

Lazard Ltd  
Form 10-Q  
November 07, 2006  
Table of Contents

---

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

Washington, D.C. 20549

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

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

001-32492

(Commission File Number)

---

**LAZARD LTD**

(Exact name of registrant as specified in its charter)

Bermuda  
(State or Other Jurisdiction of Incorporation  
or Organization)

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

Edgar Filing: Lazard Ltd - Form 10-Q

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

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

---

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of October 31, 2006, there were 37,503,668 shares of the registrant's Class A common stock and one share of the registrant's Class B common stock outstanding.

---

**Table of Contents****TABLE OF CONTENTS**

*When we use the terms "Lazard", "we", "us", "our", and "the Company", we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company ("Lazard Group"), that is the current holding company for our businesses. Lazard Ltd has no material assets other than indirect ownership as of September 30, 2006 of approximately 37.7% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.*

	<b>Page</b>
<b><u>Part I. Financial Information</u></b>	
<u>Item 1. Financial Statements (Unaudited)</u>	1
<u>Item 1A. Pro Forma Financial Information (Unaudited)</u>	37
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	72
<u>Item 4. Controls and Procedures</u>	72
<b><u>Part II. Other Information</u></b>	
<u>Item 1. Legal Proceedings</u>	73
<u>Item 1A. Risk Factors</u>	73
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	74
<u>Item 3. Defaults Upon Senior Securities</u>	75
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	75
<u>Item 5. Other Information</u>	75
<u>Item 6. Exhibits</u>	77
<b><u>Signatures</u></b>	81

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**  
**Condensed Consolidated Financial Statements (Unaudited)\***

	<b>Page</b>
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2006 and December 31, 2005</u>	3
<u>Condensed Consolidated Statements of Income for the three month and nine month periods ended September 30, 2006 and 2005</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2006 and 2005</u>	6
<u>Condensed Consolidated Statement of Changes in Stockholders' Deficiency for the nine month period ended September 30, 2006</u>	7
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	8

\* These unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of Lazard Ltd, including consolidation of its investment in Lazard Group LLC, formerly known as Lazard LLC and referred to herein as Lazard Group, for all periods presented. Prior to May 10, 2005, the date of Lazard Ltd's equity public offering (as described in Note 1 of the accompanying Notes to Unaudited Condensed Consolidated Financial Statements), the unaudited condensed consolidated financial statements included herein represent the financial statements of Lazard Group. The results of operations and financial condition for certain businesses that Lazard Group no longer owns are reported as discontinued operations. The historical unaudited condensed consolidated financial statements for the three month and nine month periods ended September 30, 2005 do not reflect what the results of operations of Lazard Ltd or Lazard Group would have been had these companies been stand-alone, public companies for such periods. In addition, the results of operations for periods prior to May 10, 2005 are not comparable to results of operations for subsequent periods. Specifically, prior to May 10, 2005, the historical results of operations of Lazard Group do not give effect to the following matters:

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, prior to May 10, 2005, Lazard Group's operating income included within the accompanying unaudited condensed consolidated financial statements did not reflect payments for services rendered by its managing directors. For periods subsequent to the consummation of the equity public offering and financing transactions, the Company now includes all payments for services rendered by its managing directors and distributions to holders of profit participation interests in Lazard Group (profit participation members) in 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 had 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 had operated principally through subsidiary corporations and had been subject to local income taxes. Prior to May 10, 2005, income taxes reflected within Lazard Group's results of operations included within the accompanying unaudited condensed consolidated financial statements are attributable to taxes incurred in non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard Group's operations apportioned to New York City. Subsequent to the equity public offering, the unaudited condensed consolidated financial statements of Lazard Ltd include U.S. corporate federal income taxes on its allocable share of the results of operations of Lazard Group, giving effect to the post equity public offering structure.

**Table of Contents**

Minority interest in net income relating to LAZ-MD Holdings' ownership interest of Lazard Group's common membership interests since May 10, 2005. Prior to May 10, 2005, Lazard Ltd had no ownership interest in Lazard Group and all net income was allocable to the then members of Lazard Group. Commencing May 10, 2005, minority interest in net income includes LAZ-MD Holdings' ownership interest of Lazard Group's common membership interests.

The use of proceeds from the financing transactions.

The net incremental interest expense related to the financing transactions.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****SEPTEMBER 30, 2006 AND DECEMBER 31, 2005****(UNAUDITED)****(dollars in thousands, except for per share data)**

	September 30, 2006	December 31, 2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 530,292	\$ 492,309
Cash and securities segregated for regulatory purposes	29,334	20,596
Securities purchased under agreements to resell	10,001	23,358
Securities owned at fair value:		
Bonds Corporate	368,448	228,927
Non-U.S. Government and agency securities	18,900	40,285
Equities	3,004	2,964
	390,352	272,176
Swaps and other contractual agreements	111	186
Receivables net:		
Banks	331,205	347,912
Fees	275,759	280,923
Customers	66,844	65,253
Related parties	16,993	53,932
	690,801	748,020
Long-term investments	84,776	80,843
Other investments	4,758	4,473
Property (net of accumulated amortization and depreciation of \$174,414 and \$156,935 at September 30, 2006 and December 31, 2005, respectively)	161,525	156,630
Goodwill	16,580	15,996
Other assets	112,731	96,310
Total assets	\$ 2,031,261	\$ 1,910,897

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)****SEPTEMBER 30, 2006 AND DECEMBER 31, 2005****(UNAUDITED)****(dollars in thousands, except for per share data)**

	September 30, 2006	December 31, 2005
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS DEFICIENCY</b>		
Liabilities:		
Securities sold under agreements to repurchase	\$ 6,584	\$ 31,853
Deposits and other customer payables	676,870	521,433
Related party payables	3,430	3,919
Accrued compensation and benefits	282,747	346,090
Swaps and other contractual agreements	718	3,028
Senior borrowings	1,083,512	1,022,082
Capital lease obligations	24,690	23,844
Other liabilities	422,651	517,590
Subordinated borrowings	200,000	200,000
Total liabilities	2,701,202	2,669,839
Commitments and contingencies		
Minority interest	43,361	111,729
<b>STOCKHOLDERS DEFICIENCY</b>		
Common stock:		
Class A, par value \$.01 per share (500,000,000 shares authorized; 37,503,668 and 37,500,000 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively)	375	375
Class B, par value \$.01 per share (1 share authorized; 1 share issued and outstanding)		
Additional paid-in-capital	(795,966)	(885,690)
Accumulated other comprehensive income (loss), net of tax	(8,066)	(34,342)
Retained earnings	94,534	48,986
	(709,123)	(870,671)
Less: Class A common stock held in treasury, at cost (115,000 shares at September 30, 2006)	(4,179)	
Total stockholders' deficiency	(713,302)	(870,671)
Total liabilities, minority interest and stockholders' deficiency	\$ 2,031,261	\$ 1,910,897

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005****(UNAUDITED)****(dollars in thousands, except for per share data)**

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
<b>REVENUE</b>				
Investment banking and other advisory fees	\$ 183,318	\$ 251,663	\$ 655,704	\$ 615,361
Money management fees	116,113	101,282	346,584	302,507
Commissions	3,195	3,569	12,474	11,354
Underwriting	2,487	4,626	12,912	10,155
Investment gains and losses net	4,448	4,944	13,673	8,446
Interest income	11,755	10,210	29,593	24,260
Other	2,706	5,207	26,631	15,823
Total revenue	324,022	381,501	1,097,571	987,906
Interest expense	26,510	24,598	76,893	53,541
Net revenue	297,512	356,903	1,020,678	934,365
<b>OPERATING EXPENSES</b>				
Compensation and benefits (and, commencing May 10, 2005, distributions to profit participation members)(*)	180,982	215,199	615,269	482,228
Premises and occupancy costs	16,820	16,653	50,956	50,513
Professional fees	20,226	12,516	55,630	36,111
Travel and entertainment	10,643	10,663	30,595	30,768
Communications and information services	6,853	7,424	21,282	22,316
Equipment costs	4,973	5,975	15,213	15,543
Other	7,822	11,184	19,731	31,608
Total operating expenses	248,319	279,614	808,676	669,087
<b>OPERATING INCOME FROM CONTINUING OPERATIONS(*)</b>	<b>49,193</b>	<b>77,289</b>	<b>212,002</b>	<b>265,278</b>
Provision for income taxes(*)	10,153	17,177	44,827	50,443
<b>INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST IN NET INCOME(*)</b>	<b>39,040</b>	<b>60,112</b>	<b>167,175</b>	<b>214,835</b>
Minority interest in net income	25,882	41,101	110,786	77,707
<b>INCOME FROM CONTINUING OPERATIONS(*)</b>	<b>13,158</b>	<b>19,011</b>	<b>56,389</b>	<b>137,128</b>
<b>LOSS FROM DISCONTINUED OPERATIONS(*) (net of income tax provision of \$253 and \$3,330 for the three month and nine month periods ended September 30, 2005, respectively)</b>		(408)		(17,576)
<b>NET INCOME (NET INCOME ALLOCABLE TO MEMBERS OF LAZARD GROUP FOR PERIODS PRIOR TO MAY 10, 2005)(*)</b>	<b>\$ 13,158</b>	<b>\$ 18,603</b>	<b>\$ 56,389</b>	<b>\$ 119,552</b>



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

### WEIGHTED AVERAGE SHARES OF CLASS A COMMON STOCK

#### OUTSTANDING(\*\*):

Basic	37,388,185	37,500,000	37,457,275	37,500,000
Diluted	41,577,615	37,528,978	41,747,068	37,518,513

#### NET INCOME PER SHARE OF CLASS A COMMON STOCK BASIC:

Income from continuing operations(**)	\$0.35	\$0.51	\$1.51	\$0.81
---------------------------------------	--------	--------	--------	--------

#### NET INCOME PER SHARE OF CLASS A COMMON STOCK DILUTED:

Income from continuing operations(**)	\$0.34	\$0.51	\$1.45	\$0.81
---------------------------------------	--------	--------	--------	--------

#### DIVIDENDS PAID PER SHARE OF CLASS A COMMON STOCK(\*\*)

\$0.09	\$0.052	\$0.27	\$0.052
--------	---------	--------	---------

---

(\*) Excludes, as applicable, with respect to periods ended prior to May 10, 2005 (a) payments for services rendered by Lazard Group's managing directors, which, as a result of Lazard Group operating as a limited liability company, historically had been accounted for as distributions from members' capital, or in some cases as minority interest, rather than as compensation and benefits expense, and (b) 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.

(\*\*) Applicable with respect to periods subsequent to May 10, 2005, the date of our equity public offering.

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****LAZARD LTD****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005****(UNAUDITED)****(dollars in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (net income allocable to members of Lazard Group prior to May 10, 2005)	\$ 56,389	\$ 119,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash charges included in net income:		
Depreciation and amortization of property	10,684	11,339
Amortization of deferred expenses, stock units and interest rate hedge	18,168	1,064
Gain on termination of strategic alliance in Italy	(13,695)	
Minority interest in net income	110,786	77,707
(Increase) decrease in operating assets:		
Cash and securities segregated for regulatory purposes	(7,088)	(10,498)
Securities purchased under agreements to resell	14,797	