Pzena Investment Management, Inc.
Form 10-K
March 12, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ý Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2013
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	20-8999751
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

120 West 45th Street
New York, New York 10036
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (212) 355-1600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
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 ý No o
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 ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 28, 2013, the last business day of its most recently completed second fiscal quarter, was approximately $73,061,692 based on the closing sale price of $6.52 per share of Class A common stock of the registrant on such date on the New York Stock Exchange. For purposes of this calculation only, it is assumed that the affiliates of the registrant include only directors and executive officers of the registrant.

As of March 11 2014, there were 12,176,592 outstanding shares of the registrant's Class A common stock, par value $0.01 per share.

As of March 11, 2014, there were 52,980,621 outstanding shares of the registrant's Class B common stock, par value $0.000001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Annual Report, 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, “potential,” “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 this Annual Report. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly revise any forward-looking statements to reflect circumstances or events after the date of this Annual 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 Annual Report.

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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Preliminary Notes

In this Annual Report, “we,” “our,” and “us” refers to Pzena Investment Management, Inc. (also referred to as the “Company”) and its consolidated subsidiaries.

Each Russell Index referred to in this Annual Report is a registered trademark or trade name of The Frank Russell Company®. The Frank Russell Company® is the owner of all copyrights relating to these indices and is the source of the performance statistics of these indices that are referred to herein.

Information with respect to Morgan Stanley Capital International, which we refer to as MSCI, requires a license from MSCI. All MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. Morgan Stanley Capital International is the owner of all copyrights relating to these indices and is the source of the performance statistics of these indices that are referred to in this Annual Report.

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PART I.

ITEM 1. BUSINESS

Overview

Pzena Investment Management, Inc. is the sole managing member of Pzena Investment Management, LLC, which is our operating company. Founded in 1995, Pzena Investment Management, LLC is a value-oriented investment management company. We believe that we have established a positive, team-oriented culture that enables us to attract and retain very qualified people. Over the past eighteen years, we have built a diverse, global client base of respected and sophisticated institutional investors, high net worth individuals and select third-party distributed mutual funds for which we act as sub-investment adviser.

The graphic below illustrates our holding company structure and ownership as of December 31, 2013.

(1) As of December 31, 2013, the members of Pzena Investment Management, LLC, other than us, consisted of:

- Five of our named executive officers and their estate planning vehicles, who collectively held approximately 58.8% of the economic interests in Pzena Investment Management, LLC. In addition, certain of our named executive officers held 1.3% of the economic interest in Pzena Investment Management, LLC through ownership of our Class A common stock. For more detail on executive officer ownership, see Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".
- 29 of our other employee members, who collectively held approximately 3.1% of the economic interests in Pzena Investment Management, LLC.
- Certain other members of our operating company, including one of our directors and his related entities, and eight former employees, who collectively held approximately 19.4% of the economic interests in Pzena Investment Management, LLC.

(2) Each share of Class A common stock is entitled to one vote per share. Class A common stockholders have 100% of the rights of all classes of our capital stock to receive distributions.

(3) Each share of Class B common stock is entitled to five votes per share for so long as the number of shares of Class B common stock outstanding represents at least 20% of all shares of common stock outstanding. Class B common stockholders have the right to receive the par value of the Class B common stock upon our liquidation, dissolution or winding up, but do not share in dividends.

(4) As of December 31, 2013, we held 12,158,057 Class A units of Pzena Investment Management, LLC, which represented the right to receive 18.7% of the distributions made by Pzena Investment Management, LLC.

(5) As of December 31, 2013, the Principals collectively held 52,951,618 Class B units of Pzena Investment Management, LLC, which represented the right to receive 81.3% of the distributions made by Pzena Investment Management, LLC.

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We utilize a classic value approach to investing and seek to make investments in good businesses at low prices. Our approach and process have helped us achieve attractive returns over the long term. As of December 31, 2013, we managed assets in fifteen value-oriented investment strategies across a wide range of market capitalizations in both U.S. and non-U.S. capital markets. Our assets under management, or AUM, were $25.0 billion at December 31, 2013, and we managed money on behalf of institutions and high net worth individuals, and acted as sub-investment adviser to a variety of SEC-registered mutual funds and offshore funds.

Our investment discipline and our commitment to a classic value approach have been important elements of our success. We construct concentrated portfolios selected through a rigorous fundamental research process. Our investment decisions are not motivated by short-term results or aimed at closely tracking specific market benchmarks. Generating excess returns by utilizing a classic value investment approach requires:

- willingness to invest in companies before their stock prices reflect signs of business improvement, and
- significant patience, based upon our understanding of the business' fundamentals, and our long-term investment horizon.

As of December 31, 2013, we had 76 employees, including 34 employee members who collectively owned 61.9% of the ownership interests in our operating company. Our operating company is led by a committee, consisting of our Chief Executive Officer (CEO), Mr. Richard S. Pzena, each of our Presidents, Messrs. John P. Goetz and William L. Lipsey, and each of our Executive Vice Presidents, Messrs. Antonio DeSpirito, III and Michael D. Peterson (the "Executive Committee").

Our Competitive Strengths

We believe that the following are our competitive strengths:

- Focus on Investment Excellence. We recognize that we must achieve investment excellence in order to attain long-term business success. All of our business decisions, including the design of our investment process and our willingness to limit AUM in our investment strategies, are focused on producing attractive long-term investment results. We believe that our long-term investment performance, together with our willingness to close our strategies to new investors in order to optimize the prospects for future performance, has contributed to our positive reputation among our clients and the institutional consultants who advise them.
- Consistency of Investment Process. Since our inception over eighteen years ago, we have utilized a classic value investment approach and a systematic, disciplined investment process to construct portfolios for our investment strategies in U.S. and non-U.S. markets across all market capitalizations. The consistency of our process has allowed us to leverage the same investment team to launch new products. We believe that our consistent investment process has resulted in our strong brand recognition in the investment community.
- Diverse and High Quality Client Base. We believe that we have developed a favorable reputation in the institutional investment community. This is evidenced by our strong relationships with institutional investors, investment consultants, and mutual fund providers, as well as the diversity and sophistication of our investors. For more information concerning our client base, see "Our Client Relationships and Distribution Approach" below.
- Experienced Investment Professionals and a Team-Oriented Approach. Our greatest asset is the experience of the individuals on our team. For more information on our investment team, see"Our Investment Team" below.
- Employee Retention. We have focused on building an environment that we believe is attractive to talented investment professionals. Important among our practices are our team-oriented approach to investment decisions, rotation of coverage areas among individuals, and our culture of employee ownership.
- Culture of Ownership. We believe in significant ownership of our business by the key contributors to our success. Since our inception, we have communicated to all our employees that they have the opportunity to become partners in our operating company. As of December 31, 2013, we had 34 employee members positioned within all of our functional areas. We believe this ownership model results in a shared sense of purpose with our clients and their advisers. We intend to continue fostering a culture of ownership through our equity incentive plans, which are designed to align our team's interests with those of our stockholders and clients. We believe this culture of ownership contributes to our team orientation and connection with clients.

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Our Business Strategy

The key to our success is continued long-term investment performance. In conjunction with this, we believe the following strategies will enable us to grow our business over time.

- Unwavering Focus on Classic Value Investing. We view our unwavering focus on long-term classic value investment excellence to be the key driver of our business success.
- Capitalize on Growth Opportunities Created By Our Global Strategies. Among both institutional and retail investors industry-wide, over the past few years, there have been increasing levels of investments in portfolios including non-U.S. equities. As of December 31, 2013, the total AUM in our Global Value strategies, International (ex-U.S.) Value strategies, Emerging Markets Focused Value strategy, and other non-U.S. strategies was $9.9 billion, or 39.6% of our overall AUM. Our global capability provides opportunity for all of our strategies around the world.
- Apply Our Proven Process to Introduce New Products. We anticipate continuing to offer new investment strategies over time, on a measured basis, consistent with our past practice, utilizing our proven investment process.
- Work with Our Strong Consultant Relationships. We believe that we have built strong relationships with the leading investment consulting firms who advise potential institutional clients. Historically, new accounts sourced through consultant-led searches have been a large driver of our inflows and are expected to be a major component of our future inflows.
- Expand Our Non-U.S. Client Base. In recent years, we have increased our efforts to develop our non-U.S. client base. Through our strong relationships with global consultants, we have been able to accelerate the development of our relationships with their non-U.S. branches. Over time, we aim to achieve growth of this client base through these relationships and by directly calling on the world's largest institutional investors. We have also sought to expand our non-U.S. base through our relationships with non-U.S. mutual funds and other investment fund advisors. During 2010 we opened a representative office in Melbourne, Australia to more effectively service existing clients and develop new relationships in the geographic area. To date, these marketing efforts have resulted in client relationships in more than ten non-U.S. countries, such as the United Kingdom, Australia and Canada. As of December 31, 2013, we managed $8.1 billion in separate accounts, commingled funds and sub-advised funds on behalf of non-U.S. clients.
- Employ Global Team to Deliver Content-Based Information to Clients and Prospects. Our marketing and client service team is currently a team of 19 people including marketing and client service professionals, associates, and support staff. The marketing and client services professionals are focused geographically along with one individual focused on the sub-advisory and investment-only defined contribution distribution channels. In addition to our representative office in Melbourne, Australia, we have two professionals dedicated to business development and client service throughout Europe and the Middle East.

Our Investment Team

We believe we have built an investment team that is well-suited to implementing our classic value investment strategy. The members of our investment team have a diverse set of backgrounds, including former corporate management, private equity, management consulting, legal, accounting and Wall Street professionals. Their diverse business backgrounds are instrumental in enabling us to make investments in companies where we would be comfortable owning the entire business for a three- to five-year period. We look beyond temporary earnings shortfalls that result in stock price declines, which may lead others to forego investment opportunities, if we believe the long-term fundamentals of a company remain attractive.

As of December 31, 2013, we had a 23-member investment team. Each member serves as a research analyst, and certain members of the team also have portfolio management responsibilities. There are generally three portfolio managers for each investment strategy. These three managers have joint decision-making responsibility, and each has "veto authority" over all decisions regarding the relevant portfolio. Research analysts have sector and company-level research responsibilities which span all of our investment strategies, including those with a non-U.S. focus. In order to facilitate the professional development of our team, and to keep a fresh perspective on our portfolio companies, our research analysts generally rotate industry coverage every three to four years.

We follow a collaborative, consensus-oriented approach to making investment decisions, such that all members of our investment team, irrespective of their seniority, can play a significant role in this decision making process. We hold weekly research review meetings attended by all portfolio managers and relevant research analysts, and are open to other employees, at which we openly discuss and debate our findings regarding the normalized earnings power of potential portfolio companies. In addition, we hold daily morning meetings, attended by our portfolio managers, research analysts, portfolio administration, and client service personnel, in order to review developments in our holdings and set a trading strategy for the day. These meetings

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are critical for sharing relevant developments and analysis of the companies in our portfolios. We believe that our collaborative culture is attractive to our investment professionals.

Our Investment Strategies

As of December 31, 2013, our approximately $25.0 billion in AUM was invested in a variety of value-oriented investment strategies, representing differing degrees of concentration and capitalization segments of U.S. and non-U.S. markets. The following table describes the largest of our current U.S. and non-U.S. investment strategies, and the allocation of our approximately $25.0 billion in AUM among them, as of December 31, 2013.

Strategy	AUM (in billions)
U.S. Strategies	
Large Cap Focused Value	$6.0
Large Cap Expanded Value	5.1
Focused Value	2.0
Small Cap Focused Value	1.3
Mid Cap Focused Value	0.4
Other U.S. Strategies	0.3
Non-U.S. Strategies	
Global Focused Value	5.0
International (ex-U.S.) Expanded Value	2.0
Global Expanded Value	1.1
Emerging Markets Focused Value	0.9
European Focused Value	0.7
Other Non-U.S. Strategies	0.2
Total	$25.0

We follow the same investment process for each of these strategies. Our investment strategies are distinguished by the market capitalization ranges from which we select securities for their portfolios, which we refer to as each strategy’s investment universe, as well as the regions in which we invest. In addition, the number of holdings typically found in the portfolios of each of our investment strategies may vary, with the Focused Value strategies being more concentrated in fewer positions.

Our largest investment strategies as of December 31, 2013 are further described below.

U.S. Strategies

Large Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in October 2000.

Large Cap Expanded Value. This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in July 2012.

Focused Value. This strategy reflects a portfolio composed of a portfolio of approximately 30 to 40 stocks drawn from a universe of 1,000 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in January 1996.

Small Cap Focused Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn from a universe of U.S. listed companies ranked from the 1,001st to 3,000th largest, based on market capitalization. This strategy was launched in January 1996.

Mid Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of U.S. listed companies ranked from the 201th to 1,200th largest, based on market capitalization. This strategy was launched in September 1998.

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Non-U.S. Strategies

Global Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2004.

International (ex-U.S.) Expanded Value. This strategy reflects a portfolio composed of approximately 60-80 stocks drawn from a universe of 1,500 of the largest companies across the world excluding the United States, based on market capitalization. This strategy was launched in November 2008.

Global Expanded Value. This strategy reflects a portfolio composed of approximately 60-95 stocks drawn from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2010.

Emerging Markets Focused Value. This strategy reflects a portfolio composed of approximately 40 to 80 stocks drawn from a universe of 1,500 of the largest emerging market companies, based on market capitalization. This strategy was launched in January 2008.

European Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 750 of the largest European companies, based on market capitalization. This strategy was launched in August 2008.

We understand that our ability to retain and grow assets has been, and will be, driven primarily by delivering attractive long-term investment results to our clients. As a consequence, we have prioritized, and will continue to prioritize, investment performance over asset accumulation. Where we have deemed it necessary, we have, at times, closed certain products to new investors in order to preserve capacity to effectively implement our concentrated investment strategies for the benefit of existing clients. Currently, all of our investment strategies are open to new investors.

Our Product Development Approach

Historically, a major component of our growth has been the development of new products. Prior to incubating a new product, we perform in-depth research on the potential market for the product, as well as its overall compatibility with our investment expertise. This process involves analysis by our client team, as well as by our investment professionals. We will only launch a new product if we believe that it can add value to a client’s investment portfolio. In the past, as appropriate, we have created partnerships with third parties to enhance the distribution of a product or add expertise that we do not have in-house. Prior to marketing a new product, we generally incubate the product for a period of one to five years, so that we can test and refine our investment strategy and process before actively marketing the product to our clients.

Furthermore, we continually seek to identify opportunities to extend our investment process into new markets or to apply it in different ways to offer clients additional strategies. We are currently incubating several products which we believe may be attractive to our clients in the future.

Our Investment Performance

Since we are long-term fundamental investors, we believe that our investment strategies yield the most benefits and are best evaluated, over a long-term timeframe. For more information on our performance, see “Part II — Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Operating Results.”

Advisory Fees

We earn advisory fees on the accounts that we manage for institutional clients, for retail clients which are generally mutual funds, and for other investment funds.

On our institutional accounts, we are paid fees according to a schedule which varies by investment strategy. The substantial majority of these accounts pay us management fees pursuant to a schedule in which the rate we earn on the AUM declines as the amount of AUM increases. Certain of our clients pay us performance fees according to the performance of their accounts relative to certain agreed-upon benchmarks, which results in a lower base fee, but allows for us to earn higher fees if the relevant investment strategy outperforms the agreed-upon benchmark.

As of December 31, 2013, we sub-advised twelve SEC-registered mutual funds that each have an initial two-year term and are thereafter subject to annual renewal by each fund’s board of directors pursuant to the Investment Company Act of 1940, as amended (the “Investment Company Act”). Ten of these twelve sub-investment advisory agreements are beyond their initial two-year terms as of December 31, 2013. In addition, we sub-advise eleven offshore funds.

Pursuant to these agreements, we are generally paid a management fee according to a schedule, in which the rate we earn on the AUM declines as the amount of AUM increases. Certain of these funds pay us fixed-rate management fees. Due to the substantially larger account size of certain of these accounts, the average advisory fees we earn on them, as a percentage of assets under management, are lower

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than the advisory fees we earn on our institutional accounts. The majority of the advisory fees we earn on institutional accounts are based on the value of AUM at a specific date on a quarterly basis, either in arrears or in advance. Advisory fees on certain of our institutional accounts, and with respect to all of the mutual funds that we sub-advise, are calculated based on the average of the monthly or daily market value of the account. Advisory fees are also generally adjusted for any cash flows into or out of a portfolio, where the cash flow represents greater than 10% of the value of the portfolio. While a specific group of accounts may use the same fee rate, the method used to calculate the fee according to the fee rate schedule may differ, as described above.

Our Client Relationships and Distribution Approach

We manage separate accounts on behalf of institutions and high net worth individuals and, as of December 31, 2013, acted as sub-investment adviser for twelve SEC-registered mutual funds and eleven offshore funds. We believe that strong relationships with our clients are critical to our ability to succeed and to grow our AUM. In building these relationships, we have focused our efforts where we can efficiently access and service large pools of sophisticated clients with our team of dedicated marketing and client service professionals. We distribute our products to institutional and retail clients primarily through the efforts of our internal sales team, who calls on them directly and on the consultants who serve them, as well as through the marketing programs of our sub-investment advisory partners. Since our objective is to attract long-term investors with an investment horizon in excess of three years, our sales and client service efforts focus on educating our investors regarding our disciplined value investment process and philosophy.

Our marketing and client service effort is led by our 19-person business development team, which is responsible for:

- identifying and marketing to prospective institutional clients;
- responding to requests for investment management proposals; and
- developing and maintaining relationships with independent consultants.

Direct Institutional Relationships

Since our inception, we have directly offered institutional investment products to public and corporate pension funds, endowments, foundations and Taft-Hartley plans. Wherever possible, we have sought to develop direct relationships with the largest U.S. institutional investors, a universe we define to include plan sponsors with greater than $300 million in plan assets. Over the past few years, we have focused on expanding this direct calling effort to potential institutional clients outside of the United States.

Investment Consultants

We estimate that approximately 70% of all retirement plan assets are advised by investment consultants, with a relatively small number of these consultants representing a significant majority of these relationships. As a result of a consistent servicing effort over our history, we have built strong relationships with those consulting firms that we believe are the most important and believe that most of them rate our investment strategies favorably. New accounts sourced through consultant-led searches have been a large driver of our historical growth and are expected to be a major component of our future growth. We seek to develop direct relationships with accounts sourced through consultant-led searches by our ongoing marketing and client service efforts, as described below under “Client Service.”

Sub-Investment Advisory Distribution

We have established relationships with mutual fund and fund providers domestically and internationally, who offer us opportunities to efficiently access new market segments through sub-investment advisory roles.

We currently sub-advise three mutual funds that are advised by The Vanguard Group. In August 2012, we expanded our sub-advisory relationship with The Vanguard Group as we were hired as a co-manager to manage approximately 28% of the Vanguard Windsor Fund. As of December 31, 2013, these three mutual funds represented $5.0 billion, or 20.0%, of our AUM. For the year ended December 31, 2013, 2012, and 2011, approximately 6.9%, 3.1%, and less than 1%, respectively, of our total revenue was generated from our sub-investment advisory agreement with The Vanguard Group.

We sub-advise a mutual fund that is advised by John Hancock Advisers, namely the John Hancock Classic Value Fund. As of December 31, 2013, this fund represented $2.8 billion, or 11.2%, of our AUM. For the years ended December 31, 2013, 2012, and 2011 approximately 7.7%, 7.0%, and 7.7%, respectively, of our total revenue was generated from our sub-investment advisory agreement with John Hancock Advisers.

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High Net Worth Advisory Firms

We have accessed the high net worth segment of the investing community primarily through relationships with wealth advisers who utilize our investment strategies in investment programs they construct for their clients. Similar to our approach with consultants, we have targeted select firms around the world serving the family office and ultra high net worth market. We believe this approach leads to an efficient client servicing model and strong relationships with wealth advisers, who ultimately view us as partners in their investment programs. Occasionally, we establish direct separate account relationships with high net worth individuals.

Client Service

Our client service team's efforts are instrumental to maintaining our direct relationships with institutional and individual separate account clients, and developing direct relationships with separate accounts sourced through consultant-led searches. We have a dedicated client service team, which is primarily responsible for addressing all ongoing client needs, including periodic updates and reporting requirements. Our business development team assists in providing ongoing client service to existing institutional accounts. Our institutional distribution, sales and client service efforts are also supported, as necessary, by members of our investment team.

Our client service team consists of individuals with both general business backgrounds and investment research experience. Our client service team members are fully integrated into our research team, attending both research and company management meetings to ensure our clients receive primary information. As appropriate, we introduce members of our research and portfolio management team into client portfolio reviews to ensure that our clients are exposed to the full breadth of our investment resources. We also provide quarterly reports to our clients in order to share our investment perspectives with them. We additionally meet and hold conference calls regularly with clients to share perspectives on the portfolio and the current investment environment.

Competition

We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions.

In order to grow our business, we must be able to compete effectively to maintain existing AUM and attract additional AUM. Historically, we have competed for AUM principally on the basis of:

- the performance of our investment strategies;
- our clients' perceptions of our drive, focus and alignment of our interests with theirs;
- the quality of the service we provide to our clients and the duration of our relationships with them;
- our brand recognition and reputation within the investing community;
- the range of products we offer; and
- the level of advisory fees we charge for our investment management services.

Our ability to continue to compete effectively will also depend upon our ability to attract highly qualified investment professionals and retain our existing employees. For additional information concerning the competitive risks that we face, see "Item 1A — Risk Factors — Risks Related to Our Business — The investment management business is intensely competitive."

Employees

At December 31, 2013, we had 76 full-time employees, consisting of 26 research department personnel; 3 traders; 19 client service and marketing personnel; 15 employees in operations; and 13 legal, compliance and finance personnel.

Available Information

We maintain a website at www.pzena.com. The contents of our website are not part of, nor are they incorporated by reference into, this Annual Report.

We make available through our website our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, as well as amendments to those reports, as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission. To retrieve these reports, and any amendments thereto, visit the Investor Relations section of our website.

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REGULATORY ENVIRONMENT AND COMPLIANCE

Our business is subject to extensive regulation in the United States at both the federal and state level, as well as by self-regulatory organizations. Under these laws and regulations, agencies that regulate investment advisers have broad administrative powers, including the power to limit, restrict or prohibit an investment adviser from carrying on its business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed include the suspension of individual employees, limitations on engaging in certain lines of business for specified periods of time, revocation of investment adviser and other registrations, censures and fines.

SEC Regulation

Our operating company, Pzena Investment Management, LLC, is registered as an investment adviser with the SEC. As a registered investment adviser, it is subject to the requirements of the Investment Advisers Act of 1940, as amended, which we refer to as the Investment Advisers Act, and the SEC's regulations thereunder, as well as to examination by the SEC's staff. The Investment Advisers Act imposes substantive regulation on virtually all aspects of our business and our relationships with our clients. Applicable requirements relate to, among other things, fiduciary duties to clients, engaging in transactions with clients, maintaining an effective compliance program, performance fees, solicitation arrangements, conflicts of interest, advertising, recordkeeping, reporting and disclosure requirements. Twelve of the U.S. funds for which Pzena Investment Management, LLC acts as the sub-investment adviser are registered with the SEC under the Investment Company Act. The Investment Company Act imposes additional obligations, including detailed operational requirements for both the funds and their advisers. Moreover, an investment adviser's contract with a registered fund may be terminated by the fund on not more than 60 days' notice, and is subject to annual renewal by the fund's board after an initial two-year term. Both the Investment Advisers Act and the Investment Company Act regulate the "assignment" of advisory contracts by the investment adviser. The SEC is authorized to institute proceedings and impose sanctions for violations of the Investment Advisers Act and the Investment Company Act, ranging from fines and censures to termination of an investment adviser's registration. The failure of Pzena Investment Management, LLC, or the registered funds for which Pzena Investment Management, LLC acts as sub-investment adviser, to comply with the requirements of the SEC could have a material adverse effect on us.

ERISA-Related Regulation

To the extent that Pzena Investment Management, LLC is a "fiduciary" under the Employment Retirement Act of 1974, or ERISA, with respect to benefit plan clients, it is subject to ERISA, and to regulations promulgated thereunder. ERISA and applicable provisions of the Internal Revenue Code impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions. Our failure to comply with these requirements could have a material adverse effect on our business.

Foreign Regulation

Pzena Investment Management, LLC is currently availing itself of the international adviser exemption in Ontario, Canada. In addition, Pzena Investment Management, LLC is registered as an exempt market dealer in Ontario, Canada. As an exempt adviser, Pzena Investment Management, LLC is only permitted to provide advice in Ontario to certain institutional and high net worth individual clients. As an exempt market dealer, Pzena Investment Management, LLC is permitted to act as a market intermediary for only certain types of trades, and is permitted to market, sell and distribute prospectus-exempt securities to accredited investors. An exempt adviser and market dealer must, upon the request of the Ontario Securities Commission, or OSC, produce all books, papers, documents, records and correspondence relating to its activities in Ontario, and inform the OSC if it becomes the subject of an investigation or disciplinary action by any financial services or securities regulatory authority or self-regulatory authority.

Pzena Investment Management, LLC maintains a representative office in Melbourne, Australia, where it maintains an exemption from the Australian Financial Services license requirement under the Corporations Act 2001.

We operate in various other foreign jurisdictions without registration in reliance upon applicable exemptions under the laws of those jurisdictions.

Compliance

We maintain a Legal and Compliance Department with two full-time lawyers, including our General Counsel/Chief Compliance Officer. Other members of the Department, as well as certain of our other employees, also devote significant time to compliance matters.

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ITEM 1A. RISK FACTORS

We face a variety of significant and diverse risks, many of which are inherent in our business. Described below are the risks we currently believe could materially and adversely affect our business, financial condition, results of operations or cash flow.

Risks Related to Our Business

Our primary source of revenue is derived from management fees, which are directly tied to our assets under management. Fluctuations in AUM may directly impact our revenue and earnings.

Substantially all of our revenue is derived from management fees paid by our clients, based on a percentage of the market value of our AUM. Any decline and/or significant impairment in AUM may greatly affect our revenue and earnings, and could occur due to a variety of factors, including:

- Poor performance of our strategies: Poor performance of our investment strategies may result in decreased market value of AUM. In addition, underperformance could impact our ability to maintain our existing client base and develop new relationships, both of which could negatively impact AUM.
- Poor market environment: We could expect our business to generate lower revenue in a depressed equities market or general economic downturn. Any decline in the market value of securities held in client portfolios due to such adverse conditions could lower AUM significantly and lead to a decrease in revenue. Investor sentiment in a poor equities market environment could also decrease inflows and increase outflows from our investment strategies in favor of investments perceived as more attractive.
- Geo-political conditions: As a company that invests in both U.S. and non-U.S. markets, and with a global client base, our business is subject to changing conditions in the global financial markets, and may also be affected by worldwide political, social and economic conditions, all of which could negatively impact AUM.
- Termination of significant relationships: As of December 31, 2013, four client relationships represented 43% and 25% of our AUM and revenue respectively. Our clients can generally terminate our advisory agreements or reduce assets managed upon short notice and for any reason, and there can be no assurance that our agreements with respect to these relationships will remain in place. The termination of any of these relationships could significantly reduce our revenue and earnings, and we may not be able to establish relationships with other clients in order to replace the lost revenue and earnings.
- Defined benefit plans are declining: Defined benefit plans are projected to decline as a share of overall retirement assets relative to defined contribution plans, as corporate plan sponsors are actively decreasing their liabilities and pushing employee enrollment to defined contribution plans. We currently do not have significant exposure to the defined contribution market and if this situation persists, our AUM growth may be negatively impacted.
- Intermediary dependence: New accounts sourced through consultant-led searches have been a large driver of our inflows in the past, and are expected to be a major component of our inflows going forward. In addition, we have established relationships with certain mutual fund providers who have offered us opportunities to access certain market segments through sub-investment advisory roles. We have also accessed the high-net worth segment of the investing community through relationships with well-respected wealth advisers who utilize our investment strategies in investment programs they construct for their clients. Our intermediaries routinely review and evaluate our organization and the services we offer, and poor evaluations may result in client outflows and impact our ability to attract new assets through such intermediaries.
- Passive strategies have grown substantially in relation to active strategies: During the past decade, investors overall have exhibited a preference for passive investment products, such as index and exchange traded funds, over active strategies managed by asset managers such as ourselves. If this market preference continues our AUM may be negatively impacted.

In 2013, the vast majority of our investment strategies outperformed their respective benchmarks. Improved market conditions for the year have significantly contributed to asset inflows but no assurance can be given that improved market conditions will continue indefinitely and that our AUM, revenue or profitability will not decline in the future.

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Market pressures to lower our advisory fees could lead to a decline in our profit margin and increase the volatility of our revenue and earnings.

Market pressures in recent years have created a trend towards lower fees in the asset management industry and there can be no assurance that we will be able to maintain our current fee structure going forward. Additionally, a shift in the composition of our AUM from higher to lower fee-generating client relationships may result in a decrease in revenue, even if our aggregate level of AUM remains unchanged or increases.

A portion of our investment advisory revenue is currently derived from performance fees. We generally earn performance fees under certain client agreements according to the performance in the accounts relative to an agreed-upon benchmark. This fee structure results in a lower base fee but allows for us to earn higher fees if the investment strategy outperforms the benchmark. In addition, some performance-based fee arrangements include high-water mark provisions, which generally provide that if a client account underperforms relative to its performance target, it must gain back such underperformance before we can collect future performance-based fees. Therefore, if we fail to achieve the performance target for a particular period, we may not earn a performance fee for that period and for accounts with a high-water mark provision, our ability to earn future performance fees may be impaired. During fiscal years 2013 and 2012, we earned $3.9 million and $0.3 million in performance fees, respectively. An increase in performance fees, or in performance-based fee arrangements with clients, could create greater fluctuations in our revenue and earnings.

The potential of decreases in management fees and uncertainty in performance fee income could lead to volatility in our profit margins and impact our revenue and earnings.

Loss of key employees, and difficulties in attracting qualified investment professionals, could have a material adverse effect on the performance of our strategies, which may lead to a decrease in revenue and profitability.

The success of our business largely depends on the participation of Richard S. Pzena, John P. Goetz, William L. Lipsey, Antonio DeSpirito, III, and Michael D. Peterson, our CEO, two Presidents, and two Executive Vice Presidents, respectively. Their professional reputations, expertise in investing, and relationships with our clients and within the investing community in the U.S. and abroad are critical to executing our business strategy and attracting and retaining clients. The retention of these individuals is crucial to our future success. There is no guarantee that they will not resign, join our competitors or form a competing company. The terms of the current operating agreement of our operating company restrict each of these individuals from competing with us or soliciting our clients or employees during the term of their employment with us and for a certain period thereafter. The penalty for breach of these restrictive covenants will be the forfeiture of a number of Class B units held by the individual and his permitted transferees as of the earlier of the date of his breach or the termination of his employment. Although we may also seek specific performance of these restrictive covenants, there can be no assurance that we would be successful in obtaining this relief. After this post-employment restrictive period, we may not be able to prohibit them from competing with us or soliciting our clients or employees. Furthermore, we do not carry any "key man" insurance that would provide us with proceeds in the event of the death or disability of any of the above mentioned employees.

In additions to the participants mentioned above, our success also depends on our ability to retain the senior members of our investment team and to recruit additional qualified investment professionals. However, we may not be successful in our efforts to retain them as the market for investment professionals is extremely competitive. Our portfolio managers possess substantial experience and expertise in classic value investing as well as maintain significant relationships with our clients. The loss of any of our senior investment professionals could limit our ability to successfully execute our investment approach and sustain the performance of our investment strategies, which, in turn, could have a material adverse effect on our reputation, client relationships and our results of revenue and earnings.

Future growth of our business may place significant demands on our resources and employees, and may increase our expenses, risks and regulatory oversight.

Future growth of our business may place significant demands on our infrastructure, our investment team and other employees, which may increase our expenses. In addition, we are required to continuously develop our infrastructure in response to the increasing sophistication of the investment management market, as well as compliance with legal and regulatory developments. We may face significant challenges in maintaining and developing: adequate financial and operational controls; implementing new or updated information and financial systems, and procedures and training; and managing and appropriately sizing our work force, and other components of our business on a timely and cost-effective basis. There can be no assurance that we will be able to manage the growth of our business effectively, or that we will be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

The potential inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. In recent years, we have substantially upgraded and expanded the capabilities of our data processing

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systems and other operating technology, and we expect that we may need to continue to upgrade and expand these capabilities in the future to avoid disruption of, or constraints on, our operations.

We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries.

We offer investment management services in many different regulatory jurisdictions around the world, and intend to continue to expand our operations internationally. In order to remain competitive, we must be proactive and prepared to deploy necessary resources when growth opportunities present themselves. The necessary resources and/or personnel may be unavailable to take full advantage of strategic opportunities when they appear, or that strategic decisions can be efficiently implemented. Local regulatory environments may vary widely, as well as the adequacy and sophistication of each. Local requirements or needs may also place additional demands on sales and compliance personnel and resources, such as meeting local requirements and complying with local industry standards. Finding and hiring additional, well-qualified personnel and crafting and adopting policies, procedures and controls to address local or regional requirements remain a challenge as we expand our operations internationally. Moreover, regulators in non-U.S. jurisdictions could also change their policies or laws in a manner that might restrict or otherwise impede our ability to offer our investment products in their respective markets. Any of these local requirements, activities, or needs could increase the costs and expenses we incur in a specific jurisdiction without any corresponding increase in revenue and income from operating in such jurisdiction.

The investment management business is intensely competitive.

Competition in the investment management business is based on a variety of factors, including investment performance; investor perception of an investment manager's drive, focus and alignment of interest; quality of service provided to and duration of, relationships with clients; business reputation; and level of fees charged for services. We compete in all aspects of our business with a large number of investment management firms, commercial banks, broker-dealers, insurance companies and other financial institutions. Our competitive risks are heightened by the fact that some of our competitors may implement investment styles that are viewed more favorably than ours or they may invest in alternative asset classes which the markets may perceive as more attractive than the public equity markets. If we are unable to compete effectively, our revenue could be reduced, and our business could be materially affected.

A change of control could result in termination of our sub-investment advisory and investment advisory agreements.

Pursuant to the Investment Company Act, each of the sub-investment advisory agreements for the SEC-registered mutual funds that we sub-advise automatically terminates upon its deemed "assignment," and a fund's board and shareholders must approve a new agreement in order for us to continue to act as its sub-investment adviser. In addition, pursuant to the Investment Advisers Act, each of our investment advisory agreements for the separate accounts we manage may not be "assigned" without the consent of the client. A sale of a controlling block of our voting securities and certain other transactions would be deemed an "assignment" pursuant to both the Investment Company Act and the Investment Advisers Act. Such an assignment may be deemed to occur in the event that the holders of the Class B units of our operating company exchange enough of their Class B units for shares of our Class A common stock such that they no longer own a controlling interest in us. If such a deemed assignment occurs, there can be no assurance that we will be able to obtain the necessary consents from clients whose funds are managed pursuant to separate accounts, or the necessary approvals from the boards and shareholders of the SEC-registered funds that we sub-advise. An assignment, actual or constructive, would trigger these termination and consent provisions and, unless the necessary approvals and consents are obtained, could adversely affect our ability to continue managing client accounts, resulting in the loss of AUM and a corresponding loss of revenue.

Extensive regulation of our business has been and will be expensive and time consuming, and exposes us to the potential for significant penalties, including fines or limitations on our ability to conduct our business.

We are subject to extensive regulation of our investment management business and operations. As a registered investment adviser, the SEC oversees our activities pursuant to its regulatory authority under the Investment Advisers Act. In addition, we must comply with certain requirements under the Investment Company Act with respect to the SEC-registered funds for which we act as sub-investment adviser. Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including the authority to grant, and, in specific circumstances to cancel, permissions to carry on particular businesses. Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or other sanctions, including revocation of our registration as an investment adviser. Even if a sanction imposed against us is small in monetary amount, the adverse publicity arising from the imposition of such sanctions by regulators could harm our reputation, result in withdrawal by our clients and/or impede our ability to retain clients and develop new client relationships. As we expand into the international market, we may also be under the regulatory scope of local regulatory authorities and non-compliance with any of these authorities may result in fines, sanctions and inability to operate in that local market.

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We also face the risk of significant intervention by regulatory authorities, including extended investigation and surveillance activity, adoption of costly or restrictive new regulations, and judicial or administrative proceedings that may result in substantial penalties. The requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us, and are not designed to protect our stockholders.

In addition, the regulatory environment in which we operate is subject to ongoing modification and further regulation. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("the Dodd-Frank Act") is one such example. While we do not believe that the Dodd-Frank Act will fundamentally change the investment management industry, certain provisions may have unintended consequences on the financial market as a whole that could negatively affect our business. Many aspects of the Dodd-Frank Act are still subject to rulemaking and may continue to take effect over several years, making it difficult to anticipate both the impact on the manner in which we conduct business as well as the increased regulatory requirements and related compliance costs.

Also, we are required to implement specific corporate governance practices and adhere to a variety of reporting requirements under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley" or "SOX"). Our management is required to conduct an annual assessment of the effectiveness of our internal controls over financial reporting and include a report on our internal controls in our annual reports on Form 10-K pursuant to Section 404 of SOX. In addition, our independent registered public accounting firm attests to and reports on the effectiveness of our internal controls over financial reporting. We may continue to incur costs in order to maintain our internal control over financial reporting and comply with Section 404 of SOX, including costs associated with accounting, internal audit, information technology, compliance and administrative staff. If we are unable to maintain effective internal control over financial reporting, this could lead to a loss of confidence in the reliability of our financial statements, thus adversely affecting the value of our common stock.

Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity.

We are subject to income as well as non-income based taxes, in both the U.S. and non-U.S. jurisdictions. We are also subject to potential tax audits in various jurisdictions. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these potential audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these potential audits, and the actual outcomes of these potential audits could have a material impact on our net income or financial condition. Changes in tax laws or tax rulings could materially impact our effective tax rate and earnings.

Certain changes in accounting and/or financial reporting standards issued by the Financial Accounting Standards Board ("FASB"), the SEC or other standard-setting bodies could have a material impact on our financial position or results of our operations.

We are subject to the application of generally accepted accounting principles in the United States ("GAAP"), which are periodically revised and/or expanded. As such, we are required to adopt new or revised accounting and/or financial reporting standards issued by recognized accounting standard setters or regulators, such as the FASB and the SEC.

In addition, the FASB is currently working with the International Accounting Standards Board ("IASB") to converge certain accounting principles and to facilitate more comparable financial reporting between companies that are required to follow GAAP and those that are required to follow International Financial Reporting Standards ("IFRS"). These projects may result in different accounting principles under GAAP, which may have a material impact on the way in which we report financial results.

Inadequate business continuity plans could lead to material financial loss, reputational harm and inability to continue business.

We rely heavily on our financial, accounting, trading, compliance and other data processing systems. Any failure or interruption of these systems, whether caused by natural disaster, power or telecommunications failure, act of terrorism or war, security breach or otherwise, could result in a disruption of our business, liability to clients, regulatory intervention or reputational damage, and thus materially adversely affect our business. Although we have back-up systems in place and have taken other protective measures, our back-up procedures and capabilities in the

event of a failure or interruption may not be adequate.
We depend on our headquarters in New York City for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, or directly affecting our headquarters, may have a material adverse impact on our ability to continue to operate our business without interruption. We have a sound business continuity plan in place that is tested on a quarterly basis, but there can be no assurance that this plan will be sufficient to mitigate the harm that may result from such a disaster or disruption.

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Any significant security breach of our software applications, technology or other systems critical to our operations, may disrupt our business or cause us to lose sensitive and confidential information which in turn may cause reputational and financial harm.

As part of our normal operations, we rely on secure processing, storage and transmission of confidential client and firm information through computer systems and networks. Breach of such systems and networks could lead to loss of confidential client and proprietary information, liability for stolen information, additional cost to repair damage and prevent future incidents and litigation cost from loss of information. We maintain and rely on a system of internal controls designed to provide reasonable assurance that unauthorized access to sensitive or confidential data is prevented or detected in a timely manner. However, our technology systems may still be vulnerable to unauthorized access or may be corrupted by computer virus, malicious software or access by unauthorized individuals especially when related to portable devices. We take precautions to password protect all portable devices but that may not prevent unauthorized access if the device is misplaced or lost. Loss of confidential information may greatly harm our reputation and adversely affect our ability to maintain current or attract new relationships.

Operational risk, such as trade errors or system limitations or failures, may create significant financial impact to us, hamper future growth and cause potential reputational harm.

We face potential operational risk from our management of client assets and daily business. Risks include errors that may occur during the execution, confirmation or settlement phase of transactions and such errors may cause material financial loss, which in turn may cause material financial and reputational harm to us. We also face the potential of inaccurate recording of transactions in our internal systems, caused by human error, system limitations or system glitches. Such errors may involve client and public reporting, execution, confirmation and settlement of trades, and billing. The potential for operational risk could have significant regulatory, financial or reputational impact. We have sound internal controls in place to mitigate such risks but there can be no assurance that all risks can be prevented.

The investment management industry faces substantial litigation risks which could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us.

We depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, dissatisfaction with our services could be more damaging to our business than to other types of businesses. If our clients suffer significant losses, or are otherwise dissatisfied with our services, such as for breach of trading guidelines and/or perceived conflicts of interest, we could be subject to the risk of legal liabilities or actions alleging negligent misconduct, breach of fiduciary duty, or breach of contract. These risks are often difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. We may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations, or cause significant reputational harm to us. For information on our legal proceedings, see “Item 3 — Legal Proceedings.”

Insurance coverage may not protect us from all of the liabilities that could arise from the risks inherent in our business.

We maintain insurance coverage focused on reducing potential losses related to our operations. We purchase insurance in amounts, and against risks, that we consider appropriate. There can be no assurance, however, that a claim or claims will be completely covered by insurance or, if covered at all, will not exceed the limits of our existing insurance coverage. If a loss occurs that is partially or completely uninsured, we may be exposed to substantial liability. Insurance costs are impacted by market conditions, our risk profile, and may increase significantly over relatively short periods. Renewals of insurance policies may result in additional costs through higher premiums or the assumption of higher deductibles or co-insurance liability. In addition, insurance and other safeguards might only partially reimburse us for our losses in the event our business continuity plan fails and our operations are significantly disrupted.

Our non-US holdings consist primarily of investments in the securities of issuers located outside of the United States, which may involve foreign currency exchange, political, social and economic uncertainties and risks.

Our international strategies, which together represented $9.9 billion and $6.2 billion of our AUM as of December 31, 2013 and 2012, respectively, are primarily invested in securities of companies located outside the United States.

Investments in non-U.S. issuers may be affected by political, social and economic uncertainty affecting a country or region in which we are invested. Many emerging financial markets are not as developed, or as efficient, as the developed financial market, and, as a result, liquidity may be reduced and price volatility may increase. The legal and regulatory environments, including financial accounting standards and practices, may also be different, and there may be less publicly available information in respect of such companies. These risks could adversely impact the performance of our strategies that are invested in securities of non-U.S. issuers. In addition, fluctuations in foreign currency exchange rates may affect investment return and AUM since we do not

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engage in currency hedging for these portfolios. Due to these factors, our AUM may fluctuate from one reporting period to another causing volatility in earnings.

Risks Related to Our Investment Strategies

Our classic value investment style subjects us to the risk that the companies in which we invest may not achieve the level of earnings recovery that we initially expect, or at all.

We generally invest in companies after they have experienced, or are expected by the market to soon experience, a shortfall in their historic earnings, due to an adverse business development, management error, accounting scandal or other disruption, and before there is clear evidence of earnings recovery or business momentum. While very few investors are willing to invest when companies lack earnings visibility, our classic value investment approach seeks to capture the return that can be obtained by investing in a company before the market has confidence in its ability to achieve earnings recovery. However, our investment approach entails the risk that the companies included in our portfolios are not able to execute as we had expected when we originally invested in them, thereby reducing the performance of our strategies. Since our positions in these investments are often substantial, there is the risk that we may be unable to find willing purchasers for our investments when we decide to sell them.

Since we apply the same investment process across all of our investment strategies, utilizing one analyst team, and given the overlapping universes of many of our investment strategies, we could have common positions and industry or sector concentrations across many of our investment strategies at the same time. As such, factors leading one of our investment strategies to underperform may lead other strategies to underperform simultaneously.

Our investment approach may underperform other investment approaches during certain market conditions.

Our products are best suited for investors with long-term investment horizons. In order for our classic value investment approach to yield attractive returns, we must typically hold securities for an average of three to five years. Our investment strategies may not perform well during certain periods of time. The disruption in the global credit markets and the deterioration of the economy and the financial markets beginning in the second half of 2007, and continuing through early 2009, created difficult conditions for most companies, including many of those in which we invest. In addition, our strategies may not perform well during points in the economic cycle when value-oriented stocks are relatively less attractive. For instance, during the late stages of an economic cycle, investors may purchase relatively expensive stocks in order to obtain access to above average growth, as was the case in the late 1990s. Value-oriented strategies may also experience weakness during periods when the markets are focused on one investment thesis or sector.

Even when securities prices are rising generally, portfolio performance can be affected by our investment approach. The classic value approach has outperformed the market in some economic and market environments and underperformed it in others. In particular, a prolonged period in which the growth style of investing outperforms the value style may cause our investment strategy to go out of favor with clients, consultants and sub-advised relationships. Our investment strategy may be less favored during certain time periods for other reasons as well, including due to perceived riskiness or volatility of our approach. Poor performance relative to peers, coupled with changes in personnel, extensive periods in particular market environments, or other difficulties may result in a decline in our AUM.

Our investment process requires us to conduct extensive fundamental research on any company before investing, which may result in missed investment opportunities and reduce the performance of our investment strategies.

We take a considerable amount of time to complete the in-depth research projects that our investment process requires before adding any security to our portfolio. Our process requires that we take this time to understand the company and the business well enough to make an informed decision as to whether we are willing to own a significant position in a company that does not yet have earnings visibility. However, the time we take to make this judgment may cause us to miss the opportunity to invest in a company that has a sharp and rapid earnings recovery. Any such missed investment opportunities could adversely impact the performance of our investment strategies.

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Risks Related to Our Structure

We are dependent upon distributions from our operating company to make distributions to our Class A stockholders, and to pay taxes and other expenses.

We are a holding company and have no material assets other than our ownership of membership units of our operating company. We have no independent means of generating revenue and cash flow. Our operating company is treated as a partnership for U.S. federal income tax purposes and, as such, is not itself subject to U.S. federal income tax. Instead, its taxable income is allocated to its members, including us, pro-rata according to the number of membership units each owns. Accordingly, we incur income taxes on our proportionate share of any taxable income of our operating company. We also incur expenses related to our operations. We intend to have our operating company distribute cash to its members in an amount at least equal to that necessary to cover their tax liabilities, if any, with respect to the earnings of our operating company. To the extent we need funds to pay our tax or other liabilities or to fund our operations, and our operating company is restricted from making distributions to us under applicable laws or regulations, or contractual restrictions, or does not have sufficient earnings to make these distributions, we may have to borrow funds to meet these obligations and run our business and, thus, our liquidity and financial condition could be materially adversely affected. There can be no assurance that funds will be available to borrow under such circumstances on terms acceptable to us, or at all.

We are required to pay most of the tax benefit of any amortization deductions we may claim as a result of the tax basis step up we receive in connection with the sales of membership units and any future exchanges of Class B units and this tax treatment could be challenged by tax authorities.

As part of the reorganization we implemented with our initial public offering (IPO), we purchased membership units of our operating company from three of its members (the "Selling Members"). In addition, holders of Class B units may, at least once each year, exchange their Class B units of our operating company for shares of our Class A common stock. These purchases and subsequent exchanges have and are expected to continue to result in increases in our share of the tax basis in the tangible and intangible assets of our operating company that otherwise would not have been available. These increases in tax basis have and are expected to continue to reduce the amount of tax that we would otherwise be required to pay in the future, although the Internal Revenue Service (IRS) might challenge all or part of this tax basis increase, and a court might sustain such a challenge.

Pursuant to a tax receivable agreement dated October 30, 2007, among the Selling Members, all holders of Class B units after our October 2007 IPO, and us, we are required to pay the Selling Members, and any holders of Class B units who elect to exchange their Class B units for shares of our Class A common stock, 85% of the amount of the cash savings, if any, in U.S. federal, state and local income tax that we realize as a result of the increases in amortizable tax basis due to the sale to us of their membership units. The actual increase in tax basis, as well as the amount and timing of any payments under this agreement, may vary depending upon a number of factors, including the timing of exchanges, the price of our Class A common stock at the time of the exchange, the extent to which such exchanges are taxable, the amount and timing of our income, and the tax rates then applicable. Payments under the tax receivable agreement are expected to give rise to certain additional tax benefits attributable to further increases in basis. Any such benefits are covered by the tax receivable agreement and may increase the amounts due thereunder. We expect that, as a result of the size and increases in our share of the tax basis in the tangible and intangible assets of our operating company attributable to our interest therein, the payments that we may make to these members likely may be substantial.

If we exercise our right to terminate the tax receivable agreement early, we may be obligated to make an early termination payment to the selling and converting shareholders, based upon the net present value of all payments that would be required to be paid by us. If certain change of control events were to occur, we would also be obligated to make an early termination payment.

Were the IRS to successfully challenge the tax basis increases described above, we would not be reimbursed for any payments made under the tax receivable agreement. As a result, in certain circumstances, we could be required to make payments under the tax receivable agreement in excess of our cash tax savings.

Risks Related to Our Class A Common Stock

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our Class A common stock has been and may continue to be highly volatile and subject to wide fluctuations. In addition, the trading volume of our Class A common stock may fluctuate and cause significant price variations to occur. If the market price of our Class A common stock declines significantly, you may be unable to resell your shares of our Class A common stock at or above your purchase price, if at all. We cannot assure you that the market price of our Class A common stock may not fluctuate or decline significantly in the future.

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The market price of our Class A common stock could decline due to the large number of shares of our Class A common stock eligible for future sale upon the exchange of Class B units of our operating company.

Pursuant to the operating agreement of our operating company, on at least one date designated by us each year, certain holders of Class B units may exchange up to 15% of their Class B units for an equivalent number of shares of our Class A common stock, subject to certain restrictions set forth in the operating agreement. Also, as of October 30, 2011, the fourth anniversary of our initial public offering, the non-employee members of our operating company may exchange all of their vested Class B units, in accordance with the timing restrictions set forth in the operating agreement.

Pursuant to the resale and registration rights agreement, dated October 30, 2007, among the holders of Class B units and us, on at least one date designated by us each year these holders may resell the shares of Class A common stock issued to them upon the exchange of up to 15% of their Class B units, or, in the case of non-employee members, all of their Class B units.

We filed a Form S-3 registration statement, which became effective in February 2009, in order to register our issuance to these holders of 57,937,910 shares of Class A common stock issuable upon exchange of all Class B units outstanding immediately after the consummation of our operating company's reorganization. On January 27, 2012, the SEC declared effective a subsequent registration statement on Form S-3 which registers the resale of 40,114,701 shares of our Class A common stock by the selling stockholders named therein. During 2013, we established March 20th as an exchange date. Certain executive officers, employee members, and non-employee members, elected to exchange an aggregate of 1,328,334 of their Class B units for an equivalent number of shares of our Class A common stock, which, with the exception of those held by our executive officers, are freely tradable. The market price of our Class A common stock could decline as a result of sales pursuant to the Form S-3 registration statements, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to raise additional capital by selling equity securities in the future, at a time and price that we deem appropriate.

Anti-takeover provisions in our amended and restated certificate of incorporation and bylaws could discourage a change of control that our stockholders may favor, which could also adversely affect the market price of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and bylaws may make it more difficult and expensive for a third party to acquire control of us, even if a change of control would be beneficial to our stockholders. For example, our amended and restated certificate of incorporation authorizes our Board of Directors to issue up to 200,000,000 shares of our preferred stock and to designate the rights, preferences, privileges and restrictions of unissued series of our preferred stock, each without any vote or action by our stockholders. We could issue a series of preferred stock to impede the consummation of a merger, tender offer or other takeover attempt. The anti-takeover provisions in our amended and restated certificate of incorporation and bylaws may impede takeover attempts, or other transactions, that may be in the best interests of our stockholders and, in particular, our Class A stockholders. In addition, the market price of our Class A common stock could be adversely affected to the extent that provisions of our amended and restated certificate of incorporation and bylaws discourage potential takeover attempts, or other transactions, that our stockholders may favor.

The disparity in the voting rights among the classes of our common stock may have a potential adverse effect on the price of our Class A common stock and may give rise to conflicts of interest.

Our Class B stockholders collectively hold approximately 95.6% of the combined voting power of our common stock. These stockholders consist of five of our named executive officers, 29 of our other employees, certain other members of our operating company, including one of our directors and his related entities, and eight former employees. Holders of shares of our Class B common stock have entered into a Class B Stockholders' Agreement with respect to all shares of Class B common stock then held by them and any additional shares of Class B common stock they may acquire in the future. Pursuant to this agreement, they may vote these shares of Class B common stock together on all matters submitted to a vote of our common stockholders. To the extent that we cause our operating company to issue additional Class B units, which may be granted, subject to vesting, to our employees pursuant to the PIM LLC 2006 Equity Incentive Plan, these employees will be entitled to receive an equivalent number of shares of our Class B common stock, subject to the condition that they agree to enter into this Class B Stockholders' Agreement. Each share of our Class B common stock entitles its holder to five votes per share for so long as the Class B stockholders collectively hold 20% of the total number of shares of our common stock outstanding. When a Class B unit is exchanged for a share of our Class A common stock, an unvested Class B unit is forfeited due to the employee holder's failure to satisfy the conditions of the award agreement pursuant to which it was granted, or any Class B unit is forfeited as a result of a breach of any restrictive covenants contained in our operating company's amended and restated operating agreement, a corresponding share of our Class B common stock will automatically be redeemed by us.

For so long as our Class B stockholders hold at least 20% of the total number of shares of our common stock outstanding, they will be able to elect all of the members of our Board of Directors and thereby control our management and affairs, including determinations with respect to acquisitions, dispositions, borrowings, issuances of securities, and the declaration and

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payment of dividends. In addition, they will be able to determine the outcome of all matters requiring approval of stockholders, and will be able to cause or prevent a change of control of our Company or a change in the composition of our Board of Directors, and could preclude any unsolicited acquisition of our Company. Our Class B stockholders have the ability to prevent the consummation of mergers, takeovers or other transactions that may be in the best interests of our Class A stockholders. In particular, this concentration of voting power could deprive Class A stockholders of an opportunity to receive a premium for their shares of Class A common stock as part of a sale of our company, and could ultimately affect the market price of our Class A common stock.

Each share of our Class A common stock entitles its holder to one vote on all matters to be voted on by stockholders. This difference in voting rights could adversely affect the value of our Class A common stock to the extent that investors view, or any potential future purchaser of our company views, the superior voting rights of the Class B common stock to have more value.

Our ability to pay dividends is subject to the discretion of our Board of Directors and may be limited by our holding company structure and applicable provisions of Delaware law.

We currently intend to pay cash dividends on a quarterly basis. However, our Board of Directors may, in its discretion, decrease the level of dividends, or discontinue the payment of dividends entirely. In addition, as a holding company, we depend upon the ability of Pzena Investment Management, LLC to generate earnings and cash flows and distribute them to us so that we may pay our obligations and expenses and pay dividends to our stockholders. We expect to cause Pzena Investment Management, LLC to make distributions to its members, including us. However, the ability of Pzena Investment Management, LLC to make such distributions is subject to its operating results, cash requirements and financial condition, and applicable Delaware laws (which may limit the amount of funds available for distribution to its members), as well as any contractual restrictions. If, as a consequence of these various limitations and restrictions, we are unable to generate sufficient distributions from our business, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our Class A common stock. Because of these various limitations and restrictions, we have, in the past, had to suspend our quarterly dividend payment. See “Item 5 — Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities — Our Dividend Policy.”

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal offices are located at 120 West 45th Street, New York, New York 10036, where we occupy approximately 25,000 square feet out of 35,000 square feet of space under our non-cancellable operating lease, the term of which expires in October 2015. During the year ended December 31, 2011, we entered into a non-cancellable sublease agreement for approximately 10,000 square feet of excess office space associated with the operating lease (see Exhibit 10.7 of this Annual Report on Form 10-K).

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, we may be subject to various legal and administrative proceedings.

Currently, there are no material legal proceedings pending against us.

ITEM 4. REMOVED AND RESERVED

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PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A common stock is listed for trading on the New York Stock Exchange (the "NYSE") under the symbol "PZN". As of March 3, 2014, there were approximately 25 record holders of our Class A common stock and 77 record holders of our Class B common shares. These numbers do not include shareholders who hold their shares through one or more intermediaries, such as banks, brokers or depositories.

The following table sets forth the quarterly high and low sales prices of our Class A common stock on the NYSE for the periods indicated and dividends declared during such periods.

	2013			2012		
Quarter	High	Low	Dividends Declared Per Share	High	Low	Dividends Declared Per Share
Quarter Ended March 31	$7.19	$5.22	$0.16	$6.66	$4.30	$0.19
Quarter Ended June 30	$7.05	$5.43	$0.03	$7.39	$3.82	$0.03
Quarter Ended September 30	$7.49	$6.34	$0.03	$5.82	$3.68	$0.03
Quarter Ended December 31	$11.87	$6.44	$0.03	$5.66	$4.51	$0.03

Our Dividend Policy

Our Board of Directors has targeted a cash dividend payout ratio of approximately 70% to 80% of annual non-GAAP net income, subject to growth initiatives and other funding needs. We use non-GAAP measures, discussed in further detail in "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operation — Non-GAAP Net Income" in Part II of this Annual Report to assess the strength of the underlying operations of the business. We believe non-GAAP measures provide information to better analyze our operations between periods, and over time. We are a holding company and have no material assets other than our ownership of membership interests in our operating company. As a result, we depend upon distributions from our operating company to pay any dividends that our Board of Directors may declare to be paid to our Class A common stockholders, if any. When and if our Board of Directors declares any such dividends, we then cause our operating company to make distributions to us in an amount sufficient to cover the dividends declared. We may not pay dividends to our Class A common stockholders in amounts that have been paid to them in the past, or at all, if, among other things, we do not have the cash necessary to pay our intended dividends, or any of our financing facilities or other agreements restrict us from doing so. To the extent we do not have cash on hand sufficient to pay dividends in the future, we may decide not to pay dividends. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

Our ability to pay dividends is subject to Board of Director discretion and may be limited by our holding company structure and applicable provisions of Delaware law. See "Item 1A — Risk Factors — Risks Related to Our Class A Common Stock-Our ability to pay dividends is subject to the discretion of our Board of Directors and may be limited by our holding company structure and applicable provisions of Delaware law."

Recent Sales of Unregistered Securities

For 2013, in connection with new employee member grants and year-end compensation, we issued an aggregate of 82,491 Class B units of our operating company, and the related 82,491 shares of Class B common stock to employee members. In addition, we awarded an aggregate of 76,522 options to acquire Class B units of our operating company to certain employee members, at an exercise price of $10.26 per unit. Also, in connection with year-end compensation, we awarded an aggregate of 805,879 Phantom Class B units, which vest ratably over ten years, are subject to continued employment with us, and are not entitled to receive dividends or dividend equivalents until vested.

Further, in connection with the vesting of certain employee members' mandatory deferred compensation, in 2013 we issued 68,518 Class B units of the operating company and the related 68,518 shares of Class B common stock. For a description of the Bonus Plan, see "Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters - Bonus Plan."

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The exercise of options to acquire an aggregate of 752,445 Class B units of our operating company by certain employee members, resulted in the issuance of 421,173 Class B units after the redemption of 331,272 Class B units for the cashless exercise of the options.
In 2013, a total of 410,389 Class B units were issued to various employee members in connection with the vesting of their Phantom Class B units.
Furthermore, in 2013, we issued an aggregate of 64,144 shares of Phantom Class A common stock to our non-employee directors, see "Item 11 — Executive Compensation — 2013 Non-Employee Director Compensation," and a total of 100,000 shares of Phantom Class A common stock in connection with a grant made to a new employee.
The issuances did not involve any public offering, general advertising or general solicitation. If certificates were issued to represent the securities, they bear a restrictive legend. On the basis of these facts, the securities were issued in a transaction not involving a public offering and were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").
Performance Graph
The following graph compares the cumulative total stockholder return on our Class A common stock over the five-year period ending December 31, 2013, with the cumulative total return of the S&P 500® and the SNL Asset Manager Index*. The graph assumes the investment of $100 in our common stock, and in each of the two indices, on December 31, 2008 and the reinvestment of all dividends, if any.

	Period Ending					
Index	2008	2009	2010	2011	2012	2013
Pzena Investment Management, Inc.	$100.00	$71.40	$66.59	$40.10	$52.41	$117.98
SNL Asset Manager Index*	$100.00	$162.23	$186.74	$161.53	$207.25	$316.84
S&P 500 Index	$100.00	$126.47	$145.52	$148.59	$172.37	$228.17

* The SNL Asset Manager Index is comprised of the securities of 35 publicly traded asset management companies.
In accordance with the rules of the SEC, this section entitled "Performance Graph" shall not be incorporated by reference into any future filings by us under the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be soliciting material or to be filed under the Securities Act or the Exchange Act.

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Issuer Purchases of Equity Securities

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total Number of Shares of Class A Common Stock Purchased	(b) Average Price Paid per Share of Class A Common Stock	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2) (in millions)
October 1, 2013 through October 31, 2013	29,145	$6.90	29,145	$6.7
November 1, 2013 through November 30, 2013	—	—	—	6.7
December 1, 2013 through December 31, 2013	—	—	—	2.9
Total	29,145	$6.90	29,145	$2.9

(1) Our share repurchase program was announced on April 24, 2012. The Board of Directors authorized us to repurchase an aggregate of $10 million of our outstanding Class A common stock, and Class B units of the operating company, on the open market and in private transactions in accordance with applicable securities laws. On February 5, 2014, the Board of Directors authorized us to repurchase an additional $20 million of our outstanding Class A common stock and Class B units of the operating company. The timing, number, and value of common shares and units repurchased are subject to our discretion. Our share repurchase program is not subject to an expiration date and may be suspended, discontinued, or modified at any time, or for any reason.

(2) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs reflects the remainder of the $10.0 million program announced by the Board of Directors on April 24, 2012 and also reflects the repurchase of 356,843 of the operating company's Class B units during December 2013 for an average price of $10.44 per unit. Class B units are repurchased at the closing price of our Class A common stock on the date of the transaction since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

Equity Compensation Plan Information

For certain information concerning securities authorized for issuance under our equity compensation plans, see “Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Equity Compensation Plan Information.”

ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth selected historical consolidated financial data of Pzena Investment Management, Inc. The selected consolidated statements of operations data for the years ended December 31, 2013, 2012, and 2011 and the selected consolidated statements of financial condition data as of December 31, 2013 and 2012, have been derived from Pzena Investment Management, Inc.’s audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

The selected consolidated statement of operations data for the years ended December 31, 2010 and 2009, and the selected consolidated statements of financial condition as of December 31, 2011, 2010 and 2009, have been derived from Pzena Investment Management, Inc.’s audited consolidated financial statements not included in this report.

You should read the following selected historical consolidated financial data together with “Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical consolidated financial statements and the related notes included elsewhere in this Annual Report.

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	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except share and per share amounts)				
Statements of Operations Data:					
REVENUE					
Management Fees	$91,866	$75,980	$79,230	$77,025	$63,039
Performance Fees	3,903	300	3,815	500	—
Total Revenue	95,769	76,280	83,045	77,525	63,039
EXPENSES					
Cash Compensation and Benefits	31,374	28,690	29,518	25,895	22,057
Other Non-Cash Compensation	5,448	3,065	5,047	3,653	2,934
Total Compensation and Benefits Expense	36,822	31,755	34,565	29,548	24,991
General and Administrative Expenses	8,099	7,346	10,626	8,007	8,261
TOTAL OPERATING EXPENSES	44,921	39,101	45,191	37,555	33,252
Operating Income	50,848	37,179	37,854	39,970	29,787
Other Income/(Expense)	(1,821)	(863)	(1,466)	(2,744)	1,601
INCOME BEFORE INCOME TAXES	49,027	36,316	36,388	37,226	31,388
Income Tax Provision/(Benefit)	589	1,911	3,145	741	(1,307)
Consolidated Net Income	48,438	34,405	33,243	36,485	32,695
Less: Net Income Attributable to Non-Controlling Interests.	41,768	30,565	29,861	32,674	29,326
NET INCOME/(LOSS) Attributable to Pzena Investment Management, Inc.	$6,670	$3,840	$3,382	$3,811	$3,369
Per Share Data[(1)]:					
Net Income/(Loss) for Basic Earnings per Share	$6,670	$3,840	$3,382	$3,811	$3,369
Basic Earnings/(Loss) per Share	$0.56	$0.36	$0.34	$0.41	$0.41
Basic Weighted Average Shares Outstanding	11,990,757	10,787,540	9,972,978	9,186,520	8,217,561
Net Income/(Loss) for Diluted Earnings per Share	$30,317	$20,821	$20,631	$22,419	$18,106
Diluted Earnings/(Loss) per Share	$0.45	$0.32	$0.32	$0.34	$0.28
Diluted Weighted Average Shares Outstanding	66,759,840	65,491,273	65,095,797	64,985,753	64,853,824
Cash Dividends Declared Per Share	$0.25	$0.28	$0.12	$0.24	$—

(1) The operating company issues Class B units that have non-forfeitable dividend rights. Under the “two-class method”, these units are considered participating securities and are required to be included in the computation of diluted earnings per share.

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Statements of Financial Condition Data:					
Cash and Cash Equivalents	$33,878	$32,645	$35,083	$16,381	$15,908
TOTAL ASSETS	80,213	64,679	66,678	48,402	48,518
Senior Subordinated Debt	—	—	—	—	10,000
TOTAL LIABILITIES	21,664	16,713	20,454	14,606	21,160
Non-Controlling Interests	42,187	33,397	32,287	23,224	19,088
EQUITY	$16,362	$14,569	$13,937	$10,572	$8,270

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a public-equity investment management firm that utilizes a classic value investment approach across all of our investment strategies. We currently manage 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. At December 31, 2013, our assets under management, or AUM, was $25.0 billion. We manage separate accounts on behalf of institutions and high net worth individuals, and act as sub-investment adviser for a variety of SEC-registered mutual funds and non-U.S. funds.

We function as the sole managing member of our operating company, Pzena Investment Management, LLC (the "operating company"). As a result, we: (i) consolidate the financial results of our operating company with our own, and reflect the membership interest in it that we do not own as a non-controlling interest in our consolidated financial statements; and (ii) recognize income generated from our economic interest in our operating company's net income. As of December 31, 2013, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 18.7% and 81.3%, respectively, of the economic interests in the operations of our business.

Non-GAAP Net Income

Our results for the years ended December 31, 2013, 2012, and 2011 included recurring adjustments related to our tax receivable agreement and the associated liability to its selling and converting shareholders, in addition to adjustments related to certain one-time charges recognized in operating expense in the fourth quarter of 2011. We believe that these accounting adjustments add a measure of non-operational complexity which partially obscures the underlying performance of our business. In evaluating our financial condition and results of operations, we also review certain non-GAAP measures of net income, which exclude these items. Excluding these adjustments, non-GAAP diluted net income and non-GAAP diluted earnings per share were $29.3 million and $0.44, respectively, for the year ended December 31, 2013, $20.4 million and $0.31, respectively, for the year ended December 31, 2012, and $23.2 million and $0.36, respectively, for the year ended December 31, 2011. GAAP and non-GAAP net income for diluted earnings per share generally assumes all operating company membership units are converted into Company stock at the beginning of the reporting period, and the resulting change to our net income associated with our increased interest in the operating company is taxed at our historical effective tax rate, exclusive of other adjustments, the adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders, and adjustments related to the one-time charges recognized in operating expense in the fourth quarter of 2011. Our effective tax rate, exclusive of these adjustments, was 41.7% for the year ended December 31, 2013, and approximately 42.9% for the years ended December 31, 2012 and 2011, respectively. See "Operating Results — Income Tax Expense" below.

We use these non-GAAP measures to assess the strength of the underlying operations of the business. We believe that these adjustments, and the non-GAAP measures derived from them, provide information to better analyze our operations between periods, and over time. Investors should consider these non-GAAP measures in addition to, and not as a substitute for, financial measures prepared in accordance with GAAP.

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A reconciliation of the non-GAAP measures to the most comparable GAAP measures is included below:

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands, except share and per share amounts)		
GAAP Net Income	$6,670	$3,840	$3,382
Net Effect of One-time Adjustments	—	—	443
Net Effect of Tax Receivable Agreement	(989)	(421)	(214)
Non-GAAP Net Income	$5,681	$3,419	$3,611
GAAP Income Attributable to Non-Controlling Interest of Pzena Investment Management, LLC	$40,533	$29,711	$30,188
Effect of One-time Adjustments	—	—	4,017
Non-GAAP Income Attributable to Non-Controlling Interest of Pzena Investment Management, LLC	40,533	29,711	34,205
Less: Assumed Corporate Income Taxes	16,886	12,730	14,660
Assumed After-Tax Income of Pzena Investment Management, LLC	23,647	16,981	19,545
Non-GAAP Net Income of Pzena Investment Management, Inc.	5,681	3,419	3,611
Non-GAAP Diluted Net Income	$29,328	$20,400	$23,156
Non-GAAP Diluted Earnings Per Share Attributable to Pzena Investment Management, Inc. Common Stockholders:			
Non-GAAP Net Income for Diluted Earnings per Share	$29,328	$20,400	$23,156
Non-GAAP Diluted Earnings Per Share	$0.44	$0.31	$0.36
Non-GAAP Diluted Weighted-Average Shares Outstanding	66,759,840	65,491,273	65,095,797

Revenue

We generate revenue primarily from management fees and performance fees, which we collectively refer to as our advisory fees, by managing assets on behalf of institutional accounts and for retail clients, which are generally open-end mutual funds catering primarily to retail investors. Our advisory fee income is recognized over the period in which investment management services are provided. Following the preferred method identified in the Revenue Recognition Topic of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), income from performance fees is recorded at the conclusion of the contractual performance period, when all contingencies are resolved.

Our advisory fees are primarily driven by the level of our AUM. Our AUM increases or decreases with the net inflows or outflows of funds into our various investment strategies and with the investment performance thereof. In order to increase our AUM and expand our business, we must develop and market investment strategies that suit the investment needs of our target clients, and provide attractive returns over the long-term. The value and composition of our AUM, and our ability to continue to attract clients, will depend on a variety of factors including, among other things:

- our ability to educate our target clients about our classic value investment strategies and provide them with exceptional client service;
- the relative investment performance of our investment strategies, as compared to competing products and market indices;
- competitive conditions in the investment management and broader financial services sectors;
- general economic conditions;
- investor sentiment and confidence; and
- our decision to close strategies when we deem it to be in the best interests of our clients.

For our institutional accounts, we are paid fees according to a schedule, which varies by investment strategy. The substantial majority of these accounts pay us management fees pursuant to a schedule in which the rate we earn on the AUM declines as the amount of AUM increases.

Pursuant to our sub-investment advisory agreements with our retail clients, we are generally paid a management fee according to a schedule in which the rate we earn on the AUM declines as the amount of AUM increases. Certain of these funds pay us fixed-rate management fees. Due to the substantially larger account size of certain of these accounts, the average advisory fees we earn on them, as a percentage of AUM, are lower than the advisory fees we earn on our institutional accounts.

Certain of our clients pay us fees according to the performance of their accounts relative to certain agreed-upon benchmarks, which results in a lower base fee, but allows us to earn higher fees if the relevant investment strategy outperforms the agreed-upon benchmark.

The majority of advisory fees we earn on institutional accounts is based on the value of our AUM at a specific date on a quarterly basis, either in arrears or advance. Advisory fees on certain of our institutional accounts, and with respect to all of our retail accounts, are calculated based on the average of the monthly or daily market value. Advisory fees are also generally adjusted for any cash flows into or out of a portfolio, where the cash flow represents greater than 10% of the value of the portfolio. While a specific group of accounts may use the same fee rate, the method used to calculate the fee according to the fee rate schedule may differ as described above.

Our advisory fees may fluctuate based on a number of factors, including the following:

- changes in AUM due to appreciation or depreciation of our investment portfolios, and the levels of the contribution and withdrawal of assets by new and existing clients;
- distribution of AUM among our investment strategies, which have differing fee schedules;
- distribution of AUM between institutional accounts and retail accounts, for which we generally earn lower overall advisory fees; and
- the level of our performance with respect to accounts on which we are paid performance fees.

Expenses

Our expenses consist primarily of Compensation and Benefits Expense, as well as General and Administrative Expense. Our largest expense is Compensation and Benefits, which includes the salaries, bonuses, equity-based compensation, and related benefits and payroll costs attributable to our employee members and employees. Compensation and benefits packages are benchmarked against relevant industry and geographic peer groups in order to attract and retain qualified personnel. General and Administrative Expense includes office rent and other expenses, professional and outside services fees, depreciation, and the costs associated with operating and maintaining our research, trading, and portfolio accounting systems. Our occupancy-related costs and professional services expenses, in particular, generally increase or decrease in relative proportion to the overall size and scale of our business operations.

We incur additional expenses associated with being a public company for, among other things, director and officer insurance, director fees, SEC reporting and compliance (including Sarbanes-Oxley and Dodd-Frank compliance), professional fees, transfer agent fees, and other similar expenses.

Our expenses may fluctuate due to a number of factors, including the following:

- variations in the level of total compensation expense due to, among other things, bonuses, awards of equity to our employees and employee members of our operating company, changes in our employee count and mix, and competitive factors; and
- general and administrative expenses, such as rent, professional service fees and data-related costs, incurred, as necessary, to run our business.

Other Income/(Expense)

Other income/(expense) is derived primarily from investment income or loss arising from our consolidated subsidiaries, income or loss generated by our investments in third-party mutual funds, and interest income generated on our cash balances. Other income/(expense) is also affected by changes in our estimates of the liability due to our selling and converting shareholders associated with payments owed to them under the tax receivable agreement which was executed in connection with our reorganization and initial public offering on October 30, 2007. As discussed further below under “Tax Receivable Agreement,” this liability represents 85% of the amount of cash savings, if any, in U.S. federal, state, and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our acquisitions of our operating company’s units from our selling and converting shareholders. We expect the interest and investment components of other income/(expense), in the aggregate, to fluctuate based on market conditions and the performance of our consolidated investment partnerships and other investments.

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Non-Controlling Interests

Our operating company has historically consolidated the results of operations of the private investment partnerships over which we exercise a controlling influence. We are the sole managing member of our operating company and control its business and affairs and, therefore, consolidate its financial results with ours. In light of our employees' and outside investors' interest in our operating company, we have reflected their membership interests as a non-controlling interest in our consolidated financial statements. As a result, our income is generated by our economic interest in our operating company's net income. As of December 31, 2013, the holders of our Class A common stock and the holders of Class B units of our operating company held approximately 18.7% and 81.3%, respectively, of the economic interests in the operations of our business.

Operating Results

Assets Under Management and Flows

As of December 31, 2013, our approximately $25.0 billion of AUM was invested in a variety of value-oriented investment strategies, representing distinct capitalization segments of U.S. and non-U.S. equity markets. The performance of our largest investment strategies as of December 31, 2013 is further described below. We follow the same investment process for each of these strategies. Our investment strategies are distinguished by the market capitalization ranges from which we select securities for their portfolios, which we refer to as each strategy's investment universe, as well as the regions in which we invest and the degree to which we concentrate on a limited number of holdings. While our investment process includes ongoing review of companies in the investment universes described below, our actual investments may include companies outside of the relevant market capitalization range at the time of our investment. In addition, the number of holdings typically found in the portfolios of each of our investment strategies may vary, as described below.

The following table indicates the annualized returns, gross and net (which represents annualized returns prior to, and after, payment of advisory fees, respectively), of our largest investment strategies from their inception to December 31, 2013, and in the five-year, three-year, and one-year periods ended December 31, 2013, relative to the performance of the market index which is most commonly used by our clients to compare the performance of the relevant investment strategy.

Investment Strategy (Inception Date)	Period Ended December 31, 2013[1] Since Inception		5 Years		3 Years		1 Year	
Large Cap Focused Value (October 2000)								
Annualized Gross Returns	7.1	%	20.2	%	15.9	%	41.8	%
Annualized Net Returns	6.6	%	19.6	%	15.4	%	41.3	%
Russell 1000® Value Index	6.2	%	16.7	%	16.1	%	32.5	%
Large Cap Expanded Value (July 2012)								
Annualized Gross Returns	33.3	%	—	%	—	%	41.5	%
Annualized Net Returns	33.1	%	—	%	—	%	41.3	%
Russell 1000® Value Index	27.1	%	—	%	—	%	32.5	%
Global Focused Value (January 2004)								
Annualized Gross Returns	6.2	%	18.5	%	14.2	%	40.0	%
Annualized Net Returns	5.5	%	17.7	%	13.5	%	39.2	%
MSCI® World Index – Net/U.S.$[2]	7.0	%	15.0	%	11.5	%	26.7	%
International (ex-U.S.) Expanded Value (November 2008)								
Annualized Gross Returns	17.9	%	18.7	%	12.4	%	32.5	%
Annualized Net Returns	17.5	%	18.4	%	12.1	%	32.1	%
MSCI® EAFE Index – Net/U.S.$[2]	12.1	%	12.4	%	8.2	%	22.8	%
Focused Value (January 1996)								
Annualized Gross Returns	11.4	%	21.3	%	17.4	%	43.8	%
Annualized Net Returns	10.6	%	20.5	%	16.7	%	43.0	%
Russell 1000® Value Index	9.0	%	16.7	%	16.1	%	32.5	%
Small Cap Focused Value (January 1996)								
Annualized Gross Returns	14.8	%	25.1	%	16.3	%	42.2	%
Annualized Net Returns	13.6	%	23.8	%	15.2	%	40.8	%
Russell 2000® Value Index	10.6	%	17.6	%	14.5	%	34.5	%
Global Expanded Value (January 2010)								
Annualized Gross Returns	12.8	%	—	%	13.6	%	35.8	%
Annualized Net Returns	12.5	%	—	%	13.2	%	35.4	%
MSCI® World Index – Net/U.S.$[2]	11.6	%	—	%	11.5	%	26.7	%
Emerging Markets Focused Value (January 2008)								
Annualized Gross Returns	3.2	%	18.2	%	2.2	%	10.0	%
Annualized Net Returns	2.2	%	17.3	%	1.7	%	9.3	%
MSCI® Emerging Markets Index – Net/U.S.$[2]	(1.2	)%	14.8	%	(2.1	)%	(2.6	)%
European Focused Value (August 2008)								
Annualized Gross Returns	8.9	%	20.2	%	15.0	%	35.9	%
Annualized Net Returns	8.5	%	19.7	%	14.6	%	35.5	%
MSCI® Europe Index – Net/U.S.$[2]	3.1	%	13.4	%	9.9	%	25.2	%
Mid Cap Focused Value (September 1998)								
Annualized Gross Returns	13.8	%	26.2	%	20.9	%	42.7	%
Annualized Net Returns	13.0	%	25.3	%	20.0	%	41.8	%
Russell Mid Cap® Value Index	10.8	%	21.2	%	16.0	%	33.5	%

(1) The historical returns of these investment strategies are not necessarily indicative of their future performance, or the future performance of any of our other current or future investment strategies.
(2) Net of applicable withholding taxes and presented in U.S.$.

Large Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in October 2000. At December 31, 2013, the Large Cap Focused Value strategy generated a one-year annualized gross return of 41.8%, outperforming its benchmark. The outperformance was broad based and primarily driven by our overweight position and stock selection in both the financial service and technology sectors and secondarily by our exposure in the consumer discretionary sector and our underweight exposure to the utilities sector.

Large Cap Expanded Value. This strategy reflects a portfolio composed of approximately 50 to 80 stocks drawn from a universe of 500 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in July 2012. At December 31, 2013, the Large Cap Expanded Value strategy generated a one-year annualized gross return of 41.5%, outperforming its benchmark. The outperformance was broad based and primarily driven by our overweight position and stock selection in both the financial service and technology sectors and secondarily by our exposure in the consumer discretionary sector and our underweight exposure to the utilities sector.

Global Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2004. At December 31, 2013, the Global Focused Value strategy generated a one-year annualized gross return of 40.0%, outperforming its benchmark. This outperformance was primarily driven by our stock selection and overweight positions in the financial services and technology sectors, along with our stock selection in the industrials and telecommunication services sectors.

International (ex-U.S.) Expanded Value. This strategy reflects a portfolio composed of approximately 60-80 stocks drawn from a universe of 1,500 of the largest companies across the world excluding the United States, based on market capitalization. This strategy was launched in November 2008. At December 31, 2013, the International (ex-U.S.) Expanded Value strategy generated a one-year annualized gross return of 32.5%, outperforming its benchmark. The top contributors to relative performance were our stock selection in the financial services, industrials, and consumer discretionary sectors.

Focused Value. This strategy reflects a portfolio composed of a portfolio of approximately 30 to 40 stocks drawn from a universe of 1,000 of the largest U.S. listed companies, based on market capitalization. This strategy was launched in January 1996. At December 31, 2013, the Focused Value strategy generated a one-year annualized gross return of 43.8%, outperforming its benchmark. The outperformance was broad based and primarily driven by our overweight position and stock selection in both the financial service and technology sectors and secondarily by our exposure in the consumer discretionary sector and our underweight exposure to the utilities sector.

Small Cap Focused Value. This strategy reflects a portfolio composed of approximately 40 to 50 stocks drawn from a universe of U.S. listed companies ranked from the 1,001st to 3,000th largest, based on market capitalization. This strategy was launched in January 1996. At December 31, 2013, the Small Cap Focused Value strategy generated a one-year annualized gross return of 42.2%, outperforming its benchmark. A broad number of holdings across a diverse range of industries contributed to this outperformance, specifically certain stocks in the financial services, and producer durables sectors.

Global Expanded Value. This strategy reflects a portfolio composed of approximately 60-95 stocks drawn from a universe of 2,000 of the largest companies across the world, based on market capitalization. This strategy was launched in January 2010. At December 31, 2013, the Global Expanded Value strategy generated a one-year annualized gross return of 35.8%, outperforming its benchmark. This outperformance was primarily driven by our stock selection and overweight positions in the financial services and technology sectors, along with our stock selection in the industrials and consumer discretionary sectors.

Emerging Markets Focused Value. This strategy reflects a portfolio composed of approximately 40 to 80 stocks drawn from a universe of 1,500 of the largest emerging market companies, based on market capitalization. This strategy was launched in January 2008. At December 31, 2013, the Emerging Markets Focused Value strategy generated a one-year annualized gross return of 10.0%, outperforming its benchmark. The main contributors to this outperformance include holdings across a diverse range of industries, specifically certain positions in the materials, industrials and financial services sectors, as well as certain Korean stocks.

European Focused Value. This strategy reflects a portfolio composed of approximately 40-60 stocks drawn from a universe of 750 of the largest European companies, based on market capitalization. This strategy was launched in August 2008. At December 31, 2013, the European Focused Value strategy generated a one-year annualized gross return of 35.9%, outperforming its benchmark. This outperformance was driven primarily by our stock selection and overweight positions in the consumer discretionary, industrials, technology and financial services sectors.

Mid Cap Focused Value. This strategy reflects a portfolio composed of approximately 30 to 40 stocks drawn from a universe of U.S. listed companies ranked from the 201th to 1,200th largest, based on market capitalization. This strategy was launched in September 1998. At December 31, 2013, the Mid Cap Focused Value strategy generated a one-year annualized gross return of 42.7%, outperforming its benchmark. Financial services holdings were the largest contributors to this

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outperformance. The outperformance was also driven by positioning in the consumer discretionary sector, partially offset by certain stocks in the health care sector.

Our earnings and cash flows are heavily dependent upon prevailing financial market conditions. Significant increases or decreases in the various securities markets, particularly the equities markets, can have a material impact on our results of operations, financial condition, and cash flows.

The change in AUM in our institutional accounts and our retail accounts for the years ended December 31, 2013, 2012, and 2011 is described below. During 2013, approximately $0.6 billion of assets under management that we had previously reported in 2013 in institutional accounts was reclassified to retail accounts. Historical information prior to 2013 is not impacted. Inflows are composed solely of the investment of new or additional assets by new or existing clients. Outflows consist solely of redemptions of assets by existing clients.

	For the Year Ended December 31,		
Assets Under Management	2013	2012	2011
	(in billions)		
Institutional Accounts			
Assets			
Beginning of Period	$11.2	$11.3	$12.5
Inflows	1.9	0.7	2.1
Outflows	(2.0)	(2.8)	(2.2)
Net Flows	(0.1)	(2.1)	(0.1)
Market Appreciation/(Depreciation)	4.3	2.0	(1.1)
End of Period	$15.4	$11.2	$11.3
Retail Accounts			
Assets			
Beginning of Period Assets	$5.9	$2.2	$3.1
Inflows	2.3	4.0	0.9
Outflows	(1.2)	(1.0)	(1.6)
Net Flows	1.1	3.0	(0.7)
Market Appreciation/(Depreciation)	2.6	0.7	(0.2)
End of Period	$9.6	$5.9	$2.2
Total			
Assets			
Beginning of Period	$17.1	$13.5	$15.6
Inflows	4.2	4.7	3.0
Outflows	(3.2)	(3.8)	(3.8)
Net Flows	1.0	0.9	(0.8)
Market Appreciation/(Depreciation)	6.9	2.7	(1.3)
End of Period	$25.0	$17.1	$13.5

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The following table describes the allocation of our AUM among our investment strategies, as of December 31, 2013, 2012, and 2011:

Investment Strategy	AUM at December 31, 2013	2012	2011
	(in billions)		
U.S. Value Strategies[1]	$15.1	$10.9	$7.9
Global Value Strategies[1]	6.3	4.1	3.7
Non-U.S. Value Strategies	3.6	2.1	1.9
Total	$25.0	$17.1	$13.5

1 During 2013, approximately $0.1 billion of previously reported assets under management in U.S. Value Strategies has been reclassified to Global Value Strategies. Historical information has been reclassified for all periods presented.

During the year ended December 31, 2013, our AUM increased $7.9 billion, or 46.2%, from $17.1 billion at December 31, 2012. This increase is primarily due to inflows in our Global and Non-U.S. strategies and market appreciation during the year ended December 31, 2013.

At December 31, 2013, we managed $15.4 billion in institutional accounts and $9.6 billion in retail accounts, for a total of $25.0 billion in assets. For the year ended December 31, 2013, we experienced $6.9 billion in market appreciation and total gross inflows of $4.2 billion, which were partially offset by total gross outflows of $3.2 billion. Assets in institutional accounts increased by $4.2 billion, or 37.5%, from $11.2 billion at December 31, 2012, due to $4.3 billion in market appreciation and $1.9 billion in gross inflows partially offset by $2.0 billion in gross outflows . Assets in retail accounts increased by $3.7 billion, or 62.7%, from $5.9 billion billion at December 31, 2012 as a result of $2.6 billion in market appreciation and $2.3 billion in gross inflows, partially offset by $1.2 billion in gross outflows.

At December 31, 2012, we managed $11.2 billion in institutional accounts and $5.9 billion in retail accounts, for a total of $17.1 billion in assets. For the year ended December 31, 2012, we experienced total gross inflows of $4.7 billion and $2.7 billion in market appreciation, which were partially offset by total gross outflows of $3.8 billion. Assets in institutional accounts decreased by $0.1 billion, or 0.9%, from $11.3 billion at December 31, 2011, due to $2.8 billion in gross outflows partially offset by $2.0 billion in market appreciation and $0.7 billion in gross inflows. Assets in retail accounts increased by $3.7 billion, or 168%, from $2.2 billion billion at December 31, 2011 as a result of $4.0 billion in gross inflows and $0.7 billion in market appreciation, partially offset by $1.0 billion in gross outflows. Retail inflows are primarily associated with our assignment to manage 28% of the Vanguard Windsor Fund as of the beginning of August 2012.

At December 31, 2011, we managed $11.3 billion in institutional accounts and $2.2 billion in retail accounts, for a total of $13.5 billion in assets. For the year ended December 31, 2011, we experienced total gross outflows of $3.8 billion and market depreciation of $1.3 billion, which were partially offset by total gross inflows of $3.0 billion. Assets in institutional accounts decreased by $1.2 billion, or 9.6%, from $12.5 billion at December 31, 2010, due to $2.2 billion in gross outflows and $1.1 billion in market depreciation, partially offset by $2.1 billion in gross inflows. Assets in retail accounts decreased by $0.9 billion, or 29%, from $3.1 billion at December 31, 2010, as a result of $1.6 billion in gross outflows and $0.2 billion in market depreciation, partially offset by $0.9 billion in gross inflows.

Our revenues are generally correlated with the levels of our average AUM. Our average AUM fluctuates based on changes in the market value of accounts advised and managed by us, and on our fund flows. Since we are long-term fundamental investors, we believe that our investment strategies yield the most benefits, and are best evaluated, over a long-term timeframe. We believe that our investment strategies are generally evaluated by our clients and our potential future clients based on their relative performance since inception, and the previous one-year, three-year, and five-year periods. There has typically been a correlation between our strategies' investment performance and the size and direction of asset flows over the long-term. To the extent that our returns for these periods outperform client benchmarks, we would generally anticipate increased asset flows over the long term. Correspondingly, negative returns relative to client benchmarks could cause existing clients to reduce their exposure to our products, or hinder new client acquisition.

In addition, an increase in average AUM and in revenues typically results in higher operating income and net income, while a decrease in average AUM and in revenues typically results in lower operating income, net income, and operating margins. We would expect pressure on our operating income, net income and operating margins in the future if average AUM and revenues were to decline.

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Revenues

Our revenue from advisory fees earned on our institutional accounts and our retail accounts for the three years ended December 31, 2013, 2012, and 2011 is described below:

Revenue	For the Year Ended December 31, 2013	2012	2011
	(in thousands)		
Institutional Accounts	$75,783	$64,919	$72,002
Retail Accounts	19,986	11,361	11,043
Total	$95,769	$76,280	$83,045

Year Ended December 31, 2013 versus December 31, 2012

Our total revenue increased $19.5 million, or 25.5%, to $95.8 million for the year ended December 31, 2013, from $76.3 million for the year ended December 31, 2012. This change was driven primarily by a $3.6 million increase in performance fees recognized, as well as an increase in average assets. For the years ended December 31, 2013 and 2012, average assets were $21.0 billion and $14.9 billion, respectively. This increase in average assets was driven by market appreciation and net inflows during 2013. To the extent that we experience further shifts in average AUM, our revenue could be affected.

Our weighted average fee rates were 0.456% and 0.512% for the years ended December 31, 2013 and 2012, respectively. This decrease was primarily due to a shift in mix towards our expanded products and larger relationships as well as a shift in mix between our institutional and retail strategies, which generally carry lower fees, partially offset by the increase in performance fees recognized in 2013 as noted above. This shift in mix reflects the full year impact of retail inflows associated with our assignment to manage 28% of the Vanguard Windsor Fund as of the beginning of August 2012 as well as net inflows in our retail accounts during 2013. For the year ended December 31, 2013, average assets in our institutional and retail strategies were 62.4% and 37.6%, respectively, of total average AUM. For the year ended December 31, 2012, average assets in our institutional and retail strategies were 75.8% and 24.2%. Average assets in institutional accounts increased $1.8 billion, or 15.9%, to $13.1 billion for the year ended December 31, 2013, from $11.3 billion for the year ended December 31, 2012, and had weighted average fees of 0.580% and 0.574% for the years ended December 31, 2013 and 2012, respectively. Weighted-average fee rates increased primarily due to the increase in performance fees recognized during 2013, partially offset by a higher mix of assets in our expanded products and larger relationships, which generally carry lower fee rates. Average assets in retail accounts increased $4.3 billion, or 119%, to $7.9 billion for the year ended December 31, 2013, from $3.6 billion for the year ended December 31, 2012, and had weighted average fees of 0.252% and 0.316% for the years ended December 31, 2013 and 2012, respectively. The decrease in weighted average fees in retail accounts was due primarily to the full year impact of the Vanguard assignment.

Year Ended December 31, 2012 versus December 31, 2011

Our total revenue decreased $6.7 million, or 8.1%, to $76.3 million for the year ended December 31, 2012, from $83.0 million for the year ended December 31, 2011. This change was driven primarily by a $3.5 million decrease in performance fees recognized, as well as a shift in the mix of average AUM between our institutional and retail strategies. For the year ended December 31, 2012, average assets in our institutional and retail strategies were 75.8% and 24.2%, respectively, of total average AUM. For the year ended December 31, 2011, average assets in our institutional and retail strategies were 81.3% and 18.7%, respectively of total average AUM. As discussed above, due to the substantially large account size of certain of our retail accounts, these accounts generally carry lower weighted average fee rates. This shift in mix was driven by retail inflows primarily associated with our assignment to manage 28% of the Vanguard Windsor Fund as of the beginning of August 2012 as well as net outflows in our institutional accounts. To the extent that we experience further shifts in average AUM, our revenue could be affected.

Our weighted average fee rates were 0.512% and 0.553% for the years ended December 31, 2012 and 2011, respectively. This decrease was primarily due to the decrease of performance fees recognized in 2012 as noted above combined with the partial period impact of a higher mix of assets in our retail Large Cap Expanded Value strategy which carries a lower fee rate. Average assets in institutional accounts decreased $0.9 billion, or 7.4%, to $11.3 billion for the year ended December 31, 2012, from $12.2 billion for the year ended December 31, 2011, and had weighted average fees of 0.574% and 0.591% for the years ended December 31, 2012 and 2011, respectively. Weighted average fee rates decreased primarily due to the decrease in performance fees recognized during 2012, partially offset by a higher mix of assets in our Global Focused Value strategy, which generally carries higher fee rates. Average assets in retail accounts increased $0.8 billion, or 28.6%, to $3.6 billion for the year ended December 31, 2012, from $2.8 billion for the year ended December 31, 2011, and had weighted average fees of 0.316% and 0.389% for the years ended December 31, 2012 and 2011, respectively. The decrease in weighted average fees in retail accounts was due primarily to partial period impact of the Vanguard assignment.

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Expenses

Our operating expense is driven primarily by our compensation costs. The table below describes the components of our operating expense for the years ended December 31, 2013, 2012, and 2011.

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Cash Compensation and Other Benefits	$31,374	$28,690	$29,518
Other Non-Cash Compensation	5,448	3,065	5,047
Total Compensation and Benefits Expense	36,822	31,755	34,565
General and Administrative Expense	8,099	7,346	10,626
Total Operating Expenses	$44,921	$39,101	$45,191

Year Ended December 31, 2013 versus December 31, 2012

Total operating expense increased by $5.8 million, or 14.9%, to $44.9 million for the year ended December 31, 2013, from $39.1 million for the year ended December 31, 2012.

Compensation and benefits expense increased by $5.1 million, or 16.0%, to $36.8 million for the year ended December 31, 2013, from $31.8 million for the year ended December 31, 2012. This increase reflects an increase in salary, headcount and the discretionary bonus accrual. The $2.4 million increase in non-cash compensation was primarily due to a shift in compensation mix and the amortization associated with previously issued awards. We would expect non-cash compensation expense in subsequent years to depend on the size and composition of awards granted under our equity incentive plans.

General and administrative expense increased by $0.8 million, or 10.3%, to $8.1 million for the year ended December 31, 2013, from $7.3 million for the year ended December 31, 2012. This increase is primarily due to an increase in business activities during 2013.

Year Ended December 31, 2012 versus December 31, 2011

Total operating expense decreased by $6.1 million, or 13.5%, to $39.1 million for the year ended December 31, 2012, from $45.2 million for the year ended December 31, 2011. This decrease was primarily attributable to one-time charges associated with the sublease of excess real estate and a charge related to certain employee departures, both realized in the fourth quarter of 2011.

Compensation and benefits expense decreased by $2.8 million, or 8.1%, to $31.8 million for the year ended December 31, 2012, from $34.6 million for the year ended December 31, 2011. This decrease was primarily attributable to $2.2 million in charges related to certain employee departures recognized during the fourth quarter of 2011 and a decrease of $0.6 million in discretionary bonus amounts in 2012. The $0.8 million decrease in cash compensation is primarily due to the one-time charges recognized during the fourth quarter of 2011, partially offset by a shift in compensation mix. The $2.0 million decrease in other non-cash compensation was primarily due to a shift in compensation mix and a reduction in amortization associated with previously issued awards. We would expect non-cash compensation expense in subsequent years to depend on the size and composition of awards granted under our equity incentive plans.

General and administrative expense decreased by $3.3 million, or 30.9%, to $7.3 million for the year ended December 31, 2012, from $10.6 million for the year ended December 31, 2011. This decrease is primarily due to a decrease in rent and real estate costs recognized during 2012. During the year ended December 31, 2011, we entered into a noncancelable sublease agreement for certain excess office space associated with our operating lease agreement. We recognized a $2.5 million loss associated with this operating sublease during 2011. No such loss was recognized during 2012.

Other Income/(Expense)

Year Ended December 31, 2013 versus December 31, 2012

Other income/(expense) was an expense of $1.8 million for the year ended December 31, 2013, and consisted primarily of $4.5 million in expense related to adjustments to our liability to our selling and converting shareholders, partially offset by $2.4 million of net realized and unrealized gain from investments and $0.3 million in interest and dividend income. Other income/(expense) was an expense of $0.9 million for the year ended December 31, 2012, and consisted primarily of $2.6 million in expense related to adjustments to our liability to our selling and converting shareholders, partially offset by $1.5 million of net realized and unrealized gain from investments and $0.3 million in interest and dividend income. As discussed further below, the liability to our selling and converting shareholders represents 85% of the amount of cash savings, if any, in U.S. federal, state

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and local income tax that we realize as a result of the amortization of the increases in tax basis generated from our purchase of operating company units from our selling shareholders. The $0.9 million year-over-year change in net realized and unrealized gains was due to investment performance.

Year Ended December 31, 2012 versus December 31, 2011

Other income/(expense) was an expense of $0.9 million for the year ended December 31, 2012, and consisted primarily of $2.6 million in expense related to adjustments to our liability to our selling and converting shareholders, partially offset by $1.5 million of net realized and unrealized gain from investments and $0.3 million in interest and dividend income. Other income/(expense) was an expense of $1.5 million for the year ended December 31, 2011, and consisted primarily of $1.6 million in expense related to adjustments to our liability to our selling and converting shareholders, and $0.4 million of net realized and unrealized losses from investments, partially offset by $0.4 million in interest and dividend income. The $1.9 million year-over-year change in net realized and unrealized gains/(losses) was due to investment performance.

Income Tax Expense

Our results for the years ended December 31, 2013, 2012, and 2011 included the effects of adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders and certain one-time charges discussed in “Expenses,” above. Our effective tax rate, exclusive of adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders and adjustments related to certain one-time charges recognized in operating expense in the fourth quarter of 2011, was 38.9%, 42.8%, and 42.4% for the years ended December 31, 2013, 2012, and 2011, respectively.

Non-GAAP income before corporate income taxes used to calculate our income before income taxes for the years ended December 31, 2013, 2012, and 2011 are as follows:

	For the Year Ended December 31,		
	2013	2012	2011
	(in thousands)		
Income Before Income Taxes	$49,027	$36,316	$36,388
One-time adjustments	—	—	4,798
Change in Liability to Selling and Converting Shareholders	4,468	2,647	1,581
Non-GAAP Unincorporated Business Taxes	(2,434)	(2,420)	(2,622)
Non-GAAP Net Income Attributable to Non-Controlling Interests	(41,768)	(30,565)	(33,878)
Non-GAAP Income Before Corporate Taxes	$9,293	$5,978	$6,267
Unincorporated Business Taxes	$2,434	$2,420	$2,617
Add back: Effect of One-Time Adjustments	—	—	5
Non-GAAP Unincorporated Business Taxes	$2,434	$2,420	$2,622
Net Income Attributable to Non-Controlling Interests	$41,768	$30,565	$29,861
Add back: Effect of One-Time Adjustments	—	—	4,017
Non-GAAP Net Income Attributable to Non-Controlling Interests	$41,768	$30,565	$33,878

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Our non-GAAP effective tax rate, which is exclusive of adjustments related to our tax receivable agreement and the associated liability to selling and converting shareholders, and adjustments related to certain one-time charges recognized in operating expense in the fourth quarter of 2011, was determined as follows:

	For the Year Ended December 31,					
	2013		2012		2011	
	Tax	% of Non-GAAP Pre-tax Income	Tax	% of Non-GAAP Pre-tax Income	Tax	% of Non-GAAP Pre-tax Income
	(in thousands)		(in thousands)		(in thousands)	
Federal Corporate Tax	$3,159	34.0 %	$2,032	34.0 %	$2,131	34.0 %
State and Local Taxes, Net of Federal Benefit	716	7.7 %	529	8.9 %	556	8.9 %
Prior Period and Other Adjustments	(263)	(2.8)%	(2)	(0.1)%	(31)	(0.5)%
Non-GAAP Effective Taxes	$3,612	38.9 %	$2,559	42.8 %	$2,656	42.4 %

Year Ended December 31, 2013 versus December 31, 2012

Income tax expense decreased $1.3 million, from $1.9 million for the year ended December 31, 2012, to $0.6 million for the year ended December 31, 2013. The 2013 and 2012 income tax expense included $6.1 million and $3.1 million, respectively, of benefit associated with adjustments to the valuation allowance recorded against our deferred tax asset related to our tax receivable agreement. The 2013 income tax expense also reflects a $0.3 million adjustment associated with the net impact of the change in the deferred tax asset and valuation allowance assessed against the deferred tax asset associated with the change in the effective tax rate and the prior year's final tax return. Exclusive of these adjustments, the remaining income tax expense for the year ended December 31, 2013 consisted of $2.4 million in operating company unincorporated business taxes, $4.0 million of corporate income taxes partially offset by a $0.4 million decrease in the valuation allowance associated with items not related to our tax receivable agreement. On a similar basis, the remaining income tax expense for the year ended December 31, 2012 consisted of $2.4 million of operating company unincorporated business taxes and $2.6 million of corporate income taxes. The flat operating company unincorporated business tax reflects the $0.6 million tax benefit associated with the amendment of prior year tax returns to change the methodology for state and local receipts as well as the change in the current methodology for state and local receipts made during the first quarter of 2013, offset by an increase in taxable income. The increase in corporate income taxes primarily reflects the increase in net income. A comparison of the GAAP effective tax rates for the years ended December 31, 2013 and 2012 is not meaningful due the valuation allowance adjustments.

Year Ended December 31, 2012 versus December 31, 2011

Income tax expense decreased $1.2 million, from $3.1 million for the year ended December 31, 2011, to $1.9 million for the year ended December 31, 2012. The 2012 and 2011 income tax expense included $3.1 million and $1.8 million, respectively, of benefit associated with adjustments to the valuation allowance recorded against our deferred tax asset related to our tax receivable agreement. Exclusive of these adjustments, the remaining income tax expense for the year ended December 31, 2012 consisted of $2.4 million in operating company unincorporated business taxes and $2.6 million of corporate income taxes. On a similar basis, the remaining income tax expense for the year ended December 31, 2011 consisted of $2.6 million of operating company unincorporated business taxes and $2.7 million of corporate income taxes. The decrease in these taxes is attributable primarily to a decrease in taxable income. The increase in the non-GAAP effective tax rate was attributable to the decrease in prior period adjustments recognized in 2012. A comparison of the GAAP effective tax rates for the years ended December 31, 2012 and 2011 is not meaningful due to the valuation allowance adjustments.

Non-Controlling Interests

Year Ended December 31, 2013 versus December 31, 2012

Net income attributable to non-controlling interests was $41.8 million for the year ended December 31, 2013, and consisted of $40.5 million associated with our employees' and outside investors' approximately 81.4%

weighted-average interest in the income of the operating company, and approximately $1.2 million associated with our consolidated subsidiaries' interest in the income of our consolidated investment partnerships. Net income attributable to non-controlling interests was $30.6 million for the year ended December 31, 2012, and consisted of $29.7 million associated with our employees’ and outside investors’ approximately 83.3% weighted-average interest in the income of the operating company, and approximately $0.9 million associated with our consolidated subsidiaries’ interest in the income of our consolidated investment partnerships. The change in net income attributable to non-controlling interests reflects primarily the increase in performance fees recognized and in our average AUM, each of which had a corresponding positive impact on operating company revenues and income. This increase also reflects an increase in the performance in our consolidated investment partnerships in 2013 compared to 2012.

Year Ended December 31, 2012 versus December 31, 2011

Net income attributable to non-controlling interests was $30.6 million for the year ended December 31, 2012, and consisted of $29.7 million associated with our employees' and outside investors' approximately 83.3% weighted-average interest in the income of the operating company, and approximately $0.9 million associated with our consolidated subsidiaries' interest in the income of our consolidated investment partnerships. Net income attributable to non-controlling interests was $29.9 million for the year ended December 31, 2011. The one-time adjustments discussed above in "Expenses" reduced net income attributable to non-controlling interests by $4.0 million in 2011. Exclusive of these one-time adjustments, net income attributable to non-controlling interests was $33.9 million for the year ended December 31, 2011, and consisted of $34.2 million associated with our employees' and outside investors' approximately 84.8% weighted-average interest in the income of the operating company, offset by the $0.3 million effect of the absorption, by our consolidated subsidiaries, of their share of the losses of our consolidated investment partnerships. The change in net income attributable to non-controlling interests, excluding the impact of one-time adjustments, reflects primarily the decrease in performance fees recognized and in our average AUM, each of which had a corresponding negative impact on operating company revenues and income. This decrease was offset by positive performance in our consolidated investment partnerships in 2012 compared to 2011.

Liquidity and Capital Resources

Historically, the working capital needs of our business have primarily been met through the cash generated by our operations. Distributions to members of our operating company are our largest use of cash from financing activities. Other activities include purchases and sales of investments to fund our deferred compensation program, and, to a lesser extent, capital expenditures.

At December 31, 2013, our cash and cash equivalents was $33.9 million, inclusive of $3.4 million in cash held by our consolidated subsidiaries. Advisory fees receivable was $23.9 million. We also had approximately $5.3 million in investments and $1.0 million in our cash and cash equivalents set aside to satisfy our obligations under our deferred compensation program.

We expect to fund the liquidity needs of our business in the next twelve months, and over the long-term, primarily through cash generated from operations. As an investment management company, our business is materially affected by conditions in the global financial markets and economic conditions throughout the world. Our liquidity is highly dependent on the revenue and income from our operations, which is directly related to our levels of AUM. For the year ended December 31, 2013, our average AUM and revenues increased by 40.9% and 25.5%, respectively, compared to our average AUM and revenues for the year ended December 31, 2012.

In determining the sufficiency of liquidity and capital resources to fund our business, we regularly monitor our liquidity position, including, among other things, cash, working capital, investments, long-term liabilities, lease commitments, debt obligations, and operating company distributions. Compensation is our largest expense. To the extent we deem necessary and appropriate to run our business, recognizing the need to retain our key personnel, we have the ability to change the absolute levels of our compensation packages, as well as change the mix of their cash and non-cash components. Historically, we have not tied our level of compensation directly to revenue, as many Wall Street firms do. Correspondingly, there is not a linear relationship between our compensation and the revenues we generate. This generally has the effect of increasing operating margins in periods of increased revenues, but can reduce operating margins when revenue declines.

We continuously evaluate our staffing requirements and compensation levels with reference to our own liquidity position and external peer benchmarking data. The result of this review directly influences management's recommendations to our Board of Directors with respect to such staffing and compensation levels.

We anticipate that tax allocations and dividend equivalent payments to the members of our operating company, which consisted of 34 of our employees, certain unaffiliated persons, former employees, and us, will continue to be a material financing activity. Cash distributions to operating company members for partnership tax allocations would increase should the taxable income of the operating company increase. Dividend equivalent payments will depend on our dividend policy and the discretion of our Board of Directors, as discussed below.

We believe that our lack of long-term debt, and ability to vary cash compensation levels, have provided us with an appropriate degree of flexibility in providing for our liquidity needs.

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Dividend Policy

We are a holding company and have no material assets other than our ownership of membership interests in our operating company. As a result, we depend upon distributions from our operating company to pay any dividends that our Board of Directors may declare to be paid to our Class A common stockholders. When, and if, our Board of Directors declares any such dividends, we then cause our operating company to make distributions to us in an amount sufficient to cover the dividends declared. Our dividend policy has certain risks and limitations, particularly with respect to liquidity. We may not pay dividends to our Class A common shareholders in amounts that have been paid to them in the past, or at all, if, among other things, we do not have the cash necessary to pay our intended dividends. To the extent we do not have cash on hand sufficient to pay dividends in the future, we may decide not to pay dividends. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

On an annual basis, our Board of Directors has targeted a cash dividend payout ratio of approximately 70% to 80% of our non-GAAP diluted net income, subject to growth initiatives and other funding needs. Our ability to pay dividends is subject to the Board of Directors' discretion and may be limited by our holding company structure and applicable provisions of Delaware law. See "Item 1A — Risk Factors — Risks Relating to Our Class A Common Stock — Our ability to pay dividends is subject to the discretion of our Board of Directors and may be limited by our holding company structure and applicable provisions of Delaware law."

Tax Receivable Agreement

Our purchase of membership units of our operating company concurrent with our initial public offering, and the subsequent and future exchanges by holders of Class B units of our operating company for shares of our Class A common stock (pursuant to the exchange rights provided for in the operating company's operating agreement), has resulted in, and is expected to continue to result in, increases in our share of the tax basis of the tangible and intangible assets of our operating company, which will increase the tax depreciation and amortization deductions that otherwise would not have been available to us. These increases in tax basis and tax depreciation and amortization deductions have reduced, and are expected to continue to reduce, the amount of cash taxes that we would otherwise be required to pay in the future. We have entered into a tax receivable agreement with the current members of our operating company, the one member of our operating company immediately prior to our initial public offering who sold all of its membership units to us in connection with our initial public offering, and any future holders of Class B units, that requires us to pay them 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that we actually realize (or are deemed to realize in the case of an early termination payment by us, or a change in control, as described in the tax receivable agreement) as a result of the increases in tax basis described above and certain other tax benefits related to entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

Cash Flows

Year Ended December 31, 2013 versus December 31, 2012

Cash and Cash Equivalents increased $1.3 million to $33.9 million in 2013 compared to $32.6 million in 2012. Net cash provided by operating activities increased $12.5 million in 2013 to $44.5 million from $32.0 million in 2012. The increase was primarily due to an increase in net income partially offset by changes in operating assets and liabilities and working capital.

Net cash used in investing activities was $1.8 million in 2013 compared to $0.1 million used in 2012. The $1.7 million increase was primarily attributable to a $1.0 million increase in purchases from investments in deferred compensation, a $0.5 million decrease in proceeds from investments in our deferred compensation plan, and $0.2 million increase in purchases of property and equipment during 2013.

Net cash used in financing activities increased $7.2 million in 2013 to $41.5 million from $34.3 million in 2012. This increase is primarily due to a $5.0 million increase in the repurchase and retirement of Class A common stock, Class B units, and Class B units options during 2013. This increase also reflects a $2.4 million increase in distributions to non-controlling interests driven the increase in partnership tax allocation payments associated with increased taxable income in 2013.

Year Ended December 31, 2012 versus December 31, 2011

Cash and Cash Equivalents decreased $2.4 million to $32.6 million in 2012 compared to $35.1 million in 2011. Net cash provided by operating activities decreased $14.1 million in 2012 to $32.0 million from $46.1 million in 2011. The decrease was primarily due to payments made in association with our tax receivable agreement during 2012, combined with 2011 one-time charges that were paid in 2012 and a higher mix of cash compensation paid during the year.

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Net cash used in investing activities was $0.1 million in 2012 compared to $0.4 million used in 2011. The $0.3 million decrease was primarily attributable to a $1.0 million decrease in purchases from investments in deferred compensation partially offset by a $0.7 million decrease in proceeds from investments in our deferred compensation plan during 2012.

Net cash used in financing activities increased $7.2 million in 2012 to $34.3 million from $27.1 million in 2011. This increase is primarily due to the special dividend payments made in March of 2012 and the repurchase and retirement of Class A common stock, Class B units, and Class B unit options during 2012.

Contractual Obligations

The following table sets forth information regarding our consolidated contractual obligations as of December 31, 2013.

	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
	(in thousands)				
Operating Lease Expenses, Net of Sublease Rental Income	$3,158	$1,722	$1,436	$—	$—
Total	$3,158	$1,722	$1,436	$—	$—

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of December 31, 2013.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), requires management to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

Accounting policies are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial condition. Management believes that the critical accounting policies discussed below involve additional management judgment due to the sensitivity of the methods and assumptions used.

Consolidation

Our policy is to consolidate all majority-owned subsidiaries in which we have a controlling financial interest and variable-interest entities of which we are deemed to be the primary beneficiary. We also consolidate non-variable-interest entities which we control as the general partner or managing member. We assess our consolidation practices regularly, as circumstances dictate. All significant inter-company transactions and balances have been eliminated.

Income Taxes

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

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards and tax credits. A valuation allowance is maintained for deferred tax assets that we estimate are more likely than not to go unrealizable based on available evidence at the time the estimate is made. Determining the valuation allowance requires management to make significant judgments and assumptions. In determining the valuation allowance, we use historical and forecasted future operating results, based upon approved business plans, including a review of the eligible carryforward periods, tax planning

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opportunities and other relevant considerations. Each quarter, we re-evaluate our estimate related to the valuation allowance, including our assumptions about future taxable income.
We believe that the accounting estimate related to the $54.0 million valuation allowance, recorded against the deferred tax asset associated with our acquisition of operating company membership units, is a critical accounting estimate because the underlying assumptions can change from period to period. For example, tax law changes, or variances in future projected operating performance, could result in a change in the valuation allowance. If we are not able to realize all or part of our net deferred tax assets in the future, an adjustment to our deferred tax asset valuation allowance would be charged to income tax expense in the period such determination was made.
Tax benefits related to stock option windfall deductions are not recognized until they result in a reduction of cash taxes payable. The benefit of these excess tax benefits will be recorded in equity when they reduce cash taxes payable. We will only recognize a tax benefit from stock- and unit-based awards in Additional Paid-In Capital if an incremental tax benefit is realized after all other tax benefits currently available have been utilized. During the year ended December 31, 2013, we had approximately $0.4 million in tax benefits associated with stock- and unit-based awards that it was not able to recognize. This amount is reflected as an unrecognized tax benefit.
Management judgment is required in determining our provision for income taxes, evaluating our tax positions and establishing deferred tax assets and liabilities. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. If the ultimate resolution of uncertainties is different from currently estimated, it could affect income tax expense and the effective tax rate.
Recently Issued Accounting Pronouncements Not Yet Adopted
In July 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 provides amendments to ASC No. 740,“Income Taxes”, which clarify the guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2013, and is not expected to have a material impact on our financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Market Risk
Our exposure to market risk is directly related to our role as investment adviser for the institutional separate accounts we manage and the retail clients for which we act as sub-investment adviser. As noted in Item 1A, “Risk Factors,” we could experience declines in AUM due to poor performance of our investment strategies or a general economic downturn. These conditions could lead to declines in revenue and profitability, and there can be no assurance that there will not be declines in our AUM, revenue and profitability again in the future. An economic downturn, and volatility in the global financial markets, could also significantly affect the estimates, judgments, and assumptions used in the valuation of our financial instruments.
Our revenue for the three years ended December 31, 2013 was generally derived from advisory fees, which are typically based on the market value of our AUM, which can be affected by adverse changes in interest rates, foreign currency exchange and equity prices. Accordingly, a decline in the prices of securities would cause our revenue and income to decline, due to a decrease in the value of the assets we manage. In addition, such a decline could cause our clients to withdraw their funds in favor of investments offering higher returns or lower risk, which would cause our revenue and income to decline further.
We are also subject to market risk due to a decline in the value of the holdings of our consolidated subsidiaries, which consist primarily of marketable securities and investments in mutual funds. At December 31, 2013, the fair value of these assets was $2.4 million and $5.2 million, respectively. Assuming a 10% increase or decrease, the fair value would increase or decrease by $0.2 million and $0.5 million, respectively, at December 31, 2013.
Interest Rate Risk
Since the Company does not have any debt that bears interest at a variable rate, it does not have any direct exposure to interest rate risk at December 31, 2013.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and notes thereto begin on page F-1 of this Annual Report and are incorporated herein by reference.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.

During the course of their review of our consolidated financial statements as of December 31, 2013, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles. There are inherent limitations in the effectiveness of any internal controls, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (1992).

Based on the assessment using those criteria, management concluded that, as of December 31, 2013, our internal control over financial reporting was effective.

Our independent registered public accounting firm audited the financial statements included in this Annual Report and have issued an audit report on our internal control over financial reporting. This report appears on page F-3 of this Annual Report.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There was no information that we were required to disclose in a current report on Form 8-K during the fourth quarter of fiscal 2013 that was not so disclosed.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table provides certain information relating to our directors and executive officers.

Name	Age	Position
Richard S. Pzena	55	Chairman, Chief Executive Officer, Co-Chief Investment Officer
John P. Goetz	56	President, Co-Chief Investment Officer, Director
William L. Lipsey	55	President, Head of Marketing and Client Service, Director
Gary J. Bachman	46	Chief Financial Officer
Antonio DeSpirito, III	45	Executive Vice President
Michael D. Peterson	49	Executive Vice President
Steven M. Galbraith	51	Director
Joel M. Greenblatt	56	Director
Richard P. Meyerowich	71	Director
Charles D. Johnston	60	Director

Richard S. Pzena was appointed our Chairman, Chief Executive Officer and Co-Chief Investment Officer in May 2007. Prior to forming Pzena Investment Management, LLC in 1995, Mr. Pzena was the Director of U.S. Equity Investments and Chief Research Officer for Sanford C. Bernstein & Company. Mr. Pzena joined Sanford C. Bernstein & Company in 1986 as an oil industry analyst. During 1990 and 1991, Mr. Pzena served as Chief Investment Officer, Small Cap Equities, and assumed his broader domestic equity role in 1991. Prior to joining Bernstein, Mr. Pzena worked for the Amoco Corporation in various financial and planning roles. He earned a B.S. summa cum laude and an M.B.A. from the Wharton School of the University of Pennsylvania in 1979 and 1980, respectively.

John P. Goetz was appointed our President, Co-Chief Investment Officer in June 2007, and became a member of our Board of Directors in May 2011. Mr. Goetz joined us in 1996 as Director of Research and has been Co-Chief Investment Officer since 2005. Previously, Mr. Goetz held a range of key positions at Amoco Corporation for over 14 years, most recently as the Global Business Manager for Amoco's $1 billion polypropylene business, where he had bottom-line responsibility for operations and development worldwide. Prior positions at Amoco included strategic planning, joint venture investments and project financing in various oil and chemical businesses. Prior to joining Amoco, Mr. Goetz had been employed by The Northern Trust Company and Bank of America. He earned a B.A. summa cum laude in Mathematics and Economics from Wheaton College in 1979 and an M.B.A. from the Kellogg School at Northwestern University in 1982.

William L. Lipsey was appointed our President, and Head of Marketing and Client Service in June 2007, and became a member of our Board of Directors in May 2011. Before joining Pzena Investment Management in 1997, Mr. Lipsey was an Investment Advisory Consultant and a Senior Vice President at Oppenheimer & Company, Inc. Prior to joining Oppenheimer, Mr. Lipsey's career included positions at Morgan Stanley, Kidder Peabody and Hewitt Associates. At Morgan Stanley and Kidder Peabody, Mr. Lipsey managed assets for institutional and private clients. He earned a B.S. in Economics from the Wharton School of the University of Pennsylvania in 1980 and an M.B.A. in Finance from the University of Chicago in 1986.

Gary J. Bachman was appointed our Chief Financial Officer in September 2012. Prior to joining Pzena Investment Management, Mr. Bachman served as Executive Director of the Investment Bank Finance Department at JP Morgan Chase, from 2008 to 2012. Previous to this, Mr. Bachman worked in the Structured Capital Market group at Barclay's Capital, and both the Strategic Transaction and Accounting Policy and External Reporting groups at Lehman Brothers, from 2000 to 2008. Mr. Bachman received his B.S. from Binghamton University in 1990 and an M.B.A. from Fordham University in 1998. Mr. Bachman is a Certified Public Accountant.

Antonio DeSpirito, III was appointed Executive Vice President in February 2011. He is also a Portfolio Manager of our Large Cap Focused Value, Large Cap Expanded Value, Focused Value Service, and All Cap Focused Value strategies. Prior to joining Pzena Investment Management in 1996, Mr. DeSpirito was an Associate in the Corporate Department of Ropes & Gray LLP. He earned a B.S. summa cum laude from the Wharton School of the University of Pennsylvania in 1990 and a J.D. magna cum laude from Harvard Law School in 1993.

Michael D. Peterson was appointed Executive Vice President in February 2011. He is also a Portfolio Manager of our Global Focused Value, International (ex-US) Focused Value, International (ex-US) Expanded Value, Global Expanded Value, and European Focused Value strategies. Prior to joining Pzena Investment Management in 1998, Mr. Peterson was an Engagement Manager at McKinsey & Company. At McKinsey, he was a member of the Financial Institutions Group, as well as

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the Pricing Practice. Prior to joining McKinsey, he was an Assistant Professor at the Indiana University School of Public and Environmental Affairs, where he taught operations research and operations management. He holds a PhD in Management (Operations Research) from the M.I.T. Sloan School of Management, where he was a National Science Foundation fellow from 1989 to 1992. Prior to that, he received a M.A. in Mathematics from the University of Cambridge in 1988 and an A.B. summa cum laude in Economics from Princeton University.

Steven M. Galbraith has been a member of our Board of Directors since October 2007. Mr. Galbraith is a Managing Member of Herring Creek Capital, a registered investment advisor managing private investment funds exclusively for qualified investors. Previously, he had been a partner at Maverick Capital where he had portfolio and general management responsibilities. Prior to joining Maverick Capital in 2004, Mr. Galbraith served as Chief Investment Officer and Chief U.S. Investment Strategist at Morgan Stanley from June 2000 to December 2003. Before joining Morgan Stanley, he was a partner at Sanford Bernstein, where he was an analyst in the packaged foods sector and the securities industry. Mr. Galbraith was also an employee of our operating company from June 1998 to March 1999. Mr. Galbraith was an Adjunct Professor at Columbia University Business School where he taught securities analysis. He serves on the board of trustees of Tufts University and the National Constitution Center in Philadelphia. Mr. Galbraith is a member of the board of directors of the Harlem Success Academy and Narragansett Brewing Company. He is also a member of the Financial Research Advisory Committee. He received his B.A. summa cum laude from Tufts University, where he was elected to Phi Beta Kappa.

Joel M. Greenblatt has been a member of our Board of Directors since October 2007. Mr. Greenblatt has been a Managing Partner of Gotham Capital, a hedge fund that he founded, since 1985, and of Gotham Asset Management since 2002. Mr. Greenblatt is also the Managing Principal of Gotham Asset Management, LLC, a registered investment adviser (formerly known as Formula Investing, LLC). For the past fourteen years, he has been an Adjunct Professor at Columbia University Business School, where he teaches Value and Special Situation Investing. Mr. Greenblatt is the former Chairman of the board of Alliant Techsystems, a NYSE-listed aerospace and defense company. He is the co-chairman of Harlem Success Academy, a charter school in New York City. He is the author of three books, You Can Be A Stock Market Genius (Simon & Schuster, 1997), The Little Book That Beats The Market (John Wiley & Sons, 2005), and The Big Secret for the Small Investor (John Wiley & Sons, 2011). Mr. Greenblatt earned a B.S. and an M.B.A. from the Wharton School of the University of Pennsylvania in 1979 and 1980, respectively.

Richard P. Meyerowich has been a member of our Board of Directors since October 2007. Mr. Meyerowich worked in the New York office of Deloitte & Touche LLP from 1966 to 2005, including as a Senior Partner from 1978 to 2005. Mr. Meyerowich headed the National Investment Management Practice for over ten years and served as lead partner on major investment management entities, including SEC-registered mutual funds, unit investment funds, hedge funds, investment partnerships, separate accounts of insurance companies and commodity pools. He served two terms on the Investment Companies Committee of the American Institute of Certified Public Accountants. From 2005 through 2009, he served as an external consultant for Deloitte & Touche on quality control and technical advice. In March 2011, Mr. Meyerowich became a member of the board of directors of AIG Property Casualty, a global property and casualty insurance subsidiary of American International Group, Inc. Mr. Meyerowich is also a member of the AIG Property Casualty audit committee. Mr. Meyerowich earned a B.S. in Economics from Wagner College in 1965. He is currently retired.

Charles D. Johnston became a member of our Board of Directors in February 2014. Mr. Johnston most recently served as President of Morgan Stanley Smith Barney, from 2009 to 2011. From 2004 to 2009, he was President and Chief Executive Officer of Smith Barney. He served as a Divisional Director of Smith Barney from 1999-2003. Mr. Johnston is a past member of Morgan Stanley's Operating and Management Committees, as well as Citigroup's Management Committee, and is a regular speaker at industry events. Mr. Johnston earned a B.S. in Marketing and Finance in 1976 from Purdue University. He is currently retired.

There are no family relationships among any of our directors or executive officers.

Board Composition

Our Board of Directors currently consists of seven directors. For the year ended December 31, 2013, we have determined that each of Messrs. Galbraith, Greenblatt, and Meyerowich is an "independent" director within the meaning of the applicable rules of the SEC and the NYSE. Our Board also determined that Mr. Tysoe, who resigned in August 2013, was also an independent director. On February 5, 2014, Mr. Johnston joined our Board of Directors as our fourth independent director to fill the vacancy created by the resignation of Mr. Tysoe.

Our bylaws provide that our Board of Directors will consist of five directors, or such number of directors as fixed by our Board of Directors from time to time, and that the directors are elected for one-year terms and will continue to serve until the next annual meeting of stockholders, or until such director's earlier death, resignation or removal.

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Factors Involved In Selecting Directors

When considering whether the Board’s directors have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively, in light of our business and structure, the Nominating and Corporate Governance Committee focused on the information described in each of the Board members’ biographical information set forth above. With regard to Mr. Pzena, the Nominating and Corporate Governance Committee considered his experience as founder and CEO of our Company and operating company, and his breadth of knowledge regarding all aspects of the business, including its strategies, operations, and markets, as well as his acute business judgment. With respect to Messrs. Goetz and Lipsey, the Nominating and Corporate Governance Committee considered their experience as founding Executive Committee members, their broad-based knowledge of the business, as well as their extensive industry knowledge. With regard to Messrs. Galbraith and Greenblatt, the Nominating and Corporate Governance Committee considered their extensive investment management experience and their professional standing in the industry. The Nominating and Corporate Governance Committee also considered Mr. Greenblatt's prior and current Board experiences and governance skills. With regard to Mr. Meyerowich, the Nominating and Corporate Governance Committee considered his expertise and background in accounting matters, his leadership role at Deloitte & Touche LLP, as well as his designation as an audit committee financial expert. With respect to Mr. Johnston, the Nominating and Corporate Governance Committee considered his broad retail brokerage and wealth management experience, leadership roles, industry expertise, as well as his designation as an audit committee financial expert.

Board Leadership Structure

The Nominating and Corporate Governance Committee is responsible for reviewing the leadership structure of our Board of Directors, and additionally reviewing the performance of the Chairman of the Board and Chief Executive Officer.

Since the inception of our Company in October 2007, as permitted by our Company’s Corporate Governance Guidelines, the Chairman of the Board position has been held by Richard S. Pzena, the CEO of our Company and our operating company. The Nominating and Corporate Governance Committee has considered the issue of Mr. Pzena’s combined role, and approved the continuation of this structure for the following reasons:

- The CEO is most familiar with the day to day operations of our Company and operating company.
- The CEO is in the best position to bring matters before our Board of Directors and serve as its Chairman.
- A combined CEO and Chairman role provides consistent leadership, stability and continuity for us.

The Board of Directors has additionally affirmed the combination of the CEO and Chairman roles for the reasons set forth above.

In accordance with our Corporate Governance guidelines, we have the option of alternating directors to lead executive sessions of the Board of Directors, or to select a lead independent director. To date, our independent directors have not named a lead independent director. Accordingly, no single director presides at all executive sessions of the non-management directors, but rather alternate directors lead each of the executive sessions. Accordingly, the role of presiding director at each executive session of non-management directors in 2013, until Mr. Tysoe's resignation in August, was regularly rotated among Messrs. Galbraith, Greenblatt, Meyerowich and Tysoe. After Mr. Tysoe's resignation, the role of presiding director at each executive session of non-management directors during 2013 was rotated among Messrs. Galbraith, Greenblatt and Meyerowich.

Board Risk Oversight Role

Our Board of Directors has delegated the role of risk oversight to its Audit Committee pursuant to the Audit Committee’s charter. Our Audit Committee continues to concentrate on determining the adequacy of our risk-management programs.

Our approach to risk management includes a variety of internal procedures, test protocols and examinations, including the following:

- Sarbanes-Oxley annual testing and audit — covering internal controls and financial reporting;
- SSAE 16 — covering operational risks;
- Compliance policies and procedures, including annual risk-based testing;
- Ongoing compliance training; and

- Disaster recovery procedures and annual testing.

Issues of note resulting from any of the above-enumerated risk management items are brought to the attention of the Audit Committee, when appropriate.

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The Risk Management Committee of our operating company was established in 2010 to ensure ongoing coordination among the various risk management programs. The purpose of the Risk Management Committee, whose members include department heads or their delegates, is to identify business risks and evaluate the effectiveness of all risk mitigation activities. The Risk Management Committee met six times during 2013.

Board Committees

Although we qualify for the "controlled company" exemption from certain of the corporate governance rules of the NYSE, our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each consisting solely of independent directors, and our Board of Directors has adopted charters for its committees that comply with the NYSE and SEC rules relating to corporate governance matters.

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our Chief Executive Officer and our Chief Financial Officer, and a Code of Ethics for Senior Financial Officers. Copies of the board committee charters, as well as our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Code of Ethics for Senior Financial Officers, are available on our website at www.pzena.com. If we make any amendments to our Code of Business Conduct and Ethics or our Code of Ethics for Senior Financial Officers, other than technical, administrative or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of these codes to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of the amendment or waiver, its effective date, and to whom it applies on our website at www.pzena.com, or in a report on Form 8-K filed with the SEC.

In order to communicate any concerns with our non-management directors, interested parties should send comments to the attention of our Corporate Secretary, Joan F. Berger, at our primary offices located at 120 West 45th Street, 20th Floor, New York, New York 10036. All appropriate correspondence will be forwarded to our non-management directors.

Audit Committee

Our Audit Committee assists our Board of Directors in its oversight of the integrity of our consolidated financial statements, our independent registered public accounting firm's qualifications and independence, and the performance of our independent registered public accounting firm.

Our Audit Committee's responsibilities include, among others:

- reviewing the audit plans and findings of our independent registered public accounting firm and our internal audit and risk review staff, as well as the results of regulatory examinations, if any, and tracking management's corrective action plans, where necessary;
- reviewing our financial statements, including any significant financial items and/or changes in accounting policies, and/or internal control, with our senior management and independent registered public accounting firm;
- reviewing our financial risk and control procedures, compliance programs and significant tax, legal and regulatory matters; and
- having the sole discretion to appoint annually our independent registered public accounting firm, evaluate its independence and performance, and set clear hiring policies for employees or former employees of the independent registered public accounting firm.

Messrs. Galbraith, Greenblatt, Meyerowich and Johnston currently serve on the Audit Committee, and Mr. Meyerowich serves as its chair. Our Board of Directors has determined that both Messrs. Meyerowich and Johnston are "audit committee financial experts" as such term is defined in the rules and regulations of the SEC.

Compensation Committee

Our Compensation Committee assists our Board of Directors in the discharge of its responsibilities relating to the compensation of our executive officers.

Our Compensation Committee's responsibilities include:

- reviewing and approving, or making recommendations to our Board of Directors with respect to, the compensation of our executive officers;
- overseeing and administering, and making recommendations to our Board of Directors with respect to, our cash and equity incentive plans; and

- reviewing and making recommendations to the Board of Directors with respect to director compensation.

Messrs. Galbraith, Greenblatt, Meyerowich and Johnston currently serve on the Compensation Committee and Mr. Galbraith serves as its chair.

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Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee assists our Board of Directors by:

- identifying and recommending to our Board of Directors individuals qualified to serve as our directors and on committees of the Board of Directors;
- advising the Board of Directors on Board composition, procedures and committees;
- initiating and overseeing governance policies such as our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Code of Ethics for Senior Financial Officers; and
- overseeing the evaluation of the Board and Company management.

As part of its responsibility to identify and recommend director nominees, our Nominating and Corporate Governance Committee is guided by the diversity considerations set forth in its charter, which state that it shall look at a variety of attributes in selecting candidates for nomination to our Board of Directors, including experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, dedication, and lack of conflicts of interest. As part of its periodic self-assessment process, our Nominating and Corporate Governance Committee annually assesses the occupational and personal backgrounds of the members of our Board in order to determine if our Board of Directors, considered as a group, has a sufficient composite mix of experience, knowledge and abilities. Messrs. Galbraith, Greenblatt, Meyerowich and Johnston currently serve on the Nominating and Corporate Governance Committee and Mr. Greenblatt serves as its chair.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC and NYSE reports of ownership on Form 3 and changes in ownership (including changes in ownership of derivative securities representing the right to acquire our securities) on Forms 4 and 5. Such executive officers, directors and greater than 10% shareholders are required by SEC rules to furnish us with copies of all Section 16(a) forms they file.

Based on a review of such reports and written representations of our directors and executive officers, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and greater than 10% shareholders were complied with in respect of our fiscal year ended December 31, 2013.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Board of Directors is responsible for determining executive officer compensation. The Compensation Committee, consisting of Messrs. Galbraith, Greenblatt, Meyerowich and Johnston, is comprised entirely of independent directors, as defined in the NYSE rules. Until his resignation from our board in August 2013, Ronald Tysoe also served as a member of the Compensation Committee. Members of the Compensation Committee additionally qualify as “non-employee directors” within the meaning of Rule 16b-3 promulgated under the Exchange Act, and “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. In 2013, Mr. Greenblatt and his related entities received an aggregate payment in the amount of approximately $433,263 pursuant to the terms of the Tax Receivable Agreement. See “Item 13-Certain Relationships and Related Transactions, and Director Independence-Tax Receivable Agreement.”

During fiscal 2013, none of our executive officers served as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that had one or more of its executive officers serving as a member of our Board of Directors or our Compensation Committee.

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Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth below, and based upon such review and discussions, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report.

Respectfully submitted,

Compensation Committee

Steven M. Galbraith, Chairman

Joel M. Greenblatt

Richard P. Meyerowich

Charles D. Johnston

Compensation Discussion and Analysis

This section summarizes the principles underlying our policies relating to our executive officers' compensation. It generally describes the manner and context in which compensation is earned by, and awarded to, our executive officers and provides perspective on the tables and narratives that follow.

Philosophy and Objectives of Our Executive Compensation Program

Our executive compensation is intended to produce the best possible long-term results for both our investor clients and shareholders. The primary means of alignment between executive officers and shareholder interests is evidenced by the significant holdings held by most of our individual executive officers. This alignment is further enhanced by our annual compensation structure, which is designed to reward performance leading to excellent long-term results.

Executive compensation has a base salary component and a bonus component. The bonus itself can be granted in the form of cash or various forms of equity participation. A portion of the bonus may be deferred pursuant to the Bonus Plan, which absent certain articulated exemptions, is dependent on continued employment with us. See "Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Bonus Plan" for a description of the Bonus Plan.

It is intended that the magnitude of the bonus reflect the industry standards for executive responsibilities, and reflect the actual achievement of goals and objectives we have set. However, no fixed criteria or formula is used in determining the amount of a bonus. Rather, the Compensation Committee uses its discretion to make a determination of the effectiveness of the executive and the extent of the executive's contributions to our success and, based on that determination, recommends bonus amounts to the full Board. The minimum bonus would generally entail compensation below industry norms and reflect poor performance on objectives, while the maximum bonus would reflect superior performance on objectives.

Consistent with this philosophy, 2013 compensation was established to reflect executive officer contributions to the following:

(i) Development of new leaders to provide succession options for the Executive Committee and other managerial responsibilities.

(ii) Management of the overall business in a manner consistent with shareholder interests, including:

- Managing the cost structure to maintain a margin of profitability consistent with leading asset management firms and the overall investment environment.
- Enhancing our overall growth through developing global capabilities and introducing new initiatives and products consistent with clients' interests.

(iii) Setting an example for our employees in business behavior at an exceptional ethical level, and in compliance with regulatory guidelines.

(iv) Enhancing our reputation and asset gathering capability, with existing and future clients, through quality interaction and communication.

Our CEO/Co-Chief Investment Officer is responsible for all aspects of our operations. Additionally, specific goals were developed for each of the below executive officers.

For President/Co-Chief Investment Officer and Executive Vice Presidents:

(i) Lead the investment team in a manner to promote excellent long term investment performance via superior investment research.

(ii) Maintain a team-oriented culture that develops and retains the best investment talent.

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For President and Head of Marketing and Client Service:

(i) Expand the business development team and exposure of the Pzena brand in the international marketplace.

(ii) Lead the client team in a manner which promotes the Pzena brand in the broader institutional investment community and creates lasting client relationships, minimizes client attrition, and raises assets from new and existing clients.

(iii) Develop a retail mutual fund business to expand the reach of our products and to grow assets under management.

For Chief Financial Officer:

(i) Oversee our financial reporting process to achieve accurate and effective financial statements.

(ii) Enhance our controllership and financial functions through exemplary leadership.

In determining compensation for all executive officers, the Compensation Committee discusses each named executive officer to determine appropriate bonus levels.

Principal Components of Executive Compensation

We have established compensation practices that directly link compensation with our performance, as described below. These practices apply to all of our professionals, including our named executive officers. Ultimately, ownership in our Company is the primary tool that we use to attract and retain professionals, including the named executive officers. As of December 31, 2013, our employee members held approximately 61.9% of the ownership interests in our operating company, the substantial majority of which is held by our executive officers, together with their estate planning vehicles.

We consider the following elements of compensation for our named executive officers:

(i) cash compensation, consisting of a base salary;

(ii) annual cash bonuses;

(iii) mandatory deferred compensation;

(iv) equity-based compensation and related distributions of earnings of our operating company; and

(v) perquisites.

The Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between currently paid out and long-term compensation, between cash and non-cash compensation, or among different forms of non-cash compensation. In order to attract and retain qualified personnel, compensation and benefits packages, including those of certain of our named executive officers, are reviewed against relevant industry and geographic peer groups, as compiled by McLagan Partners, a compensation specialist focusing on the asset management industry, but we do not benchmark against peer group data. The universe of companies in the McLagan Partners' analysis includes approximately 150 publicly traded asset managers and asset management subsidiaries of larger financial services firms with which we compete, among others. To the extent applicable, the Compensation Committee reviews McLagan Partners' data by position for the entire universe of companies on a summary basis, as well as data by position for certain subgroups on a summary basis, such as companies with assets under management and a geographic location similar to ours, rather than specific compensation data for individual competitors.

It is customary in the investment management industry to provide for base salaries and discretionary bonuses to be paid to executives upon whom we rely for our success. Cash compensation in the form of a fixed base salary and discretionary cash bonuses constitutes only a portion of the compensation that we pay our named executive officers.

(i) Base Salary. Consistent with industry practice, the base salaries for our named executive officers generally account for a relatively small portion of their overall compensation. Pursuant to their respective Executive Employment Agreements, as amended, and as further discussed below, Messrs. Pzena, Goetz and Lipsey are each entitled to receive a base salary which is determined annually by the Compensation Committee. For 2013, Messrs. Pzena, Goetz and Lipsey each received a base salary at the annual rate of $277,500, and a contribution of $22,500 by our Company to each of their respective 401(k) accounts.

We have not entered into employment contracts with Mr. Bachman, our Chief Financial Officer, or either of our Executive Vice Presidents, Messrs. DeSpirito and Peterson. For 2013, Messrs. DeSpirito and Peterson each received a base salary at the annual rate of $277,500, and a contribution of $22,500 by our Company to each of their respective

401(k) accounts. For 2013, Mr. Bachman received a base salary at an annual rate of $300,000 and a contribution by our Company of $5,129 to his 401(k) account.

(ii) Cash Bonuses. As further discussed below under "Executive Employment Agreements," each of Messrs. Pzena, Goetz and Lipsey may be paid an annual bonus as determined by the Compensation Committee. In 2013, the Compensation

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Committee reviewed the aforementioned objectives for the named executive officers, both by individual position, and as a group. Based on an analysis of the relevant objectives, the Compensation Committee determined that for 2013, Messrs. Pzena, Goetz, and Lipsey should each receive a total cash bonus in the amount of $1,170,000, which excludes amounts deferred pursuant to the Bonus Plan. Messrs. DeSpirito and Peterson each received a total cash bonus in the amount of $990,000 and $930,000, respectively, which excludes amounts deferred pursuant to the Bonus Plan.
Mr. Pzena’s total 2013 compensation was reduced by $43,739 for certain business expenses not reimbursable under our expense reimbursement policy. A portion of this amount reduced Mr. Pzena's total 2013 cash bonus.
In 2012, as a result of compensation modifications relating to the years 2010 and 2011, the Compensation Committee approved an additional $540,000 payable to Mr. Lipsey (also subject to our deferred compensation practices under the Bonus Plan). During 2012, Mr. Lipsey was paid $100,000 of this amount, which consisted of $60,000 in additional cash bonus and $40,000 in the form of deferred compensation (included in the amount reflected for Mr. Lipsey in 2012 under the “All Other Compensation” column of the “Summary Compensation Table” below). In 2013, Mr. Lipsey was granted the remaining $440,000, which will vest ratably over a four year period (subject to vesting provisions as described in the Bonus Plan), and is reflected for Mr. Lipsey in the 2013 “All Other Compensation” column of the “Summary Compensation Table” below.
The Compensation Committee also determined that Mr. Bachman, our Chief Financial Officer, should be awarded a cash bonus in the amount of $165,000 for 2013.

(iii) Mandatory Deferred Compensation. The purpose of the Bonus Plan is to enable us to attract, retain, motivate and reward highly qualified individuals who provide services to us by, among other things: (a) providing for grants of bonus compensation; and (b) providing that a portion of the bonus awards made to certain highly compensated individuals, including the named executive officers, shall be deferred on a mandatory basis and shall vest, and become payable, over a four-year period. These amounts are reflected in the “All Other Compensation” column of the “Summary Compensation Table” below.

(iv) Equity Based Compensation and Distribution of Earnings of Our Operating Company. We have awarded many of our employees, including our named executive officers, ownership interests in our operating company. Historically, the substantial majority of the remuneration that our CEO and two Presidents received from us consisted of cash distributions in proportion to their respective ownership interests of our operating company. These three executive officers have substantial ownership interests in our operating company. They receive distributions in respect of their membership units in the same amount, and at the same time as distributions are made on all other membership units, including Class A units, which creates an alignment of their interests with those of our Class A stockholders. The amounts of these distributions are not shown in the Summary Compensation Table below because they arise out of their ownership interest in our operating company. At December 31, 2013, 2012 and 2011, our CEO and two Presidents, owned approximately 45.5%, 55.3% and 56.2%, respectively, of the economic interest in the operating company through their ownership of Class B units.

We adopted the PIM LLC 2006 Equity Incentive Plan, effective January 1, 2007, as amended, which permits the grant of a variety of equity awards relating to membership units of our operating company, including membership units, options to purchase membership units, and other unit-based awards, all of which are subject to vesting provisions. In order to allow for increased equity ownership in our operating company by employee members other than our CEO and two Presidents, we implemented in 2012, an equity incentive program, under the PIM LLC 2006 Equity Incentive Plan, that we intend will result in these other employee members owning up to 25% of the operating company over the next ten years. In this regard, in 2012, we granted Phantom Class B Units of our operating company to certain employees, including both of our Executive Vice Presidents, Messrs. DeSpirito and Peterson. In 2013, we made an additional grant of Phantom Class B Units to certain employees, including Mr. Peterson, who was awarded $1,000,000 of Phantom Class B Units (see "2013 Grants of Plan-Based Awards" below). These Phantom Class B Units vest ratably over a ten year period, are subject to continued employment with us, and are not entitled to receive dividends or dividend equivalents until vested into Class B Units. These unit-based awards are reflected in the “Unit Awards” column of the “Summary Compensation Table” below. See “Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Equity Incentive Plans — PIM LLC 2006 Equity Incentive Plan” for a description of the PIM LLC 2006 Equity Incentive Plan.

In connection with the commencement of his employment with us, in September 2012, we awarded 44,484 shares of restricted Class A common stock pursuant to the 2007 Equity Incentive Plan to Mr. Bachman, our Chief Financial Officer. These shares vest over a three year period, and are not entitled to receive dividends or dividend equivalents until vested. As of January 1, 2014, a total of 25,949 shares granted to Mr. Bachman have vested.

As conditions allow, we intend to continue to award equity-based awards under the PIM LLC 2006 Equity Incentive Plan and the 2007 Equity Incentive Plan as an incentive to encourage ownership.

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(v) Perquisites. We offer each of our employees, including each of the named executive officers, our investment management services, if they place their funds with us, without charging any advisory fees typically associated with these services; see "Item 13 — Certain Relationships and Related Transactions, and Director Independence — Other Related Party Transactions." This benefit is provided at no incremental cost to us.

Consideration of Prior Shareholder Advisory Vote on Executive Compensation

At our 2011 annual meeting of shareholders, our shareholders overwhelmingly approved, on an advisory basis, the compensation of our named executive officers. Our Compensation Committee was mindful of the results of the vote, but did not take any compensation actions specifically in response to the executive compensation advisory vote.

As a result of the shareholder vote, on an advisory basis, on the frequency of the advisory vote on executive compensation, we will hold another advisory vote on executive compensation at our 2014 annual meeting of shareholders.

Executive Employment Agreements

On October 30, 2007 we entered into employment agreements with each of Messrs. Pzena, Goetz and Lipsey. Pursuant to the terms of the individual employment agreements, (i) Mr. Pzena serves as our Chief Executive Officer, Co-Chief Investment Officer; (ii) Mr. Goetz serves as our President, Co-Chief Investment Officer; and (iii) Mr. Lipsey serves as our President, and Head of Marketing and Client Service. Under the terms of the employment agreements, each of Messrs. Pzena, Goetz and Lipsey served for an initial term of three years, ending October 30, 2010, subject to automatic, successive one-year extensions thereafter unless either party gives the other 60 days prior notice that the term will not be extended. Since then, these agreements have been automatically extended for four successive one-year extensions through October 30, 2014.

In order to be consistent with the philosophy and objectives of our executive compensation program, as outlined above, on November 1, 2012, we entered into amended employment agreements with each of Messrs. Pzena, Goetz and Lipsey, in order to eliminate "guaranteed payments" to these executive officers. The "guaranteed payments" consisted of a base salary at the annual rate of $300,000, as well as a performance component not to exceed $2,700,000 for any single fiscal year. Under their amended employment agreements, our CEO and two Presidents will receive an annual base salary and any annual bonus amount solely determined by our Compensation Committee and subject to the provisions of our Bonus Plan. We have not entered into any employment agreements with Messrs. Bachman, DeSpirito and Peterson.

The following is a description of certain restrictive covenants by which our executive officers, as well as other employee members, have agreed to be bound.

Non-Competition

Pursuant to the terms of the amended and restated operating agreement of Pzena Investment Management, LLC, all employees who are members of Pzena Investment Management, LLC have agreed not to compete with us during the term of their employment with us. In addition, each of Messrs. Pzena, Goetz and Lipsey have agreed not to compete with us for a period of three years following the termination of his employment. Other employee members of Pzena Investment Management, LLC, including Messrs. DeSpirito and Peterson, have agreed not to compete with us for a period of up to six months following the termination of his or her employment, if the employee member and his or her permitted transferees collectively hold at that time more than 1.0% of all the Class B units outstanding, and if he or she continues to receive compensation during this non-competition period.

Non-Solicitation

Messrs. Pzena, Goetz and Lipsey have agreed not to solicit our clients or any other employees of Pzena Investment Management, LLC during the term of their employment and for three years thereafter. Other employee members of Pzena Investment Management, LLC, including Messrs. DeSpirito and Peterson, are subject to similar non-solicitation provisions during the term of their employment and 18 months thereafter.

Forfeiture of Class B Units

Unless otherwise determined by our Board of Directors, in its sole discretion, or previously agreed to by the employee member, his or her permitted transferees and us:

- if an employee member (including our executive officers) is terminated for cause, the employee member and any of his or her permitted transferees would forfeit all of his, her or their unvested Class B units, if any, and a number of vested Class B units that is equal to 75% of the number of vested Class B units collectively held by the employee member and his or her permitted transferees, in each case as of the date of the termination of his or her employment, and

- if our CEO or two Presidents breach any of the non-competition or non-solicitation covenants described above, then he and any of his permitted transferees would forfeit all of his, her or their unvested Class B units, if any, and an aggregate number of vested Class B units that is equal to 50% of the number of vested Class B units collectively held by him and

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his or her permitted transferees, in each case as of the earlier of the date of his breach or the termination of his employment. If an employee member, including our Executive Vice Presidents, breach any of the non-competition or non-solicitation covenants, then he and any of his permitted transferees would forfeit all of his, her or their unvested Class B units, if any, and an aggregate number of vested Class B units that is equal to 25% of the number of vested Class B units collectively held by him and his or her permitted transferees, in each case as of the earlier of the date of his breach or the termination of his employment.

Executive Compensation

The following table sets forth certain summary information concerning compensation provided by Pzena Investment Management, LLC during the fiscal years ended December 31, 2013, 2012 and 2011 (or for shorter periods as the individual named below served as a named executive officer) to our Chief Executive Officer, our Chief Financial Officer, our two Presidents and our two Executive Vice Presidents, whom we refer to collectively as the named executive officers. The amounts set forth under the Stock and Unit Awards and columns are calculated in accordance with the rules of the SEC and may not reflect actual amounts received by the named executive officer.

Summary Compensation Table

Name and Principal Position	Year	Salary($)(1)	Bonus($)(2)	Stock Awards($)(3)	Unit Awards($)(4)	All Other Compensation($)(5)		Total($)
Richard S. Pzena,	2013	$ 277,500	$ 1,143,757	—	—	$ 435,004		$ 1,856,261
Chief Executive Officer,	2012	277,500	1,034,903	—	—	362,436		1,674,839
Co-Chief Investment Officer	2011	300,000	999,731	—	—	316,487		1,616,218
Gary J. Bachman,	2013	$ 300,000	$ 165,000	—	—	$ 5,129		$ 470,129
Chief Financial Officer(6)	2012	85,385	150,000	$ 233,096	—	—		468,481
John P. Goetz,	2013	$ 277,500	$ 1,170,000	—	—	$ 452,500		$ 1,900,000
President, Co-Chief	2012	277,500	1,080,000	—	—	392,500		1,750,000
Investment Officer	2011	300,000	1,050,000	—	—	350,000		1,700,000
William L. Lipsey,	2013	$ 277,500	$ 1,170,000	—	—	$ 892,500		$ 2,340,000
President, Marketing	2012	277,500	1,140,000	—	—	432,500		1,850,000
and Client Services	2011	300,000	695,250	—	—	131,750		1,127,000
Antonio DeSpirito, III,	2013	$ 277,500	$ 990,000	—	—	$ 332,500		$ 1,600,000
Executive Vice President(7)	2012	277,500	1,080,000	—	$ 3,000,000	392,500		4,750,000
	2011	300,000	1,050,000	—	—	350,000		1,700,000
Michael D. Peterson,	2013	$ 277,500	$ 930,000	—	$ 1,000,000	$ 292,500	(8)	$ 2,500,000
Executive Vice President(7)	2012	277,500	1,080,000	—	3,000,000	392,500	(8)	4,750,000
	2011	300,000	1,050,000	—	—	350,000	(8)	1,700,000

(1) Amounts represent payments of salary made to the named executive officers pursuant to their respective employment agreements, with the exceptions of Messrs. Bachman, DeSpirito, and Peterson, with whom we have not entered into employment agreements. Mr. Bachman's 2012 amount listed above represents actual amount earned based on an annual rate of $300,000.

(2) Amounts represent discretionary bonuses paid to the named executive officers as further discussed above under “Compensation Discussion and Analysis — Principal Components of Executive Compensation — Cash Bonuses.”

(3) Amounts reflected represent the aggregate grant date fair value of restricted Class A common stock, calculated in accordance with the Stock Compensation Topic of the FASB ASC. For a discussion of the assumptions utilized in calculating grant date fair value, see Note 3 to our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

(4) Amounts reflected represent the aggregate grant date fair value of Class B unit based awards of our operating company, on the date of grant, calculated in accordance with the Stock Compensation Topic of the FASB ASC. In December 2012 and 2013 we granted phantom Class B units of the operating company under the 2006 Equity

Incentive Plan to certain employee members including Messrs. DeSpirito and Mr. Peterson. Amounts reflected represent the aggregate grant date fair value of these phantom units, calculated in accordance with the Stock Compensation Topic of the FASB ASC. These units vest ratably over ten years, are subject to continued employment with us and are not entitled to receive dividends or dividend equivalents until vested. For a discussion of the assumptions utilized in calculating grant date fair value, see Note 3 to our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

(5) Includes 401(k) contributions plus deferred compensation (as further outlined in the "2013 Non-Qualified Deferred Compensation" section below) associated with the Bonus Plan. On January 1, 2007, we instituted the Bonus Plan, pursuant to which employees whose cash compensation is in excess of $600,000 per year are required to defer a portion of their compensation in excess of this amount. Deferred amounts contributed by named executive officers 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. Amounts shown represent the cash compensation deferred. Pursuant to the plan, each deferred amount vests as follows: (i) 25% on the first

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anniversary; (ii) 50% on the second anniversary; (iii) 75% on the third anniversary; and (iv) 100% on the fourth anniversary, provided that the named executive officer continues in service with us.

In 2012, as a result of compensation modifications relating to the years 2010 and 2011, the Compensation Committee approved an additional $540,000 payable to Mr. Lipsey. During 2012, Mr. Lipsey was paid $100,000 of this amount, which consisted of $60,000 in additional cash and $40,000 in the form of deferred compensation. In 2013, Mr. Lipsey was granted the remaining $440,000, which will vest over a four year period (subject to vesting provisions as described in the Bonus Plan), and is reflected for Mr. Lipsey in the 2013 "All Other Compensation" column above.

With the exception of Mr. Peterson, the amounts shown do not represent Phantom Class B units, but rather reflect deferrals in one of the other options mentioned above.

Beginning in 2012, we initiated an employer sponsored 401(k) contribution plan. Amounts contributed in 2013 and 2012 were $22,500 for Messrs. Pzena, Goetz, Lipsey, DeSpirito and Peterson. Mr. Bachman received $5,129 in 2013.

(6) Mr. Bachman became our CFO on September 18, 2012.

(7) Messrs. DeSpirito and Peterson became our Executive Vice Presidents in February 2011.

(8) Mr. Peterson elected to receive his deferred compensation for 2013, 2012 and 2011 in the form of Phantom Class B units, as described in footnote 5 above. These amounts include the value of 22,959, 68,518 and 80,831 Phantom Class B units issued on December 31, 2013, 2012 and 2011 at $11.76, $5.40 and $4.33 per unit, respectively.

2013 Grants of Plan-Based Awards

The following table sets forth information concerning stock grants and unit-based awards made in 2013 to our named executive officers.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock or Unit Awards ($)[1]
Michael D. Peterson	December 19, 2013	117,647[2]	$1,000,000

(1) Amounts reflected represent the fair value of stock grants and unit-based awards, on the date of grant, calculated in accordance with the Stock Compensation Topic of the FASB ASC. For a discussion of the assumptions utilized, see Note 3 to our consolidated financial statements beginning on page F-12 of this Annual Report.

(2) Represents Phantom Class B Units (the "Units") of the operating company awarded under the 2006 Equity Incentive Plan on December 19, 2013. These Units vest ratably over ten years, are subject to continued employment with us and are not entitled to receive dividends or dividend equivalents until vested. Although the Units were granted pursuant to the 2006 Equity Incentive Plan, we do not consider these awards to have been made pursuant to an "equity incentive plan," as such term is defined in the rules of the SEC, since vesting of the Units is not tied to our Company's or our stock's performance.

We do not include in this table Phantom Class B units issued to Mr. Peterson in connection with his 2013 mandatory deferral of a portion of his compensation, pursuant to the Bonus Plan. However, information related to the issuance of these Phantom Class B units is included under the "All Other Compensation" column of the "Summary Compensation Table" above.

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Outstanding Equity Awards at 2013 Fiscal Year-End

The following table sets forth information relating to unexercised options, and unvested stock and units, held by any named executive officer as of December 31, 2013.

		Option Awards				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable[1]	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)[2]	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)		Market Value of Shares or Units of Stock That Have Not Vested ($)[3]	
Richard S. Pzena	December 31, 2008	200,000	—	$4.22	December 31, 2018	—		—	
Gary J. Bachman	September 18, 2012	—	—	—	—	37,070	(4)	$217,972	(5)
John P. Goetz	December 31, 2008	200,000	—	4.22	December 31, 2018	—		—	
William L. Lipsey	December 31, 2008	200,000	—	4.22	December 31, 2018	—		—	
Antonio DeSpirito, III	January 1, 2007	175,000	—	13.53	January 1, 2017	—		—	
	January 1, 2008	95,000	—	11.40	January 1, 2018	—		—	
	December 21, 2009	250,000	—	8.00	December 21, 2019	—		—	
	December 31, 2010	—	—	—	—	5,953	(6)(7)	70,007	
	December 20, 2012	—	—	—	—	701,299	(8)	8,247,276	(9)
Michael D. Peterson	December 31, 2010	—	—	—	—	11,907	(6)(7)	140,003	
	December 31, 2011	—	—	—	—	40,417	(6)(10)	475,304	
	December 20, 2012	—	—	—	—	701,299	(8)	8,247,276	(9)
	December 31, 2012	—	—	—	—	51,388	(6)(11)	604,323	
	December 19, 2013	—	—	—	—	117,647	(12)	1,383,529	(9)
	December 31, 2013	—	—	—	—	22,959	(6)(13)	269,998	

(1) Except for Mr. DeSpirito's December 21, 2009 grant of 250,000 options to acquire our Class A common stock, represents options to purchase Class B units of our operating company.

(2) Except for the fair market value of Mr. DeSpirito's December 21, 2009 grant of 250,000 options to acquire our Class A common stock (which is the fair market value of a share of Class A common stock on the date of grant, as

determined by the committee administering the 2007 Equity Incentive Plan), represents the fair market value of a Class B unit on the date of grant, as determined by the committee administering the PIM LLC 2006 Equity Incentive Plan.

(3) Based on the NYSE closing price of $11.76 for our Class A common stock on December 31, 2013. The fair value of Class B units of the operating company is determined by reference to the closing price of our Class A common stock, since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

(4) Represents restricted shares of Class A common stock awarded under the 2007 Equity Incentive Plan on September 18, 2012. Of these 37,070 restricted shares, 18,535 will vest on January 1, 2014 and 18,535 will vest on January 1, 2015. The restricted shares are not entitled to receive dividends or dividend equivalents until vested. Although these shares were granted pursuant to the 2007 Equity Incentive Plan, we do not consider these awards to have been made pursuant to an “equity incentive plan,” as such term is defined in the rules of the SEC, since vesting of the shares is not tied to our Company’s or our stock’s performance.

(5) The market value of these restricted Class A common stock, which are not entitled to receive dividends or dividend equivalents until vested, does not reflect the discount that would be applied to such restricted shares as they are not entitled to receive dividends.

(6) Represents Phantom Class B units issued in connection with the named executive officer’s mandatory deferral of his restricted amount pursuant to the Bonus Plan, see “Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Bonus Plan — Mandatory Cash Deferral of Restricted Amounts” for a discussion of restricted amounts. These Phantom Class B units vest ratably over four years. Upon vesting, each Phantom Class B unit becomes a Class B unit of the operating company.

(7) Represents Phantom Class B units which will vest on December 31, 2014.

(8) Represents Phantom Class B units of our operating company awarded under the PIM LLC 2006 Equity Incentive Plan. On December 20, 2012, a total of 779,221 Phantom Class B units were granted, which vest ratably over ten years, are subject to continued employment with us, and are not entitled to receive dividends or dividend equivalents until vested. On December 20, 2013, the first installment of 77,922 Phantom Class B units vested and became Class B units of the operating company.

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(9) The market value of these Phantom Class B units, which are not entitled to receive dividends or dividend equivalents until vested, does not reflect the discount that would be applied to such phantom units, as they are not entitled to receive dividends.

(10) Represents Phantom Class B units, of which 20,207 will vest on December 31, 2014, and the remaining 20,210 will vest on December 31, 2015.

(11) Represents Phantom Class B units, of which 17,130 will vest on December 31, 2014; 17,130 will vest on December 31, 2015; and the remaining 17,128 will vest on December 31, 2016.

(12) Represents Phantom Class B units of our operating company awarded under the PIM LLC 2006 Equity Incentive Plan on December 19, 2013. These Phantom Class B units vest ratably over ten years, beginning on December 19, 2014, are subject to continued employment with us, and are not entitled to receive dividends or dividend equivalents until vested.

(13) Represents Phantom Class B units which vest ratably over four years, beginning on December 31, 2014.

2013 Option Exercises And Stock And Units Vested

The following table sets forth information relating to options exercised and stock and units vesting during 2013.

Name	Option Awards		Stock and Unit Awards	
	Number of shares acquired on exercise (#)	Value realized on exercise ($)	Number of Shares or Units Acquired on Vesting (#)	Value Realized on Vesting ($)
Gary J. Bachman	—	—	7,414 (1)	40,036 (2)
Antonio DeSpirito, III	73,708 (3)	$618,410 (4)	5,952 (5)	69,996 (6)
	—	—	77,922 (7)	826,752 (8)
Michael D. Peterson	94,113 (9)	965,599 (10)	59,241 (5)	696,674 (6)
			77,922 (7)	826,752 (8)

(1) Represents the first installment of shares vested underlying a grant of 44,484 restricted shares of Class A common stock made on September 18, 2012.

(2) Based on the closing price of our Class A common stock of $5.40 per share on December 31, 2012.

(3) Mr. DeSpirito exercised 148,301 options to purchase Class B units of the operating company, which were awarded to him on December 31, 2008, at an exercise price of $4.22. He acquired 73,708 net Class B units as a result of the redemption of 74,593 Class B units for the cashless exercise of the options.

(4) Based on the closing price of our Class A common stock of $8.39 per share on November 22, 2013, the date on which the options were exercised. The value realized on exercise for Class B units of the operating company is determined by reference to the closing price of our Class A common stock since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

(5) Represents Phantom Class B units which vested on December 31, 2013 and became Class B units of our operating company. The Phantom Class B units were issued in connection with the named executive officer's mandatory deferral of his restricted amount, pursuant to the Bonus Plan.

(6) Based on the closing price of our Class A common stock of $11.76 per share on December 31, 2013. The value realized on vesting for Class B units of the operating company is determined by reference to the closing price of our Class A common stock since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

(7) Represents the first installment of Phantom Class B units which vested on December 20, 2013, underlying a grant of 779,221 Phantom Class B units of our operating company awarded under the PIM LLC 2006 Equity Incentive Plan on December 20, 2012, and which have become Class B units of the operating company.

(8) Based on the closing price of our Class A common stock of $10.61 per share on December 20, 2013. The value realized on vesting for Class B units of the operating company is determined by reference to the closing price of our Class A common stock since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

(9) Mr. Peterson exercised 159,869 options to purchase Class B units of the operating company, which were awarded to him on December 31, 2008, at an exercise price of $4.22. He acquired 94,113 net Class B units as a result of the

redemption of 65,756 Class B units for the cashless exercise of the options.

(10) Based on the closing price of our Class A common stock of $10.26 per share on December 10, 2013, the date on which the options were exercised. The value realized on exercise for Class B units of the operating company is determined by reference to the closing price of our Class A common stock since Class B units are exchangeable for shares of our Class A common stock on a one-for-one basis.

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2013 Non-Qualified Deferred Compensation

The following table sets forth information relating to non tax-qualified deferral of compensation by the named executive officers for the year ended December 31, 2013.

Name	Executive Contributions for Year Ended December 31, 2013 ($)(1)(2)	Aggregate Earnings for Year Ended December 31, 2013 ($)(3)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Year Ended December 31, 2013 ($)(4)
Richard S. Pzena	$412,505	$231,988	$485,381	$1,056,581
John P. Goetz	430,000	119,696	444,874	1,026,471
William L. Lipsey	870,000	237,380	496,539	1,327,396
Antonio DeSpirito, III.	310,000	176,682	342,586	965,291
Michael D. Peterson	270,000	1,036,381	696,674	1,489,651

(1) On January 1, 2007, we instituted the Bonus Plan, pursuant to which employees who earn in excess of $600,000 per year in cash compensation are required to defer a portion of their compensation in excess of this amount. Deferred amounts contributed by named executive officers may be credited to an investment account, take the form of phantom Class B units, or be invested in money market funds, at each named executive officer's discretion. See "Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters — Bonus Plan." The amounts in this column reflect the deferred portion of our named executive officer's compensation.

(2) All amounts reported in this column are included in the "All Other Compensation" column for 2013 of the Summary Compensation Table above.

(3) Amounts reflect earnings on the total value of non-qualified deferred compensation.

(4) Includes amounts reported in previous years, plus or less any gains or losses experienced on such previous contributions in prior years, less any withdrawals and distributions.

Pension Benefits

As of December 31, 2013, none of the named executive officers was a participant in any defined benefit pension plan, whether tax-qualified or supplemental, which was maintained by us, our operating company, or any of its affiliates.

Termination or Change of Control

Neither we nor our operating company maintain any termination or change of control programs. However, the PIM LLC 2006 Equity Incentive Plan and the 2007 Equity Incentive Plan both provide that the Compensation Committee will have the discretion to accelerate the vesting of awards granted thereunder upon the occurrence of certain events, including a change of control of us. Also, pursuant to the tax receivable agreement, as further described in "Item 13 — Certain Relationships and Related Transactions, and Director Independence — Tax Receivable Agreement," if certain change of control events were to occur, we would be obligated to make early termination payments to the parties to such tax receivable agreement (including certain named executive officers). Furthermore, the Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan provides that each plan participant's account shall be distributed in shares of our Class A common stock immediately prior to a change in control of us, as further described below.

2013 Non-Employee Director Compensation

The following table sets forth information concerning non-employee director compensation for the year ended December 31, 2013. It is our policy not to pay director compensation to directors who are also our employees. Where applicable, non-employee directors were also reimbursed for reasonable travel and related expenses.

Beginning in 2013, at the recommendation of the Compensation Committee, in addition to payment of the annual retainer of $70,000 for service on our Board of Directors, the chairman of the Audit Committee received an additional $10,000 in compensation, and each of the chairmen of the Compensation and Nominating and Corporate Governance Committees received an additional $5,000.

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Pursuant to the Pzena Investment Management, Inc. Nonemployee Director Deferred Compensation Plan, described below, each non-employee director was given the option to defer either all or a portion of his 2013 compensation in the form of deferred stock units, or "Phantom Stock." With respect to any non-deferred portion of the compensation, each non-employee director was given the option to receive either 100% in cash, 100% in shares of our Class A common stock, or 50% payable in cash and 50% in shares of our Class A common stock. In 2013, all non-employee directors elected to receive their 2013 compensation in deferred stock units.

Name	Stock Awards ($)(1)		Total ($)
Steven M. Galbraith	$75,000	(2)	$75,000
Joel M. Greenblatt	70,000	(3)	70,000
Richard P. Meyerowich	80,000	(4)	80,000
Ronald W. Tysoe	75,000	(5)	75,000

(1) These deferred stock units were valued at $5.40 each, the closing price of our Class A common stock on December 31, 2012. Each deferred stock unit is the economic equivalent of one share of our Class A common stock. The shares of Phantom Stock become payable in a single distribution in the form of shares of our Class A common stock, at such time as elected by the non-employee director when the deferral was made.

(2) On January 1, 2013, Mr. Galbraith, our non-employee director and chairman of the Compensation Committee, was awarded 13,888 deferred stock units in connection with his 2013 compensation. As of December 31, 2013, Mr. Galbraith held 52,961 deferred stock units.

(3) On January 1, 2013, Mr. Greenblatt, our non-employee director and chairman of the Nominating and Corporate Governance Committee, was awarded 12,962 deferred stock units in connection with his 2013 compensation. As of December 31, 2013, Mr. Greenblatt held 52,000 deferred stock units.

(4) On January 1, 2013, Mr. Meyerowich, our non-employee director and chairman of the Audit Committee, was awarded 14,814 deferred stock units in connection with his 2013 compensation. As of December 31, 2013, Mr. Meyerowich held 53,921 deferred stock units.

(5) On January 1, 2013, Mr. Tysoe, our non-employee director and chairman of the Nominating Committee, was awarded 13,888 deferred stock units in connection with his 2013 compensation. As a result of Mr. Tysoe's resignation on August 16, 2013, and pursuant to the terms of the Pzena Investment Management, Inc. Nonemployee Director Deferred Compensation Plan, he received the balance of 45,818 shares of deferred stock units in the form of Class A common stock, reflecting all compensation deferred for the years 2009-2013.

Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan

On July 21, 2009, we adopted the Pzena Investment Management, Inc. Nonemployee Director Deferred Compensation Plan, or the Director Plan. The Director Plan is an "unfunded" deferred compensation arrangement designed to attract and retain individuals to serve as our non-employee directors by allowing such individuals to defer payment of all, or a portion, of their director fees into deferred stock units, or Phantom Stock, the value of which is based on the value of our shares of Class A common stock.

Administration. The Director Plan is administered by the Administrator, as defined in the Director Plan. The Compensation Committee of the Board serves as the Administrator. The Administrator may delegate such duties as it determines, in its discretion, to be necessary or desirable for the administration of the Director Plan.

Participation. Any nonemployee director may elect to have all or part of the compensation otherwise payable to the director deferred and paid at the time, and in the manner, prescribed in the Director Plan. A nonemployee director wishing to participate in the Director Plan shall make deferrals of compensation no later than December 31 of the Director Plan year immediately preceding the Director Plan year in respect of which such compensation may be earned. Deferrals may be denominated in an aggregate dollar amount, or as a percentage of compensation, and shall be allocated to an account. We shall establish a separate account on our books in the name of each participant. Notwithstanding the foregoing, the Administrator may allow a nonemployee director whose service on the Board begins during any Director Plan year to make a deferral election prior to, or within, 30 days after the commencement of such nonemployee director's service on the Board with respect to compensation to be earned following the date on which such election is made. Elections to defer compensation under the Director Plan shall be made on a year-to-year basis.

Distributions under the Director Plan shall be made in a single distribution of shares of our Class A common stock at such time as elected by the participant when the deferral was made. At the time the deferral election is made, a nonemployee director may elect to receive such participant's account upon the earlier to occur of: (i) the date of the participant's death; (ii) the date the participant becomes disabled (as defined in Section 409A(a)(2)(C) of the Internal Revenue Code); (iii) the date of the participant's separation from service with us for any reason other than death; and (iv) a date specified by the participant, provided that the date is not less than five years following the end of the calendar year to which the deferral relates.

Notwithstanding any other provision of the Director Plan to the contrary, in the event of a separation from service during any Director Plan year, no compensation as yet unpaid with respect to such Director Plan year (or any future Director Plan year) may be deferred under the Director Plan.

Method of Deferral of Compensation. Compensation deferred under the Director Plan shall be deferred in the form of units equal to the number of shares of our Class A common stock hypothetically purchased with deferred compensation.

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Compensation deferred under the Director Plan for any Director Plan year shall be recorded on the first day of the Director Plan year, subject to forfeiture as set forth in the Director Plan. The number of units to be recorded with respect to each amount of deferred compensation allocated to the account shall be equal to: (i) in the case of compensation that otherwise would have been paid in cash, the quotient obtained by dividing the amount of deferred cash by the fair market value of one share of our Class A common stock on the first day of the Director Plan year with respect to which the deferred compensation relates, and (ii) in the case of compensation that otherwise would have been paid in shares of stock, the number of shares of our Class A common stock that would have been issued to the participant during such Director Plan year absent deferral under the Director Plan. The Administrator's determination of the value of a unit shall be binding on us and our successors, the participants and their beneficiaries.

In the event of a separation from service, any amount deferred under the Director Plan with respect to the calendar quarter in which occurs the effective date of such separation from service, and with respect to the remainder of the applicable Director Plan year (including any dividend equivalents credited thereto), shall be immediately cancelled and forfeited. On the last day of each calendar quarter, amounts deferred under the Director Plan on the first day of the applicable Director Plan year shall become nonforfeitable and shall be distributed in accordance with the terms of the Director Plan.

Additional units shall be credited to a participant's account as of each date on which cash dividends and/or special dividends and distributions are paid with respect to our Class A common stock (a "Dividend Date"), provided that at least one unit is credited to such participant's account as of the record date for such dividend or distribution. The number of units to be credited to a participant's account under the Director Plan as of any dividend date shall equal the quotient obtained by dividing: (i) the product of (a) the number of the units credited to such account on the record date for such dividend or distribution, and (b) the per share dividend (or distribution value) payable on such dividend date by (ii) the fair market value of a share of our Class A common stock as of such dividend date.

Once an election to defer compensation has become irrevocable, a participant may, with the prior consent of the Administrator, modify the time and form of payment of an amount previously deferred under the Director Plan, subject to the certain conditions set forth in the Director Plan.

Distribution of Deferred Compensation. We shall pay to the participant (or the participant's beneficiary or estate, as applicable) the non-forfeitable balance credited to such participant's account in a single distribution of shares on the first date of the calendar month following the date or event specified for such distribution by the participant. Distributions shall be made in the form of shares of our Class A common stock.

Notwithstanding any other provision of the Director Plan to the contrary, the Administrator in its sole discretion may at any time authorize the distribution of shares of our Class A common stock of part or all of the participant's account to such participant prior to the time such amount would otherwise be payable pursuant to the provisions of the Director Plan, in any case where the Administrator determines that the participant has proved an unforeseeable emergency, as defined under Section 409A(a)(2)(B)(ii) of the Internal Revenue Code.

Notwithstanding anything in the Director Plan to the contrary, each participant's account shall be distributed in shares of our Class A common stock, immediately prior to a change in control, subject to the actual occurrence of the change in control, provided that the event constituting such change in control constitutes a change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation, in either case, within the meaning of Section 409A of the Internal Revenue Code.

Notwithstanding anything in the Director Plan to the contrary, to the extent necessary to avoid the application of an accelerated or additional tax under Section 409A of the Internal Revenue Code, amounts that would otherwise be payable pursuant to the Director Plan during the six-month period immediately following the participant's separation from service shall instead be paid on the first business day after the date that is six months following the participant's separation from service (or upon the participant's death, if earlier).

We intend the following with respect to this Director Plan: (i) that participants will not recognize gross income as a result of participation in the Director Plan unless and until and then only to the extent that distributions are received; (ii) that the Director Plan shall be an "unfunded" plan for purposes of the Employee Retirement Income Security Act of 1974, as amended; and (iii) the design and administration of the Director Plan should comply with the requirements of Section 409A of the Internal Revenue Code. Notwithstanding the foregoing, no nonemployee director, participant, former participant, beneficiary or any other person shall have any recourse against us, the Administrator or any of their affiliates, employees, agents, successors, assigns or other representatives if any of those conditions are determined not to be satisfied.

The number of units allocated to accounts shall be adjusted by the Administrator, as it deems appropriate, in the event that the Administrator shall determine that any dividend or other distribution (whether in the form of cash, stock, or other property), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share

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exchange, or other similar corporate transaction or event, affects the units such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of participants under the Director Plan.

The right of any participant to receive future distributions under the Director Plan shall be an unsecured claim against our general assets.

Termination and Amendment Of The Director Plan. The Director Plan shall remain in effect until such time as it is terminated by us in accordance with the terms of the Director Plan and applicable law. No participant nor the Administrator shall have the power to terminate the Director Plan except as provided in Section 409A of the Internal Revenue Code. Upon termination of the Director Plan, all accounts shall be paid in shares of our Class A common stock to each participant or, if applicable, such participant's beneficiary or estate. We shall use its commercially reasonable best efforts to comply with the provisions of Section 409A of the Internal Revenue Code with respect to termination of the Director Plan in order to ensure that amounts payable in connection with termination of the Director Plan shall not be subject to tax under Section 409A of the Internal Revenue Code. The Director Plan may be amended from time to time by the Administrator, provided that no amendment of the Director Plan shall have a material adverse effect on any participant's account under the Director Plan without the prior written consent of such participant.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Beneficial Ownership

The following table sets forth information regarding the beneficial ownership of our Class A common stock and Class B common stock by the following persons as of March 3, 2014 (except as otherwise noted):

- each of our named executive officers;
- each of our directors;
- all of our directors and executive officers as a group; and
- each person or group of affiliated persons known to us to beneficially own more than 5% of our Class A common stock or Class B common stock.

Beneficial ownership and percentage ownership are determined in accordance with the rules of the SEC. This information does not necessarily indicate beneficial ownership for any other purpose. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock underlying options and warrants held by that person that are exercisable within 60 days of March 3, 2014 are considered to be outstanding. However, the numbers in the percent of combined voting power column do not give effect to any options or warrants held by the persons listed in the table. To our knowledge, except as indicated in the footnotes to this table and subject to community property laws, where applicable, the persons named in the table have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

The address for those individuals for which an address is not otherwise indicated is: c/o Pzena Investment Management, Inc., 120 West 45th Street, New York, New York 10036.

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Name of Beneficial Owner	Class A Shares Beneficially Owned[1] Number of Shares		Percent[2]	Class B Shares Beneficially Owned[1] Number of Shares		Percent[3]	Percent of Combined Voting Power[1]	
Richard S. Pzena	4,206	(4)	*	24,328,620	(5)(6)	45.7	43.5	
Gary J. Bachman	25,949		*	—		—	*	
John P. Goetz	—		—	5,801,755	(5)(6)	10.9	10.1	
William L. Lipsey	—		—	5,312,910	(5)(6)	10.0	9.2	
Antonio DeSpirito, III	850,737	(7)	6.8	1,014,621	(6)	1.9	1.6	
Michael D. Peterson	120,000		*	2,336,392	(5)	4.4	4.3	
Steven M. Galbraith	78,015	(8)	*	—		—	*	
Joel M. Greenblatt	76,054	(9)	*	247,708	(10)	*	*	
Richard P. Meyerowich	78,081	(11)	*	—		—	*	
Charles D. Johnston	1,070	(12)	*	—		—	*	
All executive officers and directors as a group (10 persons)	1,234,112	(13)	9.8	39,042,006	(14)	72.5	69.2	(15)
A. Rama Krishna[16] 18 Sidney Lanier Lane Greenwich, CT 06831	—		—	4,556,539	(5)	8.6	8.2	
Cacti Asset Management, LLC[17] 6355 Peachtree Road, Suite 101 Atlanta, GA 30319	747,750		6.1	—		—	*	
Punch & Associates Investment Management, Inc.[19] 3601 West 76th Street, Suite 225 Edina, Minnesota 55435	1,399,484		11.5	—		—	*	

*Less than 1%

(1) Each share of our Class A common stock is entitled to one vote per share and each share of our Class B common stock is entitled to five votes per share, for so long as the number of shares of our Class B common stock outstanding constitutes at least 20% of the total number of shares of our common stock outstanding.

(2) Based on 12,176,592 shares of Class A common stock outstanding as of March 3, 2014.

(3) Based on 52,980,621 shares of Class B common stock outstanding as of March 3, 2014.

(4) Includes 4,100 shares of our Class A common stock held by Mr. Pzena's spouse. Mr. Pzena disclaims beneficial ownership of such interests.

(5) Includes the number of shares of our Class B common stock listed below that, with the exception of those held by Mr. Krishna, are directly held by certain trusts established for estate planning purposes by the named executive officers below, as well as Class B common stock held by Mr. Pzena's spouse. In the case of certain trusts established by Mr. Pzena, Mr. Pzena may be deemed to beneficially own the shares directly held by these trusts because he may be considered to share dispositive power over securities held by these trusts, along with their respective trustees, pursuant to the terms of the applicable trust agreements. With the exception of the trust for which Mr. Peterson is a trustee and which owns 210,000 shares of Class B common stock, each of the named executive officers listed below disclaims beneficial ownership of the number of shares of Class B common stock and the corresponding Class B Units (including the shares of Class A common stock underlying these Class B Units) held by the applicable trusts, and in the case of Mr. Pzena, additionally those held by his spouse.

Named Executive Officer	Number of Shares of Class B Common Stock Held by Trust(s)	Number of Shares of Class B Common Stock Otherwise Held Indirectly
Richard S. Pzena	6,258,600	21,258 (held by spouse)
John P. Goetz	708,970	
William L. Lipsey	1,271,420	

Michael D. Peterson	420,000
A. Rama Krishna	625,500

(6) Includes options to purchase the number of Class B units set forth below opposite the named executive officer:

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Named Executive Officer	Options to Acquire Class B Units
Richard S. Pzena	200,000
John P. Goetz	200,000
William L. Lipsey	200,000
Antonio DeSpirito, III	270,000

(7) Includes options to purchase 250,000 shares of Class A common stock which are currently exercisable.
(8) Includes 54,555 shares of Phantom Stock (inclusive of additional Phantom Stock issued in connection with dividend payments made thereon), each share of which is the economic equivalent of one share of our Class A common stock. The shares of Phantom Stock become payable in a single distribution of an equal number of shares of Class A common stock at such time as elected by each non-employee director at the time such deferral was elected pursuant to Section 3.4 of the Director Plan.
(9) Includes 53,594 shares of Phantom Stock (inclusive of additional Phantom Stock issued in connection with dividend payments made thereon), each share of which is the economic equivalent of one share of our Class A common stock. The shares of Phantom Stock become payable in a single distribution of an equal number of shares of Class A common stock at such time as elected by each non-employee director at the time such deferral was elected pursuant to Section 3.4 of the Director Plan.
(10) Includes 82,200 shares of Class B common stock held directly by family members of Mr. Greenblatt. Mr. Greenblatt disclaims beneficial ownership of all shares of Class B common stock directly held by his family members.
(11) Includes 55,621 shares of Phantom Stock (inclusive of additional Phantom Stock issued in connection with dividend payments made thereon), each share of which is the economic equivalent of one share of our Class A common stock. The shares of Phantom Stock become payable in a single distribution of an equal number of shares of Class A common stock at such time as elected by each non-employee director at the time such deferral was elected pursuant to Section 3.4 of the Director Plan.
(12) Consists of shares of Phantom Stock, each share of which is the economic equivalent of one share of our Class A common stock. The shares of Phantom Stock become payable in a single distribution of an equal number of shares of Class A common stock at such time as elected by each non-employee director at the time such deferral was elected pursuant to Section 3.4 of the Director Plan.
(13) Includes an aggregate of 164,840 shares of Phantom Stock, the terms of which are described in footnotes 8, 9, 11 and 12 above. Also includes 250,000 shares of Class A common stock underlying options which are currently exercisable.
(14) Includes options to purchase an aggregate of 870,000 membership units in our operating company that are currently exercisable and which, upon exercise, will entitled the holders to purchase the same number of shares of our Class B common stock. As indicated in the foregoing footnotes, also includes shares of Class B common stock held by estate planning vehicles and family members of the executive officers and directors as to which certain beneficial ownership is disclaimed.
(15) Excludes an aggregate of 164,840 shares of Phantom Stock, the terms of which are described in footnotes 8, 9, 11 and 12 above.
(16) The number of Class A common stock owned is based on information provided by our transfer agent, American Stock Transfer & Trust Company, and is as of March 3, 2014.
(17) The number of shares owned is based on information included in the Form 13G/A.6 filed by Cacti Asset Management, LLC ("Cacti"), and its related persons and entities, with the SEC on January 2, 2014. According to the Form 13G/A, Cacti has sole dispositive power over 747,750 shares of our Class A common stock, shared dispositive power over zero shares of our Class A common stock, sole voting power of over 747,750 shares of our Class A common stock and shared voting power over zero shares of our Class A common stock.
(18) The number of shares owned is based on information included in the Form 13G filed by Penn Capital Management ("Penn"), with the SEC on February 15, 2013. According to the Form 13G, Penn has sole dispositive power over 561,219 shares of our Class A common stock, shared dispositive power over zero shares of our Class A common stock, sole voting power of over 561,219 shares of our Class A common stock and shared voting power over zero shares of our Class A common stock.

(19) The number of shares owned is based on information included in the Form 13G/A.3 filed by Punch & Associates Investment Management, Inc. ("Punch & Associates"), with the SEC on February 14, 2014. According to the Form 13G, Punch & Associates has sole dispositive power over 1,399,484 shares of our Class A common stock, shared dispositive power over zero shares of our Class A common stock, sole voting power of over 1,399,484 shares of our Class A common stock and shared voting power over zero shares of our Class A common stock.

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Equity Compensation Plan Information

The table below sets forth certain information as of December 31, 2013, the last day of the fiscal year, for: (i) all equity compensation plans previously approved by our stockholders; and (ii) all equity compensation plans not previously approved by our stockholders.

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a)) (c)
Equity Compensation Plans Approved By Security Holders:			
Pzena Investment Management, LLC 2006 Equity Incentive Plan [1]	2,832,134	$7.26	9,776,001