

Pzena Investment Management, Inc.
Form 10-Q
November 04, 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 September 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 November 3, 2014, there were 13,204,334 outstanding shares of the registrant's Class A common stock, par value \$0.01 per share.

As of November 3, 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, 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 September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and Cash Equivalents	\$37,233	\$33,878
Restricted Cash	2,715	316
Due from Broker	374	58
Advisory Fees Receivable	24,588	23,947
Investments	14,989	7,621
Receivable from Related Parties	129	119
Other Receivables	483	550
Prepaid Expenses and Other Assets	621	577
Deferred Tax Asset, Net of Valuation Allowance of \$44,808 and \$53,973 in 2014 and 2013, respectively	14,694	12,312
Property and Equipment, Net of Accumulated Depreciation of \$3,015 and \$2,850 in 2014 and 2013, respectively	1,027	835
TOTAL ASSETS	\$96,853	\$80,213
LIABILITIES AND EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses	\$16,688	\$5,570
Due to Broker	259	5
Securities Sold Short, at Fair Value	1,462	—
Deferred Compensation Liability	1,637	2,339
Lease Liability	460	778
Liability to Selling and Converting Shareholders	15,860	12,777
Other Liabilities	274	195
TOTAL LIABILITIES	36,640	21,664
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; 13,298,779 and 12,158,057 Shares Issued and Outstanding in 2014 and 2013, respectively)	132	121
Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 51,732,405 and 52,820,720 Shares Issued and Outstanding in 2014 and 2013, respectively)	—	—
Additional Paid-In Capital	10,081	9,750
Retained Earnings	8,190	6,491
Total Pzena Investment Management, Inc.'s Equity	18,403	16,362
Non-Controlling Interests	41,810	42,187
TOTAL EQUITY	60,213	58,549
TOTAL LIABILITIES AND EQUITY	\$96,853	\$80,213

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 September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
REVENUE	\$29,605	\$24,046	\$83,951	\$67,020
EXPENSES				
Compensation and Benefits Expense	10,622	9,100	30,571	27,622
General and Administrative Expense	2,351	1,995	7,176	5,747
Total Operating Expenses	12,973	11,095	37,747	33,369
Operating Income	16,632	12,951	46,204	33,651
OTHER (EXPENSE)/ INCOME				
Interest Income	20	30	45	84
Dividend Income	74	52	236	168
(Losses)/ Gains and Other Investment Income	(434	) 498	80	1,763
Change in Liability to Selling and Converting Shareholders	(1,824	) (3,257	) (3,947	) (4,525
Other Expense	(185	) (71	) (218	) (159
Total Other (Expense)/ Income	(2,349	) (2,748	) (3,804	) (2,669
Income Before Income Taxes	14,283	10,203	42,400	30,982
Income Tax (Benefit)/ Expense	(220	) (2,084	) 1,189	(1,288
Net Income	14,503	12,287	41,211	32,270
Less: Net Income Attributable to Non-Controlling Interests	12,444	10,331	35,580	27,879
Net Income Attributable to Pzena Investment Management, Inc.	\$2,059	\$1,956	\$5,631	\$4,391
Net Income for Basic Earnings per Share	\$2,059	\$1,956	\$5,631	\$4,391
Basic Earnings per Share	\$0.16	\$0.16	\$0.45	\$0.37
Basic Weighted Average Shares Outstanding	12,965,606	12,209,978	12,443,687	11,934,142
Net Income for Diluted Earnings per Share	\$9,503	\$7,866	\$26,193	\$20,129
Diluted Earnings per Share	\$0.14	\$0.12	\$0.39	\$0.30
Diluted Weighted Average Shares Outstanding ¹	67,632,072	66,714,033	67,879,923	66,610,381
Cash Dividends per Share of Class A Common Stock	\$0.03	\$0.03	\$0.32	\$0.22

¹ 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	1,150,060	(1,150,060)	11	1,038	—	(858)	191
Amortization of Non-Cash Compensation	18,535	17,685	—	442	—	1,876	2,318
Directors' Shares	—	—	—	53	—	225	278
Net Income	—	—	—	—	5,631	35,580	41,211
Options Exercised	68,346	95,199	1	37	—	(38)	—
Repurchase and Retirement of Class A Common Stock	(96,219)	—	(1)	(978)	—	—	(979)
Repurchase and Retirement of Class B Units	—	(51,139)	—	(101)	—	(440)	(541)
Class A Cash Dividends Declared and Paid (\$0.32 per share)	—	—	—	—	(3,932)	—	(3,932)
Contributions from Non-Controlling Interests	—	—	—	—	—	4,360	4,360
Distributions to Non-Controlling Interests	—	—	—	—	—	(41,205)	(41,205)
Effect of Deconsolidation Other	—	—	—	(160)	—	160	—
Balance at September 30, 2014	13,298,779	51,732,405	\$ 132	\$ 10,081	\$ 8,190	\$ 41,810	\$ 60,213

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		For the Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
OPERATING ACTIVITIES				
Net Income	\$ 14,503	\$		