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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response . . . 12.00

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III  
FACING PAGE

REC'D S.E.C.  
MAR 04 2003  
1086

SEC FILE NUMBER  
8-2595BD

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING January 1, 2002 AND ENDING December 31, 2002  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

Lazard Frères & Co. LLC and subsidiaries  
(~~Deloitte & Touche~~)

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

Thirty Rockefeller Plaza  
(No. and Street)

New York New York 10020  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Matthew J. Davis 212-632-6611  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Deloitte & Touche LLP  
(Name - if individual, state last, first, middle name)

Two World Financial Center New York New York 10281-1414  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

MAR 21 2003  
THOMSON  
FINANCIAL

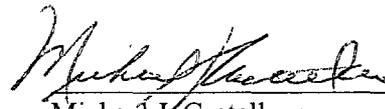
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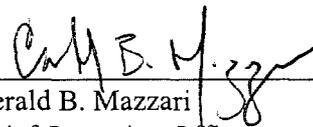
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

AFFIRMATION

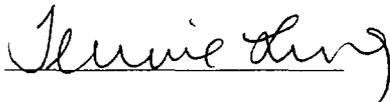
We, Michael J. Castellano and Gerald B. Mazzari, affirm that, to the best of our knowledge and belief, the accompanying consolidated financial statements and unconsolidated supplemental schedules pertaining to Lazard Frères & Co. LLC and subsidiaries (the "Company") for the year ended December 31, 2002 are true and correct and such consolidated financial statements and unconsolidated supplemental schedules will be made available promptly to all members and allied members of the New York Stock Exchange, Inc. in our organization. We further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

SECURITY ACCOUNT OF AN OFFICER IS CLASSIFIED AS THAT OF A CUSTOMER (DEBITS \$0, CREDITS \$0).

  
February 27, 2003  
Michael J. Castellano Date  
Chief Financial Officer

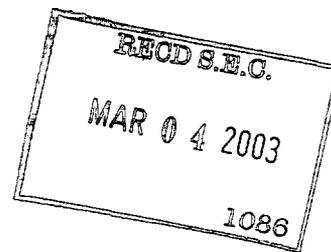
  
February 27, 2003  
Gerald B. Mazzari Date  
Chief Operating Officer

Subscribed and sworn  
to before me this 27th  
day of February 2003



JENNIE LEUNG  
NOTARY PUBLIC, State of New York  
No. 01LE6020761  
Qualified in Queens County  
Commission Expires March 1, 2003

LAZARD FRÈRES & CO. LLC  
(S.E.C. I.D. No. 8-2595BD)



CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2002  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTAL REPORT ON INTERNAL CONTROL

\*\*\*\*\*

Filed in accordance with Rule 17a-5(e)(3)  
under the Securities Exchange Act of 1934  
as a PUBLIC document.

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**Deloitte  
& Touche**

## **INDEPENDENT AUDITORS' REPORT**

To the Management Committee and Member of  
Lazard Frères & Co. LLC:

We have audited the accompanying consolidated statement of financial condition of Lazard Frères & Co. LLC (the "Company") as of December 31, 2002, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of Lazard Frères & Co. LLC at December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche*

February 27, 2003

# LAZARD FRÈRES & CO. LLC

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2002 (In Thousands)

ASSETS		LIABILITIES AND MEMBER'S EQUITY	
CASH	\$ 42,144	BANK LOANS	\$ 28,853
CASH AND SECURITIES SEGREGATED UNDER FEDERAL REGULATIONS	45,649		
SECURITIES OWNED:		SECURITIES SOLD BUT NOT YET PURCHASED -	
At market value:		At market value - U.S. Government and agency	69,076
Corporate	50,309		
U.S. Government and agency securities pledged as collateral	15,688		
Short-term investments	<u>266</u>		
Total securities owned	<u>66,263</u>		
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	71,926	SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	43,835
RECEIVABLE FROM CUSTOMERS	36,080	PAYABLE TO CUSTOMERS	33,147
RECEIVABLE FROM BROKERS AND DEALERS	476,923	PAYABLE TO BROKERS AND DEALERS	222,344
		NET PAYABLE FROM SECURITIES TRANSACTIONS FOR WHICH SETTLEMENT HAS NOT ARRIVED	9,255
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS (less accumulated depreciation and amortization of \$51,288)	16,332	OTHER LIABILITIES	221,653
OTHER ASSETS	<u>4,370</u>	SUBORDINATED LOANS	6,524
TOTAL ASSETS	<u>\$ 759,687</u>	MEMBER'S EQUITY	<u>125,000</u>
			<u>\$ 759,687</u>

See notes to statement of financial condition.

# LAZARD FRÈRES & CO. LLC

## NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2002 (Dollars In Thousands)

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Statements of Financial Condition of Lazard Frères & Co. LLC and subsidiaries (the "Company"), a wholly owned subsidiary of Lazard LLC (the "Member"), include the accounts of Lazard Frères & Co. LLC ("LF&Co. LLC"), as well as its majority owned, guaranteed subsidiary, Lazard Asset Management Pacific Co. and its wholly owned, nonguaranteed subsidiary, Lazard Frères & Co. Limited and other nonguaranteed international asset management subsidiaries.

Services provided by the Company include:

- Investment Banking Activities
- Capital Markets Activities
- Investment Management
- Alternative Investing

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America which include industry practices.

***Use of Estimates*** - The preparation of the Statement of Financial Condition in conformity with accounting principles generally accepted in the United States of America and industry practices requires management to make estimates and assumptions regarding certain trading inventory valuations, compensation liabilities and other matters that affect the reported amounts of assets and liabilities at the date of the Consolidated Statement of Financial Condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Securities Segregated Under Federal Regulations*** - At December 31, 2002, cash and securities with a market value of \$45,649 of which \$23,000 were obtained through securities purchased under agreements to resell, were deposited in a special reserve account for the benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

***Securities Owned and Securities Sold But Not Yet Purchased*** - Securities owned and securities sold but not yet purchased are stated at quoted market values with realized and unrealized trading and investment gains and losses reflected in trading gains and losses, net on the accompanying Consolidated Statement of Income. Securities transactions and the related revenues and expenses are recorded on a trade date basis.

***Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase*** - Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions. The agreements provide that the transferor will receive substantially the same securities in return at the maturity of the agreement and the transferor will obtain from the transferee sufficient cash or collateral to purchase such securities during the term of the agreement. These securities are carried at the amounts at which they will be subsequently resold or repurchased plus accrued interest. The Company's policy is to take possession of securities purchased under agreements to resell. As these transactions are short-term in nature, their carrying amounts are a reasonable estimate of fair value.

Securities sold under agreements to repurchase and securities purchased under agreements to resell with the same counterparty are reported net by counterparty when permitted.

***Collateral*** - The Company accepts and pledges collateral in secured financing and securities borrowing and lending transactions. Agreements covering these transactions may permit the secured party to sell or repledge the collateral. The Company monitors the risk of loss by assessing the market value of the collateral accepted or pledged as compared with the related receivable, payable or other collateral exchanged and requests additional collateral where deemed appropriate.

Collateral accepted under reverse repurchase agreements, securities lending agreements and margin loans is used to cover short positions, to enter into secured financing transactions and to satisfy reserve requirements under SEC Rule 15c3-3 and deposit requirements with clearing organizations. At December 31, 2002, the market value of collateral accepted under reverse repurchase agreements, in securities borrow transactions and for customer margin loans was \$554,984 of which \$245,374 was sold or repledged. Included in the Consolidated Statement of Financial Condition are securities under the control of the Company with a market value of \$83,924 which the Company received in lieu of cash to collateralize certain securities lending transactions. The obligation to return these securities are also included in such Statement.

***Receivables from and Payables to Customers*** - Customer securities transactions are recorded on a settlement date basis with the related commissions recorded on a trade date basis. Receivables from and payables to customers include amounts due on cash and margin transactions. These receivables and payables are short-term in nature, and accordingly, their carrying amount is a reasonable estimate of fair value.

***Receivables from and Payables to Brokers and Dealers*** - Receivables from brokers and dealers primarily consist of securities borrowed transactions and securities failed to deliver. Securities borrowed transactions are recorded at the amount of cash collateral advanced. Payables to brokers and dealers primarily consist of securities failed to receive (see Note 4.) Receivables from and payables to brokers and dealers are short-term in nature, and accordingly, their carrying amount is a reasonable estimate of fair value.

***Net Payable from Securities Transactions for Which Settlement Has Not Arrived*** - In the normal course of business, the Company enters into proprietary securities transactions. Amounts for securities transactions that have not yet settled have been included in the Consolidated Statement of Financial Condition.

***Furniture, Equipment and Leasehold Improvements*** - Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of furniture and equipment is determined using estimated useful lives of five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

***Other Liabilities*** - Other liabilities include primarily compensation and benefits related accruals.

***Currency Translation*** - Assets and liabilities of foreign subsidiaries are translated at year-end currency exchange rates. Adjustments that result from translating foreign currency financial statements, net of related tax effects, are reported in Member's equity on the Consolidated Statement of Financial Condition.

***Income Taxes*** - Federal income taxes are not provided for by the Company as such taxes are the obligation of the Member. The Company has provided for the New York City Unincorporated Business Tax of the Member.

## **2. RECENTLY ISSUED ACCOUNTING STANDARDS**

On November 25, 2002, the FASB issued Financial Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others- and Interpretation of FSB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34." FIN 45 requires certain disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosures are effective for financial statements of interim or annual periods ending after December 15, 2002. (see Note 6.)

On January 17, 2003, the FASB issued FIN 46, "*Consolidation of Certain Variable Interest Entities- an interpretation of ARB No. 51.*" FIN 46 clarifies when an entity should consolidate another entity known as a Variable Interest Entity (VIE), more commonly referred to as special purpose entity or SPE. A VIE is an entity in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, and may include many types of SPE's. FIN 46 requires that an entity shall consolidate a VIE if that entity has a variable interest that will absorb a majority of the VIE's expected losses if they occur, receive a majority of the VIE's expected residual returns if they occur, or both. FIN 46 does not apply to certain qualifying SPEs (QSPEs), the accounting for which is governed by SFAS No. 140. FIN 46 is effective for newly created VIEs beginning February 1, 2003 and for existing VIEs as of the third quarter of 2003.

On February 1, 2003, the Company adopted FIN 46 for VIEs created after January 31, 2003 and for VIEs in which the Company obtains an interest after January 31, 2003. The Company will adopt FIN 46 on September 1, 2003 for VIEs in which it holds a variable interest that it acquired before February 1, 2003. The Company is currently evaluating the impact of the provisions of FIN 46 on its Consolidated Statement of Financial Condition. The Company is involved with various entities in normal course of business that may be deemed to be VIEs and may hold interests therein, that may be considered variable interests. Transactions associated with these entities primarily include investment management, real estate and private equity investments. The Company currently consolidates entities in which it has a controlling financial interest in accordance with accounting principles generally accepted in the U.S.

At December 31, 2002, in connection with its Alternative Investing business, the net assets of entities for which the Company's interest is either significant or for which the Company could be deemed to be the primary beneficiary of the entity was approximately \$108,257. The Company's variable interests associated with these entities, primarily carried interests and management fees, was approximately \$24,114 which represents the maximum exposure to loss, only if total assets declined 100% at December 31, 2002. The Company holds variable interests in certain other VIEs through its Alternative Investing business for which the Company is not the primary beneficiary.

In connection with its capital markets activities, the Company could be deemed to be the primary beneficiary of an entity with assets of \$ 9,000 and liabilities of \$ 17,000. The Company's variable interests associated with this entity, primarily paid in kind (PIK) notes, were approximately \$17,000 at December 31, 2002. As the note holders have sole recourse only to the underlying assets the Company has no exposure to loss at December 31, 2002.

In connection with its asset management business, where the Company is the asset manager for various hedge funds, the aggregate net assets of potential VIEs at December 31, 2002 was approximately \$111,118. The Company's maximum exposure to loss at December 31, 2002 was \$22,347.

### 3. MEMBER'S EQUITY

In addition to various capital contributions and withdrawals made from time to time, the Company, pursuant to provisions in its operating agreement, transfers to the Member's account, on dates when the Consolidated Statement of Financial Condition is issued, amounts in Member's equity in excess of \$125,000. Such amounts are transferred back to Member's equity on the following business day.

### 4. RECEIVABLE FROM AND PAYABLE TO BROKERS AND DEALERS

At December 31, 2002, amounts receivable from and payable to brokers and dealers included:

Receivable:	
Securities borrowed	\$ 471,060
Brokers, dealers and clearing organizations	3,939
Securities failed to deliver	<u>1,924</u>
	<u>\$ 476,923</u>
Payable:	
Securities loaned	\$ 201,539
Securities failed to receive	20,550
Brokers, dealers and clearing organizations	<u>255</u>
	<u>\$ 222,344</u>

### 5. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company acts as a custodian for and receives commissions from various affiliated entities. Amounts related to such activities are not considered material to the Consolidated Statement of Financial Condition. Additionally, the Company utilizes affiliated entities as custodian for certain proprietary and customer-owned security positions.

The Company maintains investments in various affiliated entities. Pursuant to agreements with certain of these entities, the Company may make additional capital contributions based on the request of the respective entity.

### 6. COMMITMENTS AND CONTINGENCIES

The Company leases office space under noncancelable lease agreements which expire on various dates through March 18, 2013. Occupancy lease agreements, in addition to base rentals, generally are subject to escalation based on certain costs incurred by the landlord. The Company subleases office space under agreements which expire on various dates through March 2012.

Minimum rental commitments under noncancelable leases are as follows:

<b>Year Ending December 31,</b>	<b>Minimum Rental Commitments</b>
2003	\$ 15,995
2004	16,450
2005	16,623
2006	16,535
Thereafter	<u>96,259</u>
Total	<u>\$161,862</u>

At December 31, 2002, the Company had guaranteed compensation arrangements with employees and advisors aggregating \$13,789 through 2005.

The Company has various other contractual commitments arising in connection with its Alternative Investing activities (see Note 2.)

The Company is a defendant in several legal actions. In the opinion of management, after consultation with legal counsel, the ultimate outcome of these matters would not have a material adverse effect on the financial position of the Company as set forth in the Consolidated Statement of Financial Condition.

## **7. BANK LOANS**

Included in bank loans are overdrafts of approximately \$23,343 and \$5,600 representing two nonrecourse senior secured term loans, collateralized solely by certain fixed assets and leasehold improvements. Pursuant to Securities and Exchange Commission regulations and approval from the New York Stock Exchange, Inc., such loans reduce the amount of fixed assets and leasehold improvements which would otherwise be considered nonallowable assets in the determination of regulatory net capital (see Note 9.) The first loan, with a remaining principal balance of \$1,000 at December 31, 2002, is being repaid in equal annual installments through February 28, 2003. Interest is payable quarterly at 7.33%. The second loan, with a remaining principal balance of \$4,600 at December 31, 2002, is being repaid in equal annual installments through March 31, 2007. The interest is payable quarterly at 8.59%. For each of the above loans, repayment may be accelerated under certain conditions. The carrying amount of these loans exceeds their estimated fair value.

## **8. EMPLOYEE BENEFIT PLANS**

The Company has two noncontributory defined benefit pension plans, The Employees' Pension Plan ("EPP") which provides benefits to substantially all employees based on certain averages of compensation, as defined, and The Employees' Pension Plan Supplement ("EPPS") which provides benefits to certain employees whose compensation exceeds a certain threshold. It is the Company's policy to fund EPP to meet the minimum funding standard as prescribed by the Employee Retirement Income Security Act of 1974 ("ERISA"). At December 31, 2002, the pension plan assets were invested in a portfolio consisting primarily of equity and fixed-income mutual fund investments managed by the Company. EPPS is a nonqualified supplemental plan

and was unfunded at December 31, 2002. The Company utilizes the “projected unit credit” actuarial method for financial reporting purposes.

The Company has a non-funded contributory postretirement medical plan (the “Medical Plan”) covering substantially all employees. The Medical Plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Participants become eligible for the benefits if they retire from the Company after reaching age 62 and completing 10 years of service.

The following table summarizes the benefit obligations, the fair value of the assets and the funded status at December 31, 2002:

	Employee Pension Plan	Employee Pension Plan Supplement	Postretirement Benefits
Benefit obligation at December 31, 2002	\$ 31,317	\$ 2,363	\$ 15,557
Fair value of plan assets at December 31, 2002	<u>26,580</u>	<u>-</u>	<u>-</u>
Funded status	<u>(4,737)</u>	<u>(2,363)</u>	<u>(15,557)</u>
Unrecognized net (asset) obligation	(323)	-	-
Unrecognized net prior service cost	2,192	887	-
Unrecognized net actuarial gain/(loss)	<u>14,005</u>	<u>(436)</u>	<u>4,041</u>
Prepaid (accrued) benefit cost recognized in the consolidated statement of financial condition	<u>\$ 11,137</u>	<u>\$ (1,912)</u>	<u>\$ (11,516)</u>
Weighted-average assumptions at December 31, 2002:			
Discount rate	6.50 %	6.50%	6.50%
Expected return on plan assets	8.00 %	N/A	N/A
Rate of compensation increase	7.00 %	7.00%	N/A

For measurement purposes, a 10.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the computation of the December 31, 2002 benefit obligation. The rate was assumed to decrease gradually to 6% through 2006 and remain at that level thereafter.

The Company sponsors a defined contribution plan which covers substantially all of its employees. The Company does not match employee contributions to the plan. The Company also sponsors a profit sharing plan which covers eligible Managing Directors of the Company. The Company makes contributions to the plan from funds that would have otherwise been distributable profits. As such, contributions to the Profit Sharing Plan are included in capital withdrawals.

The Company has an incentive compensation plan (the “Plan”) pursuant to which amounts are invested in a Company sponsored investment vehicle for certain key employees. The Company records expenses for the Plan on the dates on which capital calls from such vehicle are funded. At December 31, 2002, the Company had remaining commitments of \$8,738 under this plan.

## 9. NET CAPITAL REQUIREMENTS

As a registered broker-dealer, the Company is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. At December 31, 2002, the company's regulatory net capital of \$ 74,875 was 197% of aggregate debit items, and its regulatory net capital in excess of the minimum was \$73,375.

## 10. SUBORDINATED LOANS

The Company can borrow up to \$150,000 of subordinated debt under a Revolving Credit Agreement, which, based on approval by the Company's regulators, qualifies as additional net capital (see Note 9.) The interest rate on such borrowings is based upon the prevailing market rate on the dates issued. There were no borrowings under this agreement at December 31, 2002.

At December 31, 2002 the Company had outstanding \$6,524 under a subordinated loan with a wholly owned subsidiary of the Member, which, based on approval by the Company's regulators, qualifies as additional net capital. Such loan matures March 3, 2010 and pays interest at a rate of 6% per annum.

## 11. INSTRUMENTS WITH OFF-BALANCE SHEET RISK, MARKET RISK, AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, the Company enters into various debt and equity transactions as principal or agent. The execution, settlement and financing of these transactions may result in off-balance sheet risk, market risk or concentrations of credit risk.

The Company periodically enters into securities transactions with customers that do not settle during the normal settlement cycle (extended settlement transactions). Such transactions are recorded on a settlement date basis. Gains or losses on the value of securities in inventory that have been sold under extended settlement transactions are recorded in trading gains and losses, net. In addition, offsetting gains or losses related to the Company's obligation to deliver such securities are accounted for similar to a forward contract and, as such, are also included in trading gains and losses, net.

The Company may be exposed to a risk of loss not reflected in the consolidated statement of financial condition for securities sold but not yet purchased should the value of such securities rise and the Company be forced to purchase those securities.

Market risk is the potential that a security's value could change by fluctuations in interest, credit spreads, or equity price risk. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded. The following describes the types of market risk faced by the Company:

*Interest rate risk* arises from the possibility that changes in interest rates will affect the value of the Company's securities owned and securities sold but not yet purchased. The Company uses U.S. Treasury securities to manage interest rate risk.

*Credit spread risk* arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality. The Company actively manages the credit spread risk by closely reviewing positions on a daily basis.

*Credit risk* is the risk of loss if an issuer or counterparty fails to perform its obligations under contractual terms ("default risk"). Credit risk arising from changes in credit spreads was previously discussed above. For transactions in which the Company extends credit to others, the Company seeks to control the risks associated with these activities by requiring the counterparty to maintain margin collateral in compliance with various regulatory and internal guidelines. Counterparties include customers, who are generally institutional investors, and brokers and dealers that are members of major U.S. exchanges. The Company monitors required margin levels daily and, pursuant to such guidelines, requests counterparties to deposit additional collateral, or reduce securities positions when necessary.

It is the Company's policy to take possession of securities purchased under agreements to resell. The Company monitors the market value of the assets acquired to ensure their adequacy as compared to the amount at which the securities will be subsequently resold, as specified in the respective agreements. The agreements provide that, where appropriate, the Company may require the delivery of additional collateral. At December 31, 2002, the market value of these assets was \$ 94,407. In connection with securities sold under agreements to repurchase, the Company monitors the market value of assets delivered to ensure that the collateral value is not excessive as compared to the amount at which securities will be subsequently repurchased.

At December 31, 2002, the Company's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration consists of both direct and indirect exposures. Direct exposure, which primarily results from securities owned issued by the U.S. Government and its agencies. The Company's indirect exposure results from maintaining U.S. Government and agencies securities as collateral for resale agreements and securities borrowed transactions. The Company's direct exposure on these transactions is with the counterparty; thus the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default.

## **12. SUBSEQUENT EVENT**

*Capitalization of Lazard Asset Management LLC.* On January 10, 2003 the Company contributed and assigned to Lazard Asset Management LLC ("LAM"), a newly formed majority owned subsidiary, assets of \$37,284 and liabilities of \$9,928 relating to the asset management division of the Company. In addition, the Company became the initial member LAM and will receive flow through capital benefits from LAM pursuant to NYSE Rule 322.

\* \* \* \* \*

Deloitte & Touche LLP  
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New York, New York 10281-1414

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www.us.deloitte.com

**Deloitte  
& Touche**

February 27, 2003

Lazard Frères & Co. LLC  
30 Rockefeller Center  
New York, NY 10020

In planning and performing our audit of the consolidated financial statements of Lazard Frères & Co. LLC and subsidiaries (the "Company") for the year ended December 31, 2002 (on which we issued our report dated February 27, 2003), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures followed by the Company (including tests of compliance with such practices and procedures) that we considered relevant to the objectives stated in Rule 17a-5(g): (1) in making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (the "Commission") above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use, or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Lazard Frères & Co. LLC  
February 27, 2003  
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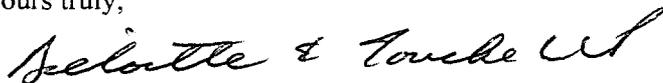
Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Company's internal control and its operation, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002 to meet the Commission's objectives.

This report is intended solely for the information and use of the management committee, the member, management, the Securities and Exchange Commission, the New York Stock Exchange, Inc. and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

A handwritten signature in cursive script, appearing to read "Lazard Frères & Co. LLC".