

Lazard Ltd
Form 10-Q
October 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

001-32492

(Commission File Number)

LAZARD LTD

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(Exact name of registrant as specified in its charter)

Bermuda
(State or Other Jurisdiction of Incorporation
or Organization)

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

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

As of October 16, 2015, there were 129,766,091 shares of the Registrant's Class A common stock outstanding (including 4,280,678 shares held by subsidiaries).

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When we use the terms "Lazard", "we", "us", "our" and "the Company", we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ("Lazard Group"), that is the current holding company for our businesses. Lazard Ltd's primary operating asset is its indirect ownership as of September 30, 2015 of all of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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Table of Contents**LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****SEPTEMBER 30, 2015 AND DECEMBER 31, 2014****(UNAUDITED)****(dollars in thousands, except for per share data)**

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 859,984	\$ 1,066,580
Deposits with banks and short-term investments	276,585	207,760
Cash deposited with clearing organizations and other segregated cash	34,859	43,290
Receivables (net of allowance for doubtful accounts of \$20,327 and \$23,540 at September 30, 2015 and December 31, 2014, respectively):		
Fees	426,441	483,681
Customers and other	75,968	73,915
	502,409	557,596
Investments	575,204	620,352
Property (net of accumulated amortization and depreciation of \$261,856 and \$256,286 at September 30, 2015 and December 31, 2014, respectively)	209,814	222,569
Goodwill and other intangible assets (net of accumulated amortization of \$55,141 and \$51,754 at September 30, 2015 and December 31, 2014, respectively)	325,624	347,438
Deferred tax assets	1,113,060	59,041
Other assets	250,498	207,610
Total Assets	\$ 4,148,037	\$ 3,332,236

See notes to condensed consolidated financial statements.

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	September 30, 2015	December 31, 2014
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits and other customer payables	\$ 399,824	\$ 316,601
Accrued compensation and benefits	455,966	606,290
Senior debt	998,350	1,048,350
Tax receivable agreement obligation	523,907	19,577
Capital lease obligations	9,685	12,015
Other liabilities	548,432	559,346
Total Liabilities	2,936,164	2,562,179
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, par value \$.01 per share; 15,000,000 shares authorized:		
Series A - 7,921 shares issued and outstanding at September 30, 2015 and December 31, 2014		
Series B - no shares issued and outstanding		
Common stock:		
Class A, par value \$.01 per share (500,000,000 shares authorized; 129,766,091 shares issued at September 30, 2015 and December 31, 2014, including shares held by subsidiaries as indicated below)	1,298	1,298
Additional paid-in-capital	569,535	702,800
Retained earnings	1,014,145	464,655
Accumulated other comprehensive loss, net of tax	(252,525)	(200,766)
	1,332,453	967,987
Class A common stock held by subsidiaries, at cost (4,264,125 and 7,450,745 shares at September 30, 2015 and December 31, 2014, respectively)	(177,798)	(261,243)
Total Lazard Ltd Stockholders Equity	1,154,655	706,744
Noncontrolling interests	57,218	63,313
Total Stockholders Equity	1,211,873	770,057
Total Liabilities and Stockholders Equity	\$ 4,148,037	\$ 3,332,236

See notes to condensed consolidated financial statements.

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
REVENUE				
Investment banking and other advisory fees	\$ 330,408	\$ 290,604	\$ 946,057	\$ 843,186
Asset management fees	253,752	276,940	784,461	805,848
Interest income	1,102	1,243	3,393	3,815
Other	54	12,936	65,879	60,832
Total revenue	585,316	581,723	1,799,790	1,713,681
Interest expense	11,798	15,512	39,431	47,174
Net revenue	573,518	566,211	1,760,359	1,666,507
OPERATING EXPENSES				
Compensation and benefits	319,565	338,612	984,786	1,006,101
Occupancy and equipment	26,278	29,400	80,889	86,079
Marketing and business development	18,244	19,127	55,758	59,254
Technology and information services	22,923	23,025	68,850	68,466
Professional services	10,758	11,184	36,100	32,895
Fund administration and outsourced services	14,367	17,034	48,008	48,490
Amortization of intangible assets related to acquisitions	511	4,020	3,401	5,946
Provision (benefit) pursuant to tax receivable agreement	(420,792)	(176)	547,691	9,064
Other	10,920	10,273	90,845	30,340
Total operating expenses	2,774	452,499	1,916,328	1,346,635
OPERATING INCOME (LOSS)	570,744	113,712	(155,969)	319,872
Provision (benefit) for income taxes	170,954	23,792	(993,560)	58,614
NET INCOME	399,790	89,920	837,591	261,258
LESS - NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,269	1,061	9,004	6,365
NET INCOME ATTRIBUTABLE TO LAZARD LTD	\$ 398,521	\$ 88,859	\$ 828,587	\$ 254,893

**ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:**

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Basic	125,925,006	122,206,914	125,264,447	122,366,632
Diluted	133,115,419	133,566,684	133,219,137	133,722,776
NET INCOME PER SHARE OF COMMON STOCK:				
Basic	\$3.16	\$0.73	\$6.61	\$2.08
Diluted	\$2.99	\$0.67	\$6.22	\$1.91
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK				
	\$0.35	\$0.30	\$2.00	\$0.90

See notes to condensed consolidated financial statements.

Table of Contents**LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014****(UNAUDITED)****(dollars in thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET INCOME	\$ 399,790	\$ 89,920	\$ 837,591	\$ 261,258
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Currency translation adjustments	(19,034)	(29,100)	(41,376)	(18,640)
Employee benefit plans:				
Actuarial gain (loss) (net of tax (expense) benefit of \$(253) and \$(1,731) for the three months ended September 30, 2015 and 2014, respectively, and \$7,753 and \$1,919 for the nine months ended September 30, 2015 and 2014, respectively)	477	3,251	(14,140)	(3,695)
Adjustment for items reclassified to earnings (net of tax expense of \$368 and \$528 for the three months ended September 30, 2015 and 2014, respectively, and \$1,469 and \$1,391 for the nine months ended September 30, 2015 and 2014, respectively)	1,381	1,145	3,757	3,714
OTHER COMPREHENSIVE LOSS, NET OF TAX	(17,176)	(24,704)	(51,759)	(18,621)
COMPREHENSIVE INCOME	382,614	65,216	785,832	242,637
LESS - COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,269	1,061	9,004	6,365
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAZARD LTD	\$ 381,345	\$ 64,155	\$ 776,828	\$ 236,272

See notes to condensed consolidated financial statements.

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	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 837,591	\$ 261,258
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property	24,251	26,332
Amortization of deferred expenses and share-based incentive compensation	246,129	227,896
Amortization of intangible assets related to acquisitions	3,401	5,946
Deferred tax provision (benefit)	(1,056,659)	9,843
Provision pursuant to tax receivable agreement	547,691	9,064
Loss on extinguishment of debt	60,219	
Gain on disposal of subsidiaries	(24,388)	
(Increase) decrease in operating assets:		
Deposits with banks and short-term investments	(84,386)	(18,626)
Cash deposited with clearing organizations and other segregated cash	7,413	15,630
Receivables-net	34,391	(12,982)
Investments	34,198	(78,820)
Other assets	(105,902)	(114,012)
Increase (decrease) in operating liabilities:		
Deposits and other payables	105,215	25,666
Accrued compensation and benefits and other liabilities	(109,770)	58,227
Net cash provided by operating activities	519,394	415,422
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property	(18,479)	(14,161)
Disposals of property	471	1,023
Net cash used in investing activities	(18,008)	(13,138)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Contributions from noncontrolling interests	268	1,102
Issuance of senior debt, net of expenses	396,272	
Excess tax benefits from share-based incentive compensation	9,516	1,508
Payments for:		
Senior debt	(509,098)	
Capital lease obligations	(1,435)	(1,738)
Distributions to noncontrolling interests	(15,367)	(9,182)
Payments under tax receivable agreement	(1,276)	
Partial extinguishment of tax receivable agreement obligation	(42,222)	
Purchase of Class A common stock	(159,471)	(192,657)

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Class A common stock dividends	(246,759)	(109,592)
Settlement of vested share-based incentive compensation	(105,007)	(83,783)
Other financing activities	(1,998)	(1,754)
Net cash used in financing activities	(676,577)	(396,096)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(31,405)	(27,086)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(206,596)	(20,898)
CASH AND CASH EQUIVALENTS January 1	1,066,580	841,482
CASH AND CASH EQUIVALENTS September 30	\$ 859,984	\$ 820,584

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock		Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Class A Common Stock Held By Subsidiaries		Total Lazard Ltd Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
	Shares	\$	Shares(*)	\$				Shares	\$			
Balance January 1, 2014	7,921	\$	129,056,082	\$ 1,291	\$ 737,899	\$ 203,236	\$ (133,004)	8,317,065	\$ (249,213)	\$ 560,209	\$ 69,789	\$ 629,998
Comprehensive income (loss):												
Net income						254,893				254,893	6,365	261,258
Other comprehensive loss - net of tax							(18,621)			(18,621)		(18,621)
Amortization of share-based incentive compensation					159,095					159,095		159,095
Dividend-equivalents					13,489	(15,243)				(1,754)		(1,754)
Class A common stock dividends						(109,592)				(109,592)		(109,592)
Purchase of Class A common stock								4,114,206	(192,657)	(192,657)		(192,657)
Delivery of Class A common stock in connection with share-based incentive compensation and related tax benefit of \$1,409					(257,127)			(4,828,479)	174,753	(82,374)		(82,374)
Class A common stock issued in exchange for Lazard Group common membership interests			710,009	7	(7)							
Business acquisitions and related equity transactions:												
Class A common stock issuable (including related amortization)					387					387		387
Distributions to noncontrolling interests, net											(8,080)	(8,080)
Adjustments related to noncontrolling interests					3,543		(559)			2,984	(2,984)	
Balance September 30, 2014	7,921	\$	129,766,091	\$ 1,298	\$ 657,279	\$ 333,294	\$ (152,184)	7,602,792	\$ (267,117)	\$ 572,570	\$ 65,090	\$ 637,660

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(*) Includes 129,056,081 and 129,766,091 shares of the Company's Class A common stock issued at January 1, 2014 and September 30, 2014, respectively, and 1 share of the Company's Class B common stock issued at January 1, 2014.

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2015

(UNAUDITED)

(dollars in thousands)

	Series A	Additional	Accumulated	Class A	Total	Noncontrolling	Total		
	Preferred Stock	Paid-In-	Other	Common	Lazard	Interests	Stockholders		
		Retained	Comprehensive	Stock	Ltd		Equity		
		Income (Loss),	Income (Loss),	Held By	Stockholders				
		Earnings	Net of Tax	Subsidiaries	Equity				