Pzena Investment Management, Inc.
Form 10-Q
July 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2012

Or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number 001-33761

PZENA INVESTMENT MANAGEMENT, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-8999751 (I.R.S. Employer Identification No.)

120 West 45th Street
New York, New York 10036
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (212) 355-1600

Not Applicable
(Former name, former address, and former fiscal year if changed since last report)

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 x No o

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 27, 2012, there were 10,546,635 outstanding shares of the registrant's Class A common stock, par value $0.01 per share.

As of July 27, 2012, there were 54,296,813 outstanding shares of the registrant's Class B common stock, par value $0.000001 per share.

PZENA INVESTMENT MANAGEMENT, INC.
FORM 10-Q
TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements provide our current expectations, or forecasts, of future events. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as "anticipate," "believe," "continue," "ongoing," "estimate," "expect," "intend," "may," "plan," "predict," "project" or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the factors described in Item 1A, "Risk Factors" in Part I of our Annual Report on Form 10-K for our fiscal year ended December 31, 2011. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to publicly revise any forward-looking statements to reflect circumstances or events after the date of this Quarterly Report, or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission, or SEC, after the date of this Quarterly Report on Form 10-Q.

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

- our anticipated future results of operations and operating cash flows;
- our business strategies and investment policies;
- our financing plans and the availability of short- or long-term borrowing, or equity financing;
- our competitive position and the effects of competition on our business;
- potential growth opportunities available to us;
- the recruitment and retention of our employees;
- our expected levels of compensation for our employees;
- our potential operating performance, achievements, efficiency, and cost reduction efforts;
- our expected tax rate;
- changes in interest rates;
- our expectation with respect to the economy, capital markets, the market for asset management services, and other industry trends; and
- the impact of future legislation and regulation, and changes in existing legislation and regulation, on our business.

The reports that we file with the SEC, accessible on the SEC's website at www.sec.gov, identify additional factors that can affect forward-looking statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PZENA INVESTMENT MANAGEMENT, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except share and per-share amounts)

	As of	
	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and Cash Equivalents	$ 31,890	$ 35,083
Restricted Cash	1,030	1,030
Due from Broker	1,975	457
Advisory Fees Receivable	14,430	14,717
Investments, at Fair Value	4,599	4,919
Receivable from Related Parties	101	66
Other Receivables	116	54
Prepaid Expenses and Other Assets	569	688
Deferred Tax Asset, Net of Valuation Allowance of $60,427 and $61,050, respectively	8,278	8,835
Property and Equipment, Net of Accumulated Depreciation of $2,593 and $2,516, respectively	807	829
TOTAL ASSETS	$ 63,795	$ 66,678
LIABILITIES AND EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses	$ 11,526	$ 6,062
Due to Broker	1,415	-
Liability to Selling and Converting Shareholders	9,783	11,218
Lease Liability	1,488	1,795
Deferred Compensation Liability	620	1,173
Other Liabilities	224	206
TOTAL LIABILITIES	25,056	20,454
Equity:		
Preferred Stock (Par Value $0.01; 200,000,000 Shares Authorized; None Outstanding)	-	-
Class A Common Stock (Par Value $0.01; 750,000,000 Shares Authorized; 10,546,635 and 10,575,089 Shares Issued and Outstanding in 2012 and 2011, respectively)	105	105
Class B Common Stock (Par Value $0.000001; 750,000,000 Shares Authorized; 54,051,326 and 53,967,555 Shares Issued and Outstanding in 2012 and 2011, respectively)	-	-
Additional Paid-In Capital	11,999	12,000
Retained Earnings	1,127	1,832

Total Pzena Investment Management, Inc.'s Equity		13,231		13,937
Non-Controlling Interests		25,508		32,287
TOTAL EQUITY		38,739		46,224
TOTAL LIABILITIES AND EQUITY	$	63,795	$	66,678

See accompanying notes to consolidated financial statements.

1

PZENA INVESTMENT MANAGEMENT, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per-share amounts)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
REVENUE	$ 18,339	$ 22,371	$ 38,107	$ 44,159
EXPENSES				
Compensation and Benefits Expense	8,012	8,260	16,185	16,648
General and Administrative Expense	1,916	2,056	3,619	4,003
TOTAL OPERATING EXPENSES	9,928	10,316	19,804	20,651
Operating Income	8,411	12,055	18,303	23,508
OTHER INCOME/(EXPENSE)				
Interest Income	41	44	95	72
Interest Expense	-	-	(26)	-
Dividend Income	34	60	58	71
Net Realized and Unrealized Gain/(Loss) from Investments	(189)	186	666	441
Change in Liability to Selling and Converting Shareholders	315	(2,140)	(658)	(2,257)
Other Income/(Expense)	(72)	(121)	33	(171)
Total Other Income/(Expense)	129	(1,971)	168	(1,844)
Income Before Income Taxes	8,540	10,084	18,471	21,664
Income Tax Expense/(Benefit)	1,534	(516)	1,780	67
Net Income	7,006	10,600	16,691	21,597
Less: Net Income Attributable to Non-Controlling Interests	6,392	9,741	15,070	19,081
Net Income Attributable to Pzena Investment Management, Inc.	$ 614	$ 859	$ 1,621	$ 2,516
Net Income for Basic Earnings per Share	$ 614	$ 859	$ 1,621	$ 2,516
Basic Earnings per Share	$ 0.06	$ 0.09	$ 0.15	$ 0.26
Basic Weighted Average Shares Outstanding	10,565,406	9,904,187	10,570,247	9,646,298
Net Income for Diluted Earnings per Share	$ 614	$ 859	$ 10,032	$ 13,390
Diluted Earnings per Share	$ 0.06	$ 0.09	$ 0.15	$ 0.21
Diluted Weighted Average Shares Outstanding	10,565,406	9,904,187	65,395,327	65,070,712

Cash Dividends per Share of Class A Common Stock	$ 0.03	$ 0.03	$ 0.22	$ 0.06

See accompanying notes to consolidated financial statements.

PZENA INVESTMENT MANAGEMENT, INC.
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousands, except share and per-share amounts)

	Shares of Class A Common Stock	Shares of Class B Common Stock	Class A Common Stock	Additional Paid-In Capital	Retained Earnings	Non-Controlling Interests	Total
Balance at December 31, 2011	10,575,089	53,967,555	$ 105	$ 12,000	$ 1,832	$ 32,287	$ 46,224
Amortization of Non-Cash Compensation	-	9,500	-	120	-	611	731
Directors' Shares	-	-	-	24	-	116	140
Net Income	-	-	-	-	1,621	15,070	16,691
Repurchase and Retirement of Class A Common Stock	(28,454)	-	-	(125)	-	-	(125)
Options Exercised	-	74,271	-	-	-	-	-
Retirement of Class B Units	-	-	-	(20)	-	20	-
Class A Cash Dividends Declared and Paid ($0.22 per share)	-	-	-	-	(2,326)	-	(2,326)
Contributions from Non-Controlling Interests	-	-	-	-	-	45	45
Distributions to Non-Controlling Interests	-	-	-	-	-	(22,641)	(22,641)
Balance at June 30, 2012	10,546,635	54,051,326	$ 105	$ 11,999	$ 1,127	$ 25,508	$ 38,739

See accompanying notes to consolidated financial statements.

PZENA INVESTMENT MANAGEMENT, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
OPERATING ACTIVITIES				
Net Income	$ 7,006	$ 10,600	$ 16,691	$ 21,597
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:				
Depreciation	57	104	115	207
Disposal of Fixed Assets	-	-	(93)	-
Non-Cash Compensation	665	1,180	1,351	2,363
Director Share Grant	70	70	140	140
Net Realized and Unrealized (Gain)/Loss from Investments	189	(186)	(666)	(441)
Change in Liability to Selling and Converting Shareholders	(315)	2,140	658	2,257
Deferred Income Taxes	956	(1,254)	611	(1,439)
Changes in Operating Assets and Liabilities:				
Advisory Fees Receivable	1,734	(1,187)	287	(2,054)
Due from Broker	1,010	(1,115)	(1,518)	(1,663)
Restricted Cash	-	(1)	-	(2)
Prepaid Expenses and Other Assets	(13)	4	56	316
Due to Broker	(1,532)	(1,765)	1,415	3
Accounts Payable, Accrued Expenses, and Other Liabilities	3,616	3,744	4,257	4,782
Tax Receivable Agreement Payments	-	-	(2,093)	(84)
Change in Lease Liability	(153)	-	(307)	-
Purchases of Investments	(10,588)	(9,015)	(31,423)	(20,415)
Proceeds from Sale of Investments	10,742	9,755	31,955	20,393
Net Cash Provided by Operating Activities	13,444	13,074	21,436	25,960
INVESTING ACTIVITIES				
Purchases of Investments in Deferred Compensation Plan	(10)	-	(462)	(1,433)
Proceeds from Investments in Deferred Compensation Plan	-	-	544	847
Payments (to)/from Related Parties	(14)	3	(34)	22
Purchase of Property and Equipment	(1)	(34)	(1)	(151)
	(25)	(31)	47	(715)

Net Cash Provided by/(Used in) Investing Activities				
FINANCING ACTIVITIES				
Repurchase and Retirement of Class A Common Stock	(125)	-	(125)	-
Distributions to Non-Controlling Interests	(8,933)	(9,854)	(22,270)	(16,150)
Contributions from Non-Controlling Interests	45	250	45	250
Dividends	(317)	(297)	(2,326)	(578)
Net Cash Used in Financing Activities	(9,330)	(9,901)	(24,676)	(16,478)
NET CHANGE IN CASH	$ 4,089	$ 3,142	$ (3,193)	$ 8,767
CASH AND CASH EQUIVALENTS - Beginning of Period	$ 27,801	$ 22,054	$ 35,083	$ 16,381
Effect of Consolidation of Affiliates	-	-	-	48
Net Change in Cash	4,089	3,142	(3,193)	8,767
CASH AND CASH EQUIVALENTS - End of Period	$ 31,890	$ 25,196	$ 31,890	$ 25,196
Supplementary Cash Flow Information:				
In-Kind Distribution to Non-Controlling Interests of Equity Securities, at Fair Value	$ -	$ -	$ 371	$ -
Interest Paid	$ -	$ -	$ 26	$ -
Income Taxes Paid	$ 993	$ 1,239	$ 1,733	$ 2,120

See accompanying notes to consolidated financial statements.

4

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements

Note 1—Organization

Pzena Investment Management, Inc. (the "Company") functions as the sole managing member of its operating company, Pzena Investment Management, LLC (the "operating company"). As a result, the Company: (i) consolidates the financial results of the operating company and reflects the membership interest in it that it does not own as a non-controlling interest in its consolidated financial statements; and (ii) recognizes income generated from its economic interest in the operating company's net income.

Pzena Investment Management, LLC is an investment adviser which is registered under the Investment Advisers Act of 1940 and is headquartered in New York, New York. As of June 30, 2012, the operating company managed assets in a variety of value-oriented investment strategies across a wide range of market capitalizations in both U.S. and non-U.S. capital markets.

The Company, through its investment in its operating company, has consolidated the results of operations and financial condition of the following entities as of June 30, 2012:

Legal Entity	Type of Entity (Date of Formation)	Operating Company's Ownership at June 30, 2012	
Pzena Investment Management, Pty	Australian Proprietary Limited Company (12/16/2009)	100.0	%
Pzena Investment Management Special Situations, LLC	Delaware Limited Liability Company (12/01/2010)	99.9	%
Pzena Large Cap Value Fund	Massachusetts Trust (11/01/2002)	0.0	%
Pzena International Value Service	Delaware Limited Liability Company (12/22/2003)	0.0	%

Note 2—Significant Accounting Policies

Basis of Presentation:

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and related Securities and Exchange Commission ("SEC") rules and regulations. The Company's policy is to consolidate all majority-owned subsidiaries in which it has a controlling financial interest, which includes the Pzena Investment Management Special Situations, LLC, and the Pzena Investment Management, Pty. The Company also consolidates variable-interest entities ("VIEs") where the Company is deemed to be the primary beneficiary, which includes the Pzena Large Cap Value Fund and the Pzena International Value Service. These majority-owned subsidiaries in which the Company has a controlling financial interest and the VIEs where the Company is deemed to be the primary beneficiary are collectively referred to as "consolidated subsidiaries." As required by the Consolidation Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"), the Company also consolidates or consolidated non-variable-interest entities in which it acts or acted as the general partner or managing member. All of these entities represent or represented private investment partnerships over which the Company exercises or exercised control. Non-controlling interests recorded on the consolidated financial statements of the Company include the non-controlling interests of the outside investors in each of these entities, as well as those of the operating company. All significant inter-company transactions and balances have been eliminated.

The operating company is the managing member of the Pzena International Value Service, a limited liability company. As of February 1, 2011, as a result of a shift in the equity ownership of the entity on that date, the operating company was considered the primary beneficiary of this entity. As a result, the entity was consolidated as of February 1, 2011. At June 30, 2012, Pzena International Value Service's $1.1 million in net assets were included in the Company's consolidated statements of financial condition.

The Pzena Large Cap Value Fund is a Massachusetts Trust in which a majority of the trustees are members of the executive committee of the operating company. A majority of the trustees do not hold equity investments in this trust. Since the holders of the equity investments in this partnership lack a controlling financial interest in it, this entity is deemed to be a VIE. The Company is considered the primary beneficiary of this VIE. At June 30, 2012, the Pzena Large Cap Value Fund's $0.9 million in net assets were included in the Company's consolidated statements of financial condition.

All of the consolidated investment partnerships are investment companies under the American Institute of Certified Public Accountants Audit and Accounting Guide for Investment Companies. The Company has retained the specialized accounting for these partnerships pursuant to the Consolidation of Partnerships and Similar Entities Subtopic of the FASB ASC. Thus, the Company reports these investment partnerships' investments in equity securities at fair value, with net realized and unrealized gains and losses reported in earnings in the consolidated statements of operations.

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

VIEs that are not consolidated continue to receive investment management services from the Company, and are vehicles through which the Company offers its Global Value and/or International (formerly known as Europe, Australasia, and Far East (“EAFE”)) Value strategies. The total net assets of these VIEs was approximately $147.8 million and $219.2 million at June 30, 2012 and December 31, 2011, respectively. Neither the Company nor the operating company were exposed to losses as a result of its involvement with these entities because they had no direct investment in them.

The Company records in its own equity its pro-rata share of transactions that impact the operating company’s net equity, including unit and option issuances and any potential adjustments to accumulated other comprehensive income. The operating company’s pro-rata share of such transactions are recorded as adjustments to additional paid-in capital or non-controlling interests, as applicable, on the consolidated statements of financial position.

Management’s Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

Fair Values of Financial Instruments:

The carrying amounts of all financial instruments in the consolidated statements of financial condition are presented at their fair value.

Revenue Recognition:

Revenue, comprised of advisory fee income, is recognized over the period in which advisory services are provided. Advisory fee income includes management fees that are calculated based on percentages of assets under management (“AUM”), generally billed quarterly, either in arrears or advance, depending on their contractual terms. Advisory fee income also includes performance fees that may be earned by the Company depending on the investment return of the assets under management. Performance fee arrangements generally entitle the Company to participate, on a fixed-percentage basis, in any returns generated in excess of an agreed-upon benchmark. The Company’s participation percentage in such return differentials is then multiplied by AUM to determine the performance fees earned. In general, returns are calculated on an annualized basis over the contract’s measurement period, which usually extends to three years. Performance fees are generally payable annually. Following the preferred method identified in the Revenue Recognition Topic of the FASB ASC, such performance fee income is recorded at the conclusion of the contractual performance period, when all contingencies are resolved. The Company did not recognize any performance fee income for the three months ended June 30, 2012. For the three months ended June 30, 2011, the Company recognized approximately $1.0 million in performance fee income. For the six months ended June 30, 2012 and 2011, the Company recognized approximately $0.3 million and $1.3 million, respectively, in performance fee income.

Earnings per Share:

Basic earnings per share is computed by dividing the Company’s net income attributable to its common stockholders by the weighted average number of shares outstanding during the reporting period. For the three and six months ended June 30, 2012 and 2011, the Company’s basic earnings per share was determined as follows:

	For the Three Months Ended June 30, 2012	2011	For the Six Months Ended June 30, 2012	2011
	(in thousands, except share and per share amounts)			
Net Income for Basic Earnings per Share	$ 614	$ 859	$ 1,621	$ 2,516
Basic Weighted-Average Shares Outstanding	10,565,406	9,904,187	10,570,247	9,646,298
Basic Earnings per Share	$ 0.06	$ 0.09	$ 0.15	$ 0.26

6

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

Diluted earnings per share adjusts this calculation to reflect the impact of all outstanding operating company membership units, operating company phantom units, outstanding operating company unit options and options to purchase Class A common stock, to the extent they would have a dilutive effect on net income per share for the reporting period. The calculation of diluted earnings per share is also adjusted to reflect the impact of the operating company's unvested restricted Class B units, which have nonforfeitable rights to dividends and are considered participating securities. Net income for diluted earnings per share generally assumes all outstanding operating company membership units are converted into Company stock at the beginning of the reporting period and the resulting change to Company net income associated with its increased interest in the operating company is taxed at the Company's effective tax rate, exclusive of one-time prior period adjustments and adjustments associated with both the valuation allowance and the liability to selling and converting shareholders. When this conversion results in an increase in earnings per share or a decrease in loss per share, diluted net income and diluted earnings per share are assumed to be equal to basic net income and basic earnings per share for the reporting period.

For the three and six months ended June 30, 2012 and 2011, the Company's diluted net income was determined as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Net Income Attributable to Non-Controlling Interests of Pzena Investment Management, LLC	$ 6,508	$ 9,740	$ 14,717	$ 19,030
Less: Assumed Corporate Income Taxes	2,789	4,177	6,306	8,156
Assumed After-Tax Income of Pzena Investment Management, LLC	$ 3,719	$ 5,563	$ 8,411	$ 10,874
Assumed After-Tax Income of Pzena Investment Management, LLC	$ 3,719	$ 5,563	$ 8,411	$ 10,874
Net Income of Pzena Investment Management, Inc.	614	859	1,621	2,516
Diluted Net Income[1]	$ 4,333	$ 6,422	$ 10,032	$ 13,390

(1) Since the assumed incremental income results in an increase per share income for the three months ended June 30, 2012, the assumed effects of the conversion of operating company Class B units, options to purchase operating company units, options to purchase Class A common stock, and phantom operating company units are excluded from the calculation of diluted income per share.

Under the two-class method, earnings per share is calculated by dividing net income for diluted earnings per share by the weighted-average number of common shares outstanding during the period, plus the dilutive effect of any potential common shares outstanding during the period using the more dilutive of the treasury method or two-class method. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's net income for diluted earnings per share is reduced by the amount allocated to participating restricted Class B units for purposes of calculating earnings per share. Dividends paid per share on the operating company's unvested restricted Class B units are equal to the dividends paid per Company Class A common stock.

7

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

For the three and six months ended June 30, 2012 and 2011, the Company's diluted earnings per share were determined as follows:

	For the Three Months Ended June 30, 2012	2011	For the Six Months Ended June 30, 2012	2011
	(In thousands, except share and per share amounts)			
Diluted Net Income Allocated to:				
Class A Common Stock	$ 614	$ 859	$ 9,994	$ 13,390
Participating Class B Restricted Units	-	-	38	-
Total Diluted Net Income Attributable to Shareholders	$ 614	$ 859	$ 10,032	$ 13,390
Basic Weighted-Average Shares Outstanding	10,565,406	9,904,187	10,570,247	9,646,298
Dilutive Effect of Operating Company B Units	-	-	54,010,518	54,742,805
Dilutive Effect of Options	-	-	463,088	667,194
Dilutive Effect of Phantom Units	-	-	105,987	14,415
Dilutive Weighted-Average Shares Outstanding	10,565,406	9,904,187	65,149,840	65,070,712
Add: Participating Class B Restricted Units	-	-	245,487	-
Total Dilutive Weighted-Average Shares Outstanding	10,565,406	9,904,187	65,395,327	65,070,712
Diluted Earnings per Share	$ 0.06	$ 0.09	$ 0.15	$ 0.21

For the three and six months ended June 30, 2012 and 2011, the following operating company membership units, participating restricted Class B units, options to purchase operating company membership units, options to purchase shares of Class A common stock and operating company phantom units were excluded from the calculation of diluted net income per share, as their inclusion would have had an antidilutive effect for the respective periods:

	For the Three Months Ended June 30, 2012	2011	For the Six Months Ended June 30, 2012	2011

Operating Company Units	54,043,981	54,484,796	-	-
Options to Purchase Operating Company Units	3,926,432	3,648,117	3,463,344	989,476
Options to Purchase Shares of Class A Common Stock	971,750	961,750	971,750	-
Phantom Operating Company Units	294,339	152,701	188,352	30,000
Participating Class B Restricted Units	245,487	-	-	-
Total	59,481,989	59,247,364	4,623,446	1,019,476

Cash and Cash Equivalents:

At June 30, 2012 and December 31, 2011, cash and cash equivalents was $31.9 million and $35.1 million, respectively. The Company considers all money market funds and highly-liquid debt instruments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company maintains its cash in bank deposit and other accounts whose balances, at times, exceed federally insured limits.

Interest on cash and cash equivalents is recorded as interest income on an accrual basis in the consolidated statements of operations. Dividends associated with the investments of the Company’s consolidated subsidiaries are recorded as dividend income on an ex-dividend basis in the consolidated statement of operations.

Restricted Cash:

The Company maintained a compensating balance of $1.0 million at June 30, 2012 and December 31, 2011 as collateral for a letter of credit issued by a third party in lieu of a cash security deposit, as required by the Company’s lease for its New York office space. Such amounts are recorded in Restricted Cash in the consolidated statements of financial condition.

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

Due to/from Broker:

Due to/from Broker consists primarily of amounts payable/receivable for unsettled securities transactions held/initiated at the clearing brokers of the Company's consolidated subsidiaries.

Investments, at Fair Value:

Investments, at Fair Value represents the securities held by the Company and its consolidated subsidiaries, as well as investments in mutual funds. The Company's investments in third-party mutual funds are held to satisfy the Company's obligations under its deferred compensation program.

All such investments are recorded at fair value, with net realized and unrealized gains and losses reported in earnings in the consolidated statements of operations.

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosures Topic of the FASB ASC also establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels: (i) valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets (Level 1); (ii) valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets, and other observable inputs directly or indirectly related to the asset or liability being measured (Level 2); and (iii) valuation inputs are unobservable and significant to the fair value measurement (Level 3).

The Company's fair value measurements relate to its consolidated investments in equity securities, which are exchange-traded securities with quoted prices in active markets, and its investments in mutual funds. The fair value measurements of the equity securities and mutual funds have been classified as Level 1.

The following table presents these instruments' fair value at June 30, 2012:

	Level1 1	Level 2 (in thousands)	Level 3
Assets:			
Equity Securities	$ 1,899	$ -	$ -
Investments in Mutual Funds	2,700	-	-
Total Fair Value	$ 4,599	$ -	$ -

The following table presents these instruments' fair value at December 31, 2011:

	Level1 1	Level 2 (in thousands)	Level 3
Assets:			
Equity Securities	$ 2,285	$ -	$ -

Investments in Mutual Funds		2,634		-		-
Total Fair Value	$	4,919	$	-	$	-

Securities Valuation:

Investments in equity securities for which market quotations are available are valued at the last reported price or closing price on the primary market or exchange on which they trade. If no reported equity sales occurred on the valuation date, equity investments are valued at the bid price. Investments in mutual funds are valued at the closing net asset value per share of the fund on the day of valuation. Transactions are recorded on a trade date basis.

The net realized gain or loss on sales of securities and mutual funds is determined on a specific identification basis and is included in net realized and unrealized gain/(loss) from investments in the consolidated statements of operations.

9

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, amounts due from brokers, and advisory fees receivable. The Company maintains its cash and cash equivalents in bank deposits and other accounts whose balances, at times, exceed federally insured limits.

The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. On a periodic basis, the Company evaluates its advisory fees receivable and establishes an allowance for doubtful accounts, if necessary, based on a history of past write-offs and collections and current credit conditions. At June 30, 2012 and December 31, 2011, no allowance for doubtful accounts has been deemed necessary.

Property and Equipment:

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvements or the remaining lease term.

Business Segments:

The Company views its operations as comprising one operating segment.

Income Taxes:

The Company is a “C” corporation under the Internal Revenue Code, and thus liable for federal, state, and local taxes on the income derived from its economic interest in its operating company. The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. It has not made a provision for federal or state income taxes because it is the individual responsibility of each of the operating company’s members (including the Company) to separately report their proportionate share of the operating company’s taxable income or loss. Similarly, the income of the Company’s consolidated subsidiaries is not subject to income taxes, since it is allocated to each partnership’s individual partners. The operating company has made a provision for New York City Unincorporated Business Tax (“UBT”).

The Company and its consolidated subsidiaries account for all federal, state, and local taxation pursuant to the asset and liability method, which requires deferred income tax assets and liabilities to be recorded for temporary differences between the carrying amount and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount more likely than not to be realized. At June 30, 2012, the Company had a $60.4 million valuation allowance against deferred tax assets recorded as part of the Company’s initial public offering and the subsequent exchanges of Class B units for shares of its Class A common stock. At December 31, 2011, the Company had a $61.1 million valuation allowance against these deferred tax assets. The income tax expense, or benefit, is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities. The Company records its deferred tax liabilities as a component of other liabilities in the consolidated statements of financial condition.

Foreign Currency:

Investment securities and other assets and liabilities denominated in foreign currencies are remeasured into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities, and income and expense items denominated in foreign currencies, are remeasured into U.S. dollar amounts on the respective dates of such transactions.

The Company does not isolate the portion of the results of its operations resulting from the impact of changes in foreign exchange rates on its investments, from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included in net realized and unrealized gain/(loss) on investments in the consolidated statements of operations.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Company’s books and the U.S. dollar equivalent of the amounts actually received or paid. Net realized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities resulting from changes in exchange rates.

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

The functional currency of the Company is the United States Dollar. The functional currency of the Company's representative office in Australia is the Australian Dollar. Assets and liabilities of this office are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. Any resulting unrealized cumulative translation adjustment is recorded net of taxes as a component of accumulated other comprehensive income in equity. As of June 30, 2012, the Company did not record any accumulated other comprehensive income.

Note 3—Property and Equipment

Property and equipment, net, is comprised of the following:

	As of June 30, 2012	As of December 31, 2011
	(in thousands)	
Leasehold Improvements	$ 1,162	$ 1,100
Computer Hardware	965	972
Furniture and Fixtures	788	788
Office Equipment	271	271
Computer Software	214	214
Total	3,400	3,345
Less: Accumulated Depreciation and Amortization	(2,593)	(2,516)
Total	$ 807	$ 829

Depreciation is included in general and administrative expense and totaled $0.1 million for each of the three months ended June 30, 2012 and 2011.   Such expenses totaled $0.1 million and $0.2 million, respectively, for the six months ended June 30, 2012 and 2011.

Note 4—Related Party Transactions

For the three months ended June 30, 2012 and 2011, the Company earned $0.4 million and $0.7 million, respectively, in investment advisory fees from unconsolidated VIEs which receive investment management services from the Company. For the six months ended June 30, 2012 and 2011, the Company earned $0.8 million and $1.7 million, respectively, in such fees. The Company is not the primary beneficiary of these VIEs.

At both June 30, 2012 and December 31, 2011, the Company had less than $0.1 million remaining of advances to an international investment company for organization and start-up costs, which are included in Receivable from Related Parties on the consolidated statements of financial condition. The Company is the sponsor and investment manager of this entity.

At June 30, 2012 and December 31, 2011, receivables from related parties included less than $0.1 million of loans to employees.

The operating company manages the personal funds of certain of the Company's employees, including the CEO, its two Presidents, and its two Executive Vice Presidents, pursuant to investment management agreements in which it has waived its regular advisory fees. The operating company also manages an account beneficially owned by a private fund in which certain of the Company's executive officers invest. Investments by employees in individual accounts are permitted only at the discretion of the executive committee of the operating company, but are generally not subject to the same minimum investment levels that are required of outside investors. In addition, the operating company manages the personal funds of some of its employees' family members at reduced advisory fee rates. The aggregate value of the fees that the Company waived related to the Company's executive officers, other employees and family members was approximately $0.1 million for the each of the three months ended June 30, 2012 and 2011. For each of the six months ended June 30, 2012 and 2011, the Company waived $0.2 million of such fees.

Note 5—Commitments and Contingencies

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants. In certain cases, the Company may have recourse against third parties with respect to these indemnities. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities. The Company has had no claims or payments pursuant to these agreements, and it believes the likelihood of a claim being made is remote. Utilizing the methodology in the Guarantees Topic of the FASB ASC, the Company's estimate of the value of such guarantees is de minimis, and, therefore, no accrual has been made in the consolidated financial statements.

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

The Company leases office space under a non-cancelable operating lease agreement which expires on October 31, 2015. The Company reflects minimum lease expense for its headquarters on a straight-line basis over the lease term. During the year ended December 31, 2011, the Company entered into a noncancelable sublease agreement for certain excess office space associated with its operating lease agreement. The noncancelable sublease agreement also expires on October 31, 2015.

Lease expenses for the three months ended June 30, 2012 and 2011 were $0.3 million and $0.5 million, respectively, and are included in general and administrative expense. Such expenses totaled $0.7 million and $1.1 million, respectively, for the six months ended June 30, 2012 and 2011.

Note 6—Compensation and Benefits

Compensation and benefits expense to employees and members is comprised of the following:

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
	(in thousands)			
Cash Compensation and Other Benefits	$ 7,347	$ 7,080	$ 14,834	$ 14,285
Non-Cash Compensation	665	1,180	1,351	2,363
Total Compensation and Benefits Expense	$ 8,012	$ 8,260	$ 16,185	$ 16,648

For the three and six months ended June 30, 2012 and 2011, the operating company granted no options to purchase units in the operating company pursuant to the Pzena Investment Management, LLC 2006 Equity Incentive Plan (the “2006 Equity Incentive Plan”) and no options to purchase shares of Class A common stock pursuant to the Pzena Investment Management, Inc. 2007 Equity Incentive Plan (the “2007 Equity Incentive Plan”).

For the six months ended June 30, 2012 and 2011, the operating company granted 53,116 and 6,000, respectively, restricted operating company Class B units, and the related shares of Class B common stock, pursuant to the 2006 Equity Incentive Plan. No such units were granted for the three months ended June 30, 2012 and 2011. These unit grants each vest ratably over a four-year period commencing January 1, 2012 and 2011, respectively.

For the three months ended June 30, 2012 and 2011, the Company recognized approximately $0.3 million and $0.7 million, respectively, in compensation and benefits expense associated with the amortization of all unvested operating company Class B unit and option grants issued under the 2006 Equity Incentive Plan, and unvested Class A common stock option grants issued under the 2007 Equity Incentive Plan. For the six months ended June 30, 2012 and 2011, the Company recognized approximately $0.6 million and $1.4 million, respectively, in such compensation and benefits expense.

Pursuant to the Pzena Investment Management, LLC Amended and Restated Bonus Plan (the “Bonus Plan”), eligible employees whose cash compensation is in excess of certain thresholds have a portion of that excess mandatorily deferred. Amounts deferred may be credited to an investment account, take the form of phantom Class B units, or be invested in money market funds at the employee's discretion, and vest ratably over four years. As of June 30, 2012 and December 31, 2011, the liability associated with deferred compensation investment accounts was approximately $0.6 million and $1.2 million, respectively, which is recorded in the deferred compensation liability on the consolidated statements of financial condition. For the three months ended June 30, 2012 and 2011, the Company recognized approximately $0.4 million, and $0.5 million, respectively, in compensation and benefits expense associated with the amortization of all unvested deferred compensation awards associated with the Bonus Plan. For the six months ended June 30, 2012 and 2011, the Company recognized approximately $0.8 million and $1.0 million, respectively, in such expense.

As of June 30, 2012 and December 31, 2011, the Company had approximately $2.0 million and $2.1 million, respectively, in unrecorded compensation expense related to unvested operating company phantom Class B units issued pursuant to its deferred compensation plan, operating company Class B unit and option grants issued under the 2006 Equity Incentive Plan, and Class A common stock option grants issued under the 2007 Equity Incentive Plan.

The Company issues to certain of its employees delayed-vesting cash awards. For the three and six months ended June 30, 2012 and 2011, no such awards were granted. Delayed-vesting cash awards have varying vesting schedules, with $0.8 million to be paid at the end of 2012, and the remaining $0.4 million to be paid at the end of 2013.

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

Note 7—Income Taxes

The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. Neither it nor the Company's other consolidated subsidiaries have made a provision for federal or state income taxes because it is the individual responsibility of each of these entities' members (including the Company) to separately report their proportionate share of the respective entity's taxable income or loss. The operating company has made a provision for New York City UBT. The Company, as a "C" corporation under the Internal Revenue Code, is liable for federal, state and local taxes on the income derived from its economic interest in its operating company, which is net of UBT. Correspondingly, in its consolidated financial statements, the Company reports both the operating company's provision for UBT, as well as its provision for federal, state and local corporate taxes.

The components of the income tax expense are as follows:

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
	(in thousands)			
Current Provision:				
Unincorporated Business Taxes	$ 578	$ 737	$ 1,169	$ 1,505
Local Corporate Tax	-	-	-	-
State Corporate Tax	-	-	-	-
Federal Corporate Tax	-	-	-	-
Total Current Provision	$ 578	$ 737	$ 1,169	$ 1,505
Deferred Provision:				
Unincorporated Business Taxes	$ (27)	$ (38)	$ 15	$ (39)
Local Corporate Tax	62	87	139	164
State Corporate Tax	110	153	246	289
Federal Corporate Tax	365	525	834	993
Total Deferred Provision	$ 510	$ 727	$ 1,234	$ 1,407
Change in Valuation Allowance	446	(1,980)	(623)	(2,845)
Total Income Tax Expense/(Benefit)	$ 1,534	$ (516)	$ 1,780	$ 67

The Income Taxes Topic of the FASB ASC establishes the minimum threshold for recognizing, and a system for measuring, the benefits of tax return positions in financial statements. It is the Company's policy to recognize accrued interest, and penalties associated with uncertain tax positions in Income Tax Expense/(Benefit) on the consolidated statement of operations. For the three and six months ended June 30, 2012 and 2011, no such expenses were recognized. As of June 30, 2012 and December 31, 2011, no such accruals were recorded.

The Company and the operating company are generally no longer subject to U.S. federal or state and local income tax examinations by tax authorities for any year prior to 2008. All tax years subsequent to, and including, 2008 are considered open and subject to examination by tax authorities.

The acquisition of the operating company Class B units, noted below, has allowed the Company to make an election under Section 754 of the Internal Revenue Code ("Section 754") to step up its tax basis in the net assets acquired. This step up is deductible for tax purposes over a 15-year period. Based on the net proceeds of the initial public offering and tax basis of the operating company, this election gave rise to an initial deferred tax asset of approximately $68.7 million.

Pursuant to a tax receivable agreement signed between the members of the operating company and the Company, 85% of the cash savings generated by this election will be distributed to the selling and converting shareholders upon the realization of this benefit.

If the Company exercises its right to terminate the tax receivable agreement early, the Company will be obligated to make an early termination payment to the selling and converting shareholders, based upon the net present value (based upon certain assumptions and deemed events set forth in the tax receivable agreement) of all payments that would be required to be paid by the Company under the tax receivable agreement. If certain change of control events were to occur, the Company would be obligated to make an early termination payment.

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

As discussed further in Note 11, Shareholders' Equity, below, on March 28, 2011, certain of the operating company's members exchanged an aggregate of 536,528 of their Class B units for an equivalent number of shares of Company Class A common stock. The Company elected to step up its tax basis in the incremental assets acquired in accordance with Section 754. Based on the exchange-date fair values of the Company's common stock and the tax basis of the operating company, this election gave rise to a $2.4 million deferred tax asset associated with this exchange and a corresponding $2.0 million liability to selling and converting shareholders on March 28, 2011. The Company assessed the realizability of the deferred tax asset with this exchange and determined that a portion of its benefits would go unutilized. Consequently, the Company established a $2.1 million valuation allowance on March 28, 2011 to reduce the deferred tax asset to an amount more likely than not to be realized. This deferred tax asset remains available to the Company and can be used to reduce taxable income in future years. The Company similarly reduced the associated liability to selling and converting shareholders by $1.8 million at March 28, 2011, to reflect this change in the estimated realization of these assets. As required by the Income Taxes Topic of the FASB ASC, the Company recorded the effects of these transactions in equity.

During the three months ended June 30, 2012, the Company's valuation allowance was increased by approximately $0.4 million, due to revised estimates of future taxable income. For the six months ended June 30, 2012, the Company's valuation allowance was reduced by approximately $0.6 million due to revised estimates of future taxable income. To reflect this change in the estimated realization of the asset and its liability for future payments, the Company decreased its liability to selling and converting shareholders by $0.3 million for the three months ended June 30, 2012, and, increased its liability to selling and converting shareholders by $0.7 million for the six months ended June 30, 2012.

During the three and six months ended June 30, 2011, after giving effect to the exchange discussed earlier, the Company's valuation allowance was reduced by approximately $2.0 million and $2.8 million, respectively, due to revised estimates of future taxable income. To reflect this change in the estimated realization of the asset, the Company correspondingly increased its liability to selling and converting shareholders by $2.1 million and $2.3 million, respectively for the three and six months ended June 30, 2011. The effects of these changes to the deferred tax asset and liability to selling and converting shareholders were recorded as a component of the income tax expense and other expense, respectively, on the consolidated statements of operations. As of June 30, 2012 and December 31, 2011, the net values of all deferred tax assets were approximately $8.3 million and $8.8 million, respectively.

The change in the Company's deferred tax assets, net of valuation allowance, for the three and six months ended June 30, 2012 is summarized as follows:

	Section 754	Other	Valuation Allowance	Total
		(in thousands)		
Balance at December 31, 2011	$ 66,224	$ 3,661	$ (61,050)	$ 8,835
Deferred Tax Expense	(823)	158	-	(665)
Change in Valuation Allowance	-	-	1,069	1,069
Balance at March 31, 2012	$ 65,401	$ 3,819	$ (59,981)	$ 9,239
Deferred Tax Expense	(835)	320	-	(515)
Change in Valuation Allowance	-	-	(446)	(446)
Balance at June 30, 2012	$ 64,566	$ 4,139	$ (60,427)	$ 8,278

The change in the Company’s deferred tax liabilities, which is included in other liabilities on the Company’s consolidated statements of financial condition, for the three and six months ended June 30, 2012, is summarized as follows:

	Total (in thousands)
Balance at December 31, 2011	$ (13)
Deferred Tax Expense	(59)
Balance at March 31, 2012	$ (72)
Deferred Tax Expense	5
Balance at June 30, 2012	$ (67)

14

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

The change in the Company's deferred tax assets, net of valuation allowance, for the three and six months ended June 30, 2011 is summarized as follows:

	Section 754	Other	Valuation Allowance	Total
		(in thousands)		
Balance at December 31, 2010	$ 65,468	$ 2,797	$ (59,431)	$ 8,834
Deferred Tax Expense	(777)	96	-	(681)
Unit Exchange	2,381	-	(2,075)	306
Change in Valuation Allowance	-	-	865	865
Balance at March 31, 2011	$ 67,072	$ 2,893	$ (60,641)	$ 9,324
Deferred Tax Expense	(816)	71	-	(745)
Change in Valuation Allowance	-	-	1,980	1,980
Balance at June 30, 2011	$ 66,256	$ 2,964	$ (58,661)	$ 10,559

The change in the Company's deferred tax liabilities for the three and six months ended June 30, 2011 is summarized as follows:

	Total (in thousands)
Balance at December 31, 2010	$ (51)
Deferred Tax Expense	1
Balance at March 31, 2011	$ (50)
Deferred Tax Expense	19
Balance at June 30, 2011	$ (31)

As of June 30, 2012 and December 31, 2011, the net values of the liability to selling and converting shareholders were approximately $9.8 million and $11.2 million, respectively.

Note 8—Investments, at Fair Value

Investments in equity securities consisted of the following at June 30, 2012:

	Cost	Unrealized Gain/(Loss)	Fair Value
		(in thousands)	

Equity Securities	$ 1,914	$ (15)	$ 1,899
Investments in Mutual Funds	2,501	199	2,700
Total	$ 4,415	$ 184	$ 4,599

Investments in equity securities consisted of the following at December 31, 2011:

	Cost	Unrealized Gain/(Loss) (in thousands)	Fair Value
Equity Securities	$ 2,382	$ (97)	$ 2,285
Investments in Mutual Funds	2,542	92	2,634
Total	$ 4,924	$ (5)	$ 4,919

Pzena Investment Management, Inc.
Unaudited Notes to Consolidated Financial Statements (Continued)

Note 9—Non-Controlling Interests

Non-Controlling Interests in the operations of the Company's operating company and consolidated subsidiaries are comprised of the following:

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011
	(in thousands)			
Non-Controlling Interests of Pzena Investment Management, LLC	$ 6,508	$ 9,740	$ 14,717	$ 19,030
Non-Controlling Interests of Consolidated Subsidiaries	(116)	1	353	51
Non-Controlling Interests	$ 6,392	$ 9,741	$ 15,070	$ 19,081

Distributions to non-controlling interests represent tax allocations and dividend equivalents paid to the members of the operating company, as well as withdrawals made by the Company's consolidated subsidiaries.

Note 10—Members' Equity Interests of Operating Company

Except as otherwise provided by law, the liability of a member of the operating company is limited to the amount of its capital account. A member may transfer or assign all or any part of its membership interest only with the prior written consent of Pzena Investment Management, Inc., which may be withheld in its sole discretion. Any Transferee admitted as a member shall succeed to the capital account, or portion thereof, transferred or assigned, as if no such transfer or assignment had occurred.

Note 11—Shareholders' Equity

The Company functions as the sole managing member of the operating company. As a result, the Company: (i) consolidates the financial results of the operating company and reflects the membership interest in it that it does not own as a non-controlling interest in its consolidated financial statements; and (ii) recognizes income generated from its economic interest in the operating company's net income. Class A and Class B units of the operating company have the same economic rights per unit. As of June 30, 2012 and December 31, 2011, the holders of Class A common stock (through the Company) and the holders of Class B units of the operating company held approximately 16.3% and 83.7%, respectively, of the economic interests in the operations of the business.

Each Class B unit of the operating company has a corresponding share of the Company's Class B common stock, par value $0.000001 per share. Each share of the Company's Class B common stock entitles its holder to five votes, until the first time that the number of shares of Class B common stock outstanding constitutes less than 20% of the number of all shares of the Company's common stock outstanding. From this time and thereafter, each share of the Company's Class B common stock entitles its holder to one vote. When a Class B unit is exchanged for a share of the Company's Class A common stock or forfeited, a corresponding share of the Company's Class B common stock will automatically be redeemed and cancelled. Conversely, to the extent that the Company causes the operating company to issue additional Class B units to employees pursuant to its equity incentive plan, these additional holders of Class B units would be entitled to receive a corresponding number of shares of the Company's Class B common stock (including if the Class B units awarded are subject to vesting).

All holders of the Company's Class B common stock have entered into a stockholders' agreement, pursuant to which they agreed to vote all shares of Class B common stock then held by them, and acquired in the future, together on all matters submitted to a vote of the common stockholders.

The outstanding shares of the Company's Class A common stock represent 100% of the rights of the holders of all classes of the Company's capital stock to receive distributions, except that holders of Class B common stock will have the right to receive the class's par value upon the Company's liquidation, dissolution or winding up.

Pursuant to the operating agreement of the operating company, each vested Class B unit is exchangeable for a share of the Company's Class A common stock, subject to certain exchange timing and volume limitations.

On March 28, 2011, certain of the operating company's members exchanged an aggregate of 536,528 of their Class B units for an equivalent number of shares of Company Class A common stock. The acquisition of additional operating company membership interest was treated as a reorganization of entities under common control as required by the Business Combinations Topic of the FASB ASC. There was no such exchange for the six months ended June 30, 2012.