

Pzena Investment Management, Inc.

Form 10-Q

December 05, 2007

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**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, 2007
- 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)*

20-8999751
*(I.R.S. Employer
Identification No.)*

120 West 45th Street,
New York, New York
(Address of principal executive offices)

10036
(Zip Code)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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At December 5, 2007, 6,111,118 shares of the Class A Common Stock (\$.01 par value per share) of the Registrant were outstanding. At December 5, 2007, 57,937,910 shares of the Class B Common Stock (\$.000001 par value per share) of the Registrant were outstanding.

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EXPLANATORY NOTE

On October 30, 2007, Pzena Investment Management, Inc. consummated an initial public offering of 6,100,000 shares of its Class A common stock in which it received net proceeds of approximately \$99.1 million that it used to purchase 6,100,000 membership units of Pzena Investment Management, LLC, representing 9.5% of the then outstanding membership units of Pzena Investment Management, LLC. Concurrently with the consummation of this initial public offering, (i) the operating agreement of Pzena Investment Management, LLC was amended and restated such that, among other things, Pzena Investment Management, Inc. became the sole managing member of Pzena Investment Management, LLC and (ii) related reorganization transactions were consummated. Accordingly, as of and subsequent to October 30, 2007, (i) Pzena Investment Management, Inc. will consolidate the financial results of Pzena Investment Management, LLC with its own and reflect the remaining 90.5% membership interest in Pzena Investment Management, LLC as a non-controlling interest in its consolidated financial statements, and (ii) Pzena Investment Management, Inc.'s income will be generated by its 9.5% economic interest in Pzena Investment Management, LLC's net income. Therefore, this Quarterly Report on Form 10-Q presents the following financial statements:

(1) the consolidated financial statements of Pzena Investment Management, LLC as of December 31, 2006 and September 30, 2007 and for the three and nine months ended September 30, 2006 and 2007; and

(2) the financial statements of Pzena Investment Management, Inc. as of May 10, 2007 (capitalization) and September 30, 2007 and for the period May 10, 2007 (capitalization) through September 30, 2007.

We, us, our, and the company refer to: (i) Pzena Investment Management, Inc. and its subsidiaries, including Pzena Investment Management, LLC and all of its subsidiaries, following the consummation of the above-referenced initial public offering, amendment and restatement of the operating agreement of Pzena Investment Management, LLC and related reorganization transactions on October 30, 2007, and (ii) to Pzena Investment Management, LLC and all of its subsidiaries prior to the consummation of these transactions. Our operating company refers to Pzena Investment Management, LLC.

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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, 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 II of this Quarterly Report on Form 10-Q. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to publicly revise any forward-looking statements to reflect circumstances or events after the date of this Quarterly Report on Form 10-Q, 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 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-term borrowing;
- 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;
- the benefits to our business resulting from the effects of the reorganization we consummated on October 30, 2007; and
- the impact of future legislation and regulation, and changes in existing legislation and regulation, on our business.

Our Registration Statement on Form S-1 (File No. 333-143660) and the subsequent 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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(in thousands)

	December 31, 2006	September 30, 2007 (unaudited)
ASSETS		
Cash and Cash Equivalents	\$ 30,920	\$ 30,091
Restricted Cash	2,014	2,074
Due from Broker	882	30
Advisory Fees Receivable	25,216	26,430
Investments In Marketable Securities, at Fair Value	23,247	30,224
Receivable From Related Parties	602	349
Other Receivables	1,016	1,179
Investments In Affiliates	3,613	3,610
Prepaid Expenses and Other Assets	360	2,604
Property and Equipment, Net of Accumulated Depreciation of \$1,044 and \$1,302, Respectively	1,876	3,144
TOTAL ASSETS	\$ 89,746	\$ 99,735
LIABILITIES AND MEMBERS EQUITY		
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 4,082	\$ 19,190
Securities Sold Short, at Fair Value	876	944
Due to Broker	2,774	34
Compensatory Units Subject to Mandatory Redemption	263,980	
Long Term Debt		60,000
Other Liabilities	1,048	1,198
Subtotal	272,760	81,366
Capital Units Subject to Mandatory Redemption	533,553	
TOTAL LIABILITIES	806,313	81,366
Commitments and Contingencies		
Minority and Non-controlling Interests	13,399	17,617
Excess of Liabilities over Assets	(729,966)	
Members Equity:		

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Members' Capital (64,037,910 units issued and outstanding at September 30, 2007)			765,299
Retained Deficit			(764,547)
TOTAL MEMBERS' EQUITY		(729,966)	752
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$	89,746	\$ 99,735

See accompanying notes to financial statements

Table of Contents**Pzena Investment Management, LLC and Subsidiaries****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2007	2006	2007
REVENUE	\$ 29,388	\$ 40,217	\$ 81,198	\$ 112,355
EXPENSES				
Compensation and Benefits Expense	18,490	8,807	56,868	121,213
General and Administrative Expenses	1,723	2,958	5,291	7,587
TOTAL OPERATING EXPENSES	20,213	11,765	62,159	128,800
Operating Income/(Loss)	9,175	28,452	19,039	(16,445)
Interest Income/(Expense), Net	136	(409)	451	156
Dividend Income, Net	183	187	413	458
Realized and Unrealized Gain/(Loss), Net on Marketable Securities and Securities Sold Short	1,455	(1,218)	2,250	(263)
Equity in Earnings/(Loss) of Affiliates	553	(148)	374	(3)
Other	(57)	(33)	(196)	(8)
Total Other Income/(Loss)	2,270	(1,621)	3,292	340
INCOME/(LOSS) BEFORE INCOME TAXES AND MINORITY AND NON-CONTROLLING INTERESTS	11,445	26,831	22,331	(16,105)
Provision for Income Taxes	1,058	1,269	3,072	3,876
Minority and Non-Controlling Interests	720	(711)	1,323	(74)
Income/(Loss) Before Interest on Mandatorily Redeemable Units	9,667	26,273	17,936	(19,907)
Less: Interest on Mandatorily Redeemable Units	11,314		46,751	16,575
NET INCOME/(LOSS)	\$ (1,647)	\$ 26,273	\$ (28,815)	\$ (36,482)

See accompanying notes to financial statements

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2007	2006	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income/(Loss)	\$ (1,647)	\$ 26,273	\$ (28,815)	\$ (36,482)
Adjustments to Reconcile Net Income/(Loss) to Cash Provided by Operating Activities:				
Depreciation	76	109	212	267
Non-Cash Compensation	6,396		12,990	82,887
Non-Cash Interest on Mandatorily Redeemable Units	6,218		13,868	(2,420)
Realized and Unrealized (Gain)/Loss, Net on Marketable Securities and Securities Sold Short	(1,455)	1,219	(2,250)	264
Minority and Non-Controlling Interests	720	(711)	1,323	(74)
Equity in (Earnings)/Loss of Affiliates and Investment Partnerships	(553)	148	(374)	3
Deferred Income Taxes	108	(48)	213	(42)
Changes in Operating Assets and Liabilities:				
Advisory Fees Receivable	(2,721)	(377)	(3,971)	(1,214)
Due From Broker	(421)	114	519	852
Restricted Cash	116	(23)	95	(60)
Prepaid Expenses and Other Assets	(56)	(1,086)	1,201	(2,238)
Due to Broker	153	(42)	153	(2,740)
Accrued Expenses and Other Liabilities	2,995	6,082	13,338	14,332
Purchases of Marketable Securities and Securities Sold Short	(4,858)	(10,704)	(12,318)	(20,209)
Proceeds From Sale of Marketable Securities and Securities Sold Short	3,254	3,608	10,467	13,051
Net Cash Provided by Operating Activities	8,325	24,562	6,651	46,177
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments in Affiliates			(5,625)	
Investments in Investment Partnerships			5,460	
Receivable from Related Parties	66	7	171	83
Purchases of Property and Equipment	(73)	(81)	(164)	(1,535)
Net Cash Used in Investing Activities	(7)	(74)	(158)	(1,452)
CASH FLOWS FROM FINANCING ACTIVITIES				
Contributions From Members				3,609
Distributions to Members		(68,546)		(113,455)
Debt Proceeds		60,000		60,000

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Contributions From Affiliates	1,101	9,750	2,368	11,971
Distributions to Affiliates		(5,612)	(1,036)	(7,679)
Net Cash Provided By/(Used in) Financing Activities	1,101	(4,408)	1,332	