

SALESFORCE COM INC
Form DEF 14A
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

salesforce.com, inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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salesforce.com, inc.

The Landmark @ One Market

Suite 300

San Francisco, California 94105

May 7, 2014

Dear Stockholder:

You are cordially invited to attend the 2014 Annual Meeting of Stockholders (the Annual Meeting) of salesforce.com, inc. on Monday, June 2, 2014 at 2:00 p.m., local time, at 50 Fremont Street, San Francisco, California 94105.

Details regarding admission to the Annual Meeting and the business to be conducted are described in the accompanying Notice of Annual Meeting and Proxy Statement. Included with the Proxy Statement is a copy of our 2014 Annual Report.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. You may vote by mailing a completed proxy card, by telephone, or over the Internet. Your vote by proxy will ensure your representation at the Annual Meeting regardless of whether or not you attend in person.

Thank you for your ongoing support of salesforce.com. We look forward to seeing you at our Annual Meeting.

Aloha,

Marc Benioff

Chairman of the Board of Directors and

Chief Executive Officer

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salesforce.com, inc.

The Landmark @ One Market

Suite 300

San Francisco, California 94105

NOTICE OF 2014 ANNUAL MEETING OF STOCKHOLDERS

To be held Monday, June 2, 2014

TO THE STOCKHOLDERS OF SALESFORCE.COM, INC.:

NOTICE IS HEREBY GIVEN that the 2014 Annual Meeting of Stockholders (the Annual Meeting) of salesforce.com, inc., a Delaware corporation, will be held on Monday, June 2, 2014 at 2:00 p.m., local time, at 50 Fremont Street, San Francisco, California 94105, for the following purposes:

1. To elect Marc Benioff, Keith Block, Craig Conway, Alan Hassenfeld, Colin Powell, John V. Roos, Lawrence Tomlinson and Robin Washington to serve as directors until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified, subject to earlier resignation or removal;
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2015;
3. To approve, on an advisory basis, named executive officer compensation; and
4. To transact such other business as may properly come before the Annual Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. We are not aware of any other business to come before the Annual Meeting.

Only stockholders of record at the close of business on April 8, 2014 and their proxies are entitled to attend and vote at the Annual Meeting and any and all adjournments, continuations or postponements thereof.

All stockholders are invited to attend the Annual Meeting in person. Any stockholder attending the Annual Meeting may vote in person even if such stockholder returned a proxy. You will need to bring the enclosed Admission Ticket or proof of ownership of salesforce.com stock as of the record date to enter the Annual Meeting.

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This Notice, the Proxy Statement and the 2014 Annual Report are first being mailed to stockholders on or about May 7, 2014.

By Order of the Board of Directors

Burke F. Norton

Chief Legal Officer and Secretary

San Francisco, California

May 7, 2014

ALL STOCKHOLDERS ARE INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THE PURPOSE OF RETURNING YOUR PROXY CARD. YOU MAY ALSO VOTE BY TELEPHONE OR OVER THE INTERNET. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE ANNUAL MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE ANNUAL MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

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SALESFORCE.COM, INC.

PROXY STATEMENT

FOR

2014 ANNUAL MEETING OF STOCKHOLDERS

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ABOUT THE ANNUAL MEETING

Who is soliciting my vote?

The Board of Directors of salesforce.com, inc. (the Board) is soliciting your vote at the 2014 Annual Meeting of Stockholders (the Annual Meeting) of salesforce.com, inc.

When and where will the Annual Meeting take place?

The Annual Meeting will take place on Monday, June 2, 2014 at 2:00 p.m., local time, at 50 Fremont Street, San Francisco, California 94105.

What will I be voting on?

You will be voting on:

1. the election of Marc Benioff, Keith Block, Craig Conway, Alan Hassenfeld, Colin Powell, John V. Roos, Lawrence Tomlinson and Robin Washington to serve as directors until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified, subject to earlier resignation or removal;
 2. the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2015;
 3. an advisory vote to approve named executive officer compensation; and
 4. any such other business as may properly come before the Annual Meeting.
- An agenda and rules of procedure will be distributed at the Annual Meeting.

What are the Board's voting recommendations?

The Board recommends that you vote your shares:

FOR each of Marc Benioff, Keith Block, Craig Conway, Alan Hassenfeld, Colin Powell, John V. Roos, Lawrence Tomlinson and Robin Washington;

FOR ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2015; and

FOR the proposal regarding an advisory vote to approve named executive officer compensation.

How many votes do I have?

You will have one vote for every share of salesforce.com common stock you owned as of April 8, 2014, our record date.

How do I vote?

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You can vote either in person at the Annual Meeting or by proxy whether or not you attend the Annual Meeting.

To vote by proxy, you must either:

fill out the enclosed proxy card, date and sign it, and return it in the enclosed postage-prepaid envelope;

vote by telephone (instructions are on the proxy card); or

vote over the Internet (instructions are on the proxy card).

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If you want to vote in person at the Annual Meeting, and you hold your salesforce.com stock through a brokerage firm, bank, broker-dealer, trust or other similar organization (that is, in street name), you must obtain a proxy from your broker and bring that proxy to the Annual Meeting.

Do I need a ticket to attend the Annual Meeting?

Yes, a stockholder must bring the enclosed Admission Ticket or other proof of ownership of salesforce.com stock as of the record date, as well as photo identification for entrance to the Annual Meeting.

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salesforce.com, inc.

The Landmark @ One Market

Suite 300

San Francisco, California 94105

PROXY STATEMENT FOR 2014 ANNUAL MEETING OF STOCKHOLDERS

PROCEDURAL MATTERS

General

The Board of Directors of salesforce.com, inc., a Delaware corporation (salesforce.com, the Company, we, us, or our), is soliciting your vote with this Proxy Statement and the enclosed proxy card for use at our 2014 Annual Meeting of Stockholders (the Annual Meeting), to be held on Monday, June 2, 2014 at 2:00 p.m., local time, and for any adjournment or postponement of the Annual Meeting. Our Annual Meeting will be held at 50 Fremont Street, San Francisco, California 94105. You will need to bring the enclosed Admission Ticket or other proof of ownership of salesforce.com stock as of the record date, as well as photo identification, to enter the Annual Meeting. Our Annual Report for the fiscal year ended January 31, 2014, or fiscal 2014, including our financial statements for fiscal 2014, is also enclosed. These proxy materials are first being mailed to stockholders on or about May 7, 2014.

Stockholders Entitled to Vote; Record Date

As of the close of business on April 8, 2014, the record date for determination of stockholders entitled to vote at the Annual Meeting, there were outstanding 613,806,986 shares of common stock of the Company, all of which are entitled to vote with respect to all matters to be acted upon at the Annual Meeting. Each stockholder of record is entitled to one vote for each share of common stock held by such stockholder.

All valid proxies received before the Annual Meeting will be voted according to the instructions thereon. Stockholders entitled to vote at the Annual Meeting may vote by completing, signing and dating the enclosed proxy card and returning it in the enclosed postage-prepaid envelope, or vote by telephone or over the Internet by following the instructions on the enclosed proxy card.

Quorum; Abstentions; Broker Non-Votes

The Company's Bylaws provide that a majority of all shares entitled to vote, whether present in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting.

Shares that are voted abstain and broker non-votes (as defined below) are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the Annual Meeting.

In the election of directors, any vote you make that is an abstain for any nominee will not impact the election of that nominee. In tabulating the voting results for the election of directors, only for and against votes are counted.

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For the other proposals, an abstain vote is the same as voting against the proposal.

If you hold your common stock through a broker, the broker may be prevented from voting shares held in your brokerage account (a broker non-vote) unless you have given the broker voting instructions. Thus, if you hold your common stock through a broker, it is critical that you cast your vote if you want it to count. If you hold your common stock through a broker and you do not instruct your broker how to vote on Proposals 1 and 3, it will be considered a broker non-vote and no votes will be cast on your behalf with respect to such Proposal(s).

Your broker will have discretion to vote any uninstructed shares on Proposal 2, the ratification of the appointment of the Company's independent registered public accounting firm.

Voting; Revocability of Proxies

Voting by attending the meeting. Stockholders whose shares are registered in their own names may vote their shares in person at the Annual Meeting. Stockholders whose shares are held beneficially through a brokerage firm, bank, broker-dealer, trust or other similar organization (that is, in street name) may be voted in person at the Annual Meeting only if such stockholders obtain a legal proxy from the broker, bank, trustee or nominee that holds their shares giving the stockholders the right to vote the shares. Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the Annual Meeting. If a stockholder attends the Annual Meeting and validly submits his or her vote in person, any previous votes that were submitted by the stockholder will be superseded by the vote that such stockholder validly casts at the Annual Meeting. Your attendance at the Annual Meeting in and of itself will not revoke any prior votes you may have cast. For directions to attend the Annual Meeting, please contact Investor Relations by telephone at (415) 536-6250.

Voting of proxies; Discretionary Voting. Stockholders may vote (1) by returning a proxy card, (2) by telephone or (3) over the Internet. If you wish to vote by mail, please complete, sign and return the proxy card in the self-addressed, postage-prepaid envelope provided. All shares entitled to vote and represented by properly executed proxy cards received prior to the Annual Meeting, and not revoked, will be voted at the Annual Meeting in accordance with the instructions indicated on those proxy cards. If you wish to vote by telephone or over the Internet, please follow the specific instructions set forth on the enclosed proxy card. The telephone and Internet voting procedures are designed to authenticate the stockholder's identity and to allow stockholders to vote their shares and confirm that their voting instructions have been properly recorded. If you vote by telephone or over the Internet, you do not need to complete and mail your proxy card. If you do not provide specific voting instructions on a properly executed proxy card or when voting over the phone or Internet, your shares will be voted as recommended by the Board of Directors.

If any other matters are properly presented for consideration at the Annual Meeting, including, among other things, consideration of a motion to adjourn the Annual Meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the enclosed proxy card and acting thereunder will have discretion to vote on those matters in accordance with their best judgment. The Company does not currently anticipate that any other matters will be raised at the Annual Meeting.

Effect of not casting your vote. If you hold your shares in street name it is critical that you cast your vote if you want it to count in the election of directors and the advisory vote to approve named executive officer compensation (Proposals 1 and 3 of this Proxy Statement). Your bank or broker will have discretion to vote any uninstructed shares on the ratification of the appointment of the Company's independent registered public accounting firm (Proposal 2 of this Proxy Statement).

If you are a stockholder of record, it is also critical that you cast your vote. If you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Annual Meeting.

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Revocability of proxy. You may revoke your proxy by (1) filing with the Secretary of the Company, at or before the taking of the vote at the Annual Meeting, a written notice of revocation or a duly executed proxy card, in either case dated later than the prior proxy card relating to the same shares, (2) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself revoke a proxy), or (3) entering a new vote by telephone or over the Internet. Any written notice of revocation or subsequent proxy card must be received by the Secretary of the Company prior to the taking of the vote at the Annual Meeting. Such written notice of revocation or subsequent proxy card should be hand delivered to the Secretary of the Company or should be sent to the Company's principal executive offices, salesforce.com, inc., The Landmark @ One Market, Suite 300, San Francisco, California 94105, Attention: Corporate Secretary.

If a broker, bank or other nominee holds your shares, you must contact them in order to find out how to change your vote.

Expenses of Solicitation

The Company will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement, the proxy card and any additional solicitation materials furnished to stockholders. In addition, the Company may arrange with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the stock held of record by such persons, and the Company will reimburse them for their reasonable out-of-pocket expenses. The Company may use the services of the Company's directors, officers, employees and others to solicit proxies, personally or by telephone, without additional compensation. The Company has retained Morrow & Co., LLC, 470 West Ave., Stamford, Connecticut, 06902, a proxy solicitation firm, for assistance in connection with the Annual Meeting at a cost of approximately \$12,500, plus reasonable out-of-pocket expenses.

Procedure for Submitting Stockholder Proposals

All proposals of stockholders intended to be presented at the next annual meeting of stockholders of the Company, regardless of whether such proposals are intended to be included in the Company's proxy statement for the next annual meeting of the stockholders of the Company, must satisfy the requirements set forth in the advance notice of stockholder business provision under the Company's Bylaws. As summarized below, such provision states that in order for stockholder business to be properly brought before a meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Company at salesforce.com, inc., The Landmark @ One Market, Suite 300, San Francisco, California 94105, Attention: Corporate Secretary (our principal executive offices).

To be timely, a stockholder proposal must be received at the Company's principal executive offices no later than the 45th day and no earlier than the 75th day before the one-year anniversary of the date the Company's proxy statement was released to stockholders in connection with the previous year's annual meeting. If the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of the previous year's annual meeting, then notice must be received no earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting, or the tenth day following the day on which public announcement of the date of such annual meeting is first made. Stockholder proposals to be presented at the next annual meeting of stockholders must be received by the Secretary of the Company at the Company's principal executive offices no earlier than February 21, 2015 and no later than March 23, 2015.

To be in proper written form, a stockholder's notice to the Secretary of the Company shall set forth as to each matter of business the stockholder intends to bring before the annual meeting (i) a brief description of the business intended to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address of the stockholder(s) proposing such business, (iii) the class and number of shares of the Company which are held of record or are beneficially owned by the stockholder(s),

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(iv) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder(s) with respect to any securities or the Company, and a description of any other similar agreement, arrangement or understanding, (v) any material interest of the stockholder(s) in such business and (vi) a statement whether such stockholder(s) will deliver a proxy statement and form of proxy to the Company's stockholders. In addition, to be in proper written form, a stockholder's notice to the Secretary of the Company must be supplemented not later than ten days following the record date to disclose the information contained in clauses (iii) and (iv) in this paragraph as of the record date.

In addition, any stockholder proposal intended to be included in the Company's proxy statement for the next annual meeting of stockholders of the Company must also satisfy Securities and Exchange Commission, or SEC, regulations under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and be received not later than January 7, 2015. In the event the date of the annual meeting is moved by more than 30 days from the date contemplated at the time of the previous year's proxy statement, then notice must be received within a reasonable time before the Company begins to print and send its proxy materials. Upon such an occurrence, the Company will publicly announce the deadline for submitting a proposal by means of disclosure in a press release or in a document filed with the SEC.

The requirements for providing advance notice of stockholder business as summarized above are qualified in their entirety by our Bylaws, which we recommend that you read in order to comply with the requirements for bringing a proposal. You may contact the Company's Secretary at our principal executive offices for a copy of our current Bylaws, including the relevant provisions regarding the requirements for making stockholder proposals and nominating director candidates, or you may refer to the copy of our Bylaws filed with the SEC on June 11, 2013 as Exhibit 3.2 to a Current Report on Form 8-K, available at www.sec.gov.

Delivery of Proxy Materials

To receive current and future proxy materials in either paper or electronic form, please contact Investor Relations at (415) 536-6250 or investor@salesforce.com.

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders, unless the Company has received contrary instructions from one or more of the stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. The Company and some brokers household proxy materials, delivering a single set of materials per household, even if more than one stockholder resides in that household. If your proxy statement is being householded and you would like to receive separate copies, or if you are receiving multiple copies and would like to receive a single copy, please contact Investor Relations at (415) 536-6250 or investor@salesforce.com, or write to salesforce.com, inc., The Landmark @ One Market, Suite 300, San Francisco, California 94105, Attention: Investor Relations.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 2, 2014

The Notice and Proxy Statement and Annual Report are available at www.edocumentview.com/CRM.

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Our Board of Directors is composed of eleven directors who, subject to the phase-out of the classified board structure, serve until the next Annual Meeting and until their successors are elected and qualified, subject to earlier resignation or removal.

On June 6, 2013, the stockholders of the Company approved an amendment and restatement of the Company's Certificate of Incorporation to eliminate the classified structure of the Company's Board of Directors. In eliminating the classified board structure, no director's existing term was shortened and directors become subject to annual election once their classified terms expire. The phase-out of the classified board structure will be completed at the 2015 Annual Meeting of Stockholders.

Please see Proposal 1 in this Proxy Statement for more information about the election of our directors.

The names and certain information about members of our Board of Directors as of March 27, 2014 are set forth below. There are no family relationships among any of our directors or executive officers.

Name	Positions and Offices Held with the Company	Class and Year in Which Term		Age
		Director Since	Will Expire	
Marc Benioff	Chairman of the Board and Chief Executive Officer	1999		49
Keith Block	President, Vice Chairman and Director	2013		53
Craig Conway	Director	2005		59
Alan Hassenfeld	Director	2003		65
Colin Powell	Director	2014		76
Craig Ramsey	Director	2003	Class II, 2015	67
Sanford R. Robertson	Director	2003	Class II, 2015	82
John V. Roos	Director	2013		59
Lawrence Tomlinson	Director	2003		73
Robin Washington	Director	2013		51
Maynard Webb	Director	2006	Class II, 2015	58

Marc Benioff co-founded salesforce.com in February 1999 and has served as Chairman of the Board of Directors since inception. He has served as Chief Executive Officer since November 2001. From 1986 to 1999, Mr. Benioff was employed at Oracle Corporation, where he held a number of positions in sales, marketing and product development, lastly as a Senior Vice President. Mr. Benioff also serves as Chairman of the Board of Directors of The Salesforce.com Foundation and serves as a member of the Board of Directors of Cisco Systems, Inc. Mr. Benioff received a B.S. in Business Administration from the University of Southern California, where he is also on the Board of Trustees.

Mr. Benioff's status as one of our founders, as well as his tenure as our Chief Executive Officer and Chairman of the Board of Directors, brings unique and invaluable experience to the Board of Directors. Further, his experience in sales, marketing and product development at other technology companies supports our conclusion that Mr. Benioff has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Keith Block has served as President, Vice Chairman and as a Director since June 2013. Prior to joining the Company, Mr. Block was employed at Oracle Corporation from 1986 to June 2012 where he held a number of positions, most recently as Executive Vice President, North America. Mr. Block serves on the Board of Trustees at the Concord Museum, the Board of Advisors at Carnegie-Mellon University Heinz Graduate School and the President's Advisory Council for Carnegie-Mellon University. Mr. Block received both a B.S. in Information Systems and a M.S. in Management & Policy Analysis from Carnegie-Mellon University.

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Mr. Block's extensive background in the technology sector and in business management, including his experience as an executive officer of a technology company, supports our conclusion that Mr. Block has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Craig Conway has served as a Director since October 2005. From April 1999 to October 2004, Mr. Conway served as President and Chief Executive Officer of PeopleSoft, Inc., an enterprise application software company. Mr. Conway also served as President and Chief Executive Officer of One Touch Systems from November 1996 to February 1999 and TGV Software from September 1993 to March 1996. Prior to that, Mr. Conway held executive management positions at a variety of leading technology companies including Executive Vice President at Oracle Corporation. Mr. Conway currently serves as a director and chairman of Guidewire Software, Inc., a publicly traded company. During the past five years, Mr. Conway also served as a director of Advanced Micro Devices, Inc., eMeter Corporation, Pegasystems Inc., Unisys Corporation and Kazeon Systems. Mr. Conway received a B.S. in computer science and mathematics from the State University of New York at Brockport.

Mr. Conway's extensive and broad background in business management, including his experience as president and chief executive officer of three technology companies, as well as his service on the boards of other publicly-held companies, supports our conclusion that Mr. Conway has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Alan Hassenfeld has served as a Director since December 2003. Mr. Hassenfeld has been a Director of Hasbro, Inc., a provider of children's and family entertainment products, since 1989. He served as its Chairman from 1989 to February 2008, and also served as its Chairman and Chief Executive Officer from 1989 to May 2003. Mr. Hassenfeld is a trustee of the Hasbro Charitable Trust and Hasbro Children's Foundation. Mr. Hassenfeld also serves as a director of Global Cornerstone Holdings Limited, a publicly traded company. He also serves as a director of The Salesforce.com Foundation and other not-for-profit organizations. Mr. Hassenfeld received a B.A. from the University of Pennsylvania.

Mr. Hassenfeld has an extensive and broad background in business management, including his experience as a chief executive officer. This deep business knowledge, combined with the leadership roles he plays within many philanthropic organizations, supports our conclusion that Mr. Hassenfeld has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

General Colin Powell has served as a Director since March 2014. General Powell is a retired four star general and served for 35 years in the United States Army. He has served as U.S. National Security Advisor, Commander of the U.S. Army Forces Command, Chairman of the Joint Chiefs of Staff and was the 65th Secretary of State of the United States. General Powell is a member of the Board of Directors of the Council on Foreign Relations, the Chair of the Board of Visitors of the Colin Powell School for Civic and Global Leadership at the City College of New York and the Founder and Chairman Emeritus of the America's Promise Alliance. Since July 2005, General Powell has served as a strategic limited partner at Kleiner Perkins Caufield & Byers, a venture capital firm. General Powell received a B.S. from the City College of New York and M.B.A. from the George Washington University.

General Powell has an extensive background in management and leadership. This extensive experience, combined with his leadership positions in various philanthropic organizations, supports our conclusion that General Powell has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Craig Ramsey has served as a Director since April 2003. From July 2003 to September 2004, Mr. Ramsey served as Chief Executive Officer of Solidus Networks, Inc., a biometrics payments company. From March 1996 to April 2000, Mr. Ramsey served as Senior Vice President, Worldwide Sales, of Siebel Systems, Inc., a provider of eBusiness applications. From March 1994 to March 1996, Mr. Ramsey served as Senior Vice President,

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Worldwide Sales, Marketing and Support for nCube, a maker of massively parallel computers. From 1968 to 1994, Mr. Ramsey held various positions with Oracle Corporation, Amdahl and IBM. Mr. Ramsey currently serves as a member of the Board of Directors of the Glide Memorial Foundation. During the past five years, Mr. Ramsey has also served as a director of Solidus Networks Inc., M-Factor, Inc., Verticals onDemand, Guidewire Software, Inc. and Fan Appz. Mr. Ramsey received a B.A. in Economics from Denison University.

Mr. Ramsey's tenure at various technology companies has provided him with a meaningful background in management, including experience as a chief executive officer, and leadership experience in sales and marketing. This critical experience, along with his service on the boards of other publicly-held companies, supports our conclusion that Mr. Ramsey has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Sanford R. Robertson has served as a Director since October 2003. He is a principal of Francisco Partners, a technology buyout fund. Prior to founding Francisco Partners in January 2000, Mr. Robertson was the founder and chairman of Robertson, Stephens & Company, a technology investment bank. Mr. Robertson has been an active technology investor and advisor to several technology companies. Mr. Robertson was also the founder of Robertson, Colman, Siebel & Weisel, later renamed Montgomery Securities, another prominent technology investment bank. Mr. Robertson currently serves as a director of three publicly traded companies, Dolby Laboratories, Inc., Pain Therapeutics, Inc. and RPX Corporation. During the past five years, Mr. Robertson has also served as a director of the Schwab Charitable Fund. Mr. Robertson received a B.B.A. and M.B.A. from the University of Michigan.

Mr. Robertson brings valuable financial expertise to our Board of Directors. His extensive experience in investment banking, private equity and capital markets transactions, as well as his service on the boards of other publicly-held companies, supports our conclusion that Mr. Robertson has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

John V. Roos has served as a Director since September 2013. From August 2009 to August 2013, he served as the U.S. Ambassador to Japan. Ambassador Roos currently serves as CEO of The Roos Group, a strategic consulting firm facilitating relationships between U.S. and Japan businesses. Since April 2014 he also has served as Senior Advisor to Centerview Partners, an international investment banking advisory firm, and since October 2013 he has served on the global advisory board of Mitsubishi UFJ Financial Group, a Japanese banking and financial network. From 1985 to August 2009, Ambassador Roos practiced corporate and securities law at Wilson Sonsini Goodrich & Rosati, P.C., where he most recently served as Chief Executive Officer. Ambassador Roos received an A.B. in Political Science and J.D. from Stanford University.

Ambassador Roos has an extensive and broad background in management and leadership. This extensive experience supports our conclusion that Ambassador Roos has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Lawrence Tomlinson has served as a Director since May 2003. Mr. Tomlinson retired from Hewlett-Packard Co. in June 2003. Prior to retiring from Hewlett-Packard, from 1993 to June 2003 Mr. Tomlinson served as its Treasurer, from 1996 to 2002 he was also a Vice President and from 2002 to June 2003 he was also a Senior Vice President. Mr. Tomlinson currently serves as a director of Coherent, Inc., a publicly-held company. Mr. Tomlinson has also served as a director of Therma-Wave, Inc. Mr. Tomlinson received a B.S. from Rutgers University and an M.B.A. from Santa Clara University.

Mr. Tomlinson is an experienced financial leader with the skills necessary to serve as a director and to lead our Audit Committee. He has a deep understanding of accounting principles and financial reporting rules and regulations, including how internal controls are effectively managed within organizations. Additionally, our Board of Directors' determination that Mr. Tomlinson is the Audit Committee's financial expert, as well as Mr. Tomlinson's service on the boards and audit committees of other public companies, supports our conclusion that Mr. Tomlinson has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

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Robin Washington has served as a Director since September 2013. Ms. Washington has served as Executive Vice President and Chief Financial Officer of Gilead Sciences, Inc., a research-based biopharmaceutical company, since February 2014. She joined Gilead as Senior Vice President and Chief Financial Officer in May 2008. From 2006 to 2007, Ms. Washington served as Chief Financial Officer of Hyperion Solutions, an enterprise software company that was acquired by Oracle Corporation in March 2007. Prior to Hyperion, Ms. Washington served in a number of executive positions with PeopleSoft, a provider of enterprise application software, most recently as Senior Vice President and Corporate Controller. Ms. Washington currently serves as a member of the Board of Directors of Honeywell International, Inc. and the Board of Visitors of Graziadio School of Business and Management at Pepperdine University. During the past five years, Ms. Washington has also served as a director of the San Jose Children's Discovery Museum. Ms. Washington is a certified public accountant and received a B.A. in Business Administration from the University of Michigan and M.B.A. from Pepperdine University.

Ms. Washington brings extensive experience in management, operations and accounting in the technology sector to our Board of Directors. Additionally, her financial expertise in tax, financial reporting, accounting and controls, corporate finance, mergers and acquisitions and capital markets, along with her service on the boards of other public companies, supports our conclusion that Ms. Washington has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Maynard Webb has served as a Director since September 2006. From December 2006 to July 2011, Mr. Webb served as Chief Executive Officer of LiveOps, Inc., a provider of on-demand call center solutions. From June 2002 to August 2006, Mr. Webb served as Chief Operating Officer of eBay Inc., an online global marketplace. From August 1999 to June 2002, Mr. Webb served as President of eBay Technologies. Prior to that Mr. Webb served as Senior Vice President and Chief Information Officer at Gateway, Inc., a computer manufacturer, and Vice President and Chief Information Officer at Bay Networks, Inc., a manufacturer of computer networking products. Mr. Webb currently serves as a director of two publicly-held companies, Yahoo! Inc. and Visa Inc. Mr. Webb formerly served as Chairman of the Board of Directors of LiveOps, Inc., a privately-held company. During the past five years, Mr. Webb has also served as a director of Gartner, Inc., Hyperion Solutions Corporation, AdMob, Inc. and Baynote, Inc. Mr. Webb received a B.A.A. from Florida Atlantic University.

Mr. Webb brings extensive experience in management, engineering and technical operations to our Board of Directors. Additionally, his tenure in management positions at various technology companies, along with his service on the boards of other companies, supports our conclusion that Mr. Webb has the necessary and desired skills, experience and perspective to serve on our Board of Directors.

Board Independence

The Board of Directors has determined that, except for Mr. Benioff, Mr. Block, and General Powell, each of the directors of the Company has no material relationship with the Company and is independent e-space:nowrap;">

LIABILITIES AND EQUITY

Liabilities:

Accounts Payable and Accrued Expenses (\$18 and \$15)¹

\$

18,018

\$

37,266

Due to Broker (\$0 and \$4)¹

74

360

Liability to Selling and Converting Shareholders

32,389

32,389

Lease Liabilities

15,066

—

Deferred Compensation Liability

1,190

1,845

Other Liabilities

—

108

TOTAL LIABILITIES

66,737

71,968

Commitments and Contingencies (see Note 12)

Equity:

Preferred Stock (Par Value \$0.01; 200,000,000 Shares Authorized; None Outstanding)

—

—

Class A Common Stock (Par Value \$0.01; 750,000,000 Shares Authorized; 17,874,842 and 18,398,211 Shares Issued and Outstanding in 2019 and 2018, respectively)

178

183

Class B Common Stock (Par Value \$0.000001; 750,000,000 Shares Authorized; 52,126,056 and 51,253,526 Shares Issued and Outstanding in 2019 and 2018, respectively)

—

—

Additional Paid-In Capital

—

3,913

Retained Earnings

22,684

28,871

Accumulated Other Comprehensive Income

18

35

Total Pzena Investment Management, Inc.'s Equity

22,880

33,002

Non-Controlling Interests

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57,953

66,006

TOTAL EQUITY

80,833

99,008

TOTAL LIABILITIES AND EQUITY

\$

147,570

\$

170,976

1 Asset and liability amounts in parentheses represent the aggregated balances at March 31, 2019 and December 31, 2018 attributable to Pzena International Value Service (a series of Pzena Investment Management, LLC), Pzena Investment Management Special Situations, LLC, Pzena U.S. Best Ideas (GP), LLC, and Pzena Global Best Ideas (GP), LLC which were variable interest entities as of March 31, 2019 and December 31, 2018, respectively.

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per-share amounts)

	For the Three Months	
	Ended March 31,	
	2019	2018
REVENUE	\$37,410	\$39,252
EXPENSES		
Compensation and Benefits Expense	17,189	16,174
General and Administrative Expense	4,027	3,155
Total Operating Expenses	21,216	19,329
Operating Income	16,194	19,923
OTHER INCOME		
Interest Income	217	62
Dividend Income	62	36
Net Realized and Unrealized Gains/ (Losses) from Investments	837	(34)
Equity in Earnings/ (Losses) of Affiliates	758	(129)
Other (Expense)/ Income	(55)	15
Total Other Income/ (Expense)	1,819	(50)
Income Before Income Taxes	18,013	19,873
Income Tax Expense	2,071	2,207
Net Income	15,942	17,666
Less: Net Income Attributable to Non-Controlling Interests	12,840	14,143
Net Income Attributable to Pzena Investment Management, Inc.	\$3,102	\$3,523
Net Income for Basic Earnings per Share	\$3,102	\$3,523
Basic Earnings per Share	\$0.17	\$0.20
Basic Weighted Average Shares Outstanding ¹	18,278,773	18,015,368
Net Income for Diluted Earnings per Share	\$12,808	\$14,226
Diluted Earnings per Share	\$0.17	\$0.20
Diluted Weighted Average Shares Outstanding ¹	74,258,120	72,285,962
Cash Dividends per Share of Class A Common Stock	\$0.49	\$0.42

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

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	For the Three Months	
	Ended March 31,	
	2019	2018
NET INCOME	\$15,942	\$17,666
OTHER COMPREHENSIVE GAIN		
Foreign Currency Translation Adjustment	63	68
Total Other Comprehensive Gain	63	68
Comprehensive Income	16,005	17,734
Less: Comprehensive Income Attributable to Non-Controlling Interests	12,920	14,229
Total Comprehensive Income Attributable to Pzena Investment Management, Inc.	\$3,085	\$3,505

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands, except share and per-share amounts)

	Shares of Class A Common Stock	Shares of Class B Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated			Total Equity
					Other Comprehensive Income	Retained Earnings	Non-Controlling Interests	
Balance at December 31, 2018	18,398,211	51,253,526	\$ 183	\$ 3,913	\$ 35	\$ 28,871	\$ 66,006	\$ 99,008
Amortization of Non-Cash Compensation	10,000	241,996	—	414	—	—	1,140	1,554
Issuance of Shares under Equity Incentive Plan	—	715,874	—	1,065	—	—	3,022	4,087
Sale of Shares under Equity Incentive Plan	—	10,399	—	17	—	—	48	65
Directors' Share Grants	—	—	—	78	—	—	223	301
Net Income	—	—	—	—	—	3,102	12,840	15,942
Foreign Currency Translation Adjustments	—	—	—	—	(17)	—	80	63
Repurchase and Retirement of Class A Common Stock	(533,369)	—	(5)	(4,369)	—	(338)	—	(4,712)
Repurchase and Retirement of Class B Units	—	(95,739)	—	(176)	—	—	(499)	(675)
Class A Cash Dividends Declared and Paid (\$0.49 per share)	—	—	—	—	—	(8,951)	—	(8,951)
Tax Impact of Transactions with Non-Controlling Shareholders	—	—	—	(207)	—	—	—	(207)
Contributions from Non-Controlling Interests	—	—	—	—	—	—	23	23

See accompanying notes to unaudited consolidated financial statements.

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PZENA INVESTMENT MANAGEMENT, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	For the Three Months	
	Ended March 31, 2019	2018
OPERATING ACTIVITIES		
Net Income	\$15,942	\$17,666
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities:		
Depreciation	250	255
Non-Cash Compensation	2,744	2,460
Directors' Share Grants	301	245
Net Realized and Unrealized (Gains)/ Losses from Investments	(837)	34
Equity in (Earnings)/ Losses of Affiliates	(758)	129
Accretion of Discount	(50)	—
Non-Cash Lease Expense	455	—
Foreign Currency Translation Adjustments	63	68
Deferred Income Taxes	1,394	1,344
Changes in Operating Assets and Liabilities:		
Advisory Fees Receivable	(276)	(5,158)
Due from Broker	(101)	461
Prepaid Expenses and Other Assets	(65)	(135)
Due to Broker	(286)	1,021
Accounts Payable, Accrued Expenses, and Other Liabilities	(16,841)	(13,815)
Lease Liabilities	(366)	—
Purchases of Equity Securities	(3,912)	(6,605)
Proceeds from Equity Securities	3,437	7,039
Net Cash Provided by Operating Activities	1,094	5,009
INVESTING ACTIVITIES		
Purchases of Investments	(12,123)	(218)
Proceeds from Sale of Investments	25,668	265
Payments from/ (to) Related Parties	2,423	(600)
Purchases of Property and Equipment	(514)	—
Net Cash Provided/ (Used in) by Investing Activities	15,454	(553)
FINANCING ACTIVITIES		
Repurchase and Retirement of Class A Common Stock	(4,712)	(3,203)
Repurchase and Retirement of Class B Units	(675)	(41)
Sale of Shares under Equity Incentive Plan	65	4
Distributions to Non-Controlling Interests	(25,665)	(29,719)

Contributions from Non-Controlling Interests	23	—
Dividends	(8,951)	(7,560)
Net Cash Used in Financing Activities	(39,915)	(40,519)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	\$(23,367)	\$(36,063)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - Beginning of Period	\$39,127	\$64,431
Net Change in Cash, Cash Equivalents and Restricted Cash	(23,367)	(36,063)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - End of Period	\$15,760	\$28,368
Supplementary Cash Flow Information:		
Issuances of Shares under Equity Incentive Plan	\$4,087	\$4,191
Income Taxes Paid	\$72	\$415

See accompanying notes to unaudited consolidated financial statements.

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Pzena Investment Management, Inc.

Notes to Unaudited Consolidated Financial Statements

Note 1—Organization

Pzena Investment Management, Inc. (the “Company”) is the sole managing member of its operating company, Pzena Investment Management, LLC (the “operating company”). As a result, the Company: (i) consolidates the financial results of the operating company and reflects the membership interests in the operating company that it does not own as a non-controlling interest in its consolidated financial statements; and (ii) recognizes income generated from its economic interest in the operating company’s net income.

The operating company is an investment adviser registered under the Investment Advisers Act of 1940 and is headquartered in New York, New York. As of March 31, 2019, the operating company managed assets in a variety of value-oriented investment strategies across a wide range of market capitalizations in both U.S. and non-U.S. capital markets.

The Company also serves as the general partner of Pzena Investment Management, LP, a partnership formed with the objective of aggregating employee ownership in the operating company into one entity.

The Company, through its interest in the operating company, has consolidated the results of operations and financial condition of the following entities as of March 31, 2019:

Legal Entity	Type of Entity (Date of Formation)	Ownership at March 31, 2019
Pzena Investment Management, Pty	Australian Proprietary Limited Company (12/16/2009)	100.0%
Pzena Financial Services, LLC	Delaware Limited Liability Company (10/15/2013)	100.0%
Pzena Investment Management, LTD	England and Wales Private Limited Company (01/08/2015)	100.0%
Pzena U.S. Best Ideas (GP), LLC	Delaware Limited Liability Company (11/16/2017)	100.0%
Pzena Global Best Ideas (GP), LLC	Delaware Limited Liability Company (2/15/2018)	100.0%
Pzena Investment Management Special Situations, LLC	Delaware Limited Liability Company (12/01/2010)	99.9%
Pzena International Small Cap Value Fund, a series of Advisors Series Trust	Open-end Management Investment Company, series of Delaware Statutory Trust (6/28/2018)	95.9%
Pzena International Value Service, a series of Pzena Investment Management International, LLC	Delaware Limited Liability Company (12/22/2003)	57.9%

Note 2—Significant Accounting Policies

Basis of Presentation:

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and related Securities and Exchange Commission (“SEC”) rules and regulations.

Principles of Consolidation:

The Company’s policy is to consolidate those entities in which it has a direct or indirect controlling financial interest based on either the voting interest model or the variable interest model. As such, the Company consolidates majority-owned subsidiaries in which it has a controlling financial interest, and certain investment vehicles the operating company sponsors for which it is the investment adviser that are considered to be variable-interest entities (“VIEs”), and for which the Company is deemed to be the primary beneficiary.

Pursuant to the Consolidation Topic of the FASB Accounting Standards Codification (“FASB ASC”), for legal entities evaluated for consolidation, the Company determines whether interests it holds and fees paid to the entity qualify as a variable interest. If it is determined that the Company does not have a variable interest in the entity, no further analysis is required and the Company does not consolidate the entity. If it is determined that the Company has a variable interest, it considers its direct

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economic interests and the proportionate indirect interests through related parties to determine if it is the primary beneficiary of the VIE.

For equity investments where the Company does not control the investee, and where it is not the primary beneficiary of a VIE, but can exert significant influence over the financial and operating policies of the investee, the Company follows the equity method of accounting. The evaluation of whether the Company exerts control or significant influence over the financial and operating policies of the investee requires significant judgment based on the facts and circumstances surrounding each investment. Factors considered in these evaluations may include the type of investment, the legal structure of the investee, the terms of the investment agreement, or other agreements with the investee.

The Company analyzes entities structured as series funds which comply with the requirements included in the Investment Company Act of 1940 for registered mutual funds as voting interest entities because the shareholders are deemed to have the ability to direct the activities of the fund that most significantly impact the fund's economic performance.

Consolidated Entities

The Company consolidates the financial results of the operating company and records in its own equity its pro-rata share of transactions that impact the operating company's net equity, including unit and option issuances, repurchases, and retirements. The operating company's pro-rata share of such transactions are recorded as an adjustment to additional paid-in capital or non-controlling interests, as applicable, on the consolidated statements of financial condition.

The majority-owned subsidiaries in which the Company, through its interest in the operating company, has a controlling financial interest and the VIEs for which the Company is deemed to be the primary beneficiary are collectively referred to as "consolidated subsidiaries." Non-controlling interests recorded on the consolidated financial statements of the Company include the non-controlling interests of the outside investors in each of these entities, as well as those of the operating company. All significant inter-company transactions and balances have been eliminated through consolidation.

During 2018, the Company provided the initial cash investment for a Pzena-branded mutual fund, Pzena International Small Cap Value Fund, in an effort to generate an investment performance track record to attract third-party investors. Due to its series fund structure, registration, and compliance with the requirements of the Investment Company Act of 1940, this fund is analyzed for consolidation under the voting interest model. As a result of the Company's initial interests, it consolidated the Pzena International Small Cap Value Fund.

The operating company is the managing member of Pzena International Value Service, a series of Pzena Investment Management International, LLC. The operating company is considered the primary beneficiary of this entity. At March 31, 2019, Pzena International Value Service's \$3.8 million in net assets was included in the Company's consolidated statements of financial condition.

These consolidated investment partnerships are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these investment partnerships pursuant to U.S. GAAP.

Non-Consolidated Variable Interest Entities

VIEs that are not consolidated receive investment management services from the operating company and are generally private investment partnerships sponsored by the operating company. The total net assets of these VIEs was approximately \$253.6 million and \$205.4 million at March 31, 2019 and December 31, 2018, respectively.

As of March 31, 2019 and December 31, 2018, the operating company had \$0.5 million and \$2.4 million in investments in certain of these firm-sponsored vehicles, the majority of which are primarily held to satisfy certain of the Company's obligations under its deferred compensation programs, for which the Company was not deemed to be the primary beneficiary. The Company's exposure to risk in the non-consolidated VIEs is generally limited to any equity investment and any uncollected management fees. As of March 31, 2019 and December 31, 2018, the Company's maximum exposure to loss as a result of its involvement with the non-consolidated VIEs was \$0.8 million and \$2.7 million, respectively.

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Accounting Pronouncements Adopted in 2019:

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This amended standard was written to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted ASU No. 2016-02 as of January 1, 2019, using a modified retrospective approach. The Company elected to apply the guidance to each lease that had previously commenced as of the application date of January 1, 2019. Prior comparative periods are not adjusted under the method elected. The Company will provide the required disclosures under ASC 840 for comparative periods to which ASC 840 is applied. Adoption of the new standard resulted in the recognition of a right-of-use asset of \$11.7 million and a lease liability of \$11.9 million on the consolidated statement of financial condition as of January 1, 2019. The initial recognition of the right-of-use asset and lease liability represented a non-cash activity. The adoption did have a material impact on the consolidated statements of operations or cash flows. The Company has included additional disclosures required by the new standard.

Management's Use of Estimates:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the period. Actual results could materially differ from those estimates.

Revenue Recognition:

Revenue, comprised of advisory fee income, is recognized over the period in which advisory services are provided. Advisory fee income includes management fees that are calculated based on percentages of assets under management ("AUM"), generally billed quarterly, either in arrears or advance, depending on the applicable contractual terms. Advisory fee income also includes performance fees that may be earned by the Company depending on the investment return of the AUM, as well as fulcrum fee arrangements. Performance fee arrangements generally entitle the Company to participate, on a fixed-percentage basis, in any returns generated in excess of an agreed-upon benchmark. The Company's participation percentage in such return differentials is then multiplied by AUM to determine the performance fees earned. In general, returns are calculated on an annualized basis over the contract's measurement period, which usually extends to three years. Performance fees are generally payable annually or quarterly. Fulcrum fee arrangements require a reduction in the base fee, or allow for a performance fee if the relevant investment strategy underperforms or outperforms, respectively, the agreed-upon benchmark over the contract's measurement period, which extends to three years. Fulcrum fees are generally payable quarterly. Following the Revenue Recognition Topic of the FASB ASC, performance fee income is recorded at the conclusion of the contractual performance period, when it is probable that significant reversal of the performance fee will not occur. Upon adoption of ASU No. 2014-09 on January 1, 2018, advisory fee income also includes fund expense cap reimbursements which are required to be presented net against Revenue rather than as a component of General and Administrative Expense.

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Revenue from advisory fees is disaggregated into categories based on the composition of the Company's client base and advisory fee structure for the three months ended March 31, 2019 and 2018:

Revenue	For the Three Months	
	2019	2018
	Ended March 31, (in thousands)	
Separately Managed Accounts		
Asset-Based Fees	\$ 18,596	\$ 20,082
Total Separately Managed Fees	18,596	20,082
Sub-Advised Accounts		
Asset-Based Fees	\$ 14,890	\$ 15,565
Decrease in Asset-Based Fees	(335)	—
Performance-Based Fees	452	886
Total Sub-Advised Fees	15,007	16,451
Pzena Funds		
Asset-Based Fees	\$ 3,989	\$ 2,986
Expense Cap Reimbursements	(182)	(279)
Performance-Based Fees	—	12
Total Pzena Funds Fees	3,807	2,719
Total	\$37,410	\$39,252

Cash and Cash Equivalents:

At March 31, 2019 and December 31, 2018, Cash and Cash Equivalents was \$14.7 million and \$38.1 million, respectively. The Company considers all money market funds and highly-liquid debt instruments with an original maturity of three months or less at the time of purchase to be cash equivalents. The Company maintains its cash in bank deposits, other accounts whose balances often exceed federally insured limits and treasury money market funds. Cash is stated at cost, which approximates fair value.

Interest on cash and cash equivalents is recorded as Interest Income on an accrual basis in the consolidated statements of operations.

Restricted Cash:

At both March 31, 2019 and December 31, 2018, the Company had \$1.0 million of compensating balances recorded in Restricted Cash in the consolidated statements of financial condition. These balances reflect a letter of credit issued by a third party in lieu of a cash security deposit, as required by the Company's lease for its corporate headquarters.

The following table reconciles cash, cash equivalents, and restricted cash per the consolidated statements of cash flows to the consolidated statements of financial condition.

	March 31, December 31, 2019 2018		March 31, December 31, 2018 2017	
	(in thousands)			
Cash and Cash Equivalents	\$ 14,731	\$ 38,099	\$ 27,347	\$ 63,414
Restricted Cash	1,029	1,028	1,021	1,017
Total	\$ 15,760	\$ 39,127	\$ 28,368	\$ 64,431

Due to/from Broker:

Due to/from Broker consists primarily of amounts payable/receivable for unsettled securities transactions held/initiated at the clearing brokers of the Company's consolidated subsidiaries.

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Non-Cash Compensation:

All non-cash compensation awards granted have varying vesting schedules and are issued at prices equal to the assessed fair market value at the time of issuance. Expenses associated with these awards are recognized over the period during which employees are required to provide service. The Company accounts for forfeitures as they occur.

Investments:

Investments, at Fair Value

Investments, at Fair Value consist of equity securities at fair value and trading debt securities held by the Company and its consolidated subsidiaries, as well as investments in open-ended registered mutual funds. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination on an ongoing basis. Dividends and interest income associated with the Company's investments and the investments of the Company's consolidated subsidiaries are recognized as Dividend Income on an ex-dividend basis and Interest Income, respectively, in the consolidated statements of operations.

All such investments are recorded at fair value, with net realized and unrealized gains and losses recognized as a component of Net Realized and Unrealized Gains/ (Losses) from Investments in the consolidated statements of operations.

Investments in equity method investees

The Company accounted for its investments in certain private investment partnerships in which the Company has non-controlling interests and exercises significant influence, using the equity method. These investments are included in Investments in the Company's consolidated statements of financial condition. The carrying value of these investments are recorded at the amount of capital reported by the private investment partnership or mutual fund. The capital account for each entity reflects any contributions paid to, distributions received from, and equity earnings of, the relevant entity. The earnings of these investments are recognized as in Equity in Earnings/ (Losses) of Affiliates in the consolidated statements of operations.

Investments in equity method investees are evaluated for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the amounts of impairment losses, if any. During the three months ended March 31, 2019 and 2018, no impairment losses were recognized.

Securities Valuation:

Investments in equity securities for which market quotations are available are valued at the last reported price or closing price on the primary market or exchange on which they trade. If no reported equity sales occurred on the valuation date, equity investments are valued at the bid price. Investments in registered mutual funds are carried at fair value at their respective net asset values as of the valuation date. Otherwise, fair values for investment securities are based on Level 2 or Level 3 inputs detailed in Note 9. Transactions are recorded on a trade date basis.

The net realized gain or loss on sales of equity securities and securities sold short is determined on a specific identification basis and is included in Net Realized and Unrealized Gains/ (Losses) from Investments in the consolidated statements of operations.

Concentrations of Credit Risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, amounts due from brokers, and advisory fees receivable. The Company maintains its cash in bank deposits and other accounts whose balances often exceed federally insured limits.

The concentration of credit risk with respect to advisory fees receivable is generally limited due to the short payment terms extended to clients by the Company. On a periodic basis, the Company evaluates its advisory fees receivable and establishes an allowance for doubtful accounts, if necessary, based on a history of past write-offs, collections, and current credit conditions. For the three months ended March 31, 2019, approximately 9.5% of the Company's advisory fees were generated from advisory agreements with one client relationship. For the three months ended March 31, 2018 approximately 12.2% of the

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Company's advisory fees were generated from advisory agreements with one client relationship. At both March 31, 2019 and December 31, 2018, there was no allowance for doubtful accounts.

Property and Equipment:

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, except for leasehold improvements, which range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvements or the remaining lease term.

Leases:

The Company determines if an arrangement is a lease at inception. Operating leases are included as a component of Right-of-use ("ROU") Assets and Lease Liabilities on the consolidated statements of financial condition. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The lease terms may include options to extend or terminate the lease. These options to extend or terminate are assessed on a lease-by-lease basis, and the ROU assets and lease liabilities are adjusted when it is reasonably certain that an option will be exercised. If a lease arrangement does not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Lease expense associated with leases that have a term of 12 months or less as of the commencement date are recognized as a component of general and administrative expenses on a straight-line basis over the lease term.

Share Repurchases:

Share repurchases may be made from time-to-time in open market transactions or through privately negotiated transactions under the authorization approved by the Board of Directors. The Company charges the entire excess of cost over par to additional paid-in capital. If the Company's additional paid-in capital balance is reduced to zero, any additional amounts are recognized in retained earnings.

Business Segments:

The Company views its operations as comprising one operating segment.

Income Taxes:

The Company is a "C" corporation under the Internal Revenue Code, and thus liable for federal, state, and local taxes on the income derived from its economic interest in its operating company. The operating company is a limited liability company that has elected to be treated as a partnership for tax purposes. It has not made a provision for federal or state income taxes because it is the individual responsibility of each of the operating company's members (including the Company) to separately report their proportionate share of the operating company's taxable income or loss. The operating company has made a provision for New York City Unincorporated Business Tax ("UBT") and its consolidated

subsidiary Pzena Investment Management, LTD has made a provision for U.K. income taxes. The effective tax rate for interim periods represents the Company's best estimate of the effective tax rate expected to be applied to the full fiscal year, adjusted for discrete items recognized during the quarter.

Judgment is required in evaluating the Company's uncertain tax positions and determining its provision for income taxes. The Company establishes liabilities for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These liabilities are established when the Company believes that certain positions might be challenged despite its belief that its tax return positions are in accordance with applicable tax laws. The Company adjusts these liabilities in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation or the change of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate. It is also the Company's policy to recognize accrued interest, and penalties associated with uncertain tax positions in Income Tax Expense on the consolidated statements of operations.

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The Company and its consolidated subsidiaries account for all U.S. federal, state, local, and U.K. taxation pursuant to the asset and liability method, which requires deferred income tax assets and liabilities to be recorded for temporary differences between the carrying amount and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount more-likely-than-not to be realized. At both March 31, 2019 and December 31, 2018, the Company did not have a valuation allowance recorded against its deferred tax assets.

The income tax expense, or benefit, is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities. The Company records its deferred tax liabilities as a component of other liabilities in the consolidated statements of financial condition. All excess tax benefits or tax deficiencies related to stock- and unit-transactions are reflected in the consolidated statements of operations as a component of the provision for income taxes.

Tax Receivable Agreement:

The Company's purchase of membership units of the operating company concurrent with the initial public offering, and the subsequent and future exchanges by holders of Class B units of the operating company for shares of Class A common stock (pursuant to the exchange rights provided for in the operating company's operating agreement), have resulted in, and are expected to continue to result in, increases in the Company's share of the tax basis of the tangible and intangible assets of the operating company, which will increase the tax depreciation and amortization deductions that otherwise would not have been available to the Company. These increases in tax basis and tax depreciation and amortization are each deductible for tax purposes over a period of 15 years and have reduced, and are expected to continue to reduce, the amount of cash taxes that the Company would otherwise be required to pay in the future. The Company has entered into a tax receivable agreement with past, current, and future members of the operating company that requires the Company to pay to any member involved in any exchange transaction 85% of the amount of cash tax savings, if any, in U.S. federal, state and local income tax or foreign or franchise tax that it realizes as a result of these increases in tax basis and, in limited cases, transfers or prior increases in tax basis. The Company expects to benefit from the remaining 15% of cash tax savings, if any, in income tax it realizes. Payments under the tax receivable agreement will be based on the tax reporting positions that the Company will determine. The Company will not be reimbursed for any payments previously made under the tax receivable agreement if a tax basis increase is successfully challenged by the Internal Revenue Service.

The Company records an increase in deferred tax assets for the estimated income tax effects of the increases in tax basis based on enacted federal and state tax rates at the date of the exchange. The Company records 85% of the estimated realizable tax benefit (which is the recorded deferred tax asset less any recorded valuation allowance) as an increase to the liability due under the tax receivable agreement, which is reflected as the liability to selling and converting shareholders in the accompanying consolidated financial statements. The remaining 15% of the estimated realizable tax benefit is initially recorded as an increase to the Company's additional paid-in capital. All of the effects to the deferred tax asset of changes in any of the estimates after the tax year of the exchange will be reflected in the provision for income taxes. Similarly, the effect of subsequent changes in the enacted tax rates will be reflected in the provision for income taxes.

If the Company exercises its right to terminate the tax receivable agreement early, the Company will be obligated to make an early termination payment to the selling and converting shareholders, based upon the net present value (based upon certain assumptions and deemed events set forth in the tax receivable agreement) of all payments that would be required to be paid by the Company under the tax receivable agreement. If certain change of control events were to

occur, the Company would be obligated to make an early termination payment.

Foreign Currency:

The functional currency of the Company is the U.S. Dollar. Assets and liabilities of foreign operations whose functional currency is not the U.S. Dollar are translated at the exchange rate in effect at the applicable reporting date, and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. A charge or credit is recorded to other comprehensive income to reflect the translation of these amounts to the extent the non-U.S. currency is designated the functional currency of the subsidiary. Non-functional currency related transaction gains and losses are immediately recorded in the consolidated statements of operations. For the three months ended March 31, 2019, the Company recorded \$0.1 million of other comprehensive income associated with foreign currency translation adjustments. For the three months ended March 31, 2018, the Company recorded \$0.1 million of other comprehensive income associated with foreign currency translation adjustments.

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Investment securities and other assets and liabilities denominated in foreign currencies are remeasured into U.S. Dollar amounts at the date of valuation. Purchases and sales of investment securities, and income and expense items denominated in foreign currencies, are remeasured into U.S. Dollar amounts on the respective dates of such transactions.

The Company does not isolate the portion of the results of its operations resulting from the impact of fluctuations in foreign exchange rates on its non-U.S. investments. Such fluctuations are included in Net Realized and Unrealized Gains/ (Losses) from Investments in the consolidated statements of operations.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, foreign withholding taxes, and other receivables and payables recorded on the Company’s consolidated statements of financial condition and the U.S. Dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities resulting from changes in exchange rates.

Recently Issued Accounting Pronouncements Not Yet Adopted:

In September 2018, the FASB issued ASU No. 2018-15, “Intangibles – Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract.” This new guidance requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the impact of this standard, however, does not expect the standard to have a material impact on the consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)." This new guidance requires the use of an “expected loss” model, rather than an “incurred loss” model, for financial instruments measured at amortized cost and also requires companies to record allowances for available-for-sale debt securities rather than reduce the carrying amount. The guidance is effective for the fiscal years and interim periods within those years beginning after December 15, 2019. The guidance should be applied using a retrospective approach. The Company is currently assessing the impact of this standard, however, does not expect the standard to have a material impact on the consolidated financial statements.

Note 3—Compensation and Benefits

Compensation and benefits expense to employees and members is comprised of the following:

For the Three
Months

Ended March 31,
2019 2018
(in thousands)

Cash Compensation and Other Benefits	\$14,445	\$13,714
Non-Cash Compensation	2,744	2,460
Total Compensation and Benefits Expense	\$17,189	\$16,174

All non-cash compensation awards granted have varying vesting schedules and are issued at prices equal to the assessed fair market value at the time of issuance, as discussed below. Details of non-cash compensation awards granted during the three months ended March 31, 2019 and 2018 are as follows:

	For the Three Months Ended March 31,			
	2019		2018	
	Amount	Fair Value ¹	Amount	Fair Value ¹
Restricted Class B Units	44,470	\$ 7.87	9,372	\$10.67
Options to Purchase Delayed Exchange Class B Units ²	314,960	\$ 1.27	1,380,128	\$1.95

¹ Represents the grant date fair value per share, unit, or option.

² Represents options to purchase Delayed Exchange Class B units issued under 2006 Equity Incentive Plan (as defined below). These options become exercisable five years from the date of grant. Upon exercise, the resulting Delayed Exchange Class B units may not be exchanged pursuant the Amended and Restated Operating Agreement until the seventh anniversary of the exercise date and are not entitled to any benefits under the Tax Receivable Agreement.

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As part of the Company's year-end bonus structure, certain employee members may elect to have all or part of year-end cash compensation paid in the form of cash, or equity issued pursuant to Pzena Investment Management, LLC Amended and Restated 2006 Equity Incentive Plan (“the 2006 Equity Incentive Plan”). For the year ended December 31, 2018, \$4.1 million of cash compensation was elected to be paid in the form of equity, which was issued and vested immediately on January 1, 2019. Details of awards associated with these elections issued on January 1, 2019 are as follows:

	January 1, 2019	
	Amount	Fair Value ¹
Phantom Delayed Exchange Class B Units ²	1,301,936	\$ 3.61
Options to Purchase Delayed Exchange Class B Units ³	94,488	\$ 1.27
Delayed Exchange Class B Units ⁴	585,682	\$ 5.97

1 Represents the grant date fair value per share or unit.

2 Represents phantom Delayed Exchange Class B units issued under the 2006 Equity Incentive Plan. These phantom units vest ratably over ten years and are not entitled to receive dividends or dividend equivalents until vested. Upon vesting, the resulting Delayed Exchange Class B units may not be exchanged pursuant the Amended and Restated Operating Agreement until the seventh anniversary of the vesting date and are not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company.

3 Represents options to purchase Delayed Exchange Class B units issued under 2006 Equity Incentive Plan. These options are exercisable on the date of grant. Upon exercise, the resulting Delayed Exchange Class B units may not be exchanged pursuant the Amended and Restated Operating Agreement until the seventh anniversary of the exercise date and are not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company.

4 Represents Class B units issued under the 2006 Equity Incentive Plan. These units vest immediately upon grant, but may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until the seventh anniversary of the date of grant. These units are also not entitled to any benefits under the Tax Receivable Agreement between the Company and members of the operating company.

Pursuant to the 2006 Equity Incentive Plan, the operating company issues Class B units, phantom Class B units and options to purchase Class B units. The operating company also issues Delayed Exchange Class B units pursuant to the 2006 Equity Incentive Plan. These Delayed Exchange Class B units vest immediately upon grant, but may not be exchanged pursuant to the Amended and Restated Operating Agreement of the operating company until at least the seventh anniversary of the date of grant. These Delayed Exchange Class B units are also not entitled to any benefit under the Tax Receivable Agreement between the Company and members of the operating company. The operating company also issues phantom Delayed Exchange Class B units and options to purchase Delayed Exchange Class B units. Under the Pzena Investment Management, Inc. 2007 Equity Incentive Plan (“the 2007 Equity Incentive Plan”), the Company issues shares of restricted Class A common stock, options to purchase Class A common stock, and contingently vesting options to acquire shares of Class A common stock. During each of the three months ended March 31, 2019 and 2018, no contingently vesting options vested. During the three months ended March 31, 2019 and 2018, 10,399 and 547 Delayed Exchange Class B units were issued to certain employee members, respectively, for approximately \$0.1 million and less than \$0.1 million in cash, respectively.

Under the Pzena Investment Management, LLC Amended and Restated Bonus Plan (the “Bonus Plan”), eligible employees whose compensation is in excess of certain thresholds are required to defer a portion of that excess. These deferred amounts may be invested, at the employee’s discretion, in certain investment options designated by the Compensation Committee of the Company’s Board of Directors. Amounts deferred in any calendar year reduce that year’s compensation expense and are amortized and vest ratably over a four-year period commencing the following year. The Company also issued to certain of its employees deferred compensation with certain investment options that also vest ratably over a four-year period. As of March 31, 2019 and December 31, 2018, the liability associated with all deferred compensation investment accounts was \$1.2 million and \$1.8 million, respectively.

Pursuant to the Pzena Investment Management, Inc. Non-Employee Director Deferred Compensation Plan (the “Director Plan”), non-employee directors may elect to have all or part of their compensation otherwise payable in cash, deferred in the form of phantom shares of Class A common stock of the Company issued under the 2007 Equity Incentive Plan. Elections to defer compensation under the Director Plan are made on a year-to-year basis. Distributions under the Director Plan are made in a single distribution of shares of Class A common stock at such time as elected by the participant when the deferral was made. Since inception of the Director Plan in 2009, the Company’s directors have elected to defer 100% of their compensation in the form of phantom shares of Class A common stock. Amounts deferred in any calendar year are amortized over the calendar year and reflected as General and Administrative Expense. As of March 31, 2019 and December 31, 2018, there were 450,224 and 387,516 phantom shares of Class A common stock outstanding, respectively. For the three months ended March 31, 2019 and 2018, no distributions were made under the Director Plan.

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As of March 31, 2019 and December 31, 2018, the Company had approximately \$42.6 million and \$39.5 million, respectively, in unrecorded compensation expense related to unvested awards issued pursuant to its Bonus Plan and certain agreements; Class B units, option grants, Delayed Exchange Class B units, phantom Delayed Exchange Class B units, and phantom Class B units issued under the 2006 Equity Incentive Plan; and restricted Class A common stock and contingently vesting option grants issued under the 2007 Equity Incentive Plan. The Company anticipates that this unrecorded cost will amortize over the respective vesting periods of the awards.

Note 4 – Employee Benefit Plans

The operating company has a Profit Sharing and Savings Plan for the benefit of substantially all employees. The Profit Sharing and Savings Plan is a defined contribution profit sharing plan with a 401(k) deferral component. All full-time employees and certain part-time employees who have met the age and length of service requirements are eligible to participate in the plan. The plan allows participating employees to make elective deferrals of compensation up to the annual limits which are set by law. The plan provides for a discretionary annual contribution by the operating company which is determined by a formula based on the salaries of eligible employees as defined by the plan. For both the three months ended March 31, 2019 and 2018, the expense recognized in connection with this plan was \$0.8 million.

Note 5—Earnings per Share

Basic earnings per share is computed by dividing the Company's net income attributable to its common stockholders by the weighted average number of shares outstanding during the reporting period.

Under the two-class method of computing basic earnings per share, basic earnings per share is calculated by dividing net income for basic earnings per share by the weighted average number of common shares outstanding during the period. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's net income for basic earnings per share is reduced by the amount allocated to participating restricted shares of Class A common stock which participate for purposes of calculating earnings per share.

For the three months ended March 31, 2019 and 2018, the Company's basic earnings per share was determined as follows:

	For the Three Months	
	Ended March 31, 2019	2018
	(in thousands, except share and per share amounts)	
Net Income for Basic Earnings per Share Allocated to:		
Class A Common Stock	\$3,102	\$3,523
Participating Shares of Restricted Class A Common Stock	—	—
Total Net Income for Basic Earnings per Share	\$3,102	\$3,523
Basic Weighted-Average Shares Outstanding	18,278,773	18,015,368
Add: Participating Shares of Restricted Class A Common Stock ¹	—	—

Total Basic Weighted-Average Shares Outstanding	18,278,773	18,015,368
Basic Earnings per Share	\$0.17	\$0.20

1 Certain unvested shares of Class A common stock granted to employees have nonforfeitable rights to dividends and therefore participate fully in the results of the Company from the date they are granted. They are included in the computation of basic earnings per share using the two-class method for participating securities.

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Diluted earnings per share adjusts this calculation to reflect the impact of all outstanding membership units of the operating company, phantom Class B units, phantom Delayed Exchange Class B units, phantom Class A common stock, outstanding options to purchase Class B units, options to purchase Delayed Exchange Class B units, options to purchase Class A common stock, and restricted Class A common stock, to the extent they would have a dilutive effect on net income per share for the reporting period. Net income for diluted earnings per share assumes that all outstanding operating company membership units are converted into Company stock at the beginning of the reporting period and the resulting change to the Company's net income associated with its increased interest in the operating company is taxed at the Company's effective tax rate, exclusive of one-time charges and adjustments associated with both the valuation allowance and the liability to selling and converting shareholders and other one-time charges.

For the three months ended March 31, 2019 and 2018, the Company's diluted net income was determined as follows:

	For the Three Months	
	Ended March 31, 2019	2018
	(in thousands)	
Net Income Attributable to Non-Controlling Interests of Pzena Investment Management, LLC	\$12,712	\$14,113
Less: Assumed Corporate Income Taxes	3,006	3,410
Assumed After-Tax Income of Pzena Investment Management, LLC	9,706	10,703
Net Income of Pzena Investment Management, Inc.	3,102	3,523
Diluted Net Income	\$12,808	\$14,226

Under the two-class method of computing diluted earnings per share, diluted earnings per share is calculated by dividing net income for diluted earnings per share by the weighted average number of common shares outstanding during the period, plus the dilutive effect of any potential common shares outstanding during the period using the more dilutive of the treasury method or two-class method. The two-class method includes an earnings allocation formula that determines earnings per share for each participating security according to dividends declared and undistributed earnings for the period. The Company's net income for diluted earnings per share is reduced by the amount allocated to participating restricted Class B units for purposes of calculating earnings per share. Dividend equivalent distributions paid per share on the operating company's unvested restricted Class B units are equal to the dividends paid per Company Class A common stock.

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For the three months ended March 31, 2019 and 2018, the Company's diluted earnings per share were determined as follows:

	For the Three Months	
	Ended March 31, 2019	2018
	(in thousands, except share and per share amounts)	
Diluted Net Income Allocated to:		
Class A Common Stock	\$ 12,795	\$ 14,216
Participating Shares of Restricted Class A Common Stock	—	—
Participating Class B Units	13	10
Total Diluted Net Income Attributable to Shareholders	\$ 12,808	\$ 14,226
Total Basic Weighted-Average Shares Outstanding	18,278,773	18,015,368
Dilutive Effect of Class B Units	52,117,775	51,032,975
Dilutive Effect of Options ¹	642,203	1,603,865
Dilutive Effect of Phantom Class B Units & Phantom Shares of Class A Common Stock	3,102,053	1,517,654
Dilutive Effect of Restricted Shares of Class A Common Stock ²	44,120	67,500
Dilutive Weighted-Average Shares Outstanding	74,184,924	72,237,362
Add: Participating Class B Units ³	73,196	48,600
Total Dilutive Weighted-Average Shares Outstanding	74,258,120	72,285,962
Diluted Earnings per Share	\$0.17	\$0.20

1 Represents the dilutive effect of options to purchase operating company Class B units and Company Class A common stock.

2 Certain restricted shares of Class A common stock granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities and are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when the effect is dilutive using the treasury stock method.