarketing and notifies the purchase contract agent of such election but does not so deliver the requisite amount of cash or (2) does not notify the purchase contract agent of its intention to make a cash settlement and, in either case, does not otherwise opt out of participation in the remarketing, the holder will be deemed to have elected to participate in the remarketing.

In addition, the purchase contracts, Lazard Ltd's related rights and obligations and those of the holders of the units, including their rights to receive accumulated contract adjustment payments or deferred contract adjustment payments and obligations to purchase shares of common stock, will terminate automatically in accordance with their terms upon the occurrence of bankruptcy, insolvency or reorganization of Lazard Ltd, Lazard Group or Lazard Group Finance. Upon such a termination of the purchase contracts, the pledged senior notes or treasury securities will be released and distributed to you. If Lazard Ltd, Lazard Group or Lazard Group Finance becomes the subject of a case under the U.S. Bankruptcy Code, a delay may occur as a result of the imposition of an automatic stay under the U.S. Bankruptcy Code and continue until the automatic stay has been lifted. The automatic stay will not

be lifted until such time as the bankruptcy judge agrees to lift it and allows your collateral to be returned

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to you. Similarly, if Lazard Ltd becomes the subject of winding up proceedings under the Companies Act, a delay may result from the automatic stay of proceedings against Lazard Ltd and may continue until the court decides to lift the stay.

If the purchase contract is settled early or is terminated as the result of bankruptcy, insolvency or reorganization as described above, a holder will have no further right to receive any contract adjustment payments or deferred contract adjustment payments, and, except in the case of specified early settlements, you will not receive any accrued and unpaid contract adjustment payments.

Under what circumstances may Lazard Group Finance redeem the senior notes before they mature?

If the tax laws change or are interpreted by the tax authorities or the courts in a way that adversely affects the tax consequences of Lazard Group (as deemed issuer of the senior notes for U.S. federal income tax purposes) with respect to the senior notes or if the accounting rules change in a way that adversely affects our accounting treatment of the purchase contracts or the units, then Lazard Group Finance may elect to redeem the senior notes. If the senior notes are redeemed before a successful remarketing, the money received from the redemption will be used by the collateral agent to purchase a portfolio of zero coupon U.S. treasury securities that mature on or prior to each payment date of the senior notes through the stock purchase date, in an aggregate amount equal to the principal on the senior notes included in normal units and the interest that would have been due on such payment date on the senior notes included in normal units. For a holder of normal units, these treasury securities will replace the senior notes as the collateral securing such holder's obligations to purchase shares of common stock under the purchase contracts. If your senior notes are not components of normal units, you, rather than the collateral agent, will receive the related redemption payment. If the senior notes are redeemed, each normal unit will consist of a purchase contract for shares of common stock and an ownership interest in the portfolio of treasury securities.

What is the maturity of the senior notes?

The senior notes will mature (a) in the event of a successful remarketing, as described under Description of the Equity Security Units Remarketing, on any date no earlier than _____, 2010 and no later than _____, 2035, as we may elect, (b) in the event of a failed remarketing, as described under Description of the Equity Security Units Remarketing, on the stock purchase date, and (c) otherwise on _____, 2035.

What are the terms of the Lazard Group notes?

Lazard Group Finance will use the proceeds from this offering to purchase senior, unsecured notes from Lazard Group. The Lazard Group notes will be pledged to secure the obligations of Lazard Group Finance under the senior notes. The Lazard Group notes will have the following terms and conditions:

the aggregate principal amount of the Lazard Group notes will be equal to the aggregate principal amount of the senior notes,

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the notes will accrue interest at a rate equivalent to the interest rate applicable from time to time on the senior notes,

the notes will mature on the same date as the senior notes,

the notes will be a senior, unsecured obligation of Lazard Group, ranking *pari passu* with all other senior, unsecured indebtedness of Lazard Group, and

the notes will be issued in denominations of \$1,000 and integral multiples thereof.

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As noted above, the Lazard Group notes will be a senior, unsecured obligation of Lazard Group. The senior notes and the Lazard Group notes, however, will rank effectively junior to the indebtedness of any subsidiary of Lazard Group with respect to the assets of such subsidiary. As of December 31, 2004, on a pro forma basis, there was approximately \$1.7 billion of liabilities and other obligations, including certain minority interests (other than intercompany liabilities and obligations), of subsidiaries of Lazard Group that would have ranked senior to the senior notes and the Lazard Group notes as a result of this structural subordination. The senior notes and the Lazard Group notes do not limit the ability of Lazard Ltd or Lazard Group or any of their respective subsidiaries to incur indebtedness.

What are the U.S. federal income tax consequences related to the equity security units and senior notes?

If you purchase equity security units in this offering, you will be treated for U.S. federal income tax purposes as having acquired purchase contracts and ownership interests in the senior notes constituting those equity security units, and by purchasing the equity security units you agree to treat the purchase contracts and ownership interests in the senior notes in that manner for all U.S. federal income tax purposes. In addition, you agree to treat the senior notes as indebtedness of Lazard Group for all U.S. federal income tax purposes.

You must allocate the purchase price of each equity security unit between the purchase contract and the ownership interest in the senior note in proportion to their respective fair market values, which will establish your initial tax basis in each component of the equity security unit. We expect to report the fair market value of each purchase contract as \$0 and the fair market value of each senior note as \$1,000 (or \$25 for each 2.5% ownership interest in a senior note included in a normal unit).

You are urged to consult your tax advisor concerning the tax consequences of an investment in our normal units. For additional information, see Material U.S. Federal Income Tax and Bermuda Tax Considerations.

What are the ERISA considerations?

Plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, or ERISA, or Section 4975 of the Internal Revenue Code of 1986, as amended, or the Code, may invest in the equity security units subject to the considerations set forth in ERISA Considerations.

Will the equity security units be listed on a stock exchange?

We have been approved for listing of the normal units on the NYSE under the symbol LDZ. We have no obligation and do not currently intend to apply for any separate listing of either the stripped units or the senior notes on any stock exchange.

What are the expected uses of proceeds from the offerings?

We estimate that we will receive net proceeds from this offering of approximately \$241 million, or \$278 million if the underwriters option to purchase additional equity security units is exercised in full. Lazard Group Finance will use the net proceeds from this offering to purchase the Lazard Group notes, the terms of which are described above.

At the initial public offering price of \$26.00 per share of common stock (the midpoint of the range of initial public offering prices set forth on the cover page of the prospectus for the equity public offering), we estimate that the net proceeds from the equity public offering will be between

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approximately \$730 million (assuming no exercise of the underwriters' option to purchase additional shares of common stock) and \$843 million (assuming full exercise of the underwriters' option to purchase additional shares of common stock). The net proceeds from this offering, the equity public offering, the debt offering and the IXIS investment agreement will be used by Lazard Group primarily to redeem membership interests held by the historical partners for an aggregate redemption price of approximately \$1.6 billion, as described in The Separation and Recapitalization Transactions and the Lazard Organizational Structure. Also see Use of Proceeds for additional details regarding the use of proceeds from this offering, the equity public offering, the debt offering and the IXIS investment agreement.

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The ESU Offering Explanatory Diagrams

The following diagrams demonstrate some of the key features of the purchase contracts, normal units, stripped units and senior notes, and the transformation of normal units into stripped units and senior notes. The following diagrams assume that the senior notes are successfully remarketed, the interest rate on the senior notes is reset, there is no early settlement and the payment of contract adjustment payments is not deferred.

Purchase Contracts

Normal units and stripped units both include a purchase contract under which you agree to purchase shares of common stock on the stock purchase date.

The number of shares of common stock to be purchased under each purchase contract will depend on a formula applied to the closing price of our common stock on each of the 20 trading days beginning on _____, 2008.

The following charts are intended to illustrate (1) the value of the shares of common stock to be delivered upon settlement of the purchase contracts on the stock purchase date in relation to the market price of the common stock and (2) the number of shares of common stock a holder of units will receive on the stock purchase date.

-
- (1) For each of the percentage categories shown, the percentage of the shares of common stock to be delivered on the stock purchase date to a holder of normal units or stripped units is determined as indicated in (2), (3) and (4) below.
 - (2) If on each of the 20 trading days beginning on _____, 2008, the closing price of Lazard Ltd's common stock is less than or equal to the reference price, the number of shares of common stock to be delivered will be a fraction of one share of common stock per purchase contract equal to the stated amount of \$25 divided by the reference price, regardless of the market price of such shares, resulting in an investor realizing the entire loss on the decline in market value of the common stock.
 - (3) If on any of the 20 trading days beginning on _____, 2008, the closing price of Lazard Ltd's common stock is between the reference price and the threshold appreciation price, the number of shares of common stock to be delivered will be a fraction of one share of common stock per purchase contract that is between the fractions referred to in (2) above and (4) below. The calculation of this fraction is set forth in _____ Description of the Equity Security Units Description of the Purchase Contracts.
 - (4) If on each of the 20 trading days beginning on _____, 2008, the closing price of Lazard Ltd's common stock is greater than or equal to the threshold appreciation price, the number of shares of common stock to be delivered will be a fraction of one share of common stock per purchase contract equal to the stated amount of \$25 divided by the threshold appreciation price, resulting in an investor receiving only the appreciation in market value above the threshold appreciation price.

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Normal Units

A normal unit will consist of two components as illustrated below:

After a special event redemption, the normal units will include specified treasury securities in lieu of the senior notes.

If you hold a normal unit, you will hold an ownership interest in a senior note and, after a special event redemption, an ownership interest in specified treasury securities but will pledge that interest to the collateral agent for Lazard Ltd's benefit to secure your obligations under the purchase contract.

If you hold a normal unit, you may also substitute the requisite amount of cash for your ownership interest in a senior note if you decide not to participate in the remarketing.

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Stripped Units

A stripped unit consists of two components as illustrated below:

If you hold a stripped unit, you own a 1/40, or 2.5%, interest in the treasury security but will pledge it to the collateral agent for Lazard Ltd's benefit to secure your obligations under the purchase contract. The treasury security is a zero coupon U.S. treasury security (CUSIP No.) that matures on , 2008.

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Senior Notes

Senior notes will have the terms illustrated below:

If you hold an ownership interest in a senior note that is a component of a normal unit, you have the option to either:

allow the ownership interest in the senior note to be included in the remarketing process, the proceeds of which will be applied to settle the purchase contract, or

elect not to participate in the remarketing by delivering the requisite amount of cash to be applied to settle the related purchase contract.

If you hold a senior note that is not a component of a normal unit, you have the option to either:

continue to hold the senior note the interest rate on which will be reset, effective from the settlement date of a successful remarketing of the senior notes, or

allow the ownership interest in the senior note to be included in the remarketing process, the proceeds of which will be remitted to you.

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Transforming Normal Units into Stripped Units and Senior Notes

To create stripped units, you must substitute for the pledged ownership interest in the senior note (or, after a special event redemption, the pledged treasury securities) the specified zero coupon U.S. treasury security that matures on _____, 2008.

The pledged senior note or, after a special event redemption, the pledged treasury securities will be released from the pledge and delivered to you.

The zero coupon U.S. treasury security together with the purchase contract would then constitute a stripped unit. The senior note (or, after a special event redemption, treasury securities), which was previously a component of normal units, would become a separate security.

The transformation of normal units into stripped units and senior notes and the transformation of stripped units and senior notes into normal units generally may be effected only in integral multiples of 40 units, as more fully described in this prospectus. If, however, the senior notes constituting a part of the normal units have been replaced with treasury securities due to a special event redemption, the transformation of normal units into stripped units and the recreation of normal units from stripped units may be effected only in integral multiples of units such that both the treasury securities to be deposited and the treasury securities to be released are in integral multiples of \$1,000, as more fully described in this prospectus.

The following illustration depicts the transformation of 40 normal units into 40 stripped units and one \$1,000 principal amount senior note.

After a special event redemption, the normal units will include ownership interests in specified U.S. treasury securities in lieu of an ownership interest in senior notes.

You also can transform stripped units and senior notes (or, after a special event redemption, treasury securities) into normal units. Following that transformation, the specified zero coupon U.S. treasury security, which was previously a component of the stripped units, would become a separate security.

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Summary Consolidated Financial Data

The following table sets forth the historical summary consolidated income statement data for Lazard Group, including the separated businesses, for all periods presented. The table also presents certain pro forma consolidated financial data for Lazard Group and Lazard Ltd.

The historical financial statements do not reflect what our results of operations and financial position would have been had we been a stand-alone, public company for the periods presented. Specifically, our historical results of operations do not give effect to the matters set forth below.

The separation, which is described in more detail in *The Separation and Recapitalization Transactions and the Lazard Organizational Structure* and *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Payment for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as employee compensation and benefits expense. As a result, Lazard Group's operating income historically has not reflected payments for services rendered by its managing directors. After this offering, we will include all payments for services rendered by our managing directors to us in employee compensation and benefits expense.

U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically has operated principally through subsidiary corporations and has been subject to local income taxes. Income taxes shown on Lazard Group's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to the New York City Unincorporated Business Tax, or UBT, attributable to Lazard Group's operations apportioned to New York City.

Minority interest expense reflecting LAZ-MD Holdings' ownership of approximately 66.3% of the Lazard Group common membership interests outstanding immediately after this offering and the separation and recapitalization transactions.

The use of proceeds from this offering and the additional financing transactions.

The net incremental expense related to this offering and the additional financing transactions.

The unaudited pro forma data set forth below are derived from the unaudited pro forma condensed financial statements included elsewhere in this prospectus. The data reflect the separation and recapitalization transactions and the completion of this offering and the additional financing transactions as if they had occurred as of January 1, 2004, and are included for informational purposes only and do not purport to represent what our results of operations would actually have been had we operated as a separate, independent company during the period presented, nor does the pro forma data give effect to any events other than those discussed above and in the related notes. As a result, the pro forma operating results are not necessarily indicative of the operating results for any future period. See *Unaudited Pro Forma Financial Information* included elsewhere in this prospectus.

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The historical consolidated statement of income data for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 have been derived from Lazard Group's consolidated financial statements audited by Deloitte & Touche LLP, an independent registered public accounting firm. The audited

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consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 are included elsewhere in this prospectus. The audited consolidated financial statements for the years ended December 31, 2000 and 2001 are not included in this prospectus. Historical results are not necessarily indicative of results for any future period.

The summary consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Pro Forma Financial Information and Lazard Group's historical consolidated financial statements and related notes included elsewhere in this prospectus. See also The Separation and Recapitalization Transactions and the Lazard Organizational Structure.

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	For the Year Ended December 31,					For the Year Ended December 31, 2004,	
						Pro Forma	
	2000	2001	2002	2003	2004	Lazard Group	Lazard Ltd
(\$ in thousands, except per share data)							
Historical and Pro Forma							
Consolidated Statement of Income Data							
Net Revenue:							
Financial Advisory (a)	\$ 766,856	\$ 551,356	\$ 532,896	\$ 690,967	\$ 655,200	\$ 655,200	\$ 655,200
Asset Management (b)	457,124	410,237	454,683	350,348	417,166	417,166	417,166
Corporate (c)	32,817	(14,291)	4,391	6,535	13,839	(37,790)	(37,790)
Capital Markets and Other	296,003	224,753	174,309	135,534	188,100		
Net Revenue (d)	1,552,800	1,172,055	1,166,279	1,183,384	1,274,305	1,034,576(f)	1,034,576(f)
Employee Compensation and Benefits	570,064	524,417	469,037	481,212	573,779	637,050	637,050
Other Operating Expenses	306,339	288,676	321,197	312,818	342,764	259,323	259,323
Total Operating Expenses	876,403	813,093	790,234	794,030	916,543	896,373	896,373
Operating Income	676,397	358,962	376,045	389,354	357,762	138,203(g)	138,203(g)
Income Allocable to Members Before Extraordinary Item	558,708	305,777	297,447	250,383	241,467	104,568	
Net Income Allocable to Members	558,708	305,777	297,447	250,383	246,974(e)	104,568(h)	
Net Income							29,535(i)
Pro Forma Basic Net Income Per Share (j)							\$0.88
Pro Forma Diluted Net Income Per Share (j)							\$0.88
Pro Forma Basic Weighted Average Common Shares (j)							33,653,846
Pro Forma Diluted Weighted Average Common Shares (j)							100,000,000
Other Lazard Group Historical Data							
Dollar Value of Mergers and Acquisitions (M&A) Deals Completed (\$ in millions) (k)	\$ 383,061	\$ 154,848	\$ 86,512	\$ 187,426	\$ 187,144		
Number of M&A Deals Completed Greater than \$1 Billion (l)	47	29	21	29	30		
Assets Under Management (\$ in millions):							
Ending	\$ 79,510	\$ 73,108	\$ 63,685	\$ 78,371	\$ 86,435		
Average (m)	81,147	75,705	68,356	66,321	80,261		
Managing Director Headcount (as of the end of each period):							
Financial Advisory	100	88	103	118	131		
Asset Management	15	19	19	24	35		
Corporate (including limited managing directors)	12	18	18	18	19		
Capital Markets and Other	20	20	20	22	22		
Total	147	145	160	182	207		

Notes (\$ in thousands):

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(a) Financial Advisory net revenue consists of the following:

	For the Year Ended December 31,					For the Year Ended December 31, 2004	
						Pro Forma	
	2000	2001	2002	2003	2004	Lazard Group	Lazard Ltd
M&A	\$ 724,550	\$ 492,083	\$ 393,082	\$ 419,967	\$ 481,726	\$ 481,726	\$ 481,726
Financial Restructuring	34,100	55,200	124,800	244,600	96,100	96,100	96,100
Other Financial Advisory	8,206	4,073	15,014	26,400	77,374	77,374	77,374
Financial Advisory Net Revenue	\$ 766,856	\$ 551,356	\$ 532,896	\$ 690,967	\$ 655,200	\$ 655,200	\$ 655,200

(b) Asset Management net revenue consists of the following:

	For the Year Ended December 31,					For the Year Ended December 31, 2004	
						Pro Forma	
	2000	2001	2002	2003	2004	Lazard Group	Lazard Ltd
Management and Other Fees	\$ 405,124	\$ 386,237	\$ 381,256	\$ 312,123	\$ 389,812	\$ 389,812	\$ 389,812
Incentive Fees	52,000	24,000	73,427	38,225	27,354	27,354	27,354
Asset Management Net Revenue	\$ 457,124	\$ 410,237	\$ 454,683	\$ 350,348	\$ 417,166	\$ 417,166	\$ 417,166

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- (c) Corporate includes interest income (net of interest expense), investment income from certain long-term investments and net money market revenue earned by Lazard Frères Banque SA, which we refer to in this prospectus as LFB.
- (d) Net revenue is presented after reductions for dividends relating to Lazard Group's mandatorily redeemable preferred stock issued in March 2001. Preferred dividends are reflected in corporate net revenue and amounted to \$6,312, \$8,000, \$8,000, and \$8,000 in the years ended December 31, 2001, 2002, 2003 and 2004, respectively. With respect to the pro forma data for the year ended December 31, 2004, preferred dividends have been eliminated as the mandatorily redeemable preferred stock will be redeemed with the net proceeds from this offering and the additional financing transactions.
- (e) Net income allocable to members for the year ended December 31, 2004 is shown after an extraordinary gain of approximately \$5,507 related to the January 2004 acquisition of the assets of Panmure Gordon.
- (f) Represents net revenue after giving effect to the separation and recapitalization and the net incremental interest expense related to this offering and the additional financing transactions. Net incremental interest expense amounts are estimated to be \$51,629, the details of which are set forth below:

	Principal Amount	Interest Rate	Increase (Decrease) in Interest Expense
Addition of new interest expense:			
Lazard Group senior notes	\$ 650,000	6.25%	\$ 40,625
Lazard Group Finance senior notes underlying equity security units	400,000	5.18%	20,720
Accretion on the estimated present value of contract adjustment payments on the forward purchase contracts sold			775
Amortization of an estimated \$9,862 of capitalized debt issuance costs			1,274
Sub-total			63,394
Reduction of existing interest expense:			
Senior Notes due 2011	50,000	7.53%	(3,765)
Mandatory redeemable preferred stock	100,000	8.00%	(8,000)
Sub-total			(11,765)
Net incremental interest expense			\$ 51,629

- (g) Represents operating income after giving effect to the separation and recapitalization, including the pro forma adjustments related to this offering and the additional financing transactions and to employee compensation and benefits expense. See Unaudited Pro Forma Financial Information.
- (h) Represents Lazard Group net income after giving effect to the adjustments described in notes (f) and (g) above and a provision for estimated income taxes related thereto at the estimated effective tax rate for the applicable period. Lazard Group 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 has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically has operated principally through subsidiary corporations and has been subject to local income taxes. Income taxes shown on Lazard Group's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to UBT attributable to Lazard Group's operations apportioned to New York City.
- (i) Represents Lazard Ltd's consolidated net income after giving effect to the adjustments described in notes (f), (g) and (h) above and after minority interest expense, which will be recorded to reflect LAZ-MD Holdings' ownership of Lazard Group common membership interests. Lazard Ltd's consolidated net income also includes an adjustment to income taxes based on an estimated pro forma effective tax rate. See Risk Factors Risks Related to Our Business. In the event of a change or adverse interpretation of relevant income tax law, regulation or treaty, or a failure to qualify for treaty benefits, our overall tax rate may be substantially higher than the rate used for purposes of our pro forma financial statements.
- (j) Calculated after giving effect to the adjustments as described in note (i) above. For purposes of presentation of basic net income per share, the weighted average shares outstanding reflects 33,653,846 shares of our common stock that will be outstanding immediately following this offering and excludes 4,569,686 shares issuable upon exercise of the underwriters' over-allotment option. For purposes of presentation of diluted net income per share, LAZ-MD Holdings' exchangeable interests are included on an as-if-exchanged basis. Shares issuable with respect to the exercise of the purchase contracts associated with the equity security units offered in this offering and pursuant to the IXIS investment agreement are not included because, under the treasury stock method of accounting, such securities currently are not dilutive.
- (k) *Source:* Thomson Financial. Represents the U.S. dollar value of completed transactions globally in which Lazard Group acted as an advisor to a party to the transaction. The types of transactions included by Thomson are global M&A, partial company sales, asset sales, joint ventures,

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spin-offs and restructuring assignments in which a change in control occurs. The value of a completed transaction is equal to the consideration paid for the equity of the target plus net debt assumed (net debt equals the liabilities assumed less cash held by the target).

- (l) *Source:* Thomson Financial. Represents the number of completed M&A transactions globally in which Lazard Group acted as an advisor to a party to the transaction and in which the value of the transaction was greater than \$1 billion.
- (m) Calculated using the average of quarter-end AUM balances during the respective period.

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Recent Developments

During the first quarter of 2005, net revenue in our Mergers and Acquisitions practice increased by 64% in comparison to the first quarter of 2004. This reflects an improvement relative to the 28% growth in Mergers and Acquisitions net revenue we realized during the fourth quarter of 2004 in comparison to the fourth quarter of 2003, and relative to the 15% growth in net revenue we realized for the full year 2004 in comparison to 2003. Net revenue in a particular quarter may not be indicative, however, of future results. During the first quarter of 2005, net revenue in our Financial Restructuring practice increased 36% in comparison to the first quarter of 2004, relative to a 61% decrease in Financial Restructuring net revenue for the full year 2004 in comparison to 2003. During the first quarter of 2005, we have represented, among others, MCI in its evaluation of strategic alternatives, SunGard Data Systems Inc. in its sale to various private equity firms and Tower Automotive, Inc. on its Chapter 11 bankruptcy reorganization.

In our Asset Management business, our average AUM for the first quarter of 2005 was \$86 billion, representing a 7% increase in comparison to the average AUM of \$80 billion during 2004. In the first quarter of 2005 our management fee net revenue increased by 6% as compared to the corresponding quarter in 2004. Including incentive fees earned in the first quarter of 2005, our Asset Management net revenue increased 10% as compared to the corresponding quarter in 2004.

The revenue data for the first quarter of 2005 set forth above is preliminary in nature and actual revenue for such quarter may be different. Our actual results of operations for the quarter ended March 31, 2005 will be included in a subsequent filing by us with the SEC.

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Glossary

Unless the context otherwise requires, the terms:

historical partners refers to two general classes of members of Lazard Group, which consist of Eurazeo S.A., descendants and relations of our founders, several historical partners of our predecessor entities, several current and former managing directors and the other members of these classes,

LAZ-MD Holdings refers to LAZ-MD Holdings LLC, a newly-formed Delaware limited liability company that after the completion of the transactions described in this prospectus will hold equity interests in Lazard Group and the Class B common stock of Lazard Ltd,

LFCM Holdings refers to LFCM Holdings LLC, a newly-formed Delaware limited liability company that will hold the businesses to be separated from Lazard Group in connection with this offering as described in this prospectus,

managing directors refers to our managing directors and the managing directors of the businesses to be separated from Lazard Group in connection with this offering as described in this prospectus,

net revenue from continuing operations means our historical net revenue excluding the net revenue of the businesses to be separated from Lazard Group in connection with this offering as described in this prospectus,

operating revenue means our consolidated total revenue less (1) total revenue attributable to the separated businesses and (2) interest expense related to Lazard Frères Banque, SA, our Paris-based banking affiliate,

our business refers to all of the businesses, subsidiaries, assets and liabilities of Lazard Group after giving effect to the completion of the transactions described in this prospectus, and

working members refers to the two classes of members of Lazard Group that consists of current and former managing directors.

We report our financial statements in U.S. dollars and prepare our financial statements, including all of the financial statements included in this prospectus, in conformity with accounting principles generally accepted in the U.S., or U.S. GAAP. We have adopted a fiscal year end of December 31. In this prospectus, except where otherwise indicated, references to \$ or dollars are to the lawful currency of the U.S.

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RISK FACTORS

You should carefully consider the following risks and all of the other information set forth in this prospectus, including our consolidated financial statements and related notes, before deciding to purchase our equity security units offered by this prospectus. The risk factors set forth below primarily relate to the business of Lazard Group. These risks also affect Lazard Ltd and Lazard Group Finance because, after the completion of this offering, neither Lazard Ltd nor Lazard Group Finance will have any material assets other than, in the case of Lazard Ltd, direct and indirect ownership of approximately 66.3% of the common membership interests in Lazard Group and its controlling interest in Lazard Group, through Lazard Group Finance, and, in the case of Lazard Group Finance, the Lazard Group notes it will acquire with the proceeds of this offering and its controlling interest in Lazard Group. The following risks comprise material risks of which we are aware. If any of the events or developments described below actually occurred, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock and, in turn, the trading price of our equity security units, would likely decline, and you could lose part or all of your investment in our equity security units.

Risks Related to Our Business

Our ability to retain our managing directors and other key professional employees is critical to the success of our business, including maintaining compensation levels at an appropriate level of costs, and failure to do so may materially adversely affect our results of operations and financial position.

Our people are our most important resource. We must retain the services of our managing directors and other key professional employees, and strategically recruit and hire new talented employees, to obtain and successfully execute the advisory and asset management engagements that generate substantially all our revenue.

Lazard Group has experienced several significant events in recent years, including our unification under one global firm, the transition to new senior management and our pending transformation from a private to a public company, and our industry in general continues to experience change and competitive pressures for retaining top talent, each of which makes it more difficult for us to retain professionals. If any of our managing directors and other key professional employees were to join an existing competitor or form a competing company or otherwise leave us, some of our clients could choose to use the services of that competitor or some other competitor instead of our services. The employment arrangements, non-competition agreements and retention agreements we have entered into or intend to enter into with our managing directors and other key professional employees and restrictive covenants applicable to our LAM managing directors may not prevent our managing directors and other key professional employees from resigning from practice or competing against us. See Management Arrangements with Our Managing Directors. As part of our transformation to a public company, we may face additional retention pressures as a result of reductions in payments for services rendered by our managing directors. As a result, we may not be able to retain these employees and, even if we can, we may not be able to retain them at compensation levels that will allow us to achieve our target ratio of compensation expense-to-operating revenue. In addition, any such arrangements and agreements will have a limited duration and will expire after a certain period of time.

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Difficult market conditions can adversely affect our business in many ways, including by reducing the volume of the transactions involving our Financial Advisory business and reducing the value or performance of the assets we manage in our Asset Management business, which, in each case, could materially reduce our revenue or income and adversely affect our financial position.

As a financial services firm, our businesses are materially affected by conditions in the global financial markets and economic conditions throughout the world. For example, revenue generated by our Financial Advisory business is directly related to the volume and value of the transactions in which we are involved. During periods of unfavorable market or economic conditions, the volume and value of mergers and acquisitions transactions may decrease, thereby reducing the demand for our Financial Advisory services and increasing price competition among financial services companies seeking such engagements. Our results of operations would be adversely affected by any such reduction in the volume or value of mergers and acquisitions transactions. In addition, our profitability would be adversely affected by our fixed costs and the possibility that we would be unable to scale back other costs within a time frame sufficient to match any decreases in revenue relating to changes in market and economic conditions. The future market and economic climate may deteriorate because of many factors, including rising interest rates or inflation, terrorism or political uncertainty.

Within our Financial Advisory business, we have typically seen that, during periods of economic strength and growth, our Mergers and Acquisitions practice historically has been more active and our Financial Restructuring practice has been less active. Conversely, during periods of economic weakness and slowdown, we typically have seen that our Financial Restructuring practice has been more active and our Mergers and Acquisitions practice has been less active. As a result, our revenue from our Financial Restructuring practice has tended to correlate negatively to our revenue from our Mergers and Acquisitions practice over the course of business cycles. These trends are cyclical in nature and subject to periodic reversal. For example, for the year ended December 31, 2004, Financial Restructuring net revenue was down 61% versus 2003, while Mergers and Acquisitions net revenue was up 15% versus 2003. However, these trends do not cancel out the impact of economic conditions in our Financial Advisory business, which may be adversely affected by a downturn in economic conditions leading to decreased Mergers and Acquisitions practice activity, notwithstanding improvements in our Financial Restructuring practice. Moreover, revenue improvements in our Financial Advisory practice in strong economic conditions could be offset in whole or in part by any related revenue declines in our Financial Restructuring practice. While we generally have experienced a counter-cyclical relationship between our Mergers and Acquisitions practice and our Financial Restructuring practice, this relationship may not continue in the future.

Our Asset Management business also would be expected to generate lower revenue in a market or general economic downturn. Under our Asset Management business arrangements, investment advisory fees we receive typically are based on the market value of AUM. Accordingly, a decline in the prices of securities would be expected to cause our revenue and income to decline by:

causing the value of our AUM to decrease, which would result in lower investment advisory fees,

causing negative absolute performance returns for some accounts which have performance-based incentive fees, resulting in a reduction of revenue from such fees, or

causing some of our clients to withdraw funds from our Asset Management business in favor of investments they perceive as offering greater opportunity or lower risk, which also would result in lower investment advisory fees.

If our Asset Management revenue declines without a commensurate reduction in our expenses, our net income will be reduced. In addition, in the event of a market downturn, our merchant banking practice also may be impacted by reduced exit opportunities in which to realize the value of its investments.

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A majority of our revenue is derived from Financial Advisory fees, which are not long-term contracted sources of revenue and are subject to intense competition, and declines in our Financial Advisory engagements could have a material adverse effect on our financial condition and results of operations.

We historically have earned a substantial portion of our revenue from advisory fees paid to us by our Financial Advisory clients, which fees usually are payable upon the successful completion of a particular transaction or restructuring. In 2004, Financial Advisory services accounted for 60% of our net revenue from continuing operations. We expect that we will continue to rely on Financial Advisory fees for a substantial portion of our revenue for the foreseeable future, and a decline in our advisory engagements or the market for advisory services would adversely affect our business, financial condition and results of operations.

In addition, we operate in a highly competitive environment where typically there are no long-term contracted sources of revenue. Each revenue-generating engagement typically is separately awarded and negotiated. In addition, many businesses do not routinely engage in transactions requiring our services, and, as a consequence, our fee paying engagements with many clients are not likely to be predictable. We also lose clients each year as a result of the sale or merger of a client, a change in a client's senior management, competition from other financial advisors and financial institutions and other causes. As a result, our engagements with clients are constantly changing, and our Financial Advisory fees could decline quickly due to the factors discussed above.

There will not be a consistent pattern in our financial results from period to period, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause the price of our common stock and, in turn, our equity security units, to decline.

We experience significant fluctuations in revenue and profits. These fluctuations generally can be attributed to the fact that we earn a significant portion of our Financial Advisory revenue upon the successful completion of a merger or acquisition transaction or a restructuring, the timing of which is uncertain and is not subject to our control. In addition, our Asset Management revenue is particularly sensitive to fluctuations in our AUM. Asset Management fees are often based on AUM as of the end of a quarter or month. As a result, a reduction in assets at the end of a quarter or month (as a result of market depreciation, withdrawals or otherwise) will result in a decrease in management fees. As a result of quarterly fluctuations, it may be difficult for us to achieve steady earnings growth on a quarterly basis, which could, in turn, lead to large adverse movements in the price of our common stock or increased volatility in our stock price generally and, in turn, cause the value of our equity security units to decline.

In many cases, we are paid for advisory engagements only upon the successful consummation of the underlying merger or acquisition transaction or restructuring. As a result, our Financial Advisory business is highly dependent on market conditions and the decisions and actions of our clients, interested third parties and governmental authorities. For example, a client could delay or terminate an acquisition transaction because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board of directors or stockholder approvals, failure to secure necessary financing, adverse market conditions or because the target's business is experiencing unexpected operating or financial problems. Anticipated bidders for assets of a client during a restructuring transaction may not materialize or our client may not be able to restructure its operations or indebtedness due to a failure to reach agreement with its principal creditors. In these circumstances, we often do not receive any advisory fees other than the reimbursement of certain out-of-pocket expenses despite the fact that we devote resources to these transactions. Accordingly, the failure of one or more transactions to close either as anticipated or at all could materially adversely affect our business, financial condition or results of operations. For more information, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

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If the number of debt defaults, bankruptcies or other factors affecting demand for our Financial Restructuring services declines, or we lose business to certain new entrants to the financial restructuring advisory practice who are no longer precluded from offering such services due to anticipated changes to the U.S. Bankruptcy Code, our Financial Restructuring practice's revenue could suffer.

We provide various financial restructuring and restructuring-related advice to companies in financial distress or to their creditors or other stakeholders. During 2002 and 2003, we generated a significant part of our Financial Advisory revenue from fees from financial restructuring-related services. A number of factors affect demand for these advisory services, including general economic conditions, the availability and cost of debt and equity financing and changes to laws, rules and regulations, including deregulation or privatization of particular industries and those that protect creditors.

We expect that the requirement of Section 327 of the U.S. Bankruptcy Code requiring that one be a disinterested person to be employed in a restructuring will be modified in the near future. While the disinterested person definition of the U.S. Bankruptcy Code, as currently in effect, disqualifies certain of our competitors, it historically has not often disqualified us from obtaining a role in a restructuring because we have not been a significant underwriter of securities. A change to the disinterested person definition causing a person not to be disqualified by means of its status as an underwriter of securities could allow for more financial services firms to compete for restructuring engagements as well as with respect to the recruitment and retention of professionals. If our competitors succeed in being retained in new restructuring engagements, our Financial Restructuring practice, and thereby our results of operations, could be materially adversely affected.

We could lose clients and suffer a decline in our Asset Management revenue and earnings if the investments we choose in our Asset Management business perform poorly or if we lose key employees, regardless of overall trends in the prices of securities.

Investment performance affects our AUM relating to existing clients and is one of the most important factors in retaining clients and competing for new Asset Management business. Poor investment performance could impair our revenue and growth because:

existing clients might withdraw funds from our Asset Management business in favor of better performing products, which would result in lower investment advisory fees,

our incentive fees, which provide us with a set percentage of returns on some alternative investment and merchant banking funds and other accounts, would decline,

third-party financial intermediaries, advisors or consultants may rate our products poorly, which may result in client withdrawals and reduced asset flows from these third parties or their clients, or

firms with which we have strategic alliances may terminate such relationships with us, and future strategic alliances may be unavailable.

If key employees were to leave our Asset Management business, whether to join a competitor or otherwise, we may suffer a decline in revenue or earnings and suffer an adverse effect on our financial position. For example, in 2003, we experienced a net outflow in alternative investments AUM of approximately \$2.7 billion, mostly due to the departure of a fund manager and related

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team members in our hedge fund products group. This also resulted in a significant reduction in both management and performance fees. Loss of key employees may occur due to perceived opportunity for promotion, increased compensation, work environment or other individual reasons, some of which may be beyond our control.

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Our investment style in our Asset Management business may underperform other investment approaches, which may result in significant client or asset departures or a reduction in AUM.

Even when securities prices are rising generally, performance can be affected by investment style. Many of the equity investment strategies in our Asset Management business share a common investment orientation towards fundamental security selection. We believe this style tends to outperform the market in some market environments and underperform it in others. In particular, a prolonged growth environment may cause our investment strategy to go out of favor with some clients, consultants or third-party intermediaries. In combination with poor performance relative to peers, changes in personnel, extensive periods in particular market environments or other difficulties, this may result in significant client or asset departures or a reduction in AUM.

Because our clients can remove the assets we manage on short notice, we may experience unexpected declines in revenue and profitability.

Our investment advisory contracts are generally terminable upon very short notice. Institutional and individual clients, and firms with which we have strategic alliances, can terminate their relationship with us, reduce the aggregate amount of AUM or shift their funds to other types of accounts with different rate structures for a number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. Poor performance relative to other investment management firms tends to result in decreased investments in our investment products, increased redemptions of our investment products, and the loss of institutional or individual accounts or strategic alliances. In addition, the ability to terminate relationships may allow clients to renegotiate for lower fees paid for asset management services.

In addition, in the U.S., as required by the Investment Company Act, each of our investment advisory contracts with the mutual funds we advise or subadvise automatically terminates upon its assignment. Each of our other investment advisory contracts subject to the provisions of the Investment Advisers Act of 1940, as amended, as required by this act, provides that the contract may not be assigned without the consent of the customer. A sale of a sufficiently large block of shares of our voting securities or other transactions could be deemed an assignment in certain circumstances. An assignment, actual or constructive, will trigger these termination provisions and could adversely affect our ability to continue managing client accounts.

To the extent that the separation and recapitalization may be deemed a technical assignment of investment advisory contracts, we will take the necessary steps to provide clients an opportunity to consent to the continuation of their advisory agreements after the completion of this offering. In addition, in this case, we will look to enter into new advisory or subadvisory agreements with the mutual funds that we advise or subadvise. A portion of these new mutual funds may need approval by the stockholders of the respective funds. In the event that any of these clients do not consent to a continuation of their agreement, we will lose AUM, which will result in a loss of revenue.

Access to clients through intermediaries is important to our Asset Management business, and reductions in referrals from such intermediaries or poor reviews of our products or our organization by such intermediaries could materially reduce our revenue and impair our ability to attract new clients.

Our ability to market our Asset Management services relies in part on receiving mandates from the client base of national and regional securities firms, banks, insurance companies, defined contribution plan administrators, investment consultants and other intermediaries. To an increasing extent, our Asset Management business uses referrals from accountants, lawyers, financial

planners and other professional advisors. The inability to have this access could materially adversely affect our

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Asset Management business. In addition, many of these intermediaries review and evaluate our products and our organization. Poor reviews or evaluations of either the particular product or of us may result in client withdrawals or an inability to attract new assets through such intermediaries.

Our historical merchant banking activities involve increased levels of investments in relatively high-risk, illiquid assets, and we may lose some or all of the principal amount that we invest in these activities or fail to realize any profits from these activities for a considerable period of time.

We intend to expand our participation in merchant banking activities through investments in new and successor funds, and we may exercise our option under the business alliance agreement between Lazard Group and LFCM Holdings to acquire the merchant banking business and related principal investments from LFCM Holdings. For further information with respect to our option, see Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Business Alliance Agreement.

The revenue from this business is derived primarily from management fees calculated as a percentage of AUM and incentive fees, which are earned if investments are profitable over a specified threshold. Our ability to form new merchant banking funds is subject to a number of uncertainties, including past performance of our funds, market or economic conditions, competition from other fund managers and the ability to negotiate terms with major investors. In addition, the payments we are entitled to receive from LFCM Holdings under the terms of the business alliance agreement in respect of our continued involvement with LFCM Holdings will be based on the carried interests received in connection with LFCM Holdings-managed funds.

In addition, we expect to make principal investments in new merchant banking funds that may be established by us or by LFCM Holdings, and to continue to hold principal investments in several merchant banking funds managed by LFCM Holdings. The kinds of investments made by these funds are generally in relatively high-risk, illiquid assets. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments. Because it may take several years before attractive investment opportunities are identified, some or all of the capital committed by us to these funds is likely to be invested in government securities, other short-term, highly rated debt securities and money market funds that traditionally have offered investors relatively lower returns. In addition, the investments in these funds are adjusted for accounting purposes to fair market value at the end of each quarter, and our allocable share of these gains or losses will affect our revenue, even though such market fluctuations may have no cash impact, which could increase the volatility of our earnings. It takes a substantial period of time to identify attractive merchant banking opportunities, to raise all the funds needed to make an investment and then to realize the cash value of an investment through resale. Even if a merchant banking investment proves to be profitable, it may be several years or longer before any profits can be realized in cash or other proceeds.

We face strong competition from financial services firms, many of whom have the ability to offer clients a wider range of products and services than we can offer, which could lead to pricing pressures that could materially adversely affect our revenue and profitability.

The financial services industry is intensely competitive, and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our employees, transaction execution, our products and services, innovation, reputation and price. We have experienced intense fee competition in some of our businesses in recent years, and we believe that we will experience pricing pressures in these and other areas in the future as some of our competitors seek to obtain increased market share by reducing fees.

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We face increased competition due to a trend toward consolidation. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking, including financial advisory services, with commercial banking, insurance and other financial services revenue in an effort to gain market share, which could result in pricing pressure in our businesses.

An inability to access the debt and equity capital markets as a result of our debt and equity security obligations, credit ratings or other factors could impair our liquidity, increase our borrowing costs or otherwise adversely affect our competitive position or results of operations.

After completion of this offering and the additional financing transactions, Lazard Group and its subsidiaries expect to have approximately \$1.3 billion in debt outstanding. This debt will have certain mandated payment obligations, which may constrain our ability to operate our business or to pay dividends on our common stock. In addition, in the future we may need to incur debt or issue equity in order to fund our working capital requirements or refinance existing indebtedness, as well as to make acquisitions and other investments. The amount of our debt obligations may impair our ability to raise debt or issue equity for financing purposes. Our access to funds also may be impaired if regulatory authorities take significant action against us, or if we discover that any of our employees had engaged in serious unauthorized or illegal activity. In addition, our borrowing costs and our access to the debt capital markets depend significantly on our credit ratings. These ratings are assigned by rating agencies, which may reduce or withdraw their ratings or place us on credit watch with negative implications at any time. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

We may pursue acquisitions or joint ventures that could present unforeseen integration obstacles or costs and could dilute the stock ownership of our stockholders and holders of our equity security units.

We have in the past pursued joint ventures and other transactions aimed at expanding the geography and scope of our operations. In 2002 we entered into a business alliance in Italy with Banca Intesa S.p.A., or Intesa, and we recently established a joint venture in Brazil with Signatura Advisors Ltda. We also have entered into a cooperation arrangement with IXIS to promote mutually beneficial revenue production and sharing relating to cooperation activities. See Business Principal Business Lines Financial Advisory Relationship with IXIS. We expect to continue to explore partnership opportunities that we believe to be attractive. In addition, with publicly traded securities to potentially use to finance acquisitions, we believe that we will have greater opportunities and flexibility to pursue acquisitions and other similar transactions. While we are not currently in negotiations with respect to material acquisitions or material joint ventures, we routinely assess our strategic position and may in the future seek acquisitions or other transactions to further enhance our competitive position.

Acquisitions and joint ventures involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management, difficulty with integrating personnel and financial and other systems, hiring additional management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations. Our clients may react unfavorably to our acquisition and joint venture strategy, we may not realize any anticipated benefits from acquisitions, and we may be exposed to additional liabilities of any acquired business or joint venture, any of which could materially adversely affect our revenue and results of operations. In addition, future acquisitions or joint ventures may involve the issuance of additional shares of our common stock, which may dilute your ownership of us.

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Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm, and this type of misconduct is difficult to detect and deter.

Recently, there have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry generally, and we run the risk that employee misconduct could occur in our business as well. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. Our Financial Advisory business often requires that we deal with client confidences of great significance to our clients, improper use of which may harm our clients or our relationships with our clients. Any breach of our clients' confidences as a result of employee misconduct may impair our ability to attract and retain Financial Advisory clients and may subject us to liability. Similarly, in our Asset Management business, we have authority over client assets, and we may, from time to time, have custody of such assets. In addition, we often have discretion to trade client assets on the client's behalf and must do so acting in the best interests of the client. As a result, we are subject to a number of obligations and standards, and the violation of those obligations or standards may adversely affect our clients and us. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases.

The financial services industry faces substantial litigation and regulatory risks, and we may face damage to our professional reputation and legal liability if our services are not regarded as satisfactory or for other reasons.

As a financial services firm, we depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, such dissatisfaction may be more damaging to our business than to other types of businesses. Moreover, our role as advisor to our clients on important mergers and acquisitions or restructuring transactions involves complex analysis and the exercise of professional judgment, including, if appropriate, rendering fairness opinions in connection with mergers and other transactions.

In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against financial advisors has been increasing. Our Financial Advisory activities may subject us to the risk of significant legal liabilities to our clients and third parties, including our clients' stockholders, under securities or other laws for materially false or misleading statements made in connection with securities and other transactions and potential liability for the fairness opinions and other advice provided to participants in corporate transactions. In our Asset Management business, we make investment decisions on behalf of our clients which could result in substantial losses. This also may subject us to the risk of legal liabilities or actions alleging negligent misconduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Our engagements typically include broad indemnities from our clients and provisions designed to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be adhered to in all cases. We also are subject to claims arising from disputes with employees for alleged discrimination or harassment, among other things. These risks often may be difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. As a result, we may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us, which could seriously harm our business.

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Other operational risks may disrupt our businesses, result in regulatory action against us or limit our growth.

Our business is dependent on communications and information systems, including those of our vendors. Any failure or interruption of these systems, whether caused by fire, other natural disaster, power or telecommunications failure, act of terrorism or war or otherwise, could materially adversely affect our operating results. Although we have back-up systems in place, our back-up procedures and capabilities in the event of a failure or interruption may not be adequate.

Particularly in our Asset Management business, we rely heavily on our financial, accounting, trading, compliance and other data processing systems. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. The inability of our systems to accommodate an increasing volume of transactions also could constrain our ability to expand our businesses. In recent years, we have substantially upgraded and expanded the capabilities of our data processing systems and other operating technology, and we expect that we will need to continue to upgrade and expand these capabilities in the future to avoid disruption of, or constraints on, our operations.

Extensive regulation of our businesses limits our activities and results in ongoing exposure to the potential for significant penalties, including fines or limitations on our ability to conduct our businesses.

The financial services industry is subject to extensive regulation. We are subject to regulation by governmental and self-regulatory organizations in the jurisdictions in which we operate around the world. Many of these regulators, including U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the U.S., are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us and are not designed to protect our stockholders. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements.

We face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations and judicial or administrative proceedings that may result in substantial penalties. Among other things, we could be fined or be prohibited from engaging in some of our business activities. In addition, the regulatory environment in which we operate is subject to modifications and further regulation. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to us and our clients also may adversely affect our business, and our ability to function in this environment will depend on our ability to constantly monitor and react to these changes. For example, the European Union Financial Conglomerates Directive requires that we, along with a number of our competitors, be subject to consolidated supervision by a primary regulatory authority. As a result, we are in discussions with regulatory authorities regarding establishing consolidated supervision of our business, and we may be required to increase our regulatory capital. This requirement may adversely affect our profitability and result in other increased costs. In addition, the regulatory environment in which our clients operate may impact our business. For example, changes in antitrust laws or the enforcement of antitrust laws could affect the level of mergers and acquisitions activity and changes in state laws may limit investment activities of state pension plans. See [Business Regulation](#) for a further discussion of the regulatory environment in which we conduct our businesses.

In particular, for asset management businesses in general, there have been a number of highly publicized regulatory inquiries that focus on the mutual funds industry. These inquiries already have resulted in increased scrutiny in the industry and new rules and regulations for mutual funds and their

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investment managers. This regulatory scrutiny and rulemaking initiatives may result in an increase in operational and compliance costs or the assessment of significant fines or penalties against our Asset Management business, and may otherwise limit our ability to engage in certain activities.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures. However, these policies and procedures may result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation.

Specific regulatory changes also may have a direct impact on the revenue of our Asset Management business. In addition to regulatory scrutiny and potential fines and sanctions, regulators continue to examine different aspects of the asset management industry. For example, the use of soft dollars, where a portion of commissions paid to broker-dealers in connection with the execution of trades also pays for research and other services provided to advisors, may in the future be limited or prohibited. Although a substantial portion of the research relied on by our Asset Management business in the investment decision-making process is generated internally by our investment analysts, external research, including external research paid for with soft dollars, is important to the process. This external research generally is used for information gathering or verification purposes, and includes broker-provided research, as well as third-party provided databases and research services. For the year ended December 31, 2004, our Asset Management business obtained research and other services through soft dollar arrangements, the total cost of which we estimate to be approximately \$8.5 million. If the use of soft dollars is limited or prohibited, we may have to bear these costs. In addition, new regulation regarding the annual approval process for mutual fund advisory agreements may result in the reduction of fees or possible terminations of these agreements. Other proposed rules that are currently under consideration include potential limitations on investment activities in which an advisor may engage, such as hedge funds and mutual funds, increased disclosure of advisor and fund activities and changes in compensation for mutual fund sales. These regulatory changes and other proposed or potential changes may result in a reduction of revenue associated with these activities.

Fluctuations in foreign currency exchange rates could lower our net income or negatively impact the portfolios of our Asset Management clients and may affect the levels of our AUM.

Because our financial statements are denominated in U.S. dollars and we receive approximately 40% of our revenue in other currencies, predominantly in euros and British pounds, we are exposed to fluctuations in foreign currencies. In addition, we pay a significant amount of our expenses in such currencies. The exchange rates of these currencies versus the U.S. dollar may affect our net income. We do not generally hedge such non-dollar foreign exchange rate exposure arising in our subsidiaries outside of the U.S. Fluctuations in foreign currencies may also make period to period comparisons of our results of operations difficult.

Foreign currency fluctuations also can impact the portfolios of our Asset Management clients. Client portfolios are invested in securities across the globe, although most portfolios are in a single base currency. Foreign currency fluctuations can adversely impact investment performance for a client's portfolio. In addition, foreign currency fluctuations may affect the levels of our AUM. As our AUM include significant assets that are denominated in currencies other than U.S. dollars, an increase in the value of the U.S. dollar relative to non-U.S. currencies may result in a decrease in the dollar value of our AUM, which, in turn, would result in lower U.S. dollar denominated revenue in our Asset Management business. While this risk may be limited by foreign currency hedging, some risks cannot be hedged and there is no guarantee that our hedging activity will be successful. Poor performance may result in decreased AUM, including as a result of withdrawal of client assets or a decrease in new assets being raised in the relevant product.

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Earnings of Lazard Group allocable to LAZ-MD Holdings may be taxed at higher tax rates than earnings allocable to Lazard Ltd, which may result in less cash being available to Lazard Group than would otherwise be available to it.

We estimate that our share of the earnings of Lazard Group will be taxed at an effective rate of approximately 28% as discussed in Note (g) in the Notes to Unaudited Pro Forma Condensed Consolidated Statement of Income included elsewhere in this prospectus. As a result of their indirect interests in Lazard Group prior to exchange of those interests, however, we estimate that the managing directors of Lazard Group and other owners of LAZ-MD Holdings are likely to pay tax at a higher rate on their allocable share of Lazard Group's earnings than we will. Lazard Group will make tax-related distributions based on the higher of the effective income and franchise tax rate applicable to Lazard Ltd's subsidiaries that hold the Lazard Group common membership interests and the weighted average income tax rate (based on income allocated) applicable to LAZ-MD Holdings members, determined in accordance with LAZ-MD Holdings' operating agreement. Therefore, because distributions by Lazard Group to its members will be made on a pro rata basis, tax-related distributions to our subsidiaries are expected to exceed the taxes our subsidiaries actually pay. This may result in less cash being available to Lazard Group than would otherwise be available to it, and in excess cash being held by Lazard Ltd's subsidiaries. Prior to the third anniversary of the consummation of this offering and thereafter, we expect to issue a dividend to our stockholders of any such excess cash. In the event that tax rates applicable to members of LAZ-MD Holdings increase, the pro rata distributions from Lazard Group to its members, including our subsidiaries, may increase correspondingly.

We may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our results of operations and your investment.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, has given us an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to us or any of our operations, shares, debentures or other obligations until March 28, 2016, except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by us in respect of real property owned or leased by us in Bermuda. See Material U.S. Federal Income Tax and Bermuda Tax Considerations. Given the limited duration of the Bermuda Minister of Finance's assurance, we may be subject to Bermuda tax after March 28, 2016.

In the event of a change or adverse interpretation of relevant income tax law, regulation or treaty, or a failure to qualify for treaty benefits, our overall tax rate may be substantially higher than the rate used for purposes of our pro forma financial statements.

Our estimated effective tax rate of 28% is based upon the application of currently applicable income tax laws, regulations and treaties and current judicial and administrative authorities interpreting those income tax laws, regulations and treaties and upon our non-U.S. subsidiaries' ability to qualify for benefits under those treaties. Moreover, those income tax laws, regulations and treaties, and the administrative and judicial authorities interpreting them, are subject to change at any time, and any such change may be retroactive.

On October 22, 2004, the American Jobs Creation Act of 2004, or the AJCA, was enacted. Under the AJCA, non-U.S. corporations meeting certain ownership, operational and other tests are treated as U.S. corporations for U.S. federal income tax purposes. We do not believe that the AJCA should apply to Lazard or any of its non-U.S. subsidiaries. However, the AJCA grants broad regulatory authority to the Secretary of the Treasury to provide such regulations as may be appropriate to determine whether a non-U.S. corporation is treated as a U.S. corporation or as are necessary to carry out the provision, including adjusting its

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application as necessary to prevent the avoidance of its purposes. It is uncertain whether, or in what form, regulations will be issued under this provision, but,

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based on the advice of our counsel, we do not believe this provision or any regulation promulgated within the scope of its regulatory authority should apply to Lazard Ltd or its non-U.S. subsidiaries. A successful challenge of this position by the Internal Revenue Service, or the IRS, could result in Lazard Ltd or its non-U.S. subsidiaries being treated as U.S. corporations for U.S. federal income tax purposes, which would result in an overall tax rate substantially higher than the rate reflected in our pro forma financial statements.

Our estimated effective tax rate is also based upon our non-U.S. subsidiaries qualifying for treaty benefits. The eligibility of our non-U.S. subsidiaries for treaty benefits generally depends upon, among other things, at least 50% of the principal class of shares in such subsidiaries being ultimately owned by U.S. citizens and persons that are qualified residents for purposes of the treaty. This requirement may not be met and even if it is met, we may not be able to document that fact to the satisfaction of the IRS. If our non-U.S. subsidiaries are not treated as eligible for treaty benefits, such subsidiaries will be subject to U.S. branch profits tax on their effectively connected earnings and profits (as determined for U.S. federal income tax purposes) at a rate of 30% rather than a treaty rate of 5%. See Material U.S. Federal Income Tax and Bermuda Tax Considerations Tax Status of Lazard Ltd and Its Subsidiaries Subsidiaries of Lazard.

The inability, for any reason, to achieve and maintain an overall income tax rate approximately equal to the rate used in preparing our pro forma financial statements could materially adversely affect our business and our results of operations and would materially adversely alter our pro forma financial information.

A number of our managing directors and other professional employees own rights to participate in the equity value, but not the earnings, in one of the principal operating subsidiaries of our Asset Management business, which could result in those persons receiving additional payments due to future actions with respect to that business.

The managing directors of LAM and other LAM employees hold LAM equity units. These LAM equity units entitle their holders to payments in connection with selected fundamental transactions affecting Lazard Group or LAM, including a dissolution or a sale of all or substantially all of the assets of Lazard Group or LAM, a merger of, or sale of all of the interests in, LAM whereby Lazard Group ceases to own a majority of or have the right to appoint a majority of the board of directors of LAM, or a non-ordinary course sale of assets by LAM that exceeds \$50 million in value. These persons will not receive LAZ-MD Holdings exchangeable interests in connection with the separation and recapitalization transactions, but will retain their existing LAM equity units.

As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, following the completion of this offering the holders of the LAM equity units would be entitled in the aggregate to 23.40% of the net proceeds or imputed valuation of LAM in such transaction after deductions for payment of creditors of LAM and the return of capital in LAM. Holders of LAM equity units may not necessarily be employed by us at the time of such event and, to the extent that their units were vested, they would remain entitled to any such payment. As of December 31, 2004, LAM's capital for these purposes totaled approximately \$70 million, of which approximately \$18 million was owned by the managing directors and employee members of LAM, with the remainder owned by us through our subsidiaries. On and after January 1, 2006, the board of directors of LAM, a majority of which is appointed by us, may, in its discretion, grant, subject to specified vesting conditions, LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. The provisions of the LAM limited liability company agreement that govern the LAM equity units may impair our ability to sell assets or securities of LAM in the future or otherwise limit our operational flexibility and could result in a substantial amount of consideration being payable to key employees of our Asset Management business, impairing our ability to retain these persons and adversely affecting our business, results of operations or financial condition.

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Risks Related to the Separation

Reorganizing our business from a privately held firm to a publicly traded company may adversely affect our ability to recruit, retain and motivate key employees.

In connection with this offering, the working members will receive LAZ-MD Holdings exchangeable interests that will in the future be effectively exchangeable for shares of our common stock. Our managing directors who are working members will receive these LAZ-MD Holdings exchangeable interests, other than the managing directors of LAM, who will continue to hold their LAM equity units. The ownership of, and the ability to realize equity value from, these LAZ-MD Holdings exchangeable interests and underlying shares of our common stock will not be dependent upon a managing director's continued employment with our company, and our managing directors will no longer be restricted from leaving Lazard by the potential loss of the value of these membership interests. In addition, assuming these LAZ-MD Holdings exchangeable interests were exchangeable at the time of this offering and were all so exchanged, our managing directors would collectively hold 66,346,154 shares of common stock representing approximately 66.3% of the outstanding shares of our common stock immediately after this offering (or approximately 63.4% assuming the underwriters' over-allotment option is exercised in full). These shares of common stock, upon full exchange, will ultimately be a more liquid security than their current membership interests in Lazard Group.

The LAZ-MD Holdings exchangeable interests will be subject to restrictions on transfer and the timing of exchange. Most of these restrictions on the timing of exchange will survive for only a limited period and will permit our managing directors to leave Lazard without losing any of their LAZ-MD Holdings exchangeable interests or underlying shares of common stock. In addition, we have agreed that working members, including our non-LAM managing directors, who had capital interests and rights at Lazard Group that are exchanged in the separation for capital interests and rights in LAZ-MD Holdings will have those LAZ-MD Holdings capital interests and rights redeemed or otherwise paid out in four equal installments on each of the first four anniversaries of this offering. We expect that, after the separation, our managing directors will hold approximately \$110 million of the LAZ-MD Holdings redeemable capital interests. For a description of the terms of these exchangeable interests, see Management Arrangements with Our Managing Directors The Retention Agreements in General. Consequently, the steps we have taken to encourage the continued service of these individuals after this offering may not be effective.

In addition, after this offering, our policy will be to set our total compensation and benefits expense, including amounts payable to our managing directors, at a level not to exceed 57.5% of our operating revenue, such that after considering other operating costs we may realize our operating profit margin goals. Prior to this offering, compensation and benefits expense (calculated excluding amounts related to the separated businesses but including payments for minority interest for services rendered by LAM managing directors and employee members of LAM and services rendered by other managing directors) was approximately 74% of operating revenue for the year ended December 31, 2004. As a result, our managing directors may receive less income than they otherwise would have received prior to this offering, and such reduction (and the belief that a reduction may occur) could make it more difficult to retain them. While we believe the equity public offering should promote retention and recruitment, some managing directors and other employees may be more attracted to the benefits of working at a private, controlled partnership and the prospects of becoming a partner. The impact of the separation on our managing directors and other employee retention and recruitment is uncertain. For a description of the compensation plan for our senior professionals to be implemented after this offering, see Management.

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Our financial performance depends on our ability to achieve our target compensation expense level, and the failure to achieve this target level may materially adversely affect our results of operations and financial position.

A key driver of our profitability is our ability to generate revenue while achieving our compensation expense levels. During 2002, 2003 and 2004, following the hiring of new senior management, we invested significant amounts in the recruitment and retention of senior professionals in an effort to reinvest in the intellectual capital of our business. We made distributions to our managing directors that exceeded our net income allocable to members in respect of 2002, 2003 and 2004.

Following the completion of this offering, we intend to operate at our target level of employee compensation and benefits expense, which may entail reducing payments to our managing directors. Prior to this offering, compensation and benefits expense (calculated excluding amounts related to the separated businesses but including payments for minority interest for services rendered by LAM managing directors and employee members of LAM and services rendered by other managing directors) was approximately 74% of operating revenue for the year ended December 31, 2004. Following the completion of this offering, our policy will be that our employee compensation and benefits expense will not exceed 57.5% of operating revenue each year. Increased competition for senior professionals, changes in the financial markets generally or other factors could prevent us from reaching this objective. Failure to achieve this target ratio may materially adversely affect our results of operations and financial position. For more information on our compensation and benefits expense, see Unaudited Pro Forma Financial Information and Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures and Indicators Net Income Allocable to Members.

Lazard Ltd will be controlled by LAZ-MD Holdings and, through the LAZ-MD Holdings stockholders agreement, by the working members, whose interests may differ from those of other stockholders.

Upon the completion of this offering, LAZ-MD Holdings will hold our Class B common stock. Pursuant to the LAZ-MD Holdings stockholders agreement, the members of LAZ-MD Holdings will individually be entitled to direct LAZ-MD Holdings how to vote their proportionate interest in our Class B common stock on an as-if-exchanged basis. The voting power associated with the Class B common stock is intended to mirror the working members' indirect economic interest in Lazard Group. After this offering, through the LAZ-MD Holdings stockholders agreement, the working members will be effectively able to exercise control over all matters requiring stockholder approval, including the election of all directors and approval of significant corporate transactions, and other matters affecting the working members. This voting power may have the effect of delaying or preventing a change in control of Lazard Ltd. See We may have potential business conflicts of interest with LAZ-MD Holdings and LFCM Holdings with respect to our past and ongoing relationships that could harm our business operations, The Separation and Recapitalization Transactions and the Lazard Organizational Structure, Management, Principal Stockholders, Certain Relationships and Related Transactions and Description of Capital Stock.

The historical financial information of Lazard Group contained in this prospectus may not be representative of our results as a separate, independent public company.

Because Lazard Group has operated as a limited liability company that is treated as a partnership for U.S. federal income tax purposes, payments for services rendered by Lazard Group's managing directors have been accounted for as distributions from members' capital, or in some cases as minority interest expense. Because Lazard Group historically has operated as an entity treated as a partnership in the U.S., Lazard Group paid little or no taxes on profits in the U.S., other than New York City UBT. As a result, Lazard Group's operating income has not reflected most payments for services rendered by its managing directors and provision for income taxes has not reflected U.S. corporate federal income taxes.

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Reorganizing our business from a privately held firm to a publicly traded company may result in increased administrative and regulatory costs and burdens that are not reflected in the historical financial statements of Lazard Group, which could adversely affect our results of operations. Before 2000, our business was operated under separate and independent firms or private limited companies organized on a country-by-country basis. Starting with the unification of our various Houses under Lazard Group in 2000 and continuing with our transition to a publicly traded company, we have sought and are continuing to implement improvements to our administrative functions, including our compliance and control systems. In addition, as we will be a publicly traded company, we will be implementing additional regulatory and administrative procedures and processes for the purpose of addressing the standards and requirements applicable to public companies, including under the Sarbanes-Oxley Act of 2002 and related regulatory initiatives. The costs of implementing these steps may be significant.

Lazard Group's businesses, including the separated businesses, also have been able to rely, to some degree, on the earnings, assets and cash flow of each other for capital and cash flow requirements. Accordingly, Lazard Group's historical results of operations and financial position are not necessarily indicative of the consolidated results of operations and financial position of Lazard Group after completion of the separation. For additional information about the past financial performance and the basis of presentation of the historical financial statements, see Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Pro Forma Financial Information and the Lazard Group historical financial statements and related notes included elsewhere in this prospectus.

The pro forma financial information in this prospectus may not permit you to predict our costs of operations, and the estimates and assumptions used in preparing our pro forma financial information may be materially different from our actual experience as a separate, independent company.

In preparing the pro forma financial information in this prospectus, we have made adjustments to the historical financial information of Lazard Group based upon currently available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of the transactions contemplated by the separation and recapitalization. Some of these adjustments include, among other items, a deduction and charge to earnings of estimated income taxes based on an estimated tax rate, estimated salaries, payroll taxes and benefits for our managing directors. These and other estimates and assumptions used in the calculation of the pro forma financial information in this prospectus may be materially different from our actual experience as a separate, independent company. The pro forma financial information in this prospectus does not purport to represent what Lazard Ltd's or Lazard Group's results of operations would actually have been had Lazard Ltd or Lazard Group operated as a separate, independent company during the periods presented, nor do the pro forma data give effect to any events other than those discussed in the unaudited pro forma financial information and related notes. See Unaudited Pro Forma Financial Information.

Lazard Group and its predecessors have undergone significant transformations in recent years, and we will continue our efforts to transform our business and operations going forward, which may disrupt the regular operations of our business.

Since the unification of the Houses of Lazard in 2000, Lazard Group has experienced a succession of transformative events, including the hiring of Mr. Wasserstein, the retention of new senior management and the hiring or promotion of a large number of new managing directors, as well as this offering and the separation and recapitalization transactions. Lazard Group's efforts to transform our businesses are expected to continue following the completion of this offering, including

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by seeking to implement standards and procedures required of public companies such as certifications and compliance with the internal controls requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. The continued evolution of Lazard Group may have resulted, and in the future may result, in disruption to the regular operations of our business, including our ability to attract and complete current and future engagement opportunities with clients, increased difficulty in retaining senior professionals and managing and growing our businesses, the occurrence of any of which could materially adversely affect our business, financial condition and results of operations.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments within a specified time period following the completion of this offering. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and the price of our common stock and, in turn, the equity security units.

LAZ-MD Holdings, Lazard Group, LFCM Holdings and we will enter into various arrangements, including the master separation agreement, which will contain cross-indemnification obligations of LAZ-MD Holdings, Lazard Group, LFCM Holdings and us, that any party may be unable to satisfy.

The master separation agreement that we intend to enter into with Lazard Group, LAZ-MD Holdings and LFCM Holdings will provide, among other things, that LFCM Holdings generally will indemnify us, Lazard Group and LAZ-MD Holdings for losses that we incur arising out of, or relating to, the separated businesses and the businesses conducted by LFCM Holdings and losses that we, Lazard Group or LAZ-MD Holdings incur arising out of, or relating to, LFCM Holdings' breach of the master separation agreement. In addition, LAZ-MD Holdings generally will indemnify us, Lazard Group and LFCM Holdings for losses that we incur arising out of, or relating to, LAZ-MD Holdings' breach of the master separation agreement. Our ability to collect under the indemnities from LAZ-MD Holdings or LFCM Holdings depends on their financial position. For example, persons may seek to hold us responsible for liabilities assumed by LAZ-MD Holdings or LFCM Holdings. If these liabilities are significant and we are held liable for them, we may not be able to recover any or all of the amount of those losses from LAZ-MD Holdings or LFCM Holdings should either be financially unable to perform under their indemnification obligations.

We currently have a number of ongoing obligations in respect of which, pursuant to the master separation agreement and other ancillary agreements, LFCM Holdings is providing certain indemnities. For example, we intend to enter into an arrangement with LFCM Holdings relating to the costs of excess space in the U.K. LFCM Holdings will pay to Lazard Group the lease costs up to a maximum of \$29 million in the aggregate under these arrangements. In addition, as reflected in the notes to our consolidated financial statements, as of December 31, 2004, our principal U.K. pension plan had a deficit of approximately \$95 million under current actuarial assumptions. This deficit would ordinarily be funded over time. We are in discussions with the trustees of that pension plan aimed at reaching agreement regarding a deficit reduction plan as well as asset allocation. In considering their duties to beneficiaries, the trustees also have the power to change the asset allocation. Any changes in the

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asset allocation could increase the unfunded liability that would be funded over time, depending on asset mix, any increase in liabilities and returns. It is also the case that the relevant pensions regulator in the U.K. may have the power to require contributions to be made to plans, and to impose support in respect of the funding of plans by related companies other than the direct obligors. We anticipate that LFCM Holdings will make payments of approximately 30 million British pounds in the aggregate to Lazard Group or one of its subsidiaries to reduce the pension plan deficit. See Certain Relationships and Related Transactions. In the event that LFCM Holdings is unable to perform under such arrangements for any reason, we would remain fully liable.

In addition, Lazard Group generally will indemnify LFCM Holdings and LAZ-MD Holdings for liabilities related to Lazard Group's businesses and Lazard Group will indemnify LFCM Holdings and LAZ-MD Holdings for losses that they incur to the extent arising out of, or relating to, Lazard Group's or our breach of the master separation agreement. Several of the ancillary agreements that Lazard Group will enter into together with the master separation agreement also provide for separate indemnification arrangements. For example, under the administrative services agreement, Lazard Group will provide a range of services to LFCM Holdings after the separation and recapitalization, including information technology, general office and building services and financing and accounting services, and LFCM Holdings will generally indemnify Lazard Group for liabilities that Lazard Group incurs arising from the provision of these services absent Lazard Group's intentional misconduct. Lazard Group may face claims for indemnification from LFCM Holdings and LAZ-MD Holdings under these provisions regarding matters for which Lazard Group has agreed to indemnify them. If these liabilities are significant, Lazard Group may be required to make substantial payments, which could materially adversely affect our results of operations.

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

Immediately following this offering, LAZ-MD Holdings will hold approximately 66.3% of our voting power through our single share of Class B common stock and 66.3% of the outstanding Lazard Group common membership interests. In addition, LAZ-MD Holdings board of directors will be composed of four individuals, all of whom are managing directors or officers of our company, including our Vice Chairman and our President. The voting and equity ownership of LAZ-MD Holdings and its members, and the service of officers and managing directors of our company as directors of LAZ-MD Holdings, could create conflicts of interest when LAZ-MD Holdings and those directors and officers are faced with decisions that could have different implications for LAZ-MD Holdings and us, including potential acquisitions of businesses, the issuance or disposition of securities by us, the election of new or additional directors of Lazard Ltd, the payment of dividends by Lazard Ltd and Lazard Group, our relationship with LFCM Holdings and other matters. We also expect that LAZ-MD Holdings will manage its ownership of us so that it will not be deemed to be an investment company under the Investment Company Act, including by maintaining its voting power in Lazard Ltd above a majority absent an applicable exemption from the Act. This may result in conflicts with us, including those relating to acquisitions or offerings by us involving issuances of our common stock or securities convertible or exchangeable into shares of our common stock that would dilute LAZ-MD Holdings' voting power in Lazard Ltd.

Since the members of LAZ-MD Holdings will be entitled to individually direct the vote of our Class B common stock on an as-if-exchanged basis and will also own and control LFCM Holdings, their control of LAZ-MD Holdings and the vote of the share of our Class B common stock gives rise to potential conflicts between LFCM Holdings and LAZ-MD Holdings, on the one hand, and our company, on the other hand, as discussed below.

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In addition, Mr. Wasserstein, our Chairman and Chief Executive Officer, serves as the Chairman and is the majority owner of Wasserstein Holdings, LLC, the ultimate general partner of Wasserstein & Co., LP, a separate merchant banking firm that may compete with LFCM Holdings or our merchant banking fund management activities. See Certain Relationships and Related Transactions Certain Relationships with Our Directors, Executive Officers and Employees Relationships Involving Employee Directors and Executive Officers.

We may have potential business conflicts of interest with LAZ-MD Holdings and LFCM Holdings with respect to our past and ongoing relationships that could harm our business operations.

Pursuant to the LAZ-MD Holdings stockholders' agreement, LAZ-MD Holdings will vote the single share of Class B common stock, which immediately following this offering will represent approximately 66.3% of our voting power, as directed by its individual members, all of whom are working members, including managing directors of our business. These same persons will own and control LFCM Holdings, which will hold the separated businesses. In addition, our President will be the Chairman of LFCM Holdings, and several employees of Lazard will provide services to LFCM Holdings. Conflicts of interest may arise between LFCM Holdings and us in a number of areas relating to our past and ongoing relationships, including:

labor, tax, employee benefits, indemnification and other matters arising from the separation,

intellectual property matters,

business combinations involving us,

business operations or business opportunities of LFCM Holdings or us that would compete with the other party's business opportunities, including investment banking by us and the management of merchant banking funds by LFCM Holdings, particularly as some of the managing directors will provide services to LFCM Holdings,

the terms of the master separation agreement and related ancillary agreements, including the operation of the merchant banking fund management business and Lazard Group's option to purchase the business,

the nature, quality and pricing of administrative services to be provided by us, and

the provision of services by two of our managing directors to LFCM Holdings.

In addition, the administrative services agreement commits us to provide a range of services to LFCM Holdings and LAZ-MD Holdings, which could require the expenditure of significant amounts of time by our management. Our agreements with LAZ-MD Holdings and LFCM Holdings may be amended upon agreement of the parties to those agreements. During the time that we are controlled by LAZ-MD Holdings, LAZ-MD Holdings may be able to require us to agree to amendments to these agreements. We may not be able to resolve any potential conflicts and, even if we do, the resolution may be less favorable to us than if we were dealing with an unaffiliated party.

The use of the Lazard brand name by subsidiaries of LFCM Holdings may expose us to reputational harm that could affect our operations and adversely affect our financial position should these subsidiaries take actions that damage the brand name.

The Lazard brand name has over 150 years of heritage, connoting, we believe, world-class professional advice, independence and global capabilities with deeply rooted, local know-how. After the separation, LFCM Holdings will operate as a separate legal entity, and Lazard Group will license to subsidiaries of LFCM Holdings that operate the separated businesses the use of the Lazard brand name for certain specified purposes, including in connection with merchant banking fund management

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and capital markets activities. As these subsidiaries of LFCM Holdings historically have and will continue to use the Lazard brand name, and because after the separation we will no longer control these entities, there is a risk of reputational harm to us if these subsidiaries have, or in the future, were to, among other things, engage in poor business practices, experience adverse results or otherwise damage the reputational value of the Lazard brand name. These risks could expose us to liability and also may adversely affect our revenue and our business prospects.

Our subsidiaries will be required to pay LFCM Holdings for most of the benefit relating to any additional tax depreciation or amortization deductions our subsidiaries may claim as a result of the tax basis step-up our subsidiaries receive in connection with this offering and related transactions.

Prior to, and in connection with, this offering, historical partner interests and preferred interests generally will be redeemed for cash. In addition, LAZ-MD Holdings exchangeable interests may, in effect, be exchanged in the future for shares of our common stock. The redemption will, and the exchanges may, result in increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries' interest in Lazard Group that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that our subsidiaries would otherwise be required to pay in the future, although the IRS may challenge all or part of that tax basis increase, and a court could sustain such a challenge.

Our subsidiaries intend to enter into a tax receivable agreement with LFCM Holdings that will provide for the payment by our subsidiaries to LFCM Holdings of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that our subsidiaries actually realize as a result of these increases in tax basis and of certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. We expect to benefit from the remaining 15% of cash savings, if any, in income or franchise tax that our subsidiaries realize. Our subsidiaries will have the right to terminate the tax receivable agreement at any time for an amount based on an agreed value of certain payments remaining to be made under the tax receivable agreement at such time. While the actual amount and timing of any payments under this agreement will vary depending upon a number of factors, including the timing of exchanges, the extent to which such exchanges are taxable and the amount and timing of our income, we expect that, as a result of the size of the increases in the tax basis of the tangible and intangible assets of Lazard Group attributable to our subsidiaries' interest in Lazard Group, during the expected 24-year term of the tax receivable agreement, the payments that our subsidiaries may make to LFCM Holdings could be substantial. If the LAZ-MD Holdings exchangeable interests had been effectively exchanged in a taxable transaction for common stock at the time of the closing of this offering, the increase in the tax basis attributable to our subsidiaries' interest in Lazard Group would have been approximately \$1.7 billion, assuming an initial offering price of \$26.00 per share of common stock (the midpoint of the range of initial public offering prices set forth on the cover of the prospectus for the equity public offering), including the increase in tax basis associated with the redemption and recapitalization. The cash savings that our subsidiaries would actually realize as a result of this increase in tax basis likely would be significantly less than this amount multiplied by our effective tax rate due to a number of factors, including the allocation of the increase in tax basis to foreign assets, the impact of the increase in the tax basis on our ability to use foreign tax credits and the rules relating to the amortization of intangible assets. The tax receivable agreement will require approximately 85% of such cash savings, if any, to be paid to LFCM Holdings. The actual increase in tax basis will depend upon, among other factors, the price of shares of our common stock at the time of the exchange and the extent to which such exchanges are taxable and, as a result, could differ materially from this amount. Any amount paid by our subsidiaries to LFCM Holdings will generally be distributed to the working members in proportion to their goodwill interests underlying the working member interests held by or allocated to such persons immediately prior to the separation. Our ability to achieve benefits from

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any such increase, and the payments to be made under this agreement, will depend upon a number of factors, as discussed above, including the timing and amount of our future income.

In addition, if the IRS successfully challenges the tax basis increase, under certain circumstances, our subsidiaries could make payments to LFCM Holdings under the tax receivable agreement in excess of our subsidiaries' cash tax savings. See *The Separation and Recapitalization Transactions and the Lazard Organizational Structure*, *The Separation and Recapitalization Transactions*, *The Recapitalization of LAZ-MD Holdings and Lazard Group*, *The Redemption of the Historical Partners' Interests*, and *Certain Relationships and Related Transactions*, *Relationship with LAZ-MD Holdings and LFCM Holdings*, *Master Separation Agreement*, *LAZ-MD Holdings Exchangeable Interests*.

The separation and recapitalization transactions may be challenged by creditors as a fraudulent transfer or conveyance, and, should a court agree with such a challenge, equityholders and creditors of the entity held liable could be adversely affected.

While we do not believe that any of the separation and recapitalization transactions will result in a fraudulent conveyance or transfer, if a court in a suit by an unpaid creditor or representative of creditors of Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings, such as a trustee in bankruptcy, or Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings itself, as debtor-in-possession in a reorganization case under Title 11 of the U.S. Bankruptcy Code, were to find that:

any of the separation and recapitalization transactions (or any related transactions) were undertaken for the purpose of hindering, delaying or defrauding creditors of Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings (as applicable), or

Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings (as applicable) received less than reasonably equivalent value or fair consideration in connection with any of the separation and recapitalization transactions and (i) Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings (as applicable) was insolvent immediately prior to, or was rendered insolvent by, the separation or recapitalization transactions, (ii) Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings (as applicable) immediately prior to, or as of the effective time of, the completion of any of the separation and recapitalization transactions, and after giving effect thereto, intended or believed that it would be unable to pay its debts as they became due, or (iii) the capital of Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings (as applicable) immediately prior to or, at the effective time of, the completion of any of the separation and recapitalization transactions, and after giving effect thereto, was inadequate to conduct its business,

then that court could determine that any of the separation and recapitalization transactions violated applicable provisions of the U.S. Bankruptcy Code or applicable state fraudulent transfer or conveyance laws. This determination would permit the bankruptcy trustee, debtor-in-possession or unpaid creditors to rescind the separation or recapitalization transactions, to subordinate or render unenforceable the debt incurred in furtherance thereof, or to require Lazard Group, Lazard Ltd, LAZ-MD Holdings or LFCM Holdings or the historical partners, as the case may be, to fund liabilities for the benefit of creditors. Equityholders and creditors of the entity held liable as a result of such determination would be adversely affected to the extent such entity is required to surrender value to satisfy its liability.

The measure of insolvency for purposes of the foregoing considerations will vary depending upon the law of the jurisdiction that is being applied. Generally, however, an entity would be considered insolvent if:

the sum of its liabilities, including contingent liabilities, is greater than its assets, at a fair valuation,

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the present fair saleable value of its assets is less than the amount required to pay the probable liability on its total existing debts and liabilities, including contingent liabilities, as they become absolute and matured, or

it is generally not paying its debts as they become due.

Similar provisions would also apply in any other jurisdiction in which the separation and recapitalization transactions take effect.

If we were deemed an investment company under the Investment Company Act as a result of our ownership of Lazard Group, applicable restrictions could make it impractical for us to continue our business as contemplated and could materially adversely affect our business, financial condition and results of operation.

We do not believe that Lazard Ltd or Lazard Group Finance will be an investment company under the Investment Company Act after completion of the separation and recapitalization, because Lazard Ltd, through Lazard Group Finance, will have the power to appoint and remove the Lazard Group managing member. If Lazard Ltd were to cease participation in the management of Lazard Group or not be deemed to have a majority of the voting power of Lazard Group, its interest in Lazard Group could be deemed an investment security for purposes of the Investment Company Act. Similarly, we do not believe that LAZ-MD Holdings will be an investment company under the Investment Company Act after completion of the separation and recapitalization, because LAZ-MD Holdings will initially hold a majority of Lazard Ltd's voting power through our Class B common stock, and Lazard Ltd, through Lazard Group Finance, owns a majority of the voting power of Lazard Group. If LAZ-MD Holdings ceases to hold a majority of the voting power of Lazard Ltd, or Lazard Ltd ceases to hold a majority of the voting power of Lazard Group, LAZ-MD Holdings' interests in Lazard Group could be deemed an investment security for purposes of the Investment Company Act. Generally, a person is an investment company if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items), absent an applicable exemption. Following this offering, Lazard Ltd will have no material assets other than direct and indirect ownership of Lazard Group common membership interests and, through Lazard Finance Group, its controlling interest in Lazard Group. A determination that this investment was an investment security could result in Lazard Ltd being an investment company under the Investment Company Act and becoming subject to the registration and other requirements of the Investment Company Act. Similarly, LAZ-MD Holdings will have no material assets other than its ownership of Lazard Group common membership interests, our Class B common stock and cash. A reduction of LAZ-MD Holdings' voting power in Lazard Ltd to less than a majority or a determination that the Lazard Group common membership interests is an investment security could result in LAZ-MD Holdings being an investment company under the Investment Company Act, unless an exemption is available, and becoming subject to the registration and other requirements of the Investment Company Act.

The Investment Company Act and the rules thereunder contain detailed prescriptions for the organization and operations of investment companies. Among other things, the Investment Company Act and the rules thereunder limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities, prohibit the issuance of stock options, and impose certain governance requirements. We intend to conduct our operations, and expect that LAZ-MD Holdings will conduct its operations, so that none of Lazard Ltd, Lazard Group Finance or LAZ-MD Holdings, respectively, will be deemed to be an investment company under the Investment Company Act. However, if anything were to happen which would cause Lazard Ltd, Lazard Group Finance or LAZ-MD Holdings to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on its or our capital structure, ability to transact business with affiliates (including LAZ-MD Holdings or us, as the case may be) and ability to compensate key employees, could make it impractical for us to continue our business

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as currently conducted, impair the agreements and arrangements, including the master separation agreement and related agreements and the transactions contemplated by those agreements, between and among Lazard Ltd, LAZ-MD Holdings, Lazard Group and LFCM Holdings or any combination thereof and materially adversely affect our business, financial condition and results of operations.

Risks Related to Our Common Stock

Because there has not been any public market for securities of Lazard Ltd, the market price and trading volume of our common stock may be volatile.

Prior to the equity public offering and this offering, there has been no public market for our securities, including our common stock, or those of Lazard Group. Although we have been approved to have our common stock listed on the NYSE, an active public market for our common stock may not develop. The price of our common stock in the equity public offering will be determined through negotiations between us and the underwriters. The negotiated price of the equity public offering may not be indicative of the market price of the common stock after the equity public offering. The market price of the common stock could be subject to significant fluctuations due to factors such as:

actual or anticipated fluctuations in our financial condition or results of operations,

success of operating strategies, and our perceived prospects and the financial services industry in general,

realization of any of the risks described in this section,

failure to be covered by securities analysts or failure to meet securities analysts' expectations, and

decline in the stock prices of peer companies.

As a result, shares of our common stock may trade at prices significantly below the price of the equity public offering. Declines in the price of our stock may adversely affect our ability to recruit and retain key employees, including our managing directors and other key professional employees.

Our share price may decline due to the large number of shares eligible for future sale and for exchange.

Sales of substantial amounts of our common stock by our managing directors and others, or the possibility of such sales, may adversely affect the price of our common stock and impede our ability to raise capital through the issuance of equity securities. See **Shares Eligible for Future Sale**. Upon consummation of the equity public offering, there will be 33,653,846 shares of common stock outstanding (or 38,223,532 shares of common stock if the underwriters exercise their over-allotment option in full). Of these shares of common stock, 30,464,579 shares of common stock sold in the equity public offering (or 35,034,265 shares of common stock if

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the underwriters exercise their over-allotment option in full) will be freely transferable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act, unless such shares are held by an affiliate. The remaining 3,189,267 shares of common stock generally will be available for future sale upon the expiration or waiver of transfer restrictions applicable to such restricted shares or registration of those shares. In addition, 66,346,154 shares of our common stock will, after the equity public offering, be issuable upon the full exchange of the LAZ-MD Holdings exchangeable interests, which will be entitled to registration rights under the terms of the LAZ-MD Holdings stockholders agreement. In light of the number of shares of our common stock issuable in connection with the full exchange of the LAZ-MD Holdings exchangeable interests and the securities to be issued in this offering and pursuant to the IXIS investment agreement, the price of our common stock may decrease and, in turn, cause the value of our equity security units to decline and our ability to raise capital through the issuance of equity securities may be adversely impacted as these exchanges occur and transfer restrictions lapse.

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As reflected in the table below, LAZ-MD Holdings exchangeable interests will be effectively exchangeable into common stock, and thereafter that common stock will become available for sale in significant numbers. In addition, LAZ-MD Holdings and certain of our subsidiaries, with the consent of the Lazard Ltd board of directors, have the right to cause the holders of LAZ-MD Holdings exchangeable interests to exchange all such remaining interests during the 30-day period following the ninth anniversary of this offering and under certain other circumstances. For a discussion of these exchange and transfer restrictions, see *Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement LAZ-MD Holdings Exchangeable Interests*. We expect to register the shares received by the working members pursuant to the exchange for resale by such persons from time to time as well. Persons exchanging their LAZ-MD Holdings exchangeable interests are likely to sell all or a portion of their common stock promptly after exchange to provide liquidity to cover any taxes that may be payable upon such exchange or in response to the reduction in their income in connection with our transition to a public company or to diversify their portfolios.

The following table reflects the timetable for exchangeability of the LAZ-MD Holdings exchangeable interests assuming continued employment of the current managing directors. As described below, exchangeability may be accelerated under certain circumstances as described in *Management Arrangements with Our Managing Directors The Retention Agreements in General LAZ-MD Holdings Exchangeable Interests and Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement LAZ-MD Holdings Exchangeable Interests*.

<u>Anniversary of offering</u>	<u>Number of additional shares of common stock that are expected to become available for exchange under LAZ-MD Holdings exchangeable interests</u>
First	234,906
Second	622,872
Third	21,155,974
Fourth	20,709,760
Fifth	21,493,452
Sixth	
Seventh	
Eighth	2,129,190
	<hr/>
Total	66,346,154
	<hr/>

See *Shares Eligible for Future Sale*.

In addition, this offering and the IXIS investment agreement will involve securities that effectively are exchangeable into up to shares of our common stock on the third anniversary of the consummation of this offering. The shares of our common stock that IXIS will acquire as part of the additional financing transactions generally may not be transferred for a period of 545 days from the date of purchase, but thereafter may be transferred or sold under certain circumstances. See *Description of Capital Stock IXIS Investment in Our Common Stock*. Under limited, agreed upon circumstances, a few of our European managing directors will have the right to cause an early exchange of a portion of their exchangeable interests. In addition, between the first and third anniversaries of this offering, a limited number of our managing directors will be entitled to exchange a portion of their LAZ-MD Holdings exchangeable interests in connection with their anticipated future retirement from us. Our Chief Executive Officer who holds historical partner interests and has elected to exchange those interests for shares of our common stock in lieu of the cash consideration in the redemption will hold shares of our common stock after this offering that will be available for resale upon expiration of underwriters' lock-up arrangements, subject to compliance with the Securities Act. See

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The Separation and Recapitalization Transactions and the Lazard Organizational Structure The Separation and Recapitalization Transactions The Recapitalization of LAZ-MD Holdings and Lazard Group and The Separation and Recapitalization Transactions and the Lazard Organizational Structure The Separation and Recapitalization Transactions Exchange of Working Member Interests for LAZ-MD Holdings Interests.

Our only material asset after completion of this offering will be our indirect interests in Lazard Group, and we are accordingly dependent upon distributions from Lazard Group to pay dividends and taxes and other expenses.

Lazard Ltd will be a holding company and will have no material assets other than the indirect ownership of approximately 33.7% of the common membership interests in Lazard Group that Lazard Ltd will acquire in connection with this offering and Lazard Ltd's holding of a controlling interest in Lazard Group through an indirect managing member position in Lazard Group Finance, which is the managing member of Lazard Group. We have no independent means of generating revenue. Our wholly-owned subsidiaries will incur income taxes on their proportionate share of any net taxable income of Lazard Group in their respective tax jurisdictions. We intend to cause Lazard Group to make distributions to its members, including our wholly-owned subsidiaries, in an amount sufficient to cover all applicable taxes payable and dividends, if any, declared by us. To the extent that our subsidiaries need funds to pay taxes on their share of Lazard Group's net taxable income, or if Lazard Ltd needs funds for any other purpose, and Lazard Group is restricted from making such distributions under applicable law or regulation, or is otherwise unable to provide such funds, it could materially adversely affect our business, financial condition or results of operations. See Dividend Policy.

We may issue preference shares and our bye-laws and Bermuda law may discourage takeovers, which could affect the rights of holders of our common stock.

Following this offering, the ownership of the Class B common stock will give LAZ-MD Holdings and, through the LAZ-MD Holdings stockholders' agreement, the members of LAZ-MD Holdings, voting control of us and will have the effect, among other things, of preventing a change in control of us without LAZ-MD Holdings' consent. Additionally, following this offering, our board of directors will have the authority to issue up to 15,000,000 preference shares without any further vote or action by the stockholders, in accordance with the provisions of our bye-laws. Since the preference shares could be issued with liquidation, dividend and other rights superior to those of the common stock, the rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of the holders of any such preference shares. The issuance of preference shares could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock. Further, the provisions of our bye-laws including our classified board of directors and the ability of stockholders to remove directors only for cause, and of Bermuda law, could have the effect of delaying or preventing a change in control of us. See Description of Capital Stock.

We are incorporated in Bermuda, and a significant portion of our assets are located outside the U.S. As a result, it may not be possible for stockholders to enforce civil liability provisions of the U.S. federal or state securities laws.

We are incorporated under the laws of Bermuda, and a significant portion of our assets are located outside the U.S. It may not be possible to enforce court judgments obtained in the U.S. against us in Bermuda, or in countries other than the U.S. where we have assets, based on the civil liability provisions of the federal or state securities laws of the U.S. In addition, there is some doubt as to whether the courts of Bermuda and other countries would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the federal or state securities laws of the U.S. or would hear actions against us or those persons based on those laws. We have been advised by our legal advisors in Bermuda that the U.S. and Bermuda do not

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currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the U.S. based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Bermuda. Similarly, those judgments may not be enforceable in countries other than the U.S. where we have assets.

Bermuda law differs from the laws in effect in the U.S. and may afford less protection to stockholders.

Our stockholders may have more difficulty protecting their interests than would stockholders of a corporation incorporated in a jurisdiction of the U.S. As a Bermuda company, we are governed by the Companies Act. The Companies Act differs in some material respects from laws generally applicable to U.S. corporations and stockholders, including the provisions relating to interested directors, mergers, amalgamations and acquisitions, takeovers, stockholder lawsuits and indemnification of directors. See Description of Capital Stock Delaware Law and Certain Relationships and Related Transactions Certain Relationships with Our Directors, Executive Officers and Employees Director and Officer Indemnification.

Under Bermuda law, the duties of directors and officers of a company are generally owed to the company only. Stockholders of Bermuda companies generally do not have rights to take action against directors or officers of the company, and may only do so in limited circumstances. Officers of a Bermuda company must, in exercising their powers and performing their duties, act honestly and in good faith with a view to the best interests of the company and must exercise the care and skill that a reasonably prudent person would exercise in comparable circumstances. Directors have a duty not to put themselves in a position in which their duties to the company and their personal interests may conflict and also are under a duty to disclose any personal interest in any contract or arrangement with the company or any of its subsidiaries. If a director or officer of a Bermuda company is found to have breached his or her duties to that company, he may be held personally liable to the company in respect of that breach of duty. A director may be liable jointly and severally with other directors if it is shown that the director knowingly engaged in fraud or dishonesty. In cases not involving fraud or dishonesty, the liability of the director will be determined by the Bermuda courts on the basis of their estimation of the percentage of responsibility of the director for the matter in question, in light of the nature of the conduct of the director and the extent of the causal relationship between his or her conduct and the loss suffered.

In addition, our bye-laws provide that no director shall be liable to the company, any of our stockholders or any other person for the acts, neglects or defaults of any other director, or for any loss or expense happening to the company through the insufficiency or deficiency of title to any property acquired by order of the directors for or on behalf of the company, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortious act of any person with whom any moneys, securities or effects shall be deposited, or for any loss occasioned by any error of judgment, omission, default, or oversight on his or her part, or for any other loss, damage, or misfortune whatever which shall happen in relation to the execution of the duties of his or her office, provided that such provisions shall not extend to any matter which would render any of them void under the Companies Act.

There are provisions in our bye-laws that may require certain of our non-U.S. stockholders to sell their shares to us or to a third party.

Our bye-laws provide that if our board of directors determines that we or any of our subsidiaries do not meet, or in the absence of repurchases of shares will fail to meet, the ownership requirements of a limitation on benefits article of any bilateral income tax treaty with the U.S. applicable to us, and that such tax treaty would provide material benefits to us or any of our subsidiaries, we generally have

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the right, but not the obligation, to repurchase at fair market value (as determined in the good faith discretion of our board of directors) shares of our common stock from any stockholder who beneficially owns more than 0.25% of the outstanding shares and who fails to demonstrate to our satisfaction that such stockholder is either (a) a U.S. citizen or (b) a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty). IXIS is not subject to this repurchase right with respect to the aggregate number of shares it will acquire pursuant to the IXIS investment agreement.

The number of shares that may be repurchased from any such stockholder will equal the product of the total number of shares that we reasonably determine to purchase to ensure ongoing satisfaction of the limitation on benefits article of the applicable tax treaty, multiplied by a fraction, the numerator of which is the number of shares beneficially owned by such stockholder (other than the aggregate number of shares IXIS will acquire pursuant to the IXIS investment agreement) and the denominator of which is the total number of shares (reduced by the aggregate number of shares IXIS acquires pursuant to the IXIS investment agreement) beneficially owned by such stockholder subject to this repurchase right.

Instead of exercising the repurchase right described above, we will have the right, but not the obligation, to cause the transfer to, and procure the purchase by, any U.S. citizen or a qualified resident of the U.S. or the other contracting state of the applicable tax treaty (as determined for purposes of the relevant provision of the limitation on benefits article of such treaty) of the number of outstanding shares beneficially owned by any stockholder that are otherwise subject to repurchase under our bye-laws as described above, at fair market value (as determined in the good faith discretion of our board of directors). See Description of Share Capital Acquisition of Shares by Us.

Risk Factors Related to the Units

You will bear the entire risk of a decline in the price of Lazard Ltd's common stock.

You will have an obligation to buy shares of Lazard Ltd's common stock pursuant to the purchase contract at a fixed price. The market value of the common stock you will purchase on the stock purchase date may be materially lower than the price per share that the purchase contract requires you to pay. If for each of the 20 trading days beginning on _____, 2008, the closing price of Lazard Ltd's common stock is less than or equal to \$ _____, you will, on the stock purchase date, be required to purchase common stock at a price per share of \$ _____. Accordingly, a holder of units assumes the entire risk that the market value of the common stock may decline and that the decline could be substantial. See Risks Related to Our Common Stock above.

You will receive only a portion of any appreciation in the common stock price.

The aggregate market value of the common stock you will receive upon settlement of a purchase contract will exceed the stated amount of \$25 if for each of the 20 trading days beginning on _____, 2008 the closing price of our common stock equals or exceeds \$ _____, which we refer to in this prospectus as the threshold appreciation price. The threshold appreciation price represents an appreciation of _____% over \$ _____. If on each of the 20 trading days beginning on _____, 2008 the closing price of our common stock exceeds \$ _____, which is referred to as the reference price, but falls below the threshold appreciation price, you will realize no equity appreciation on the common stock for the period during which you own a unit. Furthermore, if for each of the 20 trading days beginning on _____, 2008 the closing price of our common stock equals or exceeds the threshold appreciation price, the value of our common stock you will receive under the purchase contract will be approximately _____% of

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the value of the common stock you could have purchased with \$25 at the time of this offering. During the period prior to settlement, an investment in the units affords less opportunity for equity appreciation than a direct investment in our common stock.

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The trading price of the common stock and the general level of interest rates and our credit quality will affect the trading price for the units.

It is impossible to predict whether the price of Lazard Ltd's common stock or interest rates will rise or fall. Our operating results and prospects and economic, financial and other factors will affect trading prices of Lazard Ltd's common stock and the units. In addition, market conditions can affect the capital markets generally, thereby affecting the price of Lazard Ltd's common stock. These conditions may include the level of, and fluctuations in, the trading prices of stocks generally and sales of substantial amounts of common stock in the market after the equity public offering or the perception that those sales could occur. Fluctuations in interest rates may give rise to arbitrage opportunities based upon changes in the relative value of Lazard Ltd's common stock underlying the purchase contracts and of the other components of the units. The arbitrage could, in turn, affect the trading prices of the units.

You may suffer dilution of the common stock issuable upon settlement of your purchase contract.

The number of shares of Lazard Ltd's common stock issuable upon settlement of your purchase contract is subject to adjustment only for stock splits and combinations, stock dividends and specified other transactions that significantly modify the capital structure of Lazard Ltd. The number of shares of Lazard Ltd's common stock issuable upon settlement of each purchase contract is not subject to adjustment for other events, including employee stock option grants, ordinary dividends, offerings of common stock for cash, or in connection with acquisitions or other transactions that may adversely affect the price of the shares of common stock. The terms of the units do not restrict the ability of Lazard Ltd to offer common stock in the future or to engage in other transactions that could dilute the shares of Lazard Ltd's common stock. Lazard Ltd has no separate obligation to consider the interests of the holders of the units in engaging in any such offering or transaction. If Lazard Ltd issues additional shares of common stock, that issuance may materially and adversely affect the price of the common stock and, because of the relationship of the number of common stock holders are to receive on the stock purchase date to the price of the common stock, such other events may adversely affect the trading price of the units.

You will have no rights as common stockholders but will be subject to all changes with respect to Lazard Ltd's common stock.

Until you acquire shares of common stock upon settlement of your purchase contract, you will have no rights with respect to Lazard Ltd's common stock, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on shares of common stock. Lazard Ltd intends to declare and pay quarterly cash dividends beginning in the second quarter of 2005. Only holders of Lazard Ltd's common stock, not holders of units, will receive such dividends. Upon settlement of your purchase contract, you will be entitled to exercise the rights of a holder of Lazard Ltd's common stock only as to actions for which the record date occurs after the settlement date.

Your pledged securities will be encumbered.

Although holders of units will hold beneficial ownership interests in the underlying pledged senior notes or treasury securities, the holders will pledge those securities to secure their obligations under the related purchase contracts. Therefore, for so long as the purchase contracts remain in effect, holders will not be allowed to withdraw their ownership interest in the pledged senior notes or treasury securities from this pledge arrangement, except upon substitution of other securities as described in this prospectus.

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The purchase contract agreement has not been and will not be qualified under the Trust Indenture Act of 1939, as amended, and the obligations of the purchase contract agent will be limited.

Even if transactions in the units are covered by an effective registration statement under the Securities Act, the purchase contract agreement relating to the units will not be qualified under the Trust Indenture Act of 1939, as amended, which we refer to in this prospectus as the Trust Indenture Act. The purchase contract agent under the purchase contract agreement, who acts as the agent and the attorney-in-fact for the holders of the units, has not been and will not be qualified as a trustee under the Trust Indenture Act. Accordingly, holders of the units will not have the benefits of the protections of the Trust Indenture Act other than to the extent applicable to a senior note included in a unit or as specified in the purchase contract agreement, such as the right to cause the purchase contract agent to be removed for conflicting interests, as defined in the Trust Indenture Act. Under the terms of the purchase contract agreement, the purchase contract agent has only limited obligations to the holders of the units.

Holders of senior notes have only limited rights of acceleration.

Holders of senior notes may accelerate payment of the principal and accrued and unpaid interest on the senior notes only upon the occurrence and continuation of an event of default. An event of default generally is limited to payment defaults, breaches of specific covenants and specific events of bankruptcy, insolvency and reorganization relating to us.

The secondary market for the units may be illiquid.

We are unable to predict how the units will trade in the secondary market or whether that market will be liquid or illiquid. There is currently no secondary market for the units. Although we have been approved for listing of the normal units on the NYSE, we have no obligation or current intention to apply for any separate listing of the stripped units or the senior notes on any stock exchange. A liquid market may not develop for the normal units, the stripped units or the senior notes, and your ability to sell such securities may be limited. In addition, in the event that sufficient numbers of normal units are converted to stripped units, the liquidity of normal units could be adversely affected. It is possible that the normal units, and the stripped units or senior notes if they are ever listed, could be delisted from the NYSE or that trading in the normal units, stripped units or senior notes could be suspended as a result of elections to create stripped units or recreate normal units through the substitution of collateral that causes the number of these securities to fall below the applicable requirements for listing securities on the NYSE.

Delivery of the securities under the pledge agreement is subject to potential delay if we become subject to a bankruptcy proceeding.

Notwithstanding the automatic termination of the purchase contracts, if Lazard Ltd, Lazard Group or Lazard Group Finance becomes the subject of a case under the U.S. Bankruptcy Code, the imposition of an automatic stay under Section 362 of the U.S. Bankruptcy Code may delay the delivery to you of your securities being held as collateral under the pledge arrangement, and the delay may continue until the automatic stay has been lifted. The automatic stay will not be lifted until such time as the bankruptcy judge agrees to lift it and allows your collateral to be returned to you. Similarly, if Lazard Ltd becomes the subject of winding-up proceedings under the Companies Act, a delay may result from the automatic stay of proceedings against Lazard Ltd and may continue until the court decides to lift the stay.

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Lazard Group Finance may redeem the senior notes at its option upon the occurrence of a special event.

Lazard Group Finance may, at its option, redeem the senior notes, on not less than 30 days nor more than 60 days prior written notice, in whole but not in part, at any time if a special event occurs and continues under the circumstances described in this prospectus. See Description of the Senior Notes Special Event Redemption. If this option is exercised, the senior notes will be redeemed at the redemption price described in this prospectus. If the senior notes are redeemed, Lazard Group Finance will pay the redemption price in cash to the holders of ownership interests in the senior notes. If a special event redemption occurs prior to the earlier of the stock purchase date or a successful remarketing of the senior notes, the redemption price payable to you as a holder of the normal units will be distributed to the collateral agent, who in turn will apply an amount equal to the redemption price to purchase a portfolio of zero coupon U.S. treasury securities on your behalf, and will remit the remainder of the redemption price, if any, to you, and these treasury securities will be substituted for the senior notes as collateral to secure your obligations under the purchase contracts related to the normal units. If your senior notes are not components of normal units, you, rather than the collateral agent, will receive the related redemption payments. A special event redemption will be a taxable event to the holders of the senior notes.

Because Lazard Ltd and Lazard Group Finance are each holding companies with no operations of their own, Lazard Group Finance's obligations under the senior notes and Lazard Ltd's obligations under the purchase contracts are effectively subordinated to the debt and other obligations of their respective subsidiaries.

Both Lazard Ltd and Lazard Group Finance are holding companies with no operations of their own. Lazard Ltd's ability to pay its obligations under the purchase contracts is dependent upon its ability to obtain cash dividends or other cash payments or loans from its subsidiaries. Lazard Ltd's subsidiaries are separate and distinct legal entities and will have no obligation, contingent or otherwise, to pay any dividends or make any other distributions to Lazard Ltd. In addition, Lazard Group Finance will use the proceeds from this offering to purchase notes from Lazard Group. The Lazard Group notes and its controlling voting interest in Lazard Group likely will be Lazard Group Finance's only material assets. As a result, the ability of Lazard Group Finance to pay its obligations under the senior notes depends on its ability to obtain interest and principal payments on the Lazard Group notes. Various financing arrangements, charter provisions and regulatory requirements may impose restrictions on the abilities of Lazard Ltd's and Lazard Group Finance's subsidiaries to transfer funds to Lazard Ltd and Lazard Group Finance, respectively, in the form of cash dividends, loans or advances.

In addition, because Lazard Ltd and Lazard Group Finance are holding companies, except to the extent that Lazard Ltd or Lazard Group Finance has priority or equal claims against its subsidiaries as a creditor (as in the case of the Lazard Group notes), Lazard Group Finance's obligations under the senior notes and Lazard Ltd's obligations under the purchase contracts will be effectively subordinated to the debt and other obligations of their respective subsidiaries because, as the stockholders of their subsidiaries, they will be subject to the prior claims of creditors of their subsidiaries. As of December 31, 2004, on a pro forma basis, there was approximately \$1.7 billion of liabilities and other obligations, including certain minority interests (other than intercompany liabilities and obligations), of subsidiaries of Lazard Group that would have ranked senior to the senior notes and the Lazard Group notes as a result of this structural subordination.

Lazard Ltd and Lazard Group may be able to incur substantially more indebtedness.

Lazard Ltd and Lazard Group may be able to incur substantially more indebtedness, including secured debt that would effectively rank senior, as to the assets securing such debts, to Lazard Ltd's obligations under the purchase contracts and Lazard Group's obligations under the Lazard Group

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notes. There are no provisions applicable to the senior notes or the Lazard Group notes that limit the amount of additional indebtedness that Lazard Ltd or Lazard Group may incur, whether or not in connection with a change in control. Any material deterioration in the financial condition of Lazard Group would adversely affect Lazard Group Finance's ability to make interest payments on and to repay the principal amount of the senior notes and also may make it more difficult to remarket the senior notes successfully. Unless the purchase contracts are terminated because of bankruptcy, insolvency or reorganization, on the stock purchase date Lazard Ltd will issue the required number of shares notwithstanding any decline in value of the senior notes included in the normal units.

Lazard Ltd may defer contract adjustment payments.

Lazard Ltd has the option to defer the payment of all or part of the contract adjustment payments on the purchase contracts forming a part of the units until no later than the stock purchase date. However, deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of _____ % per year (compounded quarterly) until paid. If the purchase contracts are terminated due to our bankruptcy, insolvency or reorganization, the right to receive contract adjustment payments and deferred contract adjustment payments, if any, also will terminate.

We may be unable to repay the senior notes.

At maturity, the entire outstanding principal amount of any outstanding senior notes will become due and payable by Lazard Group Finance. Lazard Group Finance may not have sufficient funds or may be unable to arrange for additional financing to pay the principal amount due. Any future borrowing arrangements or agreements relating to senior debt to which we become a party may contain restrictions on, or prohibitions against, the repayment of the senior notes (or the Lazard Group notes). In the event that the maturity date occurs at a time when we are prohibited from repaying the senior notes (or the Lazard Group notes), we could attempt to obtain the consent of the lenders under those arrangements to purchase the senior notes or we could attempt to refinance the borrowings that contain the restrictions. If we do not obtain the necessary consents or refinance these borrowings, we will be unable to repay the senior notes. In that case, our failure to repay the senior notes at maturity would constitute an event of default under the indenture. Any such default, in turn, may cause a default under the terms of our other indebtedness some of which may rank or may effectively rank senior to the senior notes.

The IRS could disagree with our U.S. federal income tax characterization of the normal units.

Wachtell, Lipton, Rosen & Katz is of the opinion that, for U.S. federal income tax purposes, the senior notes and the purchase contracts will be treated as separate securities, the purchase contracts will be treated as forward contracts to purchase shares of our common stock and the senior notes will be treated as debt instruments of Lazard Group. However, because opinions of counsel are not binding upon the IRS or any court, the IRS may challenge such conclusion and a court may sustain such a challenge. If the IRS were to successfully challenge our characterization of the normal units, the IRS's recharacterization could adversely affect the amount, timing or character of the income, gain or loss you recognize with respect to our normal units. You are urged to consult your own tax advisors concerning the tax consequences of an investment in our normal units.

The trading price of the senior notes may not fully reflect the value of their accrued and unpaid interest.

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The senior notes may trade at a price that does not fully reflect the value of their accrued but unpaid interest. If you dispose of your senior notes between record dates for interest payments, you will be required to include in gross income for U.S. federal income tax purposes accrued interest through the date of disposition as ordinary income.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements under the captions Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business and in other sections of this prospectus that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, believe, estimate, predict, potential or continue, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties outlined in Risk Factors.

These risks and uncertainties are not exhaustive. Other sections of this prospectus may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can we 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 prospectus to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about:

our business possible or assumed future results of operations and operating cash flows,

our business strategies and investment policies,

our business financing plans and the availability of short-term borrowing,

our business competitive position,

potential growth opportunities available to our business,

the recruitment and retention of our managing directors and employees,

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our expected levels of compensation,

our business potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,

the likelihood of success and impact of litigation,

our expected tax rate,

changes in interest and tax rates,

our expectation with respect to the economy, securities markets, the market for mergers and acquisitions activity, the market for asset management activity and other industry trends,

the benefits to our business resulting from the effects of the separation and recapitalization transactions, including this offering and the additional financing transactions,

the effects of competition on our business, and

the impact of future legislation and regulation on our business.

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**THE SEPARATION AND RECAPITALIZATION TRANSACTIONS AND
THE LAZARD ORGANIZATIONAL STRUCTURE**

Pursuant to the series of transactions to be undertaken in connection with the separation and recapitalization, Lazard Ltd will acquire control over the operations and management of Lazard Group, including our business. These transactions, as well as the organizational structure of Lazard giving effect to these transactions and this offering, are described below.

Because one of the primary purposes of this offering, the additional financing transactions and the proposed restructuring of Lazard's operations is to facilitate the redemption of the interests of the historical partners, the representatives of the historical partners on the Lazard Group board of directors do not intend to and will not take any action with respect to these matters. Accordingly, we expect to obtain Lazard Group board approval of these matters on the closing date of this offering after representatives of the historical partners on the Lazard Group board of directors have resigned from the board of directors. The completion of this offering will not occur unless a Lazard Group board approval is obtained.

We expect that the directors of Lazard Group that are not resigning will agree, subject to their fiduciary duties, to support and approve the separation and recapitalization transactions, including this offering, prior to or simultaneously with the execution of the underwriting agreement relating to this offering. The final determination as to the completion, timing, structure and terms of these transactions and this offering will be based on financial and business considerations and prevailing market conditions. Pursuant to the master separation agreement that we intend to enter into regarding the separation and recapitalization transactions, Lazard Group has the sole discretion to determine whether or not to complete these transactions and this offering and, if it decides to complete these transactions, the timing of this offering.

The Separation and Recapitalization Transactions

The Separation

Lazard Group currently conducts our business and the separated businesses through its subsidiaries. Prior to the closing of this offering, Lazard Group will transfer the separated businesses from Lazard Group to LFCM Holdings. The separated businesses consist of:

all of Lazard Group's capital markets business, comprised of its equity, fixed income and convertibles sales and trading, broking, research and underwriting services, other than the capital markets activities of LFB in France,

Lazard Group's merchant banking fund management activities other than its existing merchant banking business in France, and

specified non-operating assets and liabilities.

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It is our intention that, immediately after the separation, LFCM Holdings will have \$245 million of members' equity. After the separation, Lazard Group will prepare a balance sheet setting forth the members' equity of LFCM Holdings as of the separation. If that amount of members' equity exceeds the target of \$245 million of members' equity, LFCM Holdings will pay to Lazard Group an amount of cash equal to the excess, and if that amount is less than the target, Lazard Group will pay to LFCM Holdings an amount of cash equal to the shortfall.

This separation will be effected by, among other things, forming LAZ-MD Holdings as the new holding company for Lazard Group, placing the separated businesses into LFCM Holdings and distributing all of the interests in LFCM Holdings to LAZ-MD Holdings. Lazard Group will retain all of our businesses, consisting primarily of our Financial Advisory and Asset Management businesses. In addition, Lazard Group will be granted options to acquire the North American and European merchant

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banking businesses of LFCM Holdings pursuant to the business alliance agreement. See [Certain Relationships and Related Transactions](#) [Relationship with LAZ-MD Holdings and LFCM Holdings](#) [Business Alliance Agreement](#). Immediately after the separation, all of the persons who were members of Lazard Group prior to the formation will be members of LAZ-MD Holdings and will cease to hold any membership interests in Lazard Group, all of which will be held by LAZ-MD Holdings. After the recapitalization is completed, LAZ-MD Holdings will then distribute all of the LFCM Holdings interests to its members, such that after this distribution, LFCM Holdings will be wholly-owned by the working members, including our managing directors who are members of LAZ-MD Holdings. As part of the capitalization of LFCM Holdings, LAZ-MD Holdings expects to hold notes of LFCM Holdings in an aggregate principal amount of approximately \$132 million, which we expect will be convertible into equity of LFCM Holdings.

The Recapitalization of LAZ-MD Holdings and Lazard Group

In connection with the separation, LAZ-MD Holdings and Lazard Group will effect a recapitalization of their companies. The recapitalization has three principal parts [this offering and the additional financing transactions](#), [the redemption of the historical partner interests and redeemable preferred stock](#) and [the issuance of the LAZ-MD Holdings exchangeable interests](#).

This Offering and the Additional Financing Transactions

This offering is part of the recapitalization. We will use approximately \$241 million of net proceeds from this offering to acquire the Lazard Group notes. Lazard Group will use the proceeds from the acquisition of Lazard Group notes by Lazard Group Finance as described below in [The Redemption of the Historical Partners' Interests](#) and [Use of Proceeds](#).

In addition to this offering, we intend to complete the additional financing transactions, which consist of the equity public offering, the debt offering and the investments pursuant to the IXIS investment agreement, and we expect such additional financing transactions to result in estimated net proceeds of approximately \$1.7 billion. The completion of the additional financing transactions, and this offering will be conditioned upon the completion of each of the other financings. None of this offering, the equity public offering or the debt offering, however, is conditioned upon the completion of the transactions contemplated by the IXIS investment agreement.

Concurrently with this offering, we will offer, by means of a separate prospectus, Class A common stock for an aggregate offering amount of \$792 million, plus an additional \$119 million if the underwriters' option to purchase additional shares of common stock is exercised in full.

Also concurrently with this offering, we are privately placing senior notes to be issued by Lazard Group for an aggregate offering amount of \$650 million. The Lazard Group senior notes are being offered only to qualified institutional buyers in an offering exempt from the registration requirements of the Securities Act. See [Description of Indebtedness](#) [Lazard Group Senior Notes](#).

We have entered into an investment agreement with IXIS as part of the additional financing transactions. Under the investment agreement, IXIS has agreed to purchase an aggregate of \$200 million of securities concurrently with this offering, \$150 million of which will be securities that are the same as the equity security units and \$50 million of which will be shares of our common stock.

See Business Principal Business Lines Financial Advisory Relationship with IXIS.

The Redemption of the Historical Partners' Interests

Lazard Group currently has three general classes of membership interests:

the working member interests, which are owned by working members and consist of capital and the right to participate in profit and goodwill of Lazard Group,

the historical partner interests, which are owned by the historical partners and consist of capital and the right to participate in profit and goodwill of Lazard Group, and

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

In general, capital represents amounts invested in Lazard Group by its members and is subject to repayment at a fixed amount equal to its par value upon the occurrence of fundamental corporate events involving Lazard Group, such as a sale of all or substantially all of the assets of Lazard Group, and under selected other circumstances. The right to participate in goodwill represents the right to share in the net proceeds of fundamental corporate events, after payment of creditors, repayment of the liquidation amount of the preferred interest and the return of capital. The right to participate in profit represents the right to share generally in Lazard Group's profits and losses, other than in connection with these fundamental corporate events.

The historical partner interests generally are entitled to approximately 36.1% of the profits and 44.4% of the goodwill, with the working member interests entitled to the remaining profit and goodwill. The historical partner interests are entitled to approximately \$585 million of capital and the working member interests generally are entitled to approximately \$132 million of capital, in each case as of December 31, 2004. The amount of capital associated with a historical partner interest or a working member interest primarily reflects the total cash and other property contributed by the member to Lazard Group in respect of that interest, less any return of capital, and as adjusted to reflect the allocation of any gains or losses of Lazard Group in respect of that interest and as further positively adjusted from time to time to reflect the revaluation of our business for internal capital account measurement purposes only. Such revaluation is not reflected in our consolidated statement of financial condition. The preferred interests have an aggregate liquidation amount of \$100 million. See the table below for information regarding historical partner interests.

In recent years, in connection with the retention of our new management team and in an effort to reinvest in the intellectual capital of our business, Lazard Group invested significant amounts in the recruitment and retention of senior professionals. This investment resulted in less short-term cash being distributed in respect of the historical partner interests. This led to a divergence of interests concerning the management and future direction of the business. In order to better align the interests of all owners of Lazard and to better position it to capitalize on its long-term strategic goals, the proceeds of this offering and the additional financings will be used primarily to redeem the historical partner interests and preferred interests.

As part of the recapitalization transactions, historical partner interests and preferred interests generally will be redeemed for cash. The following table illustrates the redemption price to be paid in respect of the historical partner interests and preferred interests upon the consummation of the offering:

<u>Historical Partner Group</u>	Redemption Price by Class of Interests Held			
	<u>Capital</u>	<u>Profit/Goodwill Rights</u>	<u>Preferred Interests</u>	<u>Aggregate Redemption Price</u>
	(\$ in millions)			
Founding families, including former chairman Michel David-Weill, and Eurazeo S.A.	\$ 564.7	\$ 898.3	\$ 99.1	\$ 1,562.1
Other former working members	7.5	11.1	0.8	19.4
Bruce Wasserstein (1)	11.9	21.0		32.9
Other current working members	0.8	1.1	0.1	2.0
Total	\$ 584.9	\$ 931.5	\$ 100.0	\$ 1,616.4

-
- (1) Mr. Wasserstein, who owns substantially all of the historical partner interests held by current working members, has elected to exchange his historical partner interest for shares of our common stock.

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As indicated above, some of the working members also hold historical partner interests. This means that in addition to their working member interests, nine current managing directors of Lazard Group, including Mr. Wasserstein, our Chairman and Chief Executive Officer, and 19 of our former managing directors who will become managing directors of LFCM Holdings, also hold historical partner interests. Mr. Wasserstein purchased his historical partner interest from an affiliate of Michel David-Weill in connection with his retention as the Head of Lazard and Chairman of the Executive Committee in January 2002.

Mr. Wasserstein, who owns substantially all of the historical partner interests held by current working members, will exchange his historical partner interests for shares of our common stock. Mr. Wasserstein will be entitled to receive the number of shares of our common stock (valued at the price per share in the equity public offering) equal in value to \$32.9 million, the amount that Mr. Wasserstein would have been entitled to receive in cash in the redemption. The exchange of these historical partner interests for shares of our common stock will be effected by Mr. Wasserstein contributing his historical partner interests to a newly formed corporation, and then exchanging the shares of that corporation with Lazard Ltd for shares of our common stock.

Immediately after the redemption and the completion of this offering, Lazard Group common membership interests will be held only by LAZ-MD Holdings and by us, and LAZ-MD Holdings will be owned by working members.

Exchange of Working Member Interests for LAZ-MD Holdings Interests

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

LAZ-MD Holdings Exchangeable Interests

In exchange for the portion of the working member interest representing the right to participate in goodwill, LAZ-MD Holdings will issue to the holder exchangeable limited liability company interests in LAZ-MD Holdings.

The LAZ-MD Holdings exchangeable interests will be effectively exchangeable on a one-for-one basis for a share of our common stock. These LAZ-MD Holdings exchangeable interests are, at the working member's election, effectively exchangeable for shares of our common stock on the eighth anniversary of this offering. In addition, the LAZ-MD Holdings exchangeable interests held by our working members who continue to provide services to us or LFCM Holdings pursuant to the retention agreements will, subject to certain conditions, generally be effectively exchangeable for shares of our common stock in equal increments on and after each of the third, fourth and fifth anniversaries of this offering. In addition, between the first and third anniversaries of this offering, a limited number of our managing directors will be entitled to exchange a portion of their LAZ-MD Holdings exchangeable interests in connection with their anticipated future retirement from us. LAZ-MD Holdings and certain of Lazard Ltd's subsidiaries (through which the exchanges will be effected), with the approval of our board of directors, also have the right to cause the holders of LAZ-MD Holdings exchangeable interests to exchange all such remaining interests during the 30-day period following the ninth anniversary of this offering. Pursuant to the master separation agreement, each of LAZ-MD Holdings

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and our subsidiaries that hold Lazard Ltd's Lazard Group common membership interest directly, upon the approval of our board of directors, will have the ability to accelerate the exchangeability of these LAZ-MD Holdings exchangeable interests. See Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement LAZ-MD Holdings Exchangeable Interests. As these exchanges are effected, Lazard Ltd's subsidiaries generally will receive directly from the former holders of the LAZ-MD Holdings exchangeable interests the Lazard Group common membership interests underlying the exchanged LAZ-MD Holdings exchangeable interests formerly held by LAZ-MD Holdings, and the voting power of LAZ-MD Holdings' Class B common stock will adjust on a proportionate basis so as to maintain LAZ-MD Holdings' voting power in Lazard Ltd at the level of its interest in Lazard Group common membership interests, subject to the minimum vote requirements for the Class B common stock set forth in our bye-laws. Upon full exchange of all LAZ-MD Holdings exchangeable interests for shares of our common stock, LAZ-MD Holdings' Class B common stock would cease to be outstanding, and all of the Lazard Group common membership interests formerly owned by LAZ-MD Holdings would be owned indirectly by Lazard Ltd.

Each of LAZ-MD Holdings and Lazard Group has the right to cause the exchange of the LAZ-MD Holdings exchangeable interests held by a member into the underlying Lazard Group common membership interests, in which case the former LAZ-MD Holdings member would hold the Lazard Group common membership interest directly. If LAZ-MD Holdings or Lazard Group exercises that right, the Lazard Group common membership interest received in the exchange would continue to be exchangeable for shares of our common stock at the same time, and on the same terms and conditions, as the exchanged LAZ-MD Holdings exchangeable interest, the voting power of the Class B common stock would not be reduced to reflect the exchange until that Lazard Group common membership interest is further exchanged for shares of our common stock, and the person holding the Lazard Group common membership interests would retain the right to instruct LAZ-MD Holdings how to vote the portion of the Class B common stock's voting power that is associated with that Lazard Group common membership interest on an as-if-exchanged basis. On or prior to the third anniversary of this offering, LAZ-MD Holdings intends to cause the exchange to Lazard Group common membership interests of all LAZ-MD Holdings exchangeable interests held by members of LAZ-MD Holdings for whom the exchange into Lazard Group common membership interests will not give rise to significant tax consequences in order to address potential Investment Company Act concerns raised by LAZ-MD Holdings' holdings of Lazard Group common membership interests. The Lazard Group common membership interests would continue to be exchangeable into shares of our common stock as described above.

Right to Receive Distributions

The former holders of working member interests who were managing directors of our business or the business of LFCM Holdings at the time of the separation and whose working member interests included the right to receive profits will receive a right to receive distributions in LAZ-MD Holdings. They will retain this right generally so long as they continue to be current managing directors of our business or the business of LFCM Holdings. Assuming they still retain this right, pursuant to this distribution right, the holder may receive distributions from LAZ-MD Holdings in respect of income taxes that the holder incurs as a result of LAZ-MD Holdings holding Lazard Group common membership interests. In addition, so long as they continue to be managing directors of our business or the business of LFCM Holdings, the holder may receive distributions after the third anniversary of the offering that are intended to give the holder an amount equal to the dividend that the holder would have received if the holder had exchanged his or her entire LAZ-MD Holdings exchangeable interest for shares of our common stock at that time, unless the holder has surrendered this LAZ-MD Holdings distribution right. For a further discussion of these distributions, see Lazard Ownership Structure after the Separation and Recapitalization Transactions Distribution by Lazard Group with Respect to Lazard Group Common Membership Interests below.

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LAZ-MD Holdings Redeemable Capital

In addition, working members who had capital underlying their working member interests at Lazard Group prior to the separation will hold equivalent amounts of redeemable capital and rights at LAZ-MD Holdings. The aggregate amount of LAZ-MD Holdings redeemable capital and rights will be equal to the aggregate amount of working member capital interests and rights at the time of the separation and will not increase after the separation. As of December 31, 2004, the total amount of capital interests and rights in respect of working member interests was approximately \$132 million, \$110 million of which related to the interest of ongoing managing directors of Lazard Group. Pursuant to the terms of the retention agreements with our managing directors and the managing directors of LFCM Holdings, LAZ-MD Holdings has agreed to redeem the signing persons' capital interests and rights in four equal installments on each of the first four anniversaries of this offering. Accordingly, the operating agreement provides for the redemption of all of the LAZ-MD Holdings redeemable capital in equal amounts on each of these dates. In addition, Lazard Group has the right to accelerate the fourth and final redemption payment by up to 12 months, such that the fourth payment could be made at any time between the third and fourth anniversaries of this offering. The redemption of these capital interests will be funded by cash available to LAZ-MD Holdings, which may include a portion of the net proceeds of this offering and the additional financing transactions and from distributions to LAZ-MD Holdings in respect of its Lazard Group common membership interests.

General

We expect that, immediately following the recapitalization, our managing directors who are members of LAZ-MD Holdings will collectively hold approximately 89.2% of the outstanding LAZ-MD Holdings exchangeable interests and \$110 million of the \$132 million of redeemable capital interests and rights, with the balance of such interests held by former managing directors of Lazard Group or managing directors who will become managing directors of LFCM Holdings. Assuming that all such LAZ-MD Holdings exchangeable interests were exchangeable and were fully exchanged, immediately following this offering, our managing directors would hold 59,147,548 shares of our common stock, representing approximately 59.1% of our outstanding common stock.

Lazard Ownership Structure After the Separation and Recapitalization Transactions

Immediately after this offering and the recapitalization, we will hold 33,653,846 Lazard Group common membership interests, representing approximately 33.7% of the outstanding Lazard Group common membership interests. We will hold our Lazard Group common membership interests through two or more direct or indirect wholly-owned subsidiaries. One of those subsidiaries will be a Delaware corporation that will own a majority of our Lazard Group common membership interests. Following this offering, our only material business will be to hold these interests and to act indirectly as the managing member of Lazard Group. As a result of our controlling interest in Lazard Group, we will consolidate Lazard Group's financial results.

Immediately after this offering, LAZ-MD Holdings will hold the Class B common stock, representing approximately 66.3% of the voting power of our company. On matters submitted to a vote of our stockholders, the Class B common stock generally will vote together with our common stock. Pursuant to the LAZ-MD Holdings stockholders' agreement, LAZ-MD Holdings will agree to vote its Class B common stock on any matter involving the vote or consent of our stockholders in accordance with the instructions of its members, with each member that is party to the agreement entitled to instruct LAZ-MD Holdings how to vote the portion of the Class B common stock's voting power that is associated with his or her then-outstanding LAZ-MD Holdings exchangeable interests on an as-if-exchanged basis, subject to the ability of the LAZ-MD Holdings board of directors to vote the voting interest represented by the Class B common stock in its discretion if the LAZ-MD Holdings board of directors determines that it is in the best interests of LAZ-MD Holdings. For example, if a working

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member s LAZ-MD Holdings exchangeable interests were exchangeable for 1,000 shares of our common stock, that working member would be able to instruct LAZ-MD Holdings how to vote 1,000 of the votes represented by the Class B common stock. In order to seek to avoid the possibility that LAZ-MD Holdings would be deemed to be an investment company for purposes of the Investment Company Act, the voting power of our outstanding Class B common stock will, however, represent no less than 50.1% of the voting power of our company until December 31, 2007. The votes under the Class B common stock that are associated with any working member who does not sign the LAZ-MD Holdings stockholders agreement, or with any working member who signs but does not direct LAZ-MD Holdings how to vote on a particular matter, will be abstained from voting. Accordingly, only working members that are party to the LAZ-MD Holdings stockholders agreement who direct LAZ-MD Holdings how to vote will determine how LAZ-MD Holdings votes the Class B common stock on a particular matter. As a result, the working members, together with LAZ-MD Holdings, will be able to initially control the election of Lazard Ltd s directors. For a further discussion, see Certain Relationships and Related Transactions LAZ-MD Holdings Stockholders Agreement. Information concerning ownership by our executive officers and directors is described under Principal Stockholders. LAZ-MD Holdings will be managed by a board of directors selected from our current managing directors. The holders of LAZ-MD Holdings exchangeable interests will generally have the power to remove directors and appoint replacement directors of LAZ-MD Holdings. Any member of the LAZ-MD Holdings board of directors must be a current managing director of our company in order to serve in such director position.

Immediately after this offering, LAZ-MD Holdings also will hold approximately 66.3% of the Lazard Group common membership interests, with the remaining Lazard Group common membership interests held by Lazard Ltd through direct or indirect wholly-owned subsidiaries. Following this offering, LAZ-MD Holdings membership interests in Lazard Group will be accounted for as a minority interest in our financial statements. LAZ-MD Holdings will not have any voting rights in respect of its Lazard Group common membership interests, other than limited consent rights concerning amendments to the terms of its Lazard Group common membership interests.

We also intend to grant participatory interests in Lazard Group to certain of our current and future managing directors in connection with the separation and recapitalization transactions, which are described under Management Arrangements with Our Managing Directors Participatory Interests in Lazard Group.

Lazard Ltd will be structured as a partnership for U.S. federal income tax purposes, although Lazard Ltd will be organized as a company under Bermuda law. We intend to operate our business in a manner that does not result in the allocation of any income or deductible expenses to our stockholders, other than amounts that we distribute to our stockholders.

The graphic below illustrates the expected ownership structure of Lazard Ltd and Lazard Group after completion of the separation and recapitalization transactions. It does not reflect the various minority interests of, or subsidiaries held by, Lazard Group and LAZ-MD Holdings, the exercise of the underwriters over-allotment option or the results of any exchange of Lazard Group common membership interests for our common stock. As a result, the LAM equity units granted by LAM to its managing directors and employees are not reflected. In addition, it does not include the separated businesses, which will be separated from Lazard Group in the separation. After the completion of the separation, LFCM Holdings will be wholly-owned by the working members, including our managing directors.

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The Public Stockholders captions on the graphics below include shares of common stock that will be issued to IXIS pursuant to the IXIS investment agreement and the shares of our common stock to be issued to our Chief Executive Officer in respect of his historical partner interests pursuant to the redemption, and the Holders of Equity Security Units caption includes the securities issued in the IXIS ESU placement.

*Expected Ownership Structure Immediately After Completion
of the Separation and Recapitalization Transactions*

* Lazard Ltd will hold its common membership interests in Lazard Group through direct or indirect wholly-owned subsidiaries and will hold its controlling interest in Lazard Group through a managing member position in an entity that is the managing member of Lazard Group.

Lazard Group common membership interests issued to LAZ-MD Holdings will be effectively exchangeable from time to time after this offering for shares of our common stock on a one-for-one basis pursuant to an exchange of the LAZ-MD Holdings exchangeable interests for shares of our common stock. As these exchanges for shares of our common stock are effected, the voting power of LAZ-MD Holdings Class B common stock will be reduced on a proportionate basis so as to maintain LAZ-MD Holdings voting power in Lazard Ltd at the level of its interest in Lazard Group common membership interests. The voting power of our outstanding Class B common stock will, however, represent no less than 50.1% of the voting power of our company until December 31, 2007. Assuming full exchange of the Lazard Group common membership interests that LAZ-MD Holdings holds immediately after the closing of this offering, all of our outstanding common stock would be held by

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persons who acquire such shares in this offering and our working members. LAZ-MD Holdings and certain of our subsidiaries through which the exchanges will be effected, with the consent of the Lazard Ltd board of directors, have the right to cause the holders of LAZ-MD Holdings exchangeable interests, and holders of Lazard Group common membership interests formerly held by LAZ-MD Holdings, to exchange all such remaining interests during the 30-day period following the ninth anniversary of this offering.

We expect that Lazard Ltd will be operated as a holding company for Lazard Group common membership interests on behalf of our stockholders. In order to maintain Lazard Ltd's economic interest in Lazard Group, any net proceeds received by us from any subsequent issuances of shares of our common stock generally will be contributed to Lazard Group in exchange for Lazard Group common membership interests in equal number to such number of shares of our common stock.

The graphic below illustrates the expected pro forma ownership structure of Lazard Ltd and Lazard Group immediately after this offering assuming the exchange of all LAZ-MD Holdings exchangeable interests occurred.

Expected Ownership Structure After Full Exchange

* Lazard Ltd will hold its common membership interests in Lazard Group through direct or indirect wholly-owned subsidiaries and will hold its controlling interest in Lazard Group through a managing member position in an entity that is the managing member of Lazard Group.

As discussed above, after completion of the separation and recapitalization transactions, LFCM Holdings will be a separate company that is owned by the working members and will hold the separated businesses.

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Distributions by Lazard Group with Respect to Lazard Group Common Membership Interests

Lazard Group distributions in respect of Lazard Group common membership interests will be allocated to holders of Lazard Group common membership interests on a pro rata basis. As we will hold 33.7% of the outstanding Lazard Group common membership interests immediately after this offering, we will receive approximately 33.7% of the aggregate distributions in respect of the Lazard Group common membership interests.

After this offering, Lazard Group intends to make pro rata distributions to holders of Lazard Group common membership interests in order to fund any dividends we may declare on our common stock. Accordingly, LAZ-MD Holdings also will receive equivalent amounts pro rata based on its Lazard Group ownership interests. LAZ-MD Holdings initially expects to use its share of these distributions, along with other cash resources, to fund LAZ-MD Holdings' obligation to redeem its capital interests over time pursuant to the terms of the retention agreements with our managing directors and the managing directors of LFCM Holdings and for general corporate purposes. However, after the third anniversary of this offering, pursuant to the terms of the retention agreements with our managing directors and the managing directors of LFCM Holdings, LAZ-MD Holdings will, subject to the terms of LAZ-MD Holdings' operating agreement and the determination of its board of directors, distribute an allocable share of these distributions to then-current managing directors of our and LAZ-MD Holdings' businesses who were managing directors at the time of this offering. These distributions by LAZ-MD Holdings are intended to give those managing directors an amount equal to the dividend they would have received had they exchanged their entire LAZ-MD Holdings exchangeable interests for shares of our common stock at that time.

In addition, Lazard Group intends to make pro rata distributions to Lazard Ltd's subsidiaries and LAZ-MD Holdings in respect of income taxes Lazard Ltd's subsidiaries and the members of LAZ-MD Holdings incur as a result of holding Lazard Group common membership interests based on an effective tax rate that Lazard Group will calculate. This effective tax rate will be the higher of the effective income and franchise tax rate applicable to Lazard Ltd's subsidiaries that hold the Lazard Group common membership interests and the weighted average income tax rate (based on income allocated) applicable to LAZ-MD Holdings' members, determined in accordance with LAZ-MD Holdings' operating agreement. LAZ-MD Holdings will use these distributions to make distributions to its members in respect of income taxes that those members incur as a result of LAZ-MD Holdings holding Lazard Group common membership interests. As we anticipate that the weighted average tax rate applicable to LAZ-MD Holdings' members will exceed the rate applicable to Lazard Ltd's subsidiaries, we expect that distributions to Lazard Ltd's subsidiaries will exceed taxes actually payable by those subsidiaries. Immediately prior to the third anniversary of the consummation of this offering, and for each period during which such excess cash is outstanding thereafter, we expect to issue dividends to our stockholders of this excess amount.

In the event that LAZ-MD Holdings shall cause the exchange of LAZ-MD Holdings exchangeable interests for Lazard Group common membership interests, the terms of the Lazard Group common membership interests held by any former member of LAZ-MD Holdings who was so forced to exchange will mirror the distribution rights that such person would have received had he or she continued to hold the LAZ-MD Holdings exchangeable interests.

Except as described above, we do not expect that Lazard Group will make any distributions in respect of Lazard Group common membership interests after this offering. However, this policy is subject to change as described in "Dividend Policy."

You should read "Risk Factors" "Risks Related to the Separation," "Certain Relationships and Related Transactions" and "Description of Capital Stock" for additional information about our corporate structure and the risks posed by the structure.

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The net proceeds from this offering and the additional financing transactions will ultimately be used by Lazard Group primarily to redeem membership interests held by the historical partners for an aggregate redemption price of approximately \$1.6 billion, as described in The Separation and Recapitalization Transactions and the Lazard Organizational Structure. In addition, approximately \$83 million of additional net proceeds will be transferred to LAZ-MD Holdings and approximately \$67 million will be transferred to LFCM Holdings. These funds will be available to fund the operating requirements of the separated businesses, as well as LAZ-MD Holdings' obligation to redeem its capital interests over time pursuant to the terms of the retention agreements with our managing directors and the managing directors of LFCM Holdings and for general corporate purposes. The remaining amount of net proceeds, including any net proceeds that may be received as a result of the exercise of the underwriters' over-allotment option, will be retained by Lazard Group for its general corporate purposes, including the expected repayment of \$50 million in aggregate principal amount of 7.53% Senior Notes due 2011 issued by a wholly-owned subsidiary of Lazard Group.

Based upon an initial public offering price of \$25.00 per equity security unit, we estimate that we will receive net proceeds from this offering of approximately \$241 million (or \$278 million if the underwriters' over-allotment option is exercised in full), after deducting underwriting discounts and commissions and estimated expenses payable in connection with this offering. See Underwriting.

The net proceeds from this offering will be used by Lazard Group to acquire \$250 million of Lazard Group senior, unsecured notes, and Lazard Group will apply such proceeds as described above.

The following table illustrates the aggregate sources and uses of proceeds relating to this offering and the additional financing transactions, assuming the underwriters' over-allotment option is not exercised in the offerings, and the recapitalization.

Sources of Proceeds	Uses of Proceeds	
(\$ in thousands)		
Common stock issued pursuant to the equity public offering	\$ 792,079	Redemption of historical interests(a) \$ 1,616,411
Common stock issued pursuant to the IXIS investment agreement	50,000	Repay 7.53% Senior Notes due 2011 50,000
Cashless exchange of historical interests for common stock	32,921	Capitalization of LAZ-MD Holdings and LFCM Holdings 150,000
Equity security units issued pursuant to this offering	250,000	Estimated transaction fees and expenses 83,000
Equity security units issued to IXIS pursuant to the IXIS investment agreement	150,000	
Lazard Group senior notes	650,000	
Exchange of long-term investments as a portion of redemption consideration	41,140	Retained cash 66,729
Total	\$ 1,966,140	Total \$ 1,966,140

(a) Includes exchange of certain long-term investments as a portion of redemption consideration and the cashless exchange of the historical partner interests of our Chief Executive Officer for common stock.

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DIVIDEND POLICY

Lazard Ltd has not declared or paid any cash dividends on our common equity since our inception. Subject to compliance with applicable law, Lazard Ltd currently intends to declare quarterly dividends on all outstanding shares of Lazard Ltd common stock and expects its initial quarterly dividend to be approximately \$0.09 per share, payable in respect of the second quarter of 2005 (to be prorated for the portion of that quarter following the closing of the equity public offering). The Class B common stock will not be entitled to dividend rights.

The declaration of this and any other dividends and, if declared, the amount of any such dividend, will be subject to the actual future earnings, cash flow and capital requirements of Lazard Ltd company, the amount of distributions to Lazard Ltd from Lazard Group and the discretion of our board of directors. Lazard Ltd's board of directors will take into account:

general economic and business conditions,

the financial results of our company and Lazard Group,

capital requirements of Lazard Ltd company and its subsidiaries (including Lazard Group),

contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by Lazard Ltd to its stockholders or by Lazard Ltd's subsidiaries (including Lazard Group) to Lazard Ltd, and

such other factors as Lazard Ltd's board of directors may deem relevant.

Lazard Ltd is a holding company and have no direct operations. As a result, Lazard Ltd will depend upon distributions from Lazard Group to pay any dividends. Lazard Ltd expects to cause Lazard Group to pay distributions to Lazard Ltd in order to fund any such dividends, subject to applicable law and the other considerations discussed above. In addition, as managing directors and other members of LAZ-MD Holdings convert their interests into shares of Lazard Ltd common stock, they also will have a proportionate interest in the excess cash held by Lazard Ltd to the extent that Lazard Ltd retains excess cash balances or acquires additional assets with excess cash balances. For a discussion of Lazard Group's intended distribution policy, see [The Separation and Recapitalization Transactions and the Lazard Organizational Structure](#). Further, except under specific circumstances, the declaration and payment of dividends will be prohibited if certain contract adjustment payments in respect of the equity security units are deferred. See [Description of the Equity Security Units Option to Defer Contract Adjustment Payments](#).

Additionally, Lazard Ltd is subject to Bermuda legal constraints that may affect its ability to pay dividends on Lazard Ltd common stock and make other payments. Under the Companies Act, Lazard Ltd may declare or pay a dividend out of distributable reserves only if Lazard Ltd has reasonable grounds for believing that it is, or would after the payment be, able to pay its liabilities as they become due and if the realizable value of its assets would thereby not be less than the aggregate of its liabilities and issued share capital and share premium accounts.

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RATIO OF EARNINGS TO FIXED CHARGES

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

The pro forma ratio of earnings to fixed charges was derived from our audited financial statements and was prepared as if the separation and recapitalization transactions had occurred on January 1, 2004. The pro forma ratio to fixed charges is illustrative only and does not purport to represent what the ratio of earnings to fixed charges actually would have been had the separation and recapitalization transactions occurred on the date indicated or what Lazard Group's future performance will be. The pro forma ratio of earnings to fixed charges gives pro forma effect to a number of items including the following:

The separation, which is described in more detail in "The Separation and Recapitalization Transactions and the Lazard Organizational Structure" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Payment for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as employee compensation and benefits expense. As a result, Lazard Group's operating income historically has not reflected payments for services rendered by its managing directors. After this offering, we will include all payments for services rendered by our managing directors in employee compensation and benefits expense.

The use of proceeds from this offering and the additional financing transactions.

The net incremental expense related to this offering and the additional financing transactions.

For purposes of computing the ratio of earnings to fixed charges and pro forma ratio of earnings to fixed charges:

historical earnings for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 represent income before distributions for services rendered by managing directors and employee members of LAM,

earnings on a pro forma basis for the year ended December 31, 2004 represent income before income taxes and minority interest, and

fixed charges represent the interest expense and the portion of rental expense which represents an appropriate interest factor.

<u>For the Year Ended December 31,</u>					<u>For the Year Ended December 31, 2004</u>
2000	2001	2002	2003	2004	Pro Forma

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Ratio of earnings to fixed charges	1.75	1.66	5.79	6.68	5.83	2.30
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As of December 31, 2004, our pro forma net tangible book value was approximately \$(132) million, or approximately \$(1.32) per share of common stock. Net tangible book value per share of common stock represents total consolidated tangible assets less total consolidated liabilities, divided by the aggregate number of shares of common stock outstanding assuming the exchange of all current Lazard Group common membership interests for 100,000,000 shares of common stock. Shares of common stock outstanding do not include shares of common stock that may be awarded in the future under our equity incentive plan. Except as described below, shares of common stock outstanding also do not include shares issuable upon settlement of the purchase contracts issued in connection with this offering, the IXIS investment agreement and to our Chief Executive Officer, who has elected to exchange his historical partner interests for common stock. After giving effect to our issuance of shares of common stock in the equity public offering, and assuming an estimated equity public offering price of \$26.00 per share (the midpoint of the range of equity public offering prices set forth on the cover page of the prospectus for the equity public offering), and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of December 31, 2004 would have been approximately \$(1,012) million, or \$(10.12) per share of common stock. This represents an immediate dilution to new investors in our common stock of approximately \$36.12 per share.

The following table illustrates this per share dilution (assuming that the underwriters do not exercise their over-allotment option, in whole or in part):

Initial equity public offering price per share		\$ 26.00
Pro forma net tangible book value per share as of December 31, 2004	\$ (1.32)	
Decrease in pro forma net tangible book value per share attributable to the sale of shares in the equity public offering and the additional financing transactions, after giving effect to the recapitalization	(8.80)	
	<u> </u>	
Pro forma net tangible book value per share after giving effect to the separation and recapitalization		<u>(10.12)</u>
Pro forma dilution per share to new investors assuming full exchange of all Lazard Group common membership interests held by LAZ-MD Holdings into shares of our common stock		<u>\$ 36.12</u>

If the underwriters' over-allotment option is exercised in full, the pro forma net tangible book value per share of common stock after giving effect to the separation and recapitalization would be approximately \$(8.60) per share and the dilution in pro forma net tangible book value per share of common stock to new investors would be \$34.60 per share.

If the shares of common stock issuable upon settlement of the purchase contracts issued in connection with this offering and the IXIS investment agreement had been issued upon closing of this offering, we estimate that our pro forma net tangible book value per share as of December 31, 2004, after giving effect to the equity public offering and such issuance of shares, would have been between \$() and \$() per share (or \$() and \$() per share if the underwriters' over-allotment options for both this offering and the equity public offering had been exercised in full). This range is based on the average minimum (\$) and maximum (\$) price per share of common stock that holders of the purchase contracts will pay upon settlement of the purchase contracts, assuming no adjustments are made to the applicable settlement rate as a result of anti-dilution provisions or otherwise.

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The following table summarizes, on a pro forma basis as of December 31, 2004, the difference between the total cash consideration paid and the average price per share paid by existing stockholders and the purchasers of common stock as described below in the equity public offering with respect to the number of shares of common stock purchased from us, before deducting estimated underwriting discounts, commissions and offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing stockholders (a)	66,346,154	66.3%	\$	0.0%	\$
Purchasers of common stock (b)	33,653,846	33.7	875,000,000	100.0	26.00
Total	100,000,000	100.00%	\$ 875,000,000	100.0%	8.75

(a) Represents LAZ-MD Holdings' common membership interests in Lazard Ltd on an as-if-exchanged basis.

(b) Includes 1,266,190 shares to be issued to Mr. Wasserstein in exchange for his historical partner interests valued at the initial public offering price and 1,923,077 shares to be issued to IXIS pursuant to the IXIS investment agreement.

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The following table sets forth our capitalization as of December 31, 2004, reflecting:

the historical actual consolidated capitalization of Lazard Group,

the pro forma consolidated capitalization of Lazard Group prior to this offering, the additional financing transactions and the recapitalization, but after giving effect to the separation, the reclassification to accrued compensation of amounts due for services rendered by managing directors and employee members of LAM and other managing directors from minority interests and members' equity, respectively,

the pro forma consolidated capitalization of Lazard Group, as adjusted, after giving effect to this offering, the additional financing transactions and the recapitalization, after deducting underwriting discounts and commissions and estimated expenses payable in connection with this offering, and the additional financing transactions and after giving effect to the separation, the reclassification to accrued compensation of amounts due for services rendered by managing directors and employee members of LAM and other managing directors from minority interests and members' equity, respectively, and the expected repayment of \$50 million in aggregate principal amount of 7.53% Senior Notes due 2011 issued by a wholly-owned subsidiary of Lazard Group, and

the pro forma consolidated capitalization of Lazard Ltd, as adjusted, to reflect the transactions referred to above, including the minority interest attributable to LAZ-MD Holdings' ownership of Lazard Group's common membership interests, which is included within Lazard Ltd's additional paid-in capital. (See note (a) below.)

This table should be read in conjunction with the consolidated financial statements and related notes and our unaudited pro forma financial information and related notes, in each case included elsewhere in this prospectus. The data assume that there has been no exercise, in whole or in part, of the underwriters' over-allotment options to purchase additional shares of our common stock in the equity public offering or equity security units in this offering.

	As of December 31, 2004			
	Lazard Group			Lazard Ltd
	Historical	Pro Forma	Pro Forma, as Adjusted	Pro Forma, as Adjusted
	(\$ in thousands)			
Notes payable	\$ 70,777	\$ 67,497	\$ 17,497	\$ 17,497
Capital lease obligations	51,546	51,546	51,546	51,546
Lazard Group senior notes			650,000	650,000
Lazard Group Finance senior notes underlying equity security units			400,000	400,000
Subordinated loans	200,000	200,000	200,000	200,000
Mandatorily redeemable preferred stock	100,000	100,000		
Minority interest	174,720	117,019	117,019	117,019
Members' equity (deficit)	384,798	(114,579)	(995,005)	
Stockholders' equity:				

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Common stock, \$0.01 par value per share, 500,000,000 shares authorized,
33,653,846 shares issued and outstanding on a pro forma basis as adjusted
for this offering

Additional paid-in capital				(995,342)(a)
Total minority interest, members equity and stockholders equity	559,518	2,440	(877,986)	(877,986)
Total capitalization	\$ 981,841	\$ 421,483	\$ 441,057	\$ 441,057

(a) Minority interest attributable to LAZ-MD Holdings approximate 66.3% ownership of Lazard Group s common membership interests has been reflected as a reduction of Lazard Ltd s additional paid-in capital rather than minority interest since such minority interest would be negative.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth the historical selected consolidated financial data for Lazard Group, including the separated businesses, for all periods presented.

The historical financial statements do not reflect what our results of operations and financial position would have been had we been a stand-alone, public company for the periods presented. Specifically, our historical results of operations do not give effect to the matters set forth below.

The separation, which is described in more detail in The Separation and Recapitalization Transactions and the Lazard Organizational Structure and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Payment for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as compensation and benefits expense. As a result, Lazard Group's operating income historically has not reflected payments for services rendered by its managing directors. After this offering, we will include all payments for services rendered by our managing directors to us in employee compensation and benefits expense.

U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically has operated principally through subsidiary corporations and has been subject to local income taxes. Income taxes shown on Lazard Group's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to New York City UBT attributable to Lazard Group's operations apportioned to New York City.

Minority interest expense reflecting LAZ-MD Holdings' ownership of approximately 66.3% of the Lazard Group common membership interests outstanding immediately after this offering and the separation and recapitalization transactions.

The use of proceeds from this offering and the additional financing transactions.

The net incremental expense related to this offering and the additional financing transactions.

The historical consolidated statements of income and financial condition data as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 have been derived from Lazard Group's consolidated financial statements audited by Deloitte & Touche LLP, an independent registered public accounting firm. The audited consolidated statements of financial condition as of December 31, 2003 and 2004 and consolidated statements of income for the years ended December 31, 2002, 2003 and 2004 are included elsewhere in this prospectus. The audited consolidated statements of financial condition as of December 31, 2000, 2001 and 2002 and consolidated statements of income for the years ended December 31, 2000 and 2001 are not included in this prospectus. Historical results are not necessarily indicative of results for any future period.

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The selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Unaudited Pro Forma Financial Information and Lazard Group's historical consolidated financial statements and related notes included elsewhere in this prospectus. See also The Separation and Recapitalization Transactions and the Lazard Organizational Structure.

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As of or for the Year Ended December 31,

	2000	2001	2002	2003	2004
(\$ in thousands, except for per share data)					
Lazard Group Historical Financial Data					
Consolidated Statement of Income Data					
Net Revenue:					
Financial Advisory (a)	\$ 766,856	\$ 551,356	\$ 532,896	\$ 690,967	\$ 655,200
Asset Management (b)	457,124	410,237	454,683	350,348	417,166
Corporate (c)	32,817	(14,291)	4,391	6,535	13,839
Capital Markets and Other (f)	296,003	224,753	174,309	135,534	188,100
Net Revenue (d)	1,552,800	1,172,055	1,166,279	1,183,384	1,274,305
Employee Compensation and Benefits	570,064	524,417	469,037	481,212	573,779
Other Operating Expenses	306,339	288,676	321,197	312,818	342,764
Total Operating Expenses	876,403	813,093	790,234	794,030	916,543
Operating Income	676,397	358,962	376,045	389,354	357,762
Income Allocable to Members Before Extraordinary Item	558,708	305,777	297,447	250,383	241,467
Net Income Allocable to Members	558,708	305,777	297,447	250,383	246,974(e)
Consolidated Statement of Financial Condition Data					
Total Assets	\$ 16,123,794	\$ 3,569,362(f)	\$ 2,460,725	\$ 3,257,229	\$ 3,499,224
Total Debt (g)	\$ 85,246	\$ 134,048	\$ 144,134	\$ 320,078	\$ 322,323
Mandatorily Redeemable Preferred Stock		\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Members Equity	\$ 888,782	\$ 704,697	\$ 648,911	\$ 535,725	\$ 384,798

Notes (\$ in thousands):

(a) Financial Advisory net revenue consists of the following:

	For the Year Ended December 31,				
	2000	2001	2002	2003	2004
M&A	\$ 724,550	\$ 492,083	\$ 393,082	\$ 419,967	\$ 481,726
Financial Restructuring	34,100	55,200	124,800	244,600	96,100
Other Financial Advisory	8,206	4,073	15,014	26,400	77,374
Financial Advisory Net Revenue	\$ 766,856	\$ 551,356	\$ 532,896	\$ 690,967	\$ 655,200

(b) Asset Management net revenue consists of the following:

For the Year Ended December 31,

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	2000	2001	2002	2003	2004
Management and Other Fees	\$ 405,124	\$ 386,237	\$ 381,256	\$ 312,123	\$ 389,812
Incentive Fees	52,000	24,000	73,427	38,225	27,354
Asset Management Net Revenue	\$ 457,124	\$ 410,237	\$ 454,683	\$ 350,348	\$ 417,166

- (c) Corporate includes interest income (net of interest expense), investment income from certain long-term investments and net money market revenue earned by LFB.
- (d) Net revenue is presented after reductions for dividends relating to Lazard Group's mandatorily redeemable preferred stock issued in March 2001. Preferred dividends are reflected in corporate net revenue and amounted to \$6,312, \$8,000, \$8,000 and \$8,000 in the years ended December 31, 2001, 2002, 2003 and 2004, respectively.
- (e) Net income allocable to members for the year ended December 31, 2004 is shown after an extraordinary gain of approximately \$5,507 related to the January 2004 acquisition of the assets of Panmure Gordon.
- (f) The decline in total assets from December 31, 2000 to December 31, 2001 is primarily due to Lazard Group's exiting its London money markets business in 2001. Total assets of the London money markets business at December 31, 2000 were \$12,225,241. The net revenue related to the London money markets business in the years ended December 31, 2000 and 2001 were \$28,962 and \$37,393, respectively, and was included in the Capital Markets and Other segment.
- (g) Total debt represents the aggregate amount reflected in Lazard Group's historical consolidated statement of financial condition relating to notes payable, capital lease obligations and subordinated loans.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

Lazard Ltd and Lazard Group

The following unaudited pro forma condensed consolidated statement of income for the year ended December 31, 2004 and the unaudited pro forma condensed consolidated statement of financial condition at December 31, 2004 present the consolidated results of operations and financial position of Lazard Ltd and Lazard Group assuming that the separation and recapitalization transactions, including this offering and the additional financing transactions, had been completed as of January 1, 2004 with respect to the unaudited pro forma condensed consolidated statement of income data, and at December 31, 2004 with respect to the unaudited pro forma condensed consolidated statement of financial condition data. The pro forma adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of the separation and recapitalization transactions, including this offering and the additional financing transactions, on the historical financial information of Lazard Group. The adjustments are described in the notes to unaudited pro forma condensed consolidated statement of income and the unaudited pro forma condensed consolidated statement of financial condition, and principally include the matters set forth below.

The separation, which is described in more detail in [The Separation and Recapitalization Transactions and the Lazard Organizational Structure](#) and [Management's Discussion and Analysis of Financial Condition and Results of Operations](#).

Payment for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically has been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as employee compensation and benefits expense. As a result, Lazard Group's operating income historically has not reflected payments for services rendered by its managing directors. After this offering, we will include all payments for services rendered by our managing directors in employee compensation and benefits expense.

U.S. corporate federal income taxes, since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically has operated principally through subsidiary corporations and has been subject to local income taxes. Income taxes shown on Lazard Group's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to New York City UBT attributable to Lazard Group's operations apportioned to New York City.

Minority interest expense reflecting LAZ-MD Holdings' ownership of approximately 66.3% of the Lazard Group common membership interests outstanding immediately after this offering and the separation and recapitalization transactions.

The use of proceeds from this offering and the additional financing transactions.

The net incremental expense related to this offering and the additional financing transactions.

The unaudited pro forma financial information of Lazard Ltd should be read together with [The Separation and Recapitalization Transactions and the Lazard Organizational Structure](#), [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) and Lazard Group's historical consolidated financial statements and the related notes included elsewhere in this prospectus. The historical consolidated financial data reflected in the accompanying unaudited pro

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forma financial information represent historical consolidated financial data of Lazard Group. Such historical consolidated financial data of Lazard Group reflects the historical results of operations and financial position of Lazard Group, including the separated businesses.

The pro forma consolidated financial information are included for informational purposes only and do not purport to reflect the results of operations or financial position of Lazard Group or Lazard Ltd that would have occurred had they operated as separate, independent companies during the periods presented. Actual results might have differed from pro forma results if Lazard Group or Lazard Ltd had operated independently. The pro forma consolidated financial information should not be relied upon as being indicative of Lazard Group or Lazard Ltd s results of operations or financial condition had the transactions contemplated in connection with the separation and recapitalization transactions, including this offering and the additional financing transactions, been completed on the dates assumed. The pro forma consolidated financial information also does not project the results of operations or financial position for any future period or date.

Table of Contents**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Year Ended December 31, 2004

	Pro Forma Adjustments				Total	Pro Forma Adjustments for the Additional Financing Transactions	Lazard Group Pro Forma, as Adjusted	Pro Forma Adjustments for this Offering	Lazard Ltd Consolidated Pro Forma, as Adjusted(m)
	Historical	Separation(a)	Subtotal	Other					
(\$ in thousands, except per share data)									
Total revenue	\$ 1,328,180	\$ (202,424)	\$ 1,125,756	\$	\$ 1,125,756	\$	\$ 1,125,756	\$	\$ 1,125,756
Interest expense	(53,875)(b)	14,324	(39,551)		(39,551)	(51,629)(e)	(91,180)		(91,180)
Net revenue	1,274,305	(188,100)	1,086,205		1,086,205	(51,629)	1,034,576		1,034,576
Operating expenses:									
Employee compensation and benefits	573,779	(109,030)	464,749	172,301(c)	637,050		637,050		637,050
Premises and occupancy costs	96,668	(22,967)	73,701		73,701		73,701		73,701
Professional fees	73,547	(24,902)	48,645		48,645		48,645		48,645
Travel and entertainment	50,822	(5,626)	45,196		45,196		45,196		45,196
Other	121,727	(29,946)	91,781		91,781		91,781		91,781
Total Operating Expenses	916,543	(192,471)	724,072	172,301	896,373		896,373		896,373
Operating income	357,762	4,371	362,133	(172,301)	189,832	(51,629)	138,203		138,203
Provision for income taxes	28,375	(103)	28,272	1,852 (d)	30,124	(10,731)(f)	19,393	5,656(g)	25,049
Income allocable to members before minority interests and extraordinary item	329,387	4,474	333,861	(174,153)	159,708	(40,898)	118,810	(5,656)	113,154
Minority interests	87,920	(367)	87,553	(73,311)(c)	14,242		14,242	69,377(h)	83,619
Income allocable to members before extraordinary item	241,467	4,841	246,308	(100,842)	145,466	(40,898)	104,568	(75,033)	29,535
Extraordinary gain	5,507	(5,507)							
Net income allocable to members	\$ 246,974	\$ (666)	\$ 246,308	\$ (100,842)	\$ 145,466	\$ (40,898)	\$ 104,568	\$ (75,033)	\$ 29,535
Weighted average shares outstanding:									
Basic					100,000,000(i)				33,653,846(k)
Diluted					100,000,000(i)				100,000,000(k)
Net income per share:									
Basic					\$1.45(j)				\$0.88(l)
Diluted					\$1.45(j)				\$0.88(l)

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Notes to Unaudited Pro Forma Condensed Consolidated Statement of Income (\$ in thousands):

- (a) Reflects adjustments necessary to remove the historical results of operations of Lazard Group's separated businesses.
- (b) Interest expense includes dividends relating to Lazard Group's mandatorily redeemable preferred stock issued in March 2001, which amounted to \$8,000 for the year ended December 31, 2004.
- (c) Historically, payments for services rendered by our managing directors have been accounted for as distributions from members' capital, or as minority interest expense in the case of payments to LAM managing directors and certain key LAM employee members during 2004, rather than as compensation and benefits expense. As a result, our employee compensation and benefits expense and net income allocable to members have not reflected most payments for services rendered by our managing directors. See Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Measures and Indicators Net Income Allocable to Members.

The adjustment reflects the classification of these payments for services rendered as employee compensation and benefits expense and has been determined as if the new compensation policy described below had been in place during 2004. Accordingly, the pro forma condensed consolidated statement of income data reflect compensation and benefits expense based on new retention agreements that are in effect.

Following the completion of this offering, our policy will be that our employee compensation and benefits expense, including that payable to our managing directors, will not exceed 57.5% of operating revenue each year (although we retain the ability to change this policy in the future). Our managing directors have been informed of this new policy. The new retention agreements with our managing directors generally provide for a fixed salary and discretionary bonus, which may include an equity-based compensation component. We define "operating revenue" for these purposes as consolidated total revenue less (i) total revenue attributable to the separated businesses and (ii) interest expense related to LFB, with such operating revenue for the year ended December 31, 2004 amounting to \$1,107,913.

Table of Contents**Reconciliation of historical compensation and benefits****expense to pro forma employee compensation and benefits expense**

	Year Ended
	December 31, 2004
	(\$ in thousands)
Historical	\$ 573,779
Add (deduct):	
Amount related to separated businesses	(109,030)
Portion of distributions representing payments for services rendered by managing directors and employee members of LAM	\$ 354,282
Reductions	(181,981)
Sub-total	172,301
Targeted compensation and benefits	\$ 637,050

The overall net adjustment to increase historical employee compensation and benefits expense (after eliminating the expenses related to the separated businesses) is \$172,301 for the year ended December 31, 2004. The net adjustment is the result of (i) aggregating the distributions representing payments for services rendered by managing directors and employee members of LAM and (ii) reducing the adjusted employee compensation and benefits expense to reflect the new compensation arrangements with our managing directors, which generally provide for a fixed salary and discretionary bonus, to a target compensation expense-to-operating revenue ratio of 57.5%.

While the adjustments described above constitute all adjustments management believes are applicable to the pro forma presentation set forth in this prospectus, we believe that other considerations will assist us in minimizing the degree of compensation reductions required to achieve our employee compensation and benefits expense target, which have not been reflected in the pro forma presentation. These include expense reductions of approximately \$100,000 over the next year related to the following: the expiration of guaranteed payments and other contractual agreements with our managing directors; the expiration of contractual payouts to the founders of LAM; planned reductions associated with the restructuring of the Lazard Group pension plans (reflecting a change from defined benefit plans to defined contribution plans) and post-retirement medical plans and cost savings resulting from a reassessment of our staffing needs. The expiration of contractual agreements requiring payments to our managing directors for services performed and to the founders of LAM will reduce expenses by approximately \$55,000. The planned expense reductions associated with the restructuring of the Lazard Group pension and post-retirement medical plans and the cost savings from a reassessment of our staffing needs are expected to be approximately \$45,000. Our reassessment of staffing needs was substantially completed during 2004, and, as a result, headcount was reduced. As part of our periodic performance reviews, we expect to continue to reassess needs in the future, but no material reassessment plans are currently in place. No material costs were incurred in connection with our prior reassessment of staffing needs. To the extent required, any reductions, over and above these approximately \$100,000 of reductions, necessary to achieve our target employee compensation expense-to-operating revenue ratio of 57.5% will be accomplished by reducing other compensation expenses, including the discretionary bonuses of our managing directors, as generally permitted by the new retention agreements.

These and other measures may not allow us to reach or maintain our target compensation expense-to-operating revenue ratio in the future. Increased competition for senior professionals, changes in the financial markets generally or other factors could prevent us from reaching this objective.

(d) Reflects a net adjustment of \$1,852 for the year ended December 31, 2004. The net adjustment includes (i) tax expense of \$3,552 in the year ended December 31, 2004, which reflects the application of the respective historical effective Lazard Group income tax rates against the applicable pro forma adjustments, and (ii) a tax benefit of \$1,700 reclassified from LAM minority interest.

(e)

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Reflects net incremental interest expense related to the separation and recapitalization transactions, including the additional financing transactions and the amortization of capitalized costs associated with the additional financing transactions, estimated to be \$51,629, the details of which are as follows:

	Principal Amount	Assumed Interest Rate	Increase (Decrease) in Interest Expense
	<u> </u>	<u> </u>	<u> </u>
Addition of new interest expense:			
Lazard Group senior notes	\$ 650,000	6.25%	\$ 40,625
Lazard Group Finance senior notes underlying equity security units	400,000	5.18%	20,720
Accretion on the estimated present value of contract adjustment payments on the forward purchase contracts sold			775
Amortization of an estimated \$9,862 of capitalized debt issuance costs			1,274
			<u> </u>
Sub-total			63,394
Reduction of existing interest expense:			
Senior Notes due 2011	50,000	7.53%	(3,765)
Mandatory redeemable preferred stock	100,000	8.00%	(8,000)
			<u> </u>
Sub-total			(11,765)
			<u> </u>
Net incremental interest expense:			\$ 51,629
			<u> </u>

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The incremental interest expense above would change by an estimated \$813 and \$500 for the \$650,000 principal amount of Lazard Group senior notes and for the \$400,000 principal amount of Lazard Group Finance senior notes underlying the equity security units, respectively, if interest rates were to increase or decrease by 0.125%. See also Use of Proceeds and Description of the Equity Security Units Accounting Treatment.

See also Use of Proceeds and Description of the Equity Security Units Accounting Treatment.

(f) Reflects the net income tax impact associated with the separation and recapitalization transactions.

(g) Represents an adjustment for Lazard Ltd entity-level taxes of \$5,656 calculated as follows:

Operating income	\$ 138,203
Less minority interests that reduce income subject to tax	(8,917)
	<hr/>
Total income subject to tax	\$ 129,286
	<hr/>
Total income taxes at an estimated effective tax rate of 28%	\$ 36,200
Less Lazard Group income tax included therein at an estimated effective tax rate of 15%	(19,393)
	<hr/>
Incremental income taxes in excess of income taxes at Lazard Group, assuming 100% ownership of Lazard Group by Lazard Ltd	16,807
Multiply by Lazard Ltd's estimated ownership of Lazard Group	33.65%
	<hr/>
Estimated incremental Lazard Ltd's entity level taxes	\$ 5,656
	<hr/>

The difference between the U.S. federal statutory tax rate of 35% and Lazard Ltd's estimated effective tax rate of 28% is primarily due to the earnings attributable to Lazard Ltd's non-U.S. subsidiaries being taxable at rates lower than the U.S. federal statutory tax rate, partially offset by U.S. state and local taxes which are incremental to the U.S. federal statutory tax rate.

(h) Minority interest expense includes an adjustment for LAZ-MD Holdings' ownership of approximately 66.3% of the Lazard Group common membership interests outstanding immediately after this offering, with such minority interest being the result of multiplying LAZ-MD Holdings' ownership interests in Lazard Group by Lazard Group's pro forma, as adjusted, net income allocable to members. LAZ-MD Holdings' ownership interests in Lazard Group are exchangeable, on a one-for-one basis, into shares of Lazard Ltd, and, on a fully exchanged basis, would amount to 66,346,154 shares or 66.3% of Lazard Ltd's shares outstanding.

(i) For purposes of presentation of basic and diluted net income per share, it was assumed that all Lazard Group common membership interests were exchanged into 100,000,000 shares of common stock.

(j) Calculated after considering the impact of the pro forma adjustments described in notes (a), (c) and (d) above and based on the weighted average and diluted shares outstanding, as applicable, as described in note (i) above. Net income per share is not comparable to Lazard Ltd pro forma as adjusted net income per share due to the effect of the recapitalization, including this offering and the additional financing transactions, and because net income allocable to members does not reflect U.S. corporate federal income taxes since Lazard Group has operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal tax purposes, whereas Lazard Ltd net income includes charges in respect to such taxes.

(k) For purposes of presentation of basic net income per share, the weighted average shares outstanding reflects 33,653,846 shares of our common stock that will be outstanding immediately following the equity public offering and excludes 4,569,686 shares issuable upon exercise of the underwriters' over-allotment option. For purposes of presentation of diluted net income per share LAZ-MD Holdings' exchangeable interests are included on an as-if-exchanged basis. Shares issuable with respect to the exercise of the purchase contracts associated with the

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equity security units offered in this offering and pursuant to the IXIS investment agreement are not included because, under the treasury stock method of accounting, such securities currently are not dilutive.

- (l) Calculated after considering the impact of all the pro forma adjustments described above and based on the weighted average basic and diluted shares outstanding, as applicable, as described in note (k) above.

- (m) Captions relating to income allocable to members means income with respect to the Lazard Ltd amounts.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL CONDITION**

As of December 31, 2004

	Pro Forma Adjustments				Total	Pro Forma Adjustments for the Capital Contribution Relating to the Offering and the Additional Financing Transactions	Lazard Group Pro Forma, as Adjusted	Pro Forma Adjustments for this Offering	Lazard Ltd Consolidated Pro Forma, as Adjusted
	Historical Separation(a)	Subtotal	Other	Total					
(\$ in thousands, except per share amounts)									
Assets:									
Cash and cash equivalents	\$ 273,668	\$ (8,185)	\$ 265,483	\$ (84,000)(b)	\$ 181,483(e)	\$ 66,729(f)	\$ 248,212		\$ 248,212
Cash and securities segregated for regulatory purposes	82,631	(27,200)	55,431		55,431		55,431		55,431
Marketable investments	112,467		112,467		112,467(e)		112,467		112,467
Securities owned	597,229	(210,280)	386,949		386,949		386,949		386,949
Securities borrowed	852,266	(852,266)							
Receivables	891,524	(164,157)	727,367		727,367		727,367		727,367
Other assets	689,439	(226,588)	462,851		462,851	(41,140)(f)		258,000 (h)	
						9,862 (f)	431,573	(258,000)(h)	431,573
Total assets	\$ 3,499,224	\$ (1,488,676)	\$ 2,010,548	\$ (84,000)	\$ 1,926,548	\$ 35,451	\$ 1,961,999		\$ 1,961,999
Liabilities, Members Equity and Stockholders Equity:									
Notes payable	\$ 70,777	\$ (3,280)	\$ 67,497		\$ 67,497	\$ (50,000)(f)	\$ 17,497		\$ 17,497
Securities loaned	624,918	(624,918)							
Payables	601,582	(90,836)	510,746		510,746		510,746		510,746
Accrued employee compensation	204,898	(52,247)	152,651	40,891 (c)					
				149,121 (d)	342,663(e)		342,663		342,663
Miscellaneous other liabilities	1,137,531	(434,329)	703,202		703,202	15,877(g)	719,079	(h)	719,079
Lazard Group senior notes						650,000(f)	650,000		650,000
Lazard Group Finance senior notes underlying equity security units						400,000(f)	400,000		400,000

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Subordinated loans	200,000		200,000		200,000		200,000		200,000
Mandatorily redeemable preferred stock	100,000		100,000		100,000	(100,000)(f)			
Minority interest	174,720	(16,810)	157,910	(40,891)(c)	117,019		117,019	(i)	117,019
Members equity	384,798	(266,256)	118,542	(84,000)(b)					
				(149,121)(d)	(114,579)	801,862 (f)			
						(1,516,411)(f)			
						(150,000)(f)			
						(15,877)(g)	(995,005)	995,005(i)	
Stockholders equity (deficiency):									
Common stock, par value \$.01 per share								337(i)	337
Additional paid-in capital								(995,342)(g)(i)	(995,342)
Total members equity and stockholders equity (deficiency)	384,798	(266,256)	118,542	(233,121)	(114,579)	(880,426)	(995,005)		(995,005)
Total liabilities, members equity and stockholders equity (deficiency)	\$ 3,499,224	\$ (1,488,676)	\$ 2,010,548	\$ (84,000)	\$ 1,926,548	\$ 35,451	\$ 1,961,999	\$	\$ 1,961,999

Table of Contents**Notes to Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition (\$ in thousands):**

- (a) Reflects adjustments necessary to remove the historical balances relating to Lazard Group's separated businesses. Subsequent to December 31, 2004, the separated businesses' members' equity as reflected in the pro forma condensed consolidated statement of financial condition will be reduced by approximately \$126,000 related to the repurchase of working member interests in connection with the consummation of this offering, including approximately \$60,000 related to repurchases of working member interests through April 8, 2005. See also Certain Relationships and Related Transactions Certain Relationships with Our Directors, Executive Officers and Employees Transactions with Our Working Members.
- (b) Reflects cash contribution in recognition of indemnities to be made by the separated businesses in favor of Lazard Group as described in Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Master Separation Agreement.
- (c) Reclassifies minority interest relating to services rendered by managing directors and employee members associated with Lazard Group's controlled affiliate, LAM, to accrued compensation.
- (d) Historically, payment for services rendered by managing directors has been accounted for as distributions to members' capital (and subsequent to January 1, 2003, minority interest for LAM) rather than as compensation expense. As a result, the accrued compensation liability account has not reflected a liability for most services rendered by managing directors. Following the closing of the separation and recapitalization transactions, we will include all payments for services rendered by our managing directors in compensation and benefits expense. The pro forma adjustment reflects the compensation payable to managing directors (excluding LAM and the separated businesses).
- (e) Historically, employee bonuses have generally been paid in the January following the end of each fiscal year. Payments to managing directors for services rendered have generally been made in three monthly installments, as soon as practicable, after the end of each fiscal year. Such payments usually begin in February. Accordingly, the cash and marketable investments balances shown will be reduced by amounts to be paid for employee bonuses and payments to managing directors for services rendered.
- (f) Reflects the net impact of this offering, the additional financing transactions and the recapitalization, representing (1) a net increase in members' equity of \$801,862, consisting of the issuance of \$875,000 of common stock, which includes \$50,000 to be issued to IXIS pursuant to the IXIS investment agreement and \$32,921 related to the cashless exchange of historical partner interests of our Chief Executive Officer for shares of our common stock at the initial public offering price, less estimated transaction fees and expenses attributable to these equity offerings of \$73,138, (which represents the estimated total transaction fees of \$83,000 less \$9,862 of capitalized debt issuance costs), (2) the issuance of \$650,000 principal amount of Lazard Group senior notes and (3) the issuance of \$400,000 of equity security units, \$150,000 of which will be issued to IXIS pursuant to the IXIS investment agreement. The aggregate proceeds of \$1,925,000, prior to estimated transaction fees and expenses, which, combined with \$41,140 in certain Lazard Group long-term investments (which will be utilized to satisfy a portion of the historical partner redemption consideration), will be utilized to (a) redeem \$1,616,411 in historical partner interests, which includes \$100,000 in Mandatorily Redeemable Preferred Stock and \$32,921 in the cashless exchange of our Chief Executive Officer's historical partner interests for shares of our common stock, (b) repay \$50,000 in principal amount of 7.53% Senior Notes due 2011, (c) distribute an aggregate of \$150,000 to LAZ-MD Holdings and LFCM Holdings and (d) pay estimated transaction fees and expenses of \$83,000. We estimate that net proceeds from this offering and additional financings described herein will exceed the identified use of proceeds described above by \$66,729, which will result in an equivalent increase in cash and cash equivalents. Further, other assets reflect a related reduction of \$31,728 to the utilization of \$41,140 in long-term investments, as mentioned above, as well as an increase related to the capitalization of \$9,862 in debt issue costs. See Use of Proceeds.
- (g) Reflects an adjustment of \$15,877 to record a liability for the present value of the quarterly contract adjustment payments related to the purchase contracts associated with the equity security units being offered and securities that will be effectively exchangeable into shares of our common stock pursuant to the IXIS investment agreement, with a corresponding charge to additional paid-in-capital. This adjustment assumes contract adjustment payments equal to 1.445% of the principal amount of the equity security units, discounted to present value at an annual rate of 5.5% over the three-year life of the purchase contracts.
- (h) In accordance with Statement of Financial Accounting Standards No. 109, and in connection with the consolidation of Lazard Group into Lazard Ltd, we have recorded a deferred tax asset of approximately \$28,000, with such amount fully offset by a valuation allowance. In addition, in connection with the redemption of the historical partner interests and preferred interests, we have also recorded a deferred tax asset of approximately \$230,000, with such amount also fully offset by a valuation allowance. The valuation allowances have been recorded because it is more likely than not that these deferred tax assets will not be realized. The realization of the deferred tax assets depends, among other factors, on the future geographic mix of the earnings of Lazard Group and on Lazard Group meeting certain statutory limitations on amortization deductions. While, pursuant to the tax receivable agreement, we have agreed to pay LFCM Holdings 85% of the amount of any tax benefit we actually realize as a result of tax deductions attributable to increases in tax basis relating to the redemption of the historical partner interests and preferred interests, we have not recorded any liability for our obligation to pay to LFCM Holdings under the tax receivable agreement as we have recorded a full valuation allowance against this deferred tax asset.
- (i) Reflects the issuance of Lazard Ltd common shares pursuant to this offering, net of applicable costs with respect thereto, and the net effect of the consolidation by Lazard Ltd of Lazard Group, including the classification of LAZ-MD Holdings' approximate 66.3% ownership of Lazard Group's common membership interests as of December 31, 2004 as a reduction of Lazard Ltd's additional paid-in capital rather than minority interest since such minority interest would be negative.

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The unaudited pro forma condensed consolidated statements of income for the years ended December 31, 2002 and 2003 are also presented below to give effect to the separation, as though such separation had occurred as of January 1, 2002. The unaudited pro forma condensed consolidated financial statements shown below are presented as additional information since, if the offering is successfully consummated, any subsequent presentation of the historical financial statements will reflect the separated businesses as discontinued operations in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. These unaudited pro forma condensed consolidated financial statements, however, exclude any pro forma adjustments related to payment for services rendered by Lazard Group's managing directors, incremental expense related to the additional financing transactions, minority interest expense and the income tax effect relating to such items.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2002			Year Ended December 31, 2003		
	Historical	Separation(a)	Pro Forma for Separation	Historical	Separation(a)	Pro Forma for Separation
	(\$ in thousands)					
Total revenue	\$ 1,229,662	\$ (207,726)	\$ 1,021,936	\$ 1,233,545	\$ (150,728)	\$ 1,082,817
Interest expense(b)	(63,383)	33,417	(29,966)	(50,161)	15,194	(34,967)
Net revenue	1,166,279	(174,309)	991,970	1,183,384	(135,534)	1,047,850
Operating expenses:						
Employee compensation and benefits	469,037	(79,023)	390,014	481,212	(93,976)	387,236
Premises and occupancy costs	82,121	(35,675)	46,446	98,412	(36,758)	61,654
Professional fees	67,862	(19,185)	48,677	56,121	(8,190)	47,931
Travel and entertainment	41,225	(7,297)	33,928	45,774	(7,984)	37,790
Other	129,989	(17,231)	112,758	112,511	(35,287)	77,224
Total Operating Expenses	790,234	(158,411)	631,823	794,030	(182,195)	611,835
Operating income	376,045	(15,898)	360,147	389,354	46,661	436,015
Provision for income taxes	38,583	2,496	41,079	44,421	(7,469)	36,952
Income allocable to members before minority interests	337,462	(18,394)	319,068	344,933	54,130	399,063
Minority interests	40,015	(384)	39,631	94,550	15	94,565
Net income allocable to members	\$ 297,447	\$ (18,010)	\$ 279,437	\$ 250,383	\$ 54,115	\$ 304,498

Notes to Unaudited Pro Forma Condensed Consolidated Statements of Income (\$ in thousands):

- (a) Reflects adjustments necessary to remove the historical results of operations of Lazard Group's separated businesses.
(b) Interest expense includes dividends relating to Lazard Group's mandatorily redeemable preferred stock issued in March 2001, which amounted to \$8,000 and \$8,000 in the years ended December 31, 2002 and 2003, respectively.

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Lazard Group Finance

The following unaudited pro forma condensed statement of income for the year ended December 31, 2004 and the unaudited pro forma condensed statement of financial condition at December 31, 2004 present the results of operations and financial position of Lazard Group Finance assuming that the Lazard Group Finance senior notes, issued as part of this offering, had been completed as of January 1, 2004 with respect to the unaudited pro forma statement of income data, and at December 31, 2004 with respect to the unaudited statement of financial condition data. The pro forma adjustments are based on available information and upon assumptions that our management believes are reasonable in order to reflect, on a pro forma basis, the impact of the Lazard Group Finance senior notes offering. The adjustments are described in the notes to unaudited pro forma condensed statement of income and the unaudited pro forma condensed statement of financial condition, and principally include the matters set forth below:

The issuance of the Lazard Group Finance senior notes underlying the equity security units, including the equity security units issued pursuant to the IXIS investment agreement.

The incremental expense related to the senior notes.

The use of proceeds from this offering.

The pro forma consolidated financial information are included for informational purposes only and do not purport to reflect the results of operations or financial position of Lazard Group Finance. Actual results might have differed from pro forma results of Lazard Group Finance. The pro forma financial information should not be relied upon as being indicative of Lazard Group Finance results of operations or financial condition had the offering been completed on the dates assumed. The pro forma financial information also does not project the results of operations or financial position for any future period or date.

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UNAUDITED PRO FORMA CONDENSED STATEMENT OF INCOME

	Year Ended December 31, 2004		Lazard Group Finance Pro Forma, as Adjusted
	Historical	Pro Forma Adjustments	
	(\$ in thousands)		
Total revenue	\$	\$ 21,460	(a)(c) \$ 21,460
Interest expense		(21,460)	(b)(d) (21,460)
Net revenue			
Operating expenses			
Operating income			
Provision for income taxes			
Net income allocable to members	\$	\$	\$

Notes to Unaudited Pro Forma Condensed Statement of Income (\$ in thousands)

- (a) Including interest income related to \$400,000 senior notes issued by Lazard Group.
(b) Including interest expense related to the issuance of \$400,000 senior notes issued by Lazard Group Finance.
(c) Including amortization of deferred interest income associated with the \$400,000 senior notes issued by Lazard Group.
(d) Including amortization of deferred issuance costs associated with the issuance of the Lazard Group Finance senior notes.

Table of Contents**UNAUDITED PRO FORMA CONDENSED STATEMENT OF FINANCIAL CONDITION**

	As of December 31, 2004		
	Historical	Pro Forma Adjustments	Lazard Group Finance Pro Forma, as Adjusted
	(\$ in thousands)		
Notes receivable	\$	\$ 400,000	(a) \$ 400,000
Other assets		3,702	(b) 3,702
Total assets	\$	\$ 403,702	\$ 403,702
Senior notes	\$	\$ 400,000	(c) \$ 400,000
Other liabilities		3,702	(d) 3,702
Member s equity			
Total liabilities and member s equity	\$	\$ 403,702	\$ 403,702

Notes to Unaudited Pro Forma Condensed Statement of Financial Condition (\$ in thousands)

- (a) Reflects \$400,000 senior notes issued by Lazard Group.
(b) Reflects deferred issuance costs associated with the Lazard Group Finance senior notes.
(c) Reflects the issuance of \$400,000 senior notes by Lazard Group Finance.
(d) Reflects deferred interest income associated with the issuance of the Lazard Group senior notes.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with Lazard Group's historical consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this prospectus.

The historical consolidated financial data of Lazard Group discussed below reflect the historical results of operations and financial position of Lazard Group, including the separated businesses that will not be retained by Lazard Group following this offering. Accordingly, the historical consolidated financial data do not give effect to the separation and recapitalization transactions, including the completion of this offering and the additional financing transactions. See "The Separation and Recapitalization Transactions and the Lazard Organizational Structure" and "Unaudited Pro Forma Financial Information" included elsewhere in this prospectus.

Business Summary

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

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

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

Capital Markets and Other, which consists of equity, fixed income and convertibles sales and trading, broking, research and underwriting services, merchant banking fund management activities outside of France and specified non-operating assets and liabilities. In connection with the separation, Lazard Group will transfer its Capital Markets and Other segment to LFCM Holdings.

In addition, we record selected other activities in Corporate, including cash and marketable investments, certain long-term investments and our Paris-based LFB. LFB is a registered bank regulated by the Banque de France. LFB's primary operations include commercial banking, the management of the treasury positions of Lazard'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 also operates many support functions of the Paris House. We also allocate outstanding indebtedness to Corporate. Following this offering, the indebtedness and interest expense related to the additional financing transactions will be accounted for as part of Corporate as well.

For the year ended December 31, 2004, Financial Advisory, Asset Management, Capital Markets and Other and Corporate contributed approximately 51%, 33%, 15% and 1% of Lazard Group's net revenue, respectively.

Business Environment

Economic and market conditions, particularly global M&A activity, can significantly affect our financial performance.

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The respective source for the data contained herein relating to (i) the volume of global and trans-Atlantic completed and announced merger and acquisition transactions is Thomson Financial, (ii) the amount of corporate debt defaults is Moody's Investors Service, Inc., cited with permission, all rights reserved, (iii) the amount of hedge fund assets from Van Hedge Fund Advisors, and (iv) funds raised for global private capital, including private equity and venture capital investment funds, is Thomson Venture Economics/National Venture Capital, March 2005.

Financial Advisory

From the early 1990s through 2000, there was relatively consistent and substantial growth in global M&A activity. The volume of global completed M&A transactions grew from \$359 billion in 1993 to \$3,720 billion in 2000. Of the total market, the volume of trans-Atlantic completed M&A transactions (involving either a U.S. or Canadian party transacting with a European counterparty) grew from \$22 billion in 1993 to \$386 billion in 2000.

Beginning in 2001, the volume of global completed M&A transactions began to decline significantly, falling 67% from \$3,720 billion in 2000 to \$1,220 billion in 2003, with the volume of trans-Atlantic completed M&A transactions down 74% from \$386 billion to \$102 billion in the same period. At the same time, corporate debt defaults increased significantly, reaching a peak of \$164 billion in 2002, up 466% from \$29 billion in 2000. In 2003, corporate debt defaults decreased to \$34 billion, down 79% from \$164 billion in 2002, reflecting improved global economic conditions.

In 2004, global M&A volume increased while restructuring activity continued to decline significantly. For the year ended December 31, 2004, the volume of global completed M&A transactions increased 29% versus the year ended December 31, 2003, increasing to \$1,574 billion from \$1,220 billion, respectively, with the volume of trans-Atlantic completed M&A transactions experiencing a 2% increase. Over the same period, the volume of global announced M&A transactions increased by 39% in 2004, from \$1,398 billion to \$1,937 billion, and the volume of trans-Atlantic announced M&A transactions increased by 13% from \$99 billion to \$112 billion, reflecting growing industry-wide activity. Over the same time frame, financial restructuring activity continued to decline, with the amount of corporate debt defaults falling from \$34 billion to \$16 billion, or by 53%. We believe that our Financial Advisory business will benefit from any sustained increase in M&A volume. Any such improvement will most likely be accompanied, at least in part, by counter-cyclical weakness in restructuring activity.

We believe that this counter-cyclical relationship can be seen in Lazard Group's results. Between 2000 and 2003, Lazard Group's Mergers and Acquisitions net revenue declined from \$725 million to \$420 million as the volume of global completed M&A transactions across the industry declined amidst challenging economic and capital markets conditions. Conversely, over the same time period, the net revenue of Lazard Group's Financial Restructuring practice, the first full operating year of which commenced in 2000, increased from \$34 million to \$245 million, driven primarily by increased restructuring transaction volume stemming from higher levels of global corporate debt defaults. Similarly, for the year ended December 31, 2004, Lazard Group's Mergers and Acquisitions net revenue increased to \$482 million from \$420 million in 2003 as M&A activity rebounded, while Financial Restructuring net revenue declined to \$96 million from \$245 million over the same time period, reflecting diminished restructuring activity due to declining levels of global corporate debt defaults.

Asset Management

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From 1994 to 2004, global stock markets appreciated substantially. The MSCI World Index rose by 7% on a compounded annual basis during this period. European markets experienced similar improvement, with the FTSE 100, CAC 40 and DAX indices up 5%, 7% and 7%, respectively, on a

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compounded annual basis. In the U.S., the Dow Jones Industrial, S&P 500 and NASDAQ indices rose by 11%, 10% and 11%, respectively, on a compounded annual basis. According to *Pensions & Investments*, an industry publication, worldwide assets managed by the top 100 asset managers grew by 21%, on a compounded annual basis, from 1994 to 2003. We believe that this growth in excess of market appreciation reflects a shift towards assets being concentrated among leading asset managers and consolidation within the asset management industry. During the same period, assets managed in hedge funds and merchant banking funds also experienced significant growth. Hedge fund assets, for example, grew 18%, on a compounded annual basis, to \$950 billion at year end 2004, and funds raised for global private capital, which includes private equity and venture capital investment funds, increased by 11% on a compounded annual basis.

While global stock markets experienced substantial appreciation from 1994 to 2004, markets have experienced considerable volatility since 1999, with various market indices reaching record highs in 1999 and the first quarter of 2000, and then declining steadily through December 31, 2002. From 1999 to 2002, the MSCI World Index declined by 18%, on a compounded annual basis, while in Europe, the FTSE 100, CAC 40 and DAX indices declined 17%, 20% and 25%, respectively, on a compounded annual basis. In the U.S., the Dow Jones Industrial, S&P 500 and NASDAQ indices declined by 10%, 16% and 31%, respectively, on a compounded annual basis, in the same time frame. These declines were followed by considerable improvements in the global markets in 2003 and 2004. From January 1, 2003 until December 31, 2004, the MSCI World Index rose by 22%, on a compounded annual basis, with the FTSE 100, CAC 40 and DAX indices gaining 11%, 12% and 21%, respectively, on a compounded annual basis. In the U.S., the Dow Jones Industrial, S&P 500 and NASDAQ indices gained 14%, 17% and 28%, respectively, on a compounded annual basis for the same period. The changes in global market indices correspond with Lazard Group's market-related changes in its AUM.

Recent Developments

During the first quarter of 2005, net revenue in our Mergers and Acquisitions practice increased by 64% in comparison to the first quarter of 2004. This reflects an improvement relative to the 28% growth in Mergers and Acquisitions net revenue we realized during the fourth quarter of 2004 in comparison to the fourth quarter of 2003, and relative to the 15% growth in net revenue we realized for the full year 2004 in comparison to 2003. Net revenue in a particular quarter may not be indicative, however, of future results. During the first quarter of 2005, net revenue in our Financial Restructuring practice increased 36% in comparison to the first quarter of 2004, relative to a 61% decrease in Financial Restructuring net revenue for the full year 2004 in comparison to 2003. During the first quarter of 2005, we have represented, among others, MCI in its evaluation of strategic alternatives, SunGard Data Systems Inc. in its sale to various private equity firms and Tower Automotive, Inc. on its Chapter 11 bankruptcy reorganization.

In our Asset Management business, our average AUM for the first quarter of 2005 was \$86 billion, representing a 7% increase in comparison to the average AUM of \$80 billion during 2004. In the first quarter of 2005 our management fee net revenue increased by 6% as compared to the corresponding quarter in 2004. Including incentive fees earned in the first quarter of 2005, our Asset Management net revenue increased 10% as compared to the corresponding quarter in 2004.

The revenue data for the first quarter of 2005 set forth above is preliminary in nature and actual revenue for such quarter may be different. Our actual results of operations for the quarter ended March 31, 2005 will be included in a subsequent filing by us with the SEC.

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Key Financial Measures and Indicators

Net Revenue

The majority of our Financial Advisory net revenue is earned from the successful completion of mergers, acquisitions, restructurings or similar transactions. 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, we also earn fees from providing strategic advice to a client, with such fees not being dependent on a specific transaction. Our Financial Advisory segment also earns revenue from public and private securities offerings in conjunction with activities of the Capital Markets and Other segment. In general, such fees are shared equally between our Financial Advisory and Capital Markets and Other segments. Following this offering, we intend to have an arrangement with LFCM Holdings under which the separated Capital Markets business will continue to distribute securities in public offerings originated by our Financial Advisory business in a manner intended to be similar to our practice prior to this offering. The main driver of Financial Advisory net revenue is overall M&A and restructuring volume, particularly in the industries and geographic markets in which we focus.

Our Asset Management segment includes our LAM, LFG and merchant banking operations. 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 our investment performance and by our 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. Fees vary with the type of assets managed, with higher fees earned on actively managed equity assets, alternative investments (such as hedge funds) and merchant banking products, and lower fees earned on fixed income and cash management products. We also earn performance-based incentive fees on some investment products, such as hedge funds, merchant banking funds and other investment products. Incentive fees on hedge funds are typically calculated based on a specified percentage of a fund's net appreciation during a fiscal period and can be subject to loss carry-forward provisions in which losses incurred in the current period are applied against future period net appreciation. Incentive fees on merchant banking funds also may be earned in the form of a carried interest when profits from merchant banking investments exceed a specified threshold. Lazard Group's Asset Management net revenue during the years ended December 31, 2002 through 2004 demonstrate the volatility that incentive fees have on total net revenue. See Business Segments Asset Management Asset Management Results of Operations.

Capital Markets and Other net revenue largely consists of primary revenue earned from underwriting fees from securities offerings and secondary revenue earned in the form of commissions and trading profits from principal transactions in Lazard Group's equity, fixed income and convertibles businesses. Since Lazard Group's January 7, 2004 acquisition of the assets of Panmure Gordon, Lazard Group also has earned underwriting and other fee revenue from corporate broking in the U.K. Lazard Group also earns fund management fees and, if applicable, carried interest incentive fees related to merchant banking funds managed as part of this segment. Such carried interest incentive fees are earned when profits from merchant banking investments exceed a specified threshold. In addition, Lazard Group generates investment income and net interest income principally from long-term investments, cash balances and securities financing transactions. In connection with the separation, Lazard Group will transfer the Capital Markets and Other segment to LFCM Holdings.

Corporate net revenue consists primarily of investment income generated from long-term investments, including principal investments that Lazard Group has made in merchant banking and alternative investment funds managed by our Asset Management segment, net interest income

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generated by LFB, interest income related to cash and marketable investments and interest expense related to outstanding borrowings. Following this offering, interest expense related to the additional financing transactions will be accounted for as part of Corporate as well. Corporate net revenue can fluctuate due to mark-to-market adjustments on long-term and marketable investments, changes in interest rate spreads earned by LFB and changes in the levels of our cash, marketable investments, long-term investments and indebtedness. Although Corporate net revenue represented 1% or less of Lazard Group's net revenue in each of the years 2002, 2003 and 2004, total assets in this segment represented 40% of Lazard Group's consolidated total assets as of December 31, 2004 (or 69% excluding the Capital Markets and Other segment), principally attributable to the relatively significant amounts of assets associated with LFB, and, to a lesser extent, cash, marketable investments and long-term investment balances.

We expect 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 our Financial Advisory net revenue is earned upon the successful completion of a transaction or financial restructuring, the timing of which is uncertain and is not subject to our control. Our 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 the fourth quarter of our fiscal year, when potential uncertainties regarding the ultimate realizable amounts have been determined.

Operating Expenses

The majority of our operating expenses relate to employee compensation and benefits. As a limited liability company, payments for services rendered by the majority of Lazard Group's managing directors are accounted for as distributions of members' capital. In addition, subsequent to January 1, 2003, payments for services rendered by managing directors of LAM (and employee members of LAM) have been accounted for as minority interest expense. See *Minority Interest*. As a result, our employee compensation and benefits expense and operating income have not reflected most payments for services rendered by our managing directors. Following this offering, we will include all payments for services rendered by our managing directors, including the managing directors of LAM, in employee compensation and benefits expense.

The balance of our operating expenses is referred to below as *non-compensation expense*, which includes costs for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment, depreciation and amortization and other expenses.

The historical levels of operating expenses set forth in *Consolidated Results of Operations* do not reflect the added costs we expect to incur as a result of this offering. We expect that we will incur additional expenses for, among other things, directors fees, SEC reporting and compliance, investor relations, legal, accounting and other costs associated with being a public company.

Provision for Income Taxes

Lazard Group has historically operated in the U.S. as a limited liability company that was treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group's income has not been subject to U.S. federal income taxes. Taxes related to income earned by partnerships represent obligations of the individual partners. Outside the U.S., Lazard Group historically has

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operated principally through corporations and has been subject to local income taxes. Income taxes shown on Lazard Group's historical consolidated statements of income are attributable to taxes incurred in non-U.S. entities and to UBT attributable to Lazard Group's operations apportioned to New York City.

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Following this offering Lazard Group will continue to operate in the U.S. as a limited liability company treated as a partnership for U.S. federal income tax purposes and remain subject to local income taxes outside the U.S. and to UBT. In addition, Lazard will be subject to additional income taxes which will be reflected in our consolidated financial statements as described in Note (f) in the Unaudited Pro Forma Financial Information Notes to Unaudited Pro Forma Condensed Consolidated Statement of Income.

Minority Interest

Minority interest consists of a number of components.

On January 1, 2003, Lazard Group contributed net assets relating to the majority of its asset management business to form LAM, a subsidiary of Lazard Group. Upon formation of LAM, certain members of Lazard Group (including all the managing directors of LAM) who provide services to LAM contributed capital to LAM and ceased being members of Lazard Group. Following the formation of LAM, these capital interests have been included in minority interest on Lazard Group's consolidated statement of financial condition. In connection with this contribution, the LAM managing directors and other key LAM employees were granted equity units in LAM. Commencing in 2003, payments for services rendered by these individuals were accounted for as minority interest expense in Lazard Group's consolidated statement of income. The substantial majority of such payments related to services rendered by LAM managing directors, which, in prior years, had been accounted for as distributions to members, therefore, was not reported in prior years' consolidated statements of income. The remainder of such payments, which related to compensation of employee members of LAM, was recorded as compensation and benefits expense in prior years' consolidated statements of income. Following this offering, we will include all payments for services rendered by our managing directors, including our LAM managing directors, as well as employee members of LAM, in employee compensation and benefits expense.

The LAM equity units entitle holders to payments in connection with selected fundamental transactions affecting Lazard Group or LAM, including a dissolution or sale of all or substantially all of the assets of Lazard Group or LAM, a merger of or sale of all of the interests in LAM whereby Lazard Group ceases to own a majority of LAM or have the right to appoint a majority of the board of directors of LAM, or a non-ordinary course sale of assets by LAM that exceeds \$50 million in value. These persons will not receive LAZ-MD Holdings exchangeable interests in connection with the separation and recapitalization transactions, but will retain their existing equity units in LAM. As a general matter, in connection with a fundamental transaction that triggers the LAM equity units, following the completion of this offering the holders of the LAM equity units would be entitled in the aggregate to 23.40% of the net proceeds or imputed valuation of LAM in such transaction after deductions for payment of creditors of LAM and the return of LAM capital. As of December 31, 2004, LAM's capital for these purposes totaled approximately \$70 million, of which approximately \$18 million was owned by LAM managing directors and employee members, with the remainder owned by Lazard Group. These LAM equity units are not entitled to share in the operating results of LAM. A separate class of interests in LAM, which we refer to in this prospectus as LAM profit units, is entitled to the ordinary profit and losses of LAM, all of which are owned by Lazard Group. Accordingly, in the absence of a fundamental transaction that triggers the LAM equity units, all of LAM's net income is allocable to Lazard Group. We have no current intention to cause or otherwise trigger a fundamental transaction that would give rise to payment obligations to the holders of interests in LAM.

On and after January 1, 2006, the board of directors of LAM (a majority of which is appointed by Lazard Group) may, in its discretion, grant LAM equity interests that include profit rights to managing directors of, and other persons providing services to, LAM, as a portion of their ongoing compensation. If granted, these equity interests would be subject to specified vesting conditions, with 50% of the equity interests vesting on the second anniversary of the date of issuance and the remaining 50% of the equity interests vesting on the third anniversary of the date of issuance.

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Also included in minority interest in our consolidated financial statements are minority interests in various LAM-related general partnership interests. Certain of these LAM-related general partnerships compensate LAM professionals directly. As such, incentive fees that would have otherwise been paid to Lazard Group are retained by the general partnerships for the purpose of compensating the LAM professionals. In Lazard Group's consolidation of the general partnerships, the LAM professionals compensation is reflected in minority interest, with an equivalent amount in Lazard Group's net revenue. Following this offering we will include such LAM professionals' share of the incentive fees in employee compensation and benefits expense.

In September 2002, Lazard Group and Intesa announced their agreement to form a strategic alliance. Under the terms of this alliance, Intesa became a 40% partner in Lazard Group's business interests in Italy in January 2003. As a result, commencing in 2003, Lazard Group has recorded minority interest to reflect Intesa's economic interest in the Italian alliance.

As of December 31, 2004, in accordance with the adoption of Financial Interpretation No. 46R for Consolidation of Certain Variable Interest Entities (FIN 46R), referred to as VIEs, Lazard Group consolidated certain VIEs in which it holds a variable interest and where Lazard Group is the primary beneficiary. Those VIEs include Lazard Group sponsored venture capital investment vehicles established in connection with our compensation plans. Accordingly, Lazard Group's consolidated financial statements at December 31, 2004 reflect minority interests associated with these VIEs. These VIEs will be included with the separated businesses and, as such, will not be reflected in our consolidated financial statements following this offering. To the extent that we expand our merchant banking activities in the future, we expect that we may be required to consolidate additional VIEs related to such activities. The managing directors of our French business hold nominal equity interests in several of our French subsidiaries, totaling less than 0.1% of the equity interests in each such subsidiary. Accordingly, as currently constituted, these managing directors may have a role in the procedures at these subsidiaries, including the right to vote on the appointment or removal of managing directors, mergers and alterations to key provisions of their by-laws.

The table below summarizes our minority interest expense and liability in Lazard Group's consolidated financial statements:

	Minority Interest Expense		
	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
LAM Members	\$	\$ 61,757	\$ 73,311
LAM General Partnerships	38,891	16,975	8,971
Italian Strategic Alliance		15,914	3,741
Merchant Banking General Partnership Interests			367
Other	1,124	(96)	1,530
Total	\$ 40,015	\$ 94,550	\$ 87,920
		Minority Interest Liability	
		As of December 31,	

	<u>2003</u>	<u>2004</u>
	(\$ in thousands)	
LAM Members	\$ 66,599	\$ 57,351
LAM General Partnerships	35,634	43,186
Italian Strategic Alliance	65,889	51,902
Merchant Banking General Partnership Interests		20,655
Other	956	1,626
	<u> </u>	<u> </u>
Total	<u>\$ 169,078</u>	<u>\$ 174,720</u>

Table of Contents**Net Income Allocable to Members**

Historically, payments for services rendered by our managing directors have been accounted for as distributions from members capital, or as minority interest expense in the case of payments to LAM managing directors and certain key LAM employee members during 2003 and 2004, rather than as compensation and benefits expense. As a result, our compensation and benefits expense and net income allocable to members have not reflected most payments for services rendered by our managing directors.

During 2002, 2003 and 2004, following the hiring of new senior management, Lazard Group invested significant amounts in the recruitment and retention of senior professionals in an effort to reinvest in the intellectual capital of Lazard Group's business. As a result, while payments for services rendered by our managing directors generally did not historically exceed net income allocable to members in any given year, in 2002, 2003 and 2004, we made distributions to our managing directors that exceeded our net income allocable to members.

The table below illustrates what our compensation and benefits expense would have been on an adjusted basis during 2004, had the portion of distributions to members which represent payments for services rendered and our minority interest expense related to LAM been accounted for as compensation and benefits expense, as adjusted to exclude the impact of the separated businesses. The table further illustrates the relationship between our adjusted compensation and benefits expense and our operating revenue. We define operating revenue to equal consolidated total gross revenue less (i) total gross revenue attributable to the separated businesses and (ii) interest expense related to LFB, our Paris-based banking affiliate. We deduct the interest expense incurred by LFB from our definition of operating revenue because LFB is a financing business and we consider its interest expense to be a cost directly related to the conduct of its business. The remaining interest expense, however, relates to our decisions regarding the capital structure of Lazard Group as a whole.

	Year Ended December 31, 2004
	(\$ in thousands)
Adjusted employee compensation and benefits	
Historical	\$ 573,779
Add (deduct):	
Amount related to separated businesses	(109,030)
Portion of distributions representing payments for services rendered by managing directors (excluding LAM managing directors)	280,317
Portion of distributions representing payments included in minority interest for services rendered by LAM managing directors and employee members of LAM	73,965
	<hr/>
Adjusted employee compensation and benefits	\$ 819,031
	<hr/>
Operating revenue	
Historical total revenue	\$ 1,328,180
Add (deduct):	
Amount related to separated businesses	(202,424)
LFB Interest expense	(17,843)
	<hr/>
Operating revenue	\$ 1,107,913
	<hr/>
Adjusted compensation expense-to-operating revenue ratio	73.9%

Following the completion of this offering, our policy will be that our employee compensation and benefits expense, including that payable to our managing directors, will not exceed 57.5% of operating revenue each year (although we retain the ability to change this policy in the future). Our managing

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directors have been informed of this new policy. The new retention agreements with our managing directors generally provide for a fixed salary and discretionary bonus, which may include an equity-based compensation component. The following table summarizes the reductions required to achieve the target ratio:

	Year Ended December 31, 2004
	(\$ in thousands)
Target employee compensation and benefits	
Adjusted employee compensation and benefits, as above	\$ 819,031
Reductions	(181,981)
Target compensation and benefits	<u>\$ 637,050</u>
Target compensation expense-to-operating revenue ratio	<u>57.5%</u>

We intend to achieve this target primarily by reducing payments for services rendered by our managing directors, while continuing to maintain financial packages for our managing directors that we believe are competitive in the market place. All of the expense reductions required to achieve this target ratio could be achieved through compensation reductions under our new retention agreements that generally provide for salary and discretionary bonuses, which agreements were effective upon execution. However, we believe that other considerations will assist us in minimizing the degree of compensation reductions required to achieve our employment compensation and benefit expense target, including expense reductions of approximately \$100 million over the next year related to the following: the expiration of guaranteed payments and other contractual agreements with our managing directors; the expiration of contractual payouts to the founders of LAM; planned reductions associated with the restructuring of the Lazard Group pension plans (reflecting a change from defined benefit plans to defined contribution plans) and post-retirement medical plans and cost savings resulting from a reassessment of our staffing needs. The expiration of contractual agreements requiring payments to our managing directors for services performed and to the founders of LAM will reduce expenses by approximately \$55 million. The planned expense reductions associated with the restructuring of the Lazard Group pension and post-retirement medical plans and the cost savings from a reassessment of our staffing needs are expected to be approximately \$45 million. To the extent required, any reductions, over and above these approximately \$100 million of reductions, necessary to achieve our target employee compensation expense-to-operating revenue ratio of 57.5% will be accomplished by reducing other compensation expenses, including the discretionary bonuses of our managing directors, as generally permitted by the new retention agreements.

While we are implementing steps that we believe will reduce our compensation expense-to-operating revenue ratio to 57.5%, there can be no guarantee that this will be achieved or that our policy will not change in the future. Increased competition for senior professionals, changes in the financial markets generally or other factors could prevent us from reaching this objective.

Results of Operations

Our 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 at year end exchange rates, while revenue and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of members' equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements

of income.

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The consolidated results of operations for the years ended December 31, 2002 through December 31, 2004 are set forth below:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
Net Revenue:			
Financial Advisory	\$ 532,896	\$ 690,967	\$ 655,200
Asset Management	454,683	350,348	417,166
Capital Markets and Other(a)	174,309	135,534	188,100
Corporate	4,391	6,535	13,839
Net revenue	1,166,279	1,183,384	1,274,305
Operating Expenses:			
Employee compensation and benefits	469,037	481,212	573,779
Non-compensation expense	321,197	312,818	342,764
Total operating expenses	790,234	794,030	916,543
Operating Income	376,045	389,354	357,762
Provision for income taxes	38,583	44,421	28,375
Income Allocable to Members Before Minority Interest and Extraordinary Gain	337,462	344,933	329,387
Minority Interest	40,015	94,550	87,920
Income Allocable to Members Before Extraordinary Gain	297,447	250,383	241,467
Extraordinary gain			5,507
Net Income Allocable to Members	\$ 297,447	\$ 250,383	\$ 246,974

(a) As described above, Lazard Group will separate its Capital Markets and Other business segment in connection with the separation and recapitalization.

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The key ratios, statistics and headcount information for the years ended December 31, 2002 through December 31, 2004 are set forth below:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
As a % of Net Revenue:			
Financial Advisory	46%	58%	51%
Asset Management	39%	30%	33%
Capital Markets and Other(a)	15%	11%	15%
Corporate	0%	1%	1%
Net Revenue	100%	100%	100%
As a % of Net Revenue:			
Operating Income	32%	33%	28%
Headcount, as of the end of each period, prior to the separation:			
Managing Directors:			
Financial Advisory	103	118	131
Asset Management	19	24	35
Capital Markets and Other(a)	20	22	22
Corporate (including limited managing directors)	18	18	19
All Other Employees	2,499	2,374	2,377
Total	2,659	2,556	2,584
Headcount, as of the end of each period, after the separation:			
Managing Directors:			
Financial Advisory	103	118	131
Asset Management	19	24	35
Corporate (including limited managing directors)	18	18	19
All Other Employees	2,323	2,206	2,154
Total	2,463	2,366	2,339

(a) As described above, Lazard Group will separate its Capital Markets and Other business segment in connection with the separation and recapitalization.

Consolidated Results of Operations

A discussion of our consolidated results of operations is set forth below, followed by a more detailed discussion of business segment results.

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2004 versus 2003. Net revenue was \$1,274 million in 2004, up \$91 million, or 8%, versus net revenue of \$1,183 million for 2003. During 2004, M&A net revenue increased by 15%, offset by a reduction in Financial Restructuring net revenue of 61%, while Asset Management net revenue increased by 19% and Capital Markets and Other net revenue increased by 39%.

Employee compensation and benefits expense was \$574 million for 2004, an increase of \$93 million, or 19%, versus expense of \$481 million in 2003. The expense increase was primarily due to increases in performance-based bonus accruals, new service groups operating for the full year in 2004, and increased pension costs in the U.S. and Europe. Employee headcount as of December 31, 2004 was at approximately the same level as of December 31, 2003, however, the composition changed with decreases in headcount in the Financial Advisory and Corporate segments being offset by increased headcount in the Asset Management and Capital Markets and Other segments. For further information with respect to employee compensation and benefits expense after this offering, see Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition Notes to Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition.

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Non-compensation expense was \$343 million for 2004, an increase of \$30 million, or 10%, versus expense of \$313 million for 2003. Premises and occupancy expenses were \$97 million, a decrease of \$2 million, or 2%, due to lower costs associated with abandoned space and duplicate rent in London, almost entirely offset by higher occupancy costs in the U.S. and Europe for offices that were not operating for the full year in 2003. Professional fees were \$74 million, an increase of \$18 million, or 31%, versus \$56 million for 2003 primarily due to costs incurred in connection with this offering, payments to former employees as a result of carried interest-based incentive fees on real estate-related merchant banking funds, consulting fees relating to our recently initiated merchant banking activities in the U.K. and integration costs associated with the acquisition of the assets of Panmure Gordon. Travel and entertainment expenses were \$51 million, an increase of \$5 million, or 11%, versus \$46 million for 2003, due to increased business development efforts. Communication and information services and equipment costs, in the aggregate, were \$65 million, an increase of \$9 million, or 17%, versus \$56 million for 2003 due to increased software maintenance expense and additional technology related spending in certain offices in the U.S. and Europe. Other expenses were \$57 million, essentially flat versus 2003.

Operating income was \$358 million for 2004, a decrease of \$31 million, or 8%, versus operating income of \$389 million for 2003. Operating income as a percentage of net revenue was 28% for 2004 versus 33% for 2003.

Provision for income taxes was \$28 million for 2004, a decrease of \$16 million versus \$44 million for 2003, due to decreased profitability in locations that are subject to corporate income taxes.

Minority interest was \$88 million for 2004, a decrease of \$7 million versus \$95 million for 2003, principally due to a decrease in minority interest associated with the Italian strategic alliance, offset by an increase in performance-based compensation for LAM members. See [Minority Interest](#).

Income allocable to members before extraordinary gain was \$241 million for 2004, a decrease of \$9 million, or 4%, versus \$250 million in 2003.

An extraordinary gain of approximately \$6 million was recorded in January 2004 related to the acquisition of the assets of Panmure Gordon and represented the excess of the fair value of the net assets acquired over the purchase price.

2003 versus 2002. Net revenue was \$1,183 million in 2003, an increase of \$17 million, or 1%, versus net revenue of \$1,166 million in 2002. During 2003, M&A net revenue increased by 7% and Financial Restructuring net revenue increased by 96%, with these increases principally offset by decreases in Asset Management net revenue of 23% and Capital Markets and Other net revenue of 22%.

Employee compensation and benefits expense was \$481 million in 2003, an increase of \$12 million or 3% versus expense of \$469 million during 2002. The increase in expense in 2003 was principally due to investments made in our Financial Advisory segment, including new service groups and increases in U.K. pension costs. These increases were partially offset by savings related to headcount reductions in Asset Management, and by the reclassification to minority interest expense of compensation for employee members of LAM whose compensation, prior to 2003, had previously been reported in employee compensation and benefits expense. Employee headcount (excluding managing directors) at December 31, 2003 was 2,374, a net reduction of 125 versus December 31, 2002.

Non-compensation expense was \$313 million in 2003, a decrease of \$8 million, or 3%, versus expense of \$321 million in 2002. Premises and occupancy expenses were \$98 million, an increase of \$16 million, or 20%, versus \$82 million in 2002, primarily due to increases in rent in London and

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occupancy cost for our Paris facilities. Professional fees were \$56 million, a decrease of \$12 million, or 17%, versus \$68 million in 2002 due to higher professional fees in 2002 relating to (i) dissolving an Asset Management partnership arrangement, (ii) unwinding of an investment in a derivatives business venture and (iii) reorganizing the LAM capital structure. Travel and entertainment expenses were \$46 million, an increase of \$5 million, or 11%, versus \$41 million in 2002 due to increased business development efforts. Communication and information services and equipment costs in the aggregate were \$56 million, an increase of \$5 million, or 10%, versus \$51 million in 2002 with no one business activity accounting for a significant piece of the increase. Other expenses were \$57 million, a decrease of \$22 million, or 28%, versus \$79 million in 2002, primarily due to one-time costs incurred in 2002 relating to dissolving the aforementioned Asset Management partnership arrangement.

Operating income was \$389 million in 2003, an increase of \$13 million, or 4%, versus operating income of \$376 million in 2002. Operating income as a percentage of net revenue was 33% in 2003 versus 32% in 2002.

Provision for income taxes was \$44 million in 2003, an increase of \$5 million versus \$39 million in 2002, due to increased profitability in locations that are subject to corporate income taxes.

Minority interest was \$95 million in 2003, an increase of \$55 million versus \$40 million in 2002. Beginning in 2003, compensation for services rendered by LAM managing directors and employee members of LAM was recorded in minority interest. In addition, Lazard Group's strategic alliance in Italy with Intesa also commenced in 2003. These two items, in the aggregate, accounted for a \$78 million increase in minority interest expense. Partially offsetting these increases was a \$22 million decline in minority interest expense associated with the consolidation of LAM-related general partnerships consistent with the decline in related incentive fee revenue. See [Minority Interest](#).

Net income allocable to members was \$250 million in 2003, a decrease of \$47 million, or 16%, versus net income allocable to members of \$297 million in 2002.

Business Segments

The following data discusses net revenue and operating income by business segment. The operating results exclude a discussion of Corporate, due to its relatively minor contribution to operating results. Each segment's operating expenses include (i) employee compensation and benefits expenses that are incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for premises and occupancy, professional fees, travel and entertainment, communications and information services, equipment, 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. 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:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
M&A	\$ 393,082	\$ 419,967	\$ 481,726
Financial Restructuring	124,800	244,600	96,100
Corporate Finance and Other	15,014	26,400	77,374
Net Revenue	532,896	690,967	655,200
Direct Employee Compensation and Benefits	171,270	189,823	230,340
Other Operating Expenses(a)	159,532	190,427	213,342
Total Operating Expenses	330,802	380,250	443,682
Operating Income	\$ 202,094	\$ 310,717	\$ 211,518
Operating Income as a Percentage of Net Revenue	38%	45%	32%
Headcount(b):			
Managing Directors	103	118	131
Other Employees	820	848	832
Total	923	966	963

(a) Includes indirect support costs (including compensation and other operating expenses related thereto).

(b) Excludes headcount related to support functions. Such headcount is included in the Corporate headcount.

Net revenue trends in Financial Advisory for M&A and Financial Restructuring generally are correlated to the volume of completed industry-wide mergers and acquisitions activity 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 mergers and acquisitions activity in a particular geography where we have significant market share or the number of our advisory engagements with respect to larger-sized transactions can cause our results to diverge from industry-wide activity. Lazard Group client statistics and global industry statistics are set forth below:

	Year Ended December 31,		
	2002	2003	2004

Lazard Statistics:

Number of Clients:

Total	383	370	435
With Fees Greater than \$1 million	136	137	136
Percentage of Total Fees from Top 10 Clients	26%	30%	25%
Number of M&A Transactions Completed Greater than \$1 billion	21	29	30

Industry Statistics (\$ in billions):

Volume of Completed M&A Transactions:

Global	\$ 1,352	\$ 1,220	\$ 1,574
Trans-Atlantic	102	102	104
Global Corporate Debt Defaults	164	34	16

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

	Year Ended December 31,		
	2002	2003	2004
North America	41%	49%	45%
Europe	57%	50%	54%
Rest of World	2%	1%	1%
Total	100%	100%	100%

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

Financial Advisory Results of Operations

2004 versus 2003. In 2004, M&A net revenue increased by \$62 million, or 15%, driven by the improved environment for mergers and acquisitions activity. The increase in M&A net revenue was offset by a \$149 million, or 61%, decrease in Financial Restructuring net revenue versus 2003, consistent with the decline in global corporate debt defaults that began in 2003. Other Financial Advisory net revenue increased by \$51 million primarily due to net revenue generated from a new service that raises capital for private equity funds that commenced operations in 2003, as well as increased underwriting net revenue in corporate finance activities.

Clients with whom Lazard Group transacted significant business in 2004 included Air Liquide, Bank One, Fisher Scientific, Intesa, Interbrew, MG Technologies, National Energy & Gas, Pfizer, Pirelli, Resolution Life, UCB and Veolia Environment.

Financial Advisory net revenue in 2004 was earned from 435 clients, compared to 370 in 2003. Advisory fees of \$1 million or more were earned from 136 of our clients for 2004, compared to 137 in 2003. In 2004, the ten largest fee-paying clients constituted 25% of Financial Advisory segment net revenue. There were no clients in 2004 that individually constituted more than 10% of Financial Advisory segment net revenue.

Operating expenses were \$444 million for 2004, an increase of \$64 million, or 17%, versus operating expenses of \$380 million in 2003. Direct employee compensation and benefits expense increased by \$41 million, or 21%. While changes in employee

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compensation are generally correlated to changes in employee headcount, the timing and composition of such headcount changes may have a direct impact on the level of any given year's compensation and benefit expense. More specifically, in 2004, while total employee headcount in the Financial Advisory segment decreased, employee compensation and benefits expense increased primarily due to an increase in headcount in certain of our offices and in new offices or new service groups that were partially or not operational in 2003, and increased pension costs in the U.S. and Europe, partially offset by a \$4 million decrease related to the

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termination of a post-retirement medical plan in Europe. Other operating expenses increased by \$23 million, or 12%, due to increases in premises and occupancy expense of \$7 million, travel and entertainment expense of \$4 million, communications, information services and equipment of \$2 million and all other expenses, which in the aggregate increased by \$10 million. Premises and occupancy expense increased due to higher occupancy costs in Europe as well as in the U.S. for offices that were not operating for the full year in 2003. Travel and entertainment expense increased due to business development efforts. Communications, information services and equipment expense increased due to additional technology and equipment expense in certain offices in the U.S. and Europe and technology upgrades in the U.S.

Financial Advisory operating income was \$212 million for 2004, a decrease of \$99 million, or 32%, versus operating income of \$311 million for 2003. Operating income as a percentage of segment net revenue was 32% for 2004 versus 45% in 2003.

2003 versus 2002. In 2003, Financial Restructuring net revenue increased by \$120 million, or 96% versus 2002, as restructuring activity peaked following the rise in corporate debt defaults during the preceding three years. In addition, the growth in net revenue was driven by fees earned on a number of unusually large restructuring transactions that were completed in 2003. During the same period, M&A net revenue increased by \$27 million, or 7%, versus 2002, despite an industry-wide decline in global completed M&A activity. The improvement in our M&A net revenue was driven by our increased involvement globally in mergers and acquisitions transactions valued in excess of \$1 billion. Such transactions generally earn higher fees per transaction, which is reflected in the higher proportion in 2003 of our net revenue attributable to our ten largest clients. In addition, net revenue generated by our operations in Italy, which held a leading market position, grew substantially on improved mergers and acquisitions activity in the region. Other Financial Advisory net revenue increased by \$11 million due to revenue generated from new service groups that commenced operations in 2003, increased underwriting activity and increases in other miscellaneous income.

Clients with whom Lazard Group transacted significant business in 2003 included Canary Wharf Group, Charter Communications, Conseco, Corus Group, Edison International, Fiat, Intesa, Microsoft, Pfizer, Pirelli Group, Sierra Pacific Resources, Vivendi Universal, WorldCom and Xcel Energy.

Financial Advisory net revenue in 2003 was earned from 370 clients, compared to 383 in 2002. Advisory fees of \$1 million or more were earned from 137 of our clients in 2003, compared to 136 in 2002. In 2003, the ten largest fee-paying clients constituted 30% of Financial Advisory segment net revenue. There were no clients in 2003 that individually constituted more than 10% of Financial Advisory segment net revenue.

Operating expenses were \$380 million for 2003, an increase of \$49 million, or 15%, versus operating expenses of \$331 million in 2002. Direct employee compensation and benefits expense increased by \$19 million, or 11%, primarily due to increased revenue and increased headcount in select offices and new service groups. Other operating expenses increased by \$31 million, or 19%, due to increases in premises and occupancy expense of \$9 million, or 49%, travel and entertainment expense of \$4 million, or 26%, and support costs of \$18 million, or 28%. Premises and occupancy expense increased principally due to higher occupancy cost in London and Paris, and new offices in Houston and Los Angeles. Travel and entertainment expense increased across all offices primarily due to increased business development efforts and an increase in managing director headcount compared to 2002.

Financial Advisory operating income was \$311 million in 2003, an increase of \$109 million, or 54%, versus operating income of \$202 million in 2002. Operating income as a percentage of segment net revenue was 45% in 2003 versus 38% in 2002.

Table of Contents**Asset Management**

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

	As of December 31,		
	2002	2003	2004
	(\$ in millions)		
AUM			
International Equities	\$ 23,141	\$ 34,389	\$ 39,267
Global Equities	12,806	15,922	17,762
U.S. Equities	9,878	12,236	12,716
Total Equities	45,825	62,547	69,745
International Fixed Income	4,164	5,174	6,226
Global Fixed Income	1,723	1,932	2,008
U.S. Fixed Income	4,850	4,393	2,970
Total Fixed Income	10,737	11,499	11,204
Alternative Investments	4,094	1,370	2,800
Merchant Banking	272	411	551
Cash Management	2,757	2,544	2,135
Total AUM	\$ 63,685	\$ 78,371	\$ 86,435

The following is a summary of changes in Asset Management's AUM and average AUM during the years ended December 31, 2002, 2003 and 2004. Average AUM is based on an average of quarterly ending balances for the respective periods.

	Year Ended December 31,		
	2002	2003	2004
	(\$ in millions)		
AUM Beginning of Year	\$ 73,108	\$ 63,685	\$ 78,371
Net Flows	(3,573)	(1,111)	(3,489)
Market Appreciation (Depreciation)	(7,215)	14,457	10,793
Foreign Currency Adjustments	1,365	1,340	760
AUM End of Year	\$ 63,685	\$ 78,371	\$ 86,435
Average AUM	\$ 68,356	\$ 66,321	\$ 80,261



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

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
Management and Other Fees	\$ 381,256	\$ 312,123	\$ 389,812
Incentive Fees	73,427	38,225	27,354
Net Revenue	454,683	350,348	417,166
Direct Employee Compensation and Benefits	131,601	108,701	134,097
Other Operating Expenses(a)	167,016	131,187	147,932
Total Operating Expenses	298,617	239,888	282,029
Operating Income	\$ 156,066	\$ 110,460	\$ 135,137
Headcount(b):			
Managing Directors	19	24	35
Other Employees	661	571	581
Total	680	595	616

(a) Includes indirect support costs (including compensation and other operating expenses related thereto).

(b) Excludes headcount related to support functions. Such headcount is included in the Corporate headcount.

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

	Year Ended December 31,		
	2002	2003	2004
North America	72%	63%	59%
Europe	22%	30%	33%
Rest of World	6%	7%	8%
Total	100%	100%	100%

Asset Management Results of Operations

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2004 versus 2003. Asset Management net revenue was \$417 million in 2004, an increase of \$67 million, or 19%, versus net revenue of \$350 million in 2003. Management and Other Fees in 2004 were \$390 million, up \$78 million, or 25%, versus 2003. Incentive fees earned in 2004 were \$27 million, a decrease of \$11 million versus \$38 million in 2003, due to lower performance in certain investment funds.

For 2004, average AUM increased by approximately \$13.9 billion, or 21%, versus 2003. Management and Other Fees grew at a faster rate than average AUM primarily due to a greater percentage of AUM concentrated in equity and alternative investments versus fixed income products (84% of total AUM in 2004 as compared to 82% in 2003), which generally earn higher management fees.

AUM as of December 31, 2004 was \$86.4 billion, an increase of \$8 billion, or 10%, versus AUM of \$78.4 billion as of December 31, 2003. During 2004, the increase in AUM was primarily due to market appreciation of \$10.8 billion that more than offset net outflows of \$3.5 billion. Net outflows were principally related to performance related withdrawals, asset allocation decisions and corporate restructurings.

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Operating expenses were \$282 million in 2004, an increase of \$42 million, or 18%, versus operating expenses of \$240 million in 2003. Direct employee compensation and benefits expense increased by \$25 million, or 23%, versus 2003, primarily due to increases in performance-based bonuses relating to the increased operating results and to a lesser extent, increases in headcount to support global growth. Other operating expenses increased by \$17 million, or 13%, versus 2003 principally due to increases in premises and occupancy expense of \$3 million, or 14%, and travel and entertainment expense of \$2 million, or 20%, equipment expense of \$2 million, or 72%, and all other expenses which, in the aggregate, increased \$10 million or 10%.

Asset Management operating income was \$135 million in 2004, an increase of \$25 million, or 22%, versus operating income of \$110 million for 2003. Operating income as a percentage of segment net revenue was 32% for the 2004 versus 32% for 2003.

2003 versus 2002. Asset Management net revenue was \$350 million in 2003, a decrease of \$105 million, or 23%, from net revenue of \$455 million in 2002. Management and Other fees for 2003 were \$312 million, down \$69 million, or 18%, versus the corresponding period in 2002. Incentive fees earned in 2003 were \$38 million, \$35 million lower than in 2002. Lower average AUM, significant net outflows in alternative investments and the decline in incentive fees, resulted in a decrease in net revenue in 2003.

In 2003, average AUM decreased by \$2.0 billion, or 3%, versus 2002, primarily due to net asset outflows that occurred in early 2003. The majority of the net asset outflow occurred in the alternative investment product area due to the departure in early 2003 of a hedge fund manager and team. This outflow resulted in both reduced management fees and incentive fees in 2003. As the mix of AUM in 2003 shifted away from higher margin alternative investments, the average fees earned on AUM were lower in 2003 than in 2002. By the end of 2003, the downward trend in AUM was reversed due to significant market appreciation and an increase in net inflows of assets beginning in the second quarter, which offset the market depreciation and net outflows experienced in the first quarter.

AUM at December 31, 2003 was \$78.4 billion, up approximately \$15 billion from December 31, 2002 due almost entirely to market appreciation.

Operating expenses were \$240 million for 2003, a decrease of \$59 million, or 20%, versus operating expenses of \$299 million in 2002. Direct employee compensation and benefits expense decreased by \$23 million, or 17%, \$10 million of which related to the reporting of compensation for non-managing directors who are members of LAM. In prior years, such compensation was reported in employee compensation and benefits expense. Also contributing to the decrease was lower headcount and performance-based bonuses as a result of lower operating results in 2003. Other operating expenses decreased \$36 million, or 21%, in 2003 compared to 2002. Professional fees were \$6 million lower than in 2002 when additional expense was incurred relating to the dissolving of an Asset Management partnership arrangement and the reorganization of the LAM capital structure. Other expenses were \$30 million lower than in 2002 principally due to additional costs incurred in 2002 relating to dissolving the aforementioned Asset Management partnership arrangement and, to a lesser extent, lower support costs and equipment expenses.

Asset Management operating income was \$110 million in 2003, a decrease of \$46 million, or 29%, versus operating income of \$156 million in 2002. Operating income as a percentage of segment net revenue was 32% in 2003 versus 34% in 2002.

Table of Contents**Capital Markets and Other**

The following table summarizes the operating results of the Capital Markets and Other segment:

	Year Ended December 31,		
	2002	2003	2004
	(\$ in thousands)		
Revenue:			
Capital Markets advisory fees	\$ 3,335	\$ 1,568	\$ 10,153
Money management fees	25,753	23,272	44,951
Commissions	48,724	43,184	51,871
Trading Gains and losses-net	60,768	39,124	30,841
Underwriting	11,268	17,496	34,278
Investment gains (losses), non-trading-net	21,145	7,911	10,087
Interest Income	39,432	21,988	19,705
Other	(2,699)	(3,815)	538
Total revenue	207,726	150,728	202,424
Interest expense	(33,417)	(15,194)	(14,324)
Net Revenue	174,309	135,534	188,100
Direct Employee Compensation and Benefits	68,748	83,909	96,544
Other Operating Expenses(a)	89,663	98,286	95,927
Total Operating Expenses	158,411	182,195	192,471
Operating Income (Loss)	\$ 15,898	\$ (46,661)	\$ (4,371)
Headcount(b):			
Managing Directors	20	22	22
Other Employees	176	168	223
Total	196	190	245

(a) Includes indirect support costs (including compensation and other operating expenses related thereto).

(b) Excludes headcount related to support functions. Such headcount is included in the Corporate headcount.

Capital Markets and Other Results of Operations

The net revenue included in the Capital Markets and Other segment is related primarily to revenue earned from underwriting fees from securities offerings and secondary trading revenue earned in the form of commissions and trading profits from principal

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transactions in equity, fixed income and convertibles businesses. In addition, this segment earned underwriting and other fee revenue from corporate broking in the U.K. related to the January 2004 acquisition of the assets of Panmure Gordon. Also included in this segment are fund management fees and, if applicable, carried interest incentive fees related to merchant banking funds managed as part of this segment. Carried interest fees are earned when profits from merchant banking investments exceed a certain threshold. In addition, investment income and net interest income from long-term investments, cash balances and securities financing transactions also are included in the Capital Markets and Other segment. These capital market activities will be part of the businesses separated from the operations of Lazard Group in connection with the separation. The results of the operations of the Capital Markets and Other segment are included in Lazard Group's historical financial statements, however, after the completion of the separation, Lazard Group will no longer own the Capital Markets and Other segment and will report the segment as a discontinued operation. However, Lazard Group has an option under the business alliance agreement to acquire the merchant banking business from LFCM Holdings. See Certain Relationships and Related Transactions Relationship with LAZ-MD Holdings and LFCM Holdings Business Alliance Agreement.

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2004 versus 2003. Capital Markets and Other net revenue was \$188 million in 2004, an increase of \$52 million, or 39%, versus net revenue of \$136 million in 2003. Higher net revenue in sales and trading was the principal contributor to the increase, including net revenue of \$18 million generated from certain product areas not previously offered by Lazard Group, due to the acquisition of the assets of Panmure Gordon in January 2004. Increases in primary revenue in corporate broking, corporate bonds, convertibles and secondary revenue in equities were offset by a decrease in secondary trading in fixed income. In addition, incentive fees earned on the realization of carried interest on real estate-related merchant banking funds were \$23 million in 2004, versus \$3 million recorded in 2003.

Operating expenses were \$192 million for 2004, an increase of \$10 million, or 6%, versus operating expenses of \$182 million in 2003. Direct employee compensation and benefits expense in 2004 increased by \$13 million, or 15%, primarily due to increases in headcount associated with the acquisition of the assets of Panmure Gordon in 2004 and bonuses related to the carried interest incentive fees, partially offset by decreases in bonus accruals in certain areas that experienced declines in revenue in the 2004 period. Other operating expenses decreased by \$3 million, or 2%. Premises and occupancy costs decreased by \$15 million in 2004, principally due to reductions of \$10 million related to abandoned space in our London facilities as well as a reduction of approximately \$6 million of duplicate rent paid in 2003 that did not recur in 2004. Professional fees increased by \$16 million in 2004, primarily due to integration costs associated with the acquisition of the assets of Panmure Gordon, payments to former employees as a result of carried interest incentive fees recorded in merchant banking and consulting fees relating to our recently initiated merchant banking activities in the U.K. All other expenses in the aggregate decreased by \$4 million, principally due to lower expenses associated with the 2003 settlement of a dispute relating to a merchant banking fund as well as lower travel and entertainment expenses. In connection with the acquisition of the assets of Panmure Gordon during 2004, new service groups were added that did not exist in 2003 and which added an aggregate of \$5 million across all other expense categories.

Capital Markets and Other operating loss was \$4 million in 2004, versus a loss of \$47 million in 2003. Operating loss as a percentage of segment net revenue was 2% for 2004, versus a loss of 34% in 2003.

2003 versus 2002. Capital Markets and Other net revenue was \$135 million in 2003, a decrease of \$39 million, or 22%, from net revenue of \$174 million in 2002. The decrease in net revenue in 2003 was principally due to a gain in 2002 of \$27 million on the sale of a portion of a long-term investment that did not recur in 2003. Also contributing to the decrease was lower secondary trading revenue of \$12 million.

Operating expenses were \$182 million for 2003, an increase of \$24 million, or 15%, versus operating expenses of \$158 million in 2002. Direct employee compensation and benefits expense in 2003 increased by \$15 million, or 22%, primarily due to the establishment of a new convertible bond desk, the addition of a new equity team in London and an increase in employee bonuses in the corporate bond area. Offsetting these increases were decreases in headcount and performance-based bonuses in other product areas. Other operating expenses increased by \$9 million, or 10%, primarily related to expenses associated with the aforementioned settlement of a dispute relating to a merchant banking fund.

Capital Markets and Other operating loss was \$47 million in 2003 versus operating income of \$16 million in 2002. Operating loss as a percentage of net revenue was 34% in 2003 versus operating income as a percentage of net revenue of 9% in 2002.

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Geographic Data

For a summary of the consolidated net revenue and identifiable assets of Lazard Group as of and for the years ended December 31, 2002, 2003 and 2004 by geographic region, see Note 15 of notes to our historical consolidated financial statements.

Cash Flows

Historically, Lazard Group's cash flows have been influenced primarily by the timing of receipt of Financial Advisory and Asset Management fees, the timing of distributions to members and payment of bonuses to employees. In general, we collect our accounts receivable within 60 days. In restructuring transactions, particularly restructurings involving bankruptcies, receivables sometimes take longer to collect than 60 days due to issues such as court-ordered holdbacks.

Cash and cash equivalents were \$274 million at December 31, 2004, a decrease of \$42 million versus cash and cash equivalents of \$316 million at December 31, 2003. During 2004, cash of \$426 million was provided by operating activities, including \$247 million from net income allocable to members, \$105 million of noncash charges, principally consisting of depreciation and amortization of \$17 million and minority interest of \$88 million and \$74 million being provided by net changes in other operating assets and operating liabilities. Cash of \$10 million was used for investing activities principally related to net additions to property. Financing activities during this period used \$470 million of cash, primarily for distributions to members and minority interest holders of \$469 million. Lazard Group traditionally makes payments for employee bonuses and distributions to members and minority interest holders in the first quarter with respect to the prior year's results.

Cash and cash equivalents were \$316 million at December 31, 2003, a decrease of \$17 million versus cash and cash equivalents of \$333 million at December 31, 2002. During the year ended December 31, 2003, cash of \$207 million was provided by operating activities, including \$250 million from net income allocable to members, and \$109 million of noncash charges principally consisting of depreciation and amortization of \$14 million and minority interest of \$95 million, with these items partially offset by net changes in other operating assets and operating liabilities of \$152 million. Cash of \$54 million was provided by investing activities, principally as a result of proceeds of \$100 million from the formation of the strategic alliance in Italy, offset by net additions in property relating to leasehold improvements, principally in London and Paris, of \$46 million. Financing activities used \$287 million of cash, primarily relating to distributions to members and minority interest holders of \$452 million, partially offset by \$200 million invested by Intesa in connection with the formation of the strategic alliance in Italy.

Liquidity and Capital Resources

Historically, Lazard Group's source of liquidity has been cash provided by operations, with a traditional seasonal pattern of cash flow. While employee salaries are paid throughout the year, annual discretionary bonuses have historically been paid to employees in January relating to the prior year. Our managing directors are paid a salary during the year, but a majority of their annual cash distributions with respect to the prior year have historically been paid to them in three monthly installments in February, March and April. In addition, and to a lesser extent, during the year we pay certain tax advances on behalf of our managing directors, and these advances serve to reduce the amounts due to the managing directors in the three installments described above. As a consequence, our level of cash on hand decreases significantly during the first quarter of the year and gradually builds up over the remaining three quarters of the year. We expect this seasonal pattern of cash flow to continue.

Lazard Group's consolidated financial statements are presented in U.S. dollars. Many of Lazard Group's non-U.S. subsidiaries have a functional currency, *i.e.*, the currency in which operational

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activities are primarily conducted, that is other than the U.S. dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries' assets and liabilities are translated into U.S. dollars at year end exchange rates, while revenue and expenses are translated at average exchange rates during the year. Adjustments that result from translating amounts from a subsidiary's functional currency are reported as a component of members' equity. Such currency translation adjustments served to increase members' equity by approximately \$47 million, \$51 million and \$30 million in the years ended December 31, 2002, 2003 and 2004, respectively. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included on the consolidated statements of income.

During 2002, 2003 and 2004, following the hiring of new senior management, Lazard Group invested significant amounts in the recruitment and retention of senior professionals in an effort to reinvest in the intellectual capital of Lazard Group's business. As a result, while payments for services rendered by our managing directors prior to 2002 generally did not exceed net income allocable to members, in 2002, 2003 and 2004, distributions to its managing directors exceeded its net income allocable to members. The amounts of the distributions that exceeded net income allocable to members were the primary cause for a decrease in members' equity during these periods. On a pro forma basis, Lazard Group will realize a further reduction of members' equity as a result of the separation. See Unaudited Pro Forma Condensed Consolidated Statement of Financial Condition.

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 senior and subordinated lines of credit in excess of anticipated liquidity requirements. As of December 31, 2004, Lazard Group had \$212 million in unused lines of credit available to it. These facilities provide us with the ability to meet short-term cash flow needs resulting from our various business activities. If these facilities prove to be insufficient, we would seek additional financing in the credit or capital markets, although we may be unsuccessful in obtaining such additional financing on acceptable terms or at all. A significant portion of these capital lines support the capital markets and other separated businesses.

Lazard Group's cash flow generated from operations historically has been sufficient to enable it to meet its obligations, including interest on \$350 million of financings obtained since 2001. We believe that our cash flows from operating activities, after giving effect to the separation, should be sufficient for us to fund our current obligations for the next 12 months and beyond. In addition, we intend to maintain lines of credit that can be utilized should the need arise. Lazard Group entered into a commitment letter dated April 14, 2005 that provides that, subject to customary conditions precedent for transactions of this nature, including the consummation of this offering, a group of lenders will provide a five-year \$125 million revolving credit facility for Lazard Group and a separate \$25 million subordinated credit facility for Lazard Frères & Co. LLC, our U.S. broker dealer. The Lazard Frères & Co. LLC facility will be a four-year revolving credit facility, and then will continue as a term loan facility for an additional year. Each facility will contain customary affirmative and negative covenants and events of default for facilities of this type. The facilities will, 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. In addition, each facility will contain financial covenants that must be maintained. The Lazard Frères & Co. LLC facility is intended to qualify as a satisfactory subordination agreement in accordance with the applicable NASD rules and regulations. 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.

Over the past several years, Lazard Group 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 historical consolidated financial statements and related notes included elsewhere in this prospectus.

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In March 2001, Lazard Group issued \$100 million of Mandatorily Redeemable Preferred Stock (Class C Preferred Interests). The Class C Preferred Interests are subject to mandatory redemption by Lazard Group in March 2011 and, prior to such date, are redeemable in whole or in part, at Lazard Group's option. The Class C Preferred Interests are entitled to receive distributions out of the profits of Lazard Group at a rate of 8% per annum, which distributions must be paid prior to any distributions of profits to holders of any other existing class of interests in Lazard Group. Unpaid distributions on the Class C Preferred Interests accrue but are not compounded. Upon liquidation of Lazard Group, the Class C Preferred Interests rank senior to members' equity. The Class C Preferred Interests will be redeemed in connection with the separation and recapitalization transactions.

In May 2001, a wholly-owned subsidiary of Lazard Group issued \$50 million of Senior Notes due 2011. These notes, which are unsecured obligations and guaranteed by Lazard Group, currently bear interest at an annual rate of 7.53%.

In September 2002, Lazard Group and Intesa announced their agreement to form a strategic alliance wherein effective January 2003, Intesa effectively became a 40% partner in Lazard Group's business in Italy. Pursuant to the terms of this strategic alliance, Intesa made a \$100 million investment in Lazard Group's business in Italy, and purchased a \$50 million subordinated promissory note issued by Lazard Group's business in Italy. The subordinated promissory note has a scheduled maturity in 2078 (subject to extension), with interest payable annually at the rate of 3.0% per annum.

From time to time, we have considered appropriate modifications to our relationship with Intesa. We have held various discussions with Intesa in connection with the separation and recapitalization transactions, and Intesa has notified us of its intention not to extend the term of the joint venture relationship beyond the expiration date of December 31, 2007. As a result, under the terms of the strategic alliance, unless we and Intesa otherwise agree, we will repurchase its 40% interest in our business in Italy and repay the \$50 million subordinated promissory note for an aggregate amount not to exceed \$150 million, less distributions received by Intesa in connection with the joint venture, on or prior to February 4, 2008. Based on the current performance of the joint venture we do not currently expect any expiration of the joint venture to have a material adverse effect on our operating results.

In addition to its direct investment in Lazard Group's business in Italy, Intesa also purchased a \$150 million subordinated convertible promissory note from a wholly-owned subsidiary of Lazard Group. The subordinated convertible promissory note, which is guaranteed by Lazard Group, is convertible into a contractual right that entitles the holder to receive payments in certain fundamental transactions, including the sale of all or substantially all of the assets of Lazard Group, the sale of a substantial goodwill equity stake to a third party or the disposition of a line of business or a key House. The amounts payable under this contractual right are generally equal to the amounts that would have then been payable in respect of a working member goodwill interest at Lazard Group that was entitled to 3% of the ag