

Pzena Investment Management, Inc.  
Form 10-Q  
May 07, 2015  
Table of Contents

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 March 31, 2015

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)

320 Park Avenue

New York, New York 10022

(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.)

120 West 45<sup>th</sup> Street

New York, New York 10036

(Former Address of Principal Executive Offices) (Zip Code)

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

Edgar Filing: Pzena Investment Management, Inc. - Form 10-Q

As of May 6, 2015, there were 12,952,385 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of May 6, 2015, there were 53,252,116 outstanding shares of the registrant's Class B common stock, par value \$0.000001 per share.

---

Table of Contents

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

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Statements of Financial Condition of Pzena Investment Management, Inc. as of March 31, 2015 (unaudited) and December 31, 2014</u>
	<u>1</u>
	<u>Consolidated Statements of Operations (unaudited) of Pzena Investment Management, Inc. for the Three Months Ended March 31, 2015 and 2014</u>
	<u>2</u>
	<u>Consolidated Statement of Changes in Equity (unaudited) of Pzena Investment Management, Inc. for the Three Months Ended March 31, 2015</u>
	<u>3</u>
	<u>Consolidated Statements of Cash Flows (unaudited) of Pzena Investment Management, Inc. for the Three Months Ended March 31, 2015 and 2014</u>
	<u>4</u>
	<u>Notes to the Consolidated Financial Statements (unaudited)</u>
	<u>5</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>23</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>39</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>40</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>41</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>42</u>

SIGNATURES

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, 2014. 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.

Table of Contents

## 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 March 31, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Cash and Cash Equivalents	\$21,105	\$39,109
Restricted Cash	3,485	2,810
Due from Broker	705	94
Advisory Fees Receivable	23,014	22,939
Investments	32,239	27,945
Receivable from Related Parties	305	107
Other Receivables	654	647
Prepaid Expenses and Other Assets	1,100	845
Deferred Tax Asset, Net of Valuation Allowance of \$43,873 and \$44,239, respectively	13,981	14,618
Property and Equipment, Net of Accumulated Depreciation of \$3,137 and \$3,072, respectively	5,997	2,772
<b>TOTAL ASSETS</b>	<b>\$ 102,585</b>	<b>\$ 111,886</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts Payable and Accrued Expenses	\$9,061	\$5,974
Due to Broker	752	698
Securities Sold Short, at Fair Value	2,404	1,572
Liability to Selling and Converting Shareholders	15,603	15,358
Deferred Compensation Liability	744	2,211
Lease Liability	248	354
Other Liabilities	648	686
<b>TOTAL LIABILITIES</b>	<b>29,460</b>	<b>26,853</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; 12,968,807 and 13,044,719 Shares Issued and Outstanding in 2015 and 2014, respectively)	129	130
Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 53,169,036 and 52,891,939 Shares Issued and Outstanding in 2015 and 2014, respectively)	—	—
Additional Paid-In Capital	7,505	8,007
Retained Earnings	7,709	10,264
Total Pzena Investment Management, Inc.'s Equity	15,343	18,401
Non-Controlling Interests	57,782	66,632
<b>TOTAL EQUITY</b>	<b>73,125</b>	<b>85,033</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 102,585</b>	<b>\$ 111,886</b>

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

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

	For the Three Months Ended March 31,		
	2015	2014	
REVENUE	\$28,653	\$26,401	
EXPENSES			
Compensation and Benefits Expense	12,070	10,050	
General and Administrative Expense	3,603	2,320	
Total Operating Expenses	15,673	12,370	
Operating Income	12,980	14,031	
OTHER (EXPENSE)/ INCOME			
Interest Income	14	15	
Dividend Income	118	50	
Gains/ (Losses) and Other Investment Income	15	104	
Change in Liability to Selling and Converting Shareholders	(245	) (127	)
Other Expense	(191	) (89	)
Total Other Expense	(289	) (47	)
Income Before Income Taxes	12,691	13,984	
Income Tax Expense	1,088	1,683	
Net Income	11,603	12,301	
Less: Net Income Attributable to Non-Controlling Interests	9,981	10,853	
Net Income Attributable to Pzena Investment Management, Inc.	\$1,622	\$1,448	
Net Income for Basic Earnings per Share	\$1,622	\$1,448	
Basic Earnings per Share	\$0.12	\$0.12	
Basic Weighted Average Shares Outstanding <sup>1</sup>	13,057,714	12,176,592	
Net Income for Diluted Earnings per Share	\$7,927	\$7,576	
Diluted Earnings per Share	\$0.12	\$0.11	
Diluted Weighted Average Shares Outstanding <sup>1</sup>	67,982,245	67,929,783	
Cash Dividends per Share of Class A Common Stock	\$0.32	\$0.26	

<sup>1</sup> The Company issues restricted shares of Class A common stock and restricted Class B units that have non-forfeitable dividend rights. Under the "two-class method," these shares and units are considered participating securities and are required to be included in the computation of basic and diluted earnings per share.

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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, 2014	13,044,719	52,891,939	\$ 130	\$ 8,007	\$ 10,264	\$ 66,632	\$ 85,033
Amortization of Non-Cash Compensation	18,535	23,800	—	158	—	571	729
Non-Cash Compensation Modification	—	(142,315 )	—	(141 )	—	(572 )	(713 )
Directors' Share Grants	—	—	—	29	—	117	146
Net Income	—	—	—	—	1,622	9,981	11,603
Options Exercised	—	400,000	—	333	—	1,355	1,688
Repurchase and Retirement of Class A Common Stock	(94,447 )	—	(1 )	(824 )	—	—	(825 )
Repurchase and Retirement of Class B Units	—	(4,388 )	—	(9 )	—	(33 )	(42 )
Class A Cash Dividends Declared and Paid (\$0.32 per share)	—	—	—	—	(4,177 )	—	(4,177 )
Contributions from Non-Controlling Interests	—	—	—	—	—	336	336
Distributions to Non-Controlling Interests	—	—	—	—	—	(20,653 )	(20,653 )
Other	—	—	—	(48 )	—	48	—
Balance at March 31, 2015	12,968,807	53,169,036	\$ 129	\$ 7,505	\$ 7,709	\$ 57,782	\$ 73,125

See accompanying notes to unaudited consolidated financial statements.



Table of Contents

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

	For the Three Months Ended March 31,	
	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net Income	\$11,603	\$12,301
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation	65	53
Non-Cash Compensation	1,473	1,476
Directors' Share Grants	146	116
(Gains)/ Losses and Other Investment Income	(15	) (104
Change in Liability to Selling and Converting Shareholders	245	127
Deferred Income Taxes	626	970
Changes in Operating Assets and Liabilities:		
Advisory Fees Receivable	(75	) 546
Due from Broker	(607	) (696
Restricted Cash	(675	) —
Prepaid Expenses and Other Assets	(262	) (319
Non-Cash Compensation Modification	(713	) —
Due to Broker	54	5,228
Accounts Payable, Accrued Expenses, and Other Liabilities	849	(1,244
Tax Receivable Agreement Payments	—	(1,945
Change in Lease Liability	(106	) (106
Purchases of Equity Securities and Securities Sold Short	(17,511	) (15,355
Proceeds from Equity Securities and Securities Sold Short	12,824	10,063
Net Cash Provided by Operating Activities	7,921	11,111
<b>INVESTING ACTIVITIES</b>		
Purchases of Investments	(4,535	) (519
Proceeds from Sale of Investments	5,771	541
Payments to Related Parties	(198	) (92