

Pzena Investment Management, Inc.  
Form 10-Q  
August 07, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended June 30, 2014

Or

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)

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

20-8999751

(I.R.S. Employer

Identification No.)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data 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  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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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As of August 6, 2014, there were 13,360,426 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of August 6, 2014, there were 51,878,097 outstanding shares of the registrant's Class B common stock, par value \$0.000001 per share.

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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, 2013. 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](http://www.sec.gov), identify additional factors that can affect forward-looking statements.

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## 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, 2014 (unaudited)	December 31, 2013
<b>ASSETS</b>		
Cash and Cash Equivalents	\$26,055	\$33,878
Restricted Cash	2,690	316
Due from Broker	1,189	58
Advisory Fees Receivable	23,904	23,947
Investments, at Fair Value	15,289	7,621
Receivable from Related Parties	124	119
Other Receivables	476	550
Prepaid Expenses and Other Assets	731	577
Deferred Tax Asset, Net of Valuation Allowance of \$44,450 and \$53,973 in 2014 and 2013, respectively	12,505	12,312
Property and Equipment, Net of Accumulated Depreciation of \$2,958 and \$2,850 in 2014 and 2013, respectively	869	835
<b>TOTAL ASSETS</b>	<b>\$83,832</b>	<b>\$80,213</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts Payable and Accrued Expenses	\$11,071	\$5,570
Due to Broker	1,119	5
Securities Sold Short, at Fair Value	1,438	—
Deferred Compensation Liability	1,105	2,339
Lease Liability	565	778
Liability to Selling and Converting Shareholders	12,955	12,777
Other Liabilities	294	195
<b>TOTAL LIABILITIES</b>	<b>28,547</b>	<b>21,664</b>
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; 12,210,366 and 12,158,057 Shares Issued and Outstanding in 2014 and 2013, respectively)	122	121
Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 52,882,465 and 52,820,720 Shares Issued and Outstanding in 2014 and 2013, respectively)	—	—
Additional Paid-In Capital	9,633	9,750
Retained Earnings	6,532	6,491
Total Pzena Investment Management, Inc.'s Equity	16,287	16,362
Non-Controlling Interests	38,998	42,187
<b>TOTAL EQUITY</b>	<b>55,285</b>	<b>58,549</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$83,832</b>	<b>\$80,213</b>

See accompanying notes to unaudited consolidated financial statements.



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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUE	\$27,945	\$22,132	\$54,346	\$42,974
EXPENSES				
Compensation and Benefits Expense	9,899	8,914	19,949	18,522
General and Administrative Expense	2,505	1,943	4,825	3,752
Total Operating Expenses	12,404	10,857	24,774	22,274
Operating Income	15,541	11,275	29,572	20,700
OTHER (EXPENSE)/ INCOME				
Interest Income	10	27	25	54
Dividend Income	112	87	162	116
Net Realized and Unrealized Gain from Investments	410	414	514	1,265
Change in Liability to Selling and Converting Shareholders	(1,996)	(229)	(2,123)	(1,268)
Other Income/ (Expense)	56	(48)	(33)	(88)
Total Other (Expense)/ Income	(1,408)	251	(1,455)	79
Income Before Income Taxes	14,133	11,526	28,117	20,779
Income Tax (Benefit)/ Expense	(274)	1,234	1,409	796
Net Income	14,407	10,292	26,708	19,983
Less: Net Income Attributable to Non-Controlling Interests	12,283	9,026	23,136	17,548
Net Income Attributable to Pzena Investment Management, Inc.	\$2,124	\$1,266	\$3,572	\$2,435
Net Income for Basic Earnings per Share	\$2,124	\$1,266	\$3,572	\$2,435
Basic Earnings per Share	\$0.17	\$0.10	\$0.29	\$0.21
Basic Weighted Average Shares Outstanding	12,180,192	12,315,065	12,178,402	11,793,938
Net Income for Diluted Earnings per Share	\$9,096	\$6,358	\$16,692	\$12,268
Diluted Earnings per Share	\$0.13	\$0.10	\$0.25	\$0.18
Diluted Weighted Average Shares Outstanding <sup>1</sup>	67,998,237	66,562,823	68,021,135	66,550,266
Cash Dividends per Share of Class A Common Stock	\$0.03	\$0.03	\$0.29	\$0.19

<sup>1</sup> Under the "two-class method," restricted Class B units that are considered participating securities are required to be included in the computation of diluted earnings per share.

See accompanying notes to unaudited consolidated financial statements.

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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, 2013	12,158,057	52,820,720	\$ 121	\$ 9,750	\$ 6,491	\$ 42,187	\$ 58,549
Unit Conversion	—	—	—	—	—	—	—
Amortization of Non-Cash Compensation	18,535	17,685	—	290	—	1,261	1,551
Directors' Shares	—	—	—	37	—	161	198
Net Income	—	—	—	—	3,572	23,136	26,708
Options Exercised	68,346	95,199	1	37	—	(38 )	—
Repurchase and Retirement of Class A Common Stock	(34,572 )	—	—	(373 )	—	—	(373 )
Repurchase and Retirement of Class B Units	—	(51,139 )	—	(101 )	—	(440 )	(541 )
Repurchase and Retirement of Class B Unit Options	—	—	—	—	—	—	—
Class A Cash Dividends Declared and Paid (\$0.29 per share)	—	—	—	—	(3,531 )	—	(3,531 )
Contributions from Non-Controlling Interests	—	—	—	—	—	1,578	1,578
Distributions to Non-Controlling Interests	—	—	—	—	—	(28,854 )	(28,854 )
Other	—	—	—	(7 )	—	7	—
Balance at June 30, 2014	12,210,366	52,882,465	\$ 122	\$ 9,633	\$ 6,532	\$ 38,998	\$ 55,285

See accompanying notes to unaudited consolidated financial statements.



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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
<b>OPERATING ACTIVITIES</b>				
Net Income	\$14,407	\$10,292	\$26,708	\$19,983
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:				
Depreciation	57	38	110	77
Non-Cash Compensation	1,180	1,225	2,656	2,519
Director Share Grant	82	75	198	150
Net Realized and Unrealized (Gain) from Investments	(410)	(414)	(514)	(1,265)
Change in Liability to Selling and Converting Shareholders	1,996	229	2,123	1,268
Deferred Income Taxes	(1,170)	527	(200)	93
Changes in Operating Assets and Liabilities:				
Advisory Fees Receivable	(503)	(1,573)	43	(3,748)
Due from Broker	(435)	1,554	(1,131)	(63)
Restricted Cash	(2,374)	—	(2,374)	(1)
Prepaid Expenses and Other Assets	239	227	(80)	(566)
Due to Broker	(4,114)	(1,581)	1,114	45
Accounts Payable, Accrued Expenses, and Other Liabilities	4,901	3,313	3,657	4,392
Tax Receivable Agreement Payments	—	—	(1,945)	(2,000)
Change in Lease Liability	(107)	(106)	(213)	(212)
Purchases of Investments	(15,911)	(19,906)	(31,266)	(53,206)
Proceeds from Sale of Investments	14,910	19,004	24,973	52,702
Net Cash Provided by Operating Activities	12,748	12,904	23,859	20,168
<b>INVESTING ACTIVITIES</b>				
Purchases of Investments in Deferred Compensation Plan	(102)	(40)	(621)	(1,459)
Proceeds from Investments in Deferred Compensation Plan	—	—	541	78
Payments from/ (to) Related Parties	87	(1)	(5)	(48)
Purchase of Property and Equipment	—	(5)	(81)	(5)
Net Cash (Used in)/Provided by Investing Activities	(15)	(46)	(166)	(1,434)
<b>FINANCING ACTIVITIES</b>				
Repurchase and Retirement of Class A Common Stock	(373)	(1,017)	(373)	(1,684)
Repurchase and Retirement of Class B Units	(500)	—	(541)	—
Repurchase and Retirement of Class B Unit Options	—	(71)	—	(71)
Loan Proceeds	205	—	205	—
Distributions to Non-Controlling Interests	(12,029)	(10,186)	(28,854)	(21,809)
Contributions from Non-Controlling Interests	630	—	1,578	—
Dividends	(365)	(368)	(3,531)	(2,140)
Net Cash Used in Financing Activities	(12,432)	(11,642)	(31,516)	(25,704)
NET CHANGE IN CASH	\$301	\$1,216	\$(7,823)	\$(6,970)
CASH AND CASH EQUIVALENTS - Beginning of Period	\$25,754	\$24,459	\$33,878	\$32,645
Net Change in Cash	301	1,216	(7,823)	(6,970)
CASH AND CASH EQUIVALENTS - End of Period	\$26,055	\$25,675	\$26,055	\$25,675
Supplementary Cash Flow Information:				

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Income Taxes Paid	\$1,213	\$964	\$1,544	\$1,833
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See accompanying notes to unaudited consolidated financial statements.

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Pzena Investment Management, Inc.

Notes to Unaudited 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 interests 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.

The operating company 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, 2014, 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 has consolidated the results of operations and financial condition of the following entities as of June 30, 2014:

Legal Entity	Type of Entity (Date of Formation)	Ownership at June 30, 2014	
Pzena Investment Management, Pty	Australian Proprietary Limited Company (12/16/2009)	100.0	%
Pzena Financial Service, LLC	Delaware Limited Liability Company (10/15/2013)	100.0	%
Pzena Investment Management Special Situations, LLC	Delaware Limited Liability Company (12/01/2010)	99.9	%
Pzena Emerging Markets Focused Value Fund, a series of Advisors Series Trust	Open-end Management Investment Company, series of Delaware Statutory Trust (3/31/2014)	99.0	%
Pzena Mid Cap Focused Value Fund, a series of Advisors Series Trust	Open-end Management Investment Company, series of Delaware Statutory Trust (3/31/2014)	99.0	%
Pzena Long/Short Value Fund, a series of Advisors Series Trust	Open-end Management Investment Company, series of Delaware Statutory Trust (3/31/2014)	81.0	%
Pzena Investment Funds Trust, Pzena Large Cap Value Fund	Massachusetts Trust (11/01/2002)	0.0	%
Pzena International Value Service, a series of Pzena Investment Management International, LLC	Delaware Limited Liability Company (12/22/2003)		