

Manning & Napier, Inc.
Form 10-Q
May 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-35355

MANNING & NAPIER, INC.
(Exact name of registrant as specified in its charter)

Delaware 45-2609100
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

290 Woodcliff Drive 14450
Fairport, New York
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:
(585) 325-6880

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 5, 2015
Class A common stock, \$0.01 par value per share	14,785,130
Class B common stock, \$0.01 par value per share	1,000

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In this Quarterly Report on Form 10-Q, “we”, “our”, “us”, the “Company”, “Manning & Napier” and the “Registrant” refers to Manning & Napier, Inc. and, unless the context otherwise requires, its consolidated direct and indirect subsidiaries and predecessors.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Manning & Napier, Inc.

Consolidated Statements of Financial Condition

(In thousands, except share data)

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	\$80,377	\$124,992
Accounts receivable	21,889	23,704
Accounts receivable—Manning & Napier Fund, Inc.	13,245	15,579
Due from broker	4,909	5,391
Due from broker - consolidated funds	5,032	—
Investment securities, at fair value	25,210	26,915
Prepaid expenses and other assets	7,972	9,321
Total current assets	158,634	205,902
Property and equipment, net	7,327	7,456
Net deferred tax assets, non-current	41,848	42,581
Other long-term assets	1,476	1,534
Total assets	\$209,285	\$257,473
Liabilities		
Accounts payable	\$1,661	\$2,906
Accrued expenses and other liabilities	33,191	50,779
Deferred revenue	13,495	12,812
Total current liabilities	48,347	66,497
Other long-term liabilities	3,065	3,116
Amounts payable under tax receivable agreement, non-current	39,166	39,149
Total liabilities	90,578	108,762
Commitments and contingencies (Note 9)		
Shareholders' equity		
Class A common stock, \$0.01 par value; 300,000,000 shares authorized; 13,713,540 issued and outstanding at March 31, 2015 and December 31, 2014, respectively	137	137
Class B common stock, \$0.01 par value; 2,000 shares authorized, 1,000 shares issued and outstanding at March 31, 2015 and December 31, 2014	—	—
Additional paid-in capital	204,975	209,284
Retained deficit	(39,972)	(41,087)
Accumulated other comprehensive income	(1)	—
Total shareholders' equity	165,139	168,334
Noncontrolling interests	(46,432)	(19,623)
Total shareholders' equity and noncontrolling interests	118,707	148,711
Total liabilities, shareholders' equity and noncontrolling interests	\$209,285	\$257,473
The accompanying notes are an integral part of these consolidated financial statements.		

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Manning & Napier, Inc.
 Consolidated Statements of Operations
 (In thousands, except share data)
 (Unaudited)

	Three months ended March	
	31,	
	2015	2014
Revenues		
Investment management services revenue	\$90,426	\$98,470
Expenses		
Compensation and related costs	26,818	51,810
Distribution, servicing and custody expenses	16,832	18,440
Other operating costs	8,942	7,937
Total operating expenses	52,592	78,187
Operating income	37,834	20,283
Non-operating income (loss)		
Interest expense	(3	) (3
Interest and dividend income	163	214
Change in liability under tax receivable agreement	(17	) 2,110
Net gains on investments	613	116
Total non-operating income (loss)	756	2,437
Income before provision for income taxes	38,590	22,720
Provision for income taxes	2,479	5,076
Net income attributable to controlling and noncontrolling interests	36,111	17,644
Less: net income attributable to noncontrolling interests	32,802	17,563
Net income attributable to Manning & Napier, Inc.	\$3,309	\$81
Net income per share available to Class A common stock		
Basic	\$0.24	\$0.01
Diluted	\$0.24	\$0.01
Weighted average shares of Class A common stock outstanding		
Basic	13,713,540	13,634,401
Diluted	13,914,908	13,751,690
Cash dividends declared per share of Class A common stock	\$0.16	\$0.16

The accompanying notes are an integral part of these consolidated financial statements.

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Manning & Napier, Inc.
 Consolidated Statements of Comprehensive Income
 (In thousands)
 (Unaudited)

	Three months ended March	
	31,	
	2015	2014
Net income attributable to controlling and noncontrolling interests	\$36,111	\$17,644
Net unrealized holding loss on investment securities, net of tax	(1) —
Reclassification adjustment for realized losses on investment securities included in net income	—	1
Comprehensive income	\$36,110	\$17,645
Less: Comprehensive income attributable to noncontrolling interests	32,801	17,564
Comprehensive income attributable to Manning & Napier, Inc.	\$3,309	\$81

The accompanying notes are an integral part of these consolidated financial statements.

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Manning & Napier, Inc.
 Consolidated Statements of Shareholders' Equity
 (In thousands, except share data)
 (Unaudited)

	Common Stock – class A		Common Stock – class B Additional Paid in Capital			Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total
	Shares	Amount	Shares	Amount	Capital				
Balance—December 31, 2013	13,634,246	\$ 136	1,000	\$ —	\$ 208,988	\$(40,544)	\$ (1)	\$(22,790)	\$ 145,789
Net income	—	—	—	—	—	81	—	17,563	17,644
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(26,972)	(26,972)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	1	—	1
Issuance of stock for restricted stock grants	13,923	—	—	—	—	—	—	—	—
Equity-based compensation	—	—	—	—	3,165	—	—	19,519	22,684
Dividends declared on Class A common stock - \$0.16 per share	—	—	—	—	—	(2,184)	—	—	(2,184)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests	—	—	—	—	(3,856)	—	—	(26,472)	(30,328)
Balance—March 31, 2014	13,648,169	\$ 136	1,000	\$ —	\$ 208,297	\$(42,647)	\$ —	\$(39,152)	\$ 126,634
Balance—December 31, 2014	13,713,540	\$ 137	1,000	\$ —	\$ 209,284	\$(41,087)	\$ —	\$(19,623)	\$ 148,711
Net income	—	—	—	—	—	3,309	—	32,802	36,111
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(26,787)	(26,787)
Net changes in unrealized investment securities gains or losses	—	—	—	—	—	—	(1)	—	(1)
	—	—	—	—	85	—	—	502	587

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Equity-based compensation									
Dividends declared on Class A common stock - \$0.16 per share	—	—	—	—	—	(2,194)	—	—	(2,194)
Purchase of Class A units of Manning & Napier Group, LLC held by noncontrolling interests (Note 3)	—	—	—	—	(4,394)	—	—	(33,326)	(37,720)
Balance—March 31, 2015	13,713,540	\$137	1,000	\$ —	\$204,975	\$(39,972)	\$(1)	\$(46,432)	\$118,707

The accompanying notes are an integral part of these consolidated financial statements.

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Manning & Napier, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$36,111	\$17,644
Adjustment to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	587	22,684
Depreciation and amortization	642	477
Change in amounts payable under tax receivable agreement	17	(2,110)
Net gains on investment securities	(613	) (116)
Deferred income taxes	720	3,478
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:		
Accounts receivable	1,815	(222)
Accounts receivable—Manning & Napier Fund, Inc.	2,334	40
Due from broker - consolidated funds	(5,000) —
Prepaid expenses and other assets	1,387	313
Accounts payable	(1,245	) (173)
Accrued expenses and other liabilities	(16,856	) (13,682)
Deferred revenue	683	1,604
Other long-term liabilities	(71	) 449
Net cash provided by operating activities	20,511	30,386
Cash flows from investing activities:		
Purchase of property and equipment	(374	) (773)
Sale of investments	3,765	1,486
Purchase of investments	(1,998	) (4,082)
Proceeds from maturity of investments	—	100
Net cash provided by (used in) investing activities	1,393	(3,269)
Cash flows from financing activities:		
Distributions to noncontrolling interests	(26,787) —
Dividends paid on Class A common stock	(3,291	) (3,272)
Payment of shares withheld to satisfy withholding requirements	(64) —
Payment of capital lease obligations	(51	) (60)
Purchase of Class A units of Manning & Napier Group, LLC	(36,326	) (30,328)
Net cash used in financing activities	(66,519	) (33,660)
Net decrease in cash and cash equivalents	(44,615	) (6,543)
Cash and cash equivalents:		
Beginning of period	124,992	125,250
End of period	\$80,377	\$118,707

The accompanying notes are an integral part of these consolidated financial statements.

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Manning & Napier, Inc.

Notes to Consolidated Financial Statements

Note 1—Organization and Nature of the Business

Manning & Napier, Inc. ("Manning & Napier", or the "Company") provides a broad range of investment solutions through separately managed accounts, mutual funds, and collective investment trusts, as well as a variety of consultative services that complement its investment process. Founded in 1970, the Company offers equity, fixed income and alternative strategies, as well as a range of blended asset portfolios, such as life cycle funds.

Headquartered in Fairport, New York, the Company serves a diversified client base of high net worth individuals and institutions, including 401(k) plans, pension plans, Taft-Hartley plans, endowments and foundations.

The Company is the sole managing member of Manning & Napier Group, LLC and its subsidiaries ("Manning & Napier Group"), a holding company for the investment management businesses conducted by its operating subsidiaries. The diagram below depicts the Company's organization structure as of March 31, 2015.

The operating subsidiaries of Manning & Napier Group include Manning & Napier Advisors, LLC ("MNA"), Exeter Advisors I, LLC, Manning & Napier Alternative Opportunities, LLC, Perspective Partners LLC, (1) Manning & Napier Information Services, LLC, Manning & Napier Benefits, LLC, Manning & Napier Investor Services, Inc. and Exeter Trust Company.

Note 2—Summary of Significant Accounting Policies

Critical Accounting Policies

There have been no significant changes in our critical accounting policies and estimates from those that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

The Company believes that the disclosures herein are adequate so that the information presented is not misleading; however, these financial statements should be read in conjunction with the financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2014. The financial data for the interim periods may not necessarily be indicative of results for future interim periods or for the full year.

Manning & Napier, Inc.
Notes to Consolidated Financial Statements (Continued)

Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and related rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial reporting and include all adjustments, consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim period.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates or assumptions that affect the reported amounts and disclosures in the consolidated financial statements. Actual results could differ from these estimates or assumptions.

Principles of Consolidation

As of March 31, 2015, Manning & Napier holds an approximately 15.6% economic interest in Manning & Napier Group but, as managing member, controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statements of financial condition with respect to the remaining economic interest in Manning & Napier Group held by Manning & Napier Group Holdings, LLC ("M&N Group Holdings") and Manning & Napier Capital Company, LLC ("MNCC").

All material intercompany transactions have been eliminated in consolidation.

In accordance with Accounting Standards Codification ("ASU") 2009-17, Consolidation (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design, a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance, and whether a company is obligated to absorb losses or receive benefits that could potentially be significant to the entity. The standard also requires ongoing assessments of whether a company is the primary beneficiary of a variable interest entity ("VIE"). In January 2010, the FASB deferred portions of ASU 2009-17 that relate to certain investment companies. The Company determined that certain entities for which it is the investment manager and/or general partner, qualify for the scope deferral and will continue to be assessed for consolidation under prior accounting guidance for consolidation of VIEs.

The Company provides seed capital to its investment teams to develop new products and services for its clients. The original seed investment typically represents all or a majority of the equity investment in the new product. Pursuant to U.S. GAAP, the Company evaluates its seed investments on a regular basis and consolidates such investments for which it holds a controlling financial interest.

The Company serves as the investment adviser for Manning & Napier Fund, Inc. series of mutual funds (the "Fund") and the Exeter Trust Company Collective Investment Trusts ("CIT"). The Fund and CIT are legal entities, the business and affairs of which are managed by their respective boards of directors. As a result, each of these entities is a voting interest entity ("VOE"). While the Company holds, in limited cases, direct investments in a fund (which are made on the same terms as are available to other investors and do not represent a majority voting interest in any fund), the Company does not have a controlling financial interest or a majority voting interest and, as such, does not consolidate these entities.

The Company is the General Partner of the MN Xenon Managed Futures Fund LP ("LP Fund"). The Company has determined that the LP Fund is not a VIE as (a) the entity has enough equity to finance its activities without additional financial support and (b) the limited partners, as a group, have the ability to remove the general partner ("kick-out rights") with a majority vote of partnership percentage. Under the voting interest model, the Company does not consolidate VOEs in which the presumption of control by the general partner is overcome by kick-out rights.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in operating accounts at major financial institutions and also in money market securities. Cash equivalents are stated at cost, which approximates market value due to the short-term maturity of these investments. The fair value of cash equivalents have been classified as Level 1 in

accordance with the fair value hierarchy.

Due from broker

The Company and its consolidated funds conducts business with brokers for certain of its investment activities. The due from broker balances on the consolidated statements of financial condition represents cash held by brokers as collateral for managed futures.

Investment Securities

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Manning & Napier, Inc.
Notes to Consolidated Financial Statements (Continued)

Investment securities are classified as either trading or available-for-sale and are carried at fair value. Fair value is determined based on quoted market prices in active markets for identical or similar instruments.

Investment securities classified as trading consist of equity securities, fixed income securities, and investments in mutual funds and hedge funds for which the Company provides advisory services. Realized and unrealized gains and losses on trading securities are recorded in net gains (losses) on investments in the consolidated statements of operations. At March 31, 2015, trading securities consist solely of investments held by the Company to provide initial cash seeding for product development purposes.

Operating Segments

The Company operates in one segment, the investment management industry. The Company primarily provides investment management services to separately managed accounts, mutual funds and collective investment trust funds. Management assesses the financial performance of these vehicles on a combined basis.

Revenue

The majority of the Company's revenues are based on fees charged to manage customers' portfolios. Investment management fees are generally computed as a percentage of assets under management ("AUM") and recognized as earned. Fees for providing investment advisory services are computed and billed in accordance with the provisions of the applicable investment management agreements. For the Company's separately managed accounts, clients either pay investment management fees in advance, typically for a semi-annual or quarterly period, or in arrears, typically for a monthly or quarterly period. When investment management fees are paid in advance, the Company defers the revenue and recognizes it over the applicable period. When investment management fees are paid in arrears, the Company estimates revenues based on AUM market values as of the most recent month end date, and adjusts to actual when billed. For mutual funds and collective investment trust vehicles, the Company's fees are calculated and earned daily based on AUM.

Certain investment advisory contracts provide for a performance-based fee, in addition to a base investment management fee, which is calculated as a percentage of cumulative profits over and above the aggregate of previous period cumulative profits. Performance-based fees are recorded as a component of revenue at the end of each contract's measurement period, when all contingencies are resolved, typically on a quarterly basis. For the three months ended March 31, 2015, the Company recognized approximately \$0.1 million in performance fee income.

The Company has agreements with third parties who provide distribution and administrative services for its mutual funds, collective investment trusts and certain separately managed accounts. Third party agreements are evaluated against Financial Accounting Standards Board ("FASB") ASC 605-45 Revenue Recognition - Principal Agent Considerations to determine whether revenue should be reported gross or net of payments to third-party service providers. In management's judgment there are various indicators that support gross revenue reporting, the most notable being the Company acts as primary obligor and therefore principal service provider. Based on this evaluation, investment management service revenue is recorded gross of distribution and administrative fees paid to third parties.

Advisory Agreements

The Company derives significant revenue from its role as advisor to the Fund and the CIT.

The Company's investments in the Fund amounted to approximately \$0.2 million as of March 31, 2015 and December 31, 2014.

Fees earned for advisory related services provided to the Fund and CIT investment vehicles were approximately \$45.2 million and \$52.1 million for the three months ended March 31, 2015 and 2014, respectively. These amounts represent greater than 10% of the Company's revenue in each respective period.

Manning & Napier, Inc.
Notes to Consolidated Financial Statements (Continued)

Recent Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU modifies existing consolidation guidance for determining whether certain legal entities should be consolidated. The new guidance will be effective on January 1, 2016, and requires either a retrospective or a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the potential impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes existing accounting standards for revenue recognition and creates a single framework. The new guidance will be effective on January 1, 2018 and requires either a retrospective or a modified retrospective approach to adoption. Early application is prohibited. The Company is currently evaluating its transition method and the potential impact on its consolidated financial statements.

Note 3—Noncontrolling Interests

Manning & Napier holds an approximately 15.6% economic interest in Manning & Napier Group, but as managing member controls all of the business and affairs of Manning & Napier Group. As a result, the Company consolidates the financial results of Manning & Napier Group and records a noncontrolling interest on its consolidated statement of financial condition with respect to the remaining approximately 84.4% aggregate economic interest in Manning & Napier Group held by M&N Group Holdings and MNCC. Net income attributable to noncontrolling interests on the statements of operations represents the portion of earnings or loss attributable to the economic interest in Manning & Napier Group held by the noncontrolling interests.

The following provides a reconciliation from “Income before provision for income taxes” to “Net income attributable to Manning & Napier, Inc.”:

	Three months ended March 31,			
	2015	2014		
	(in thousands)			
Income before provision for income taxes	\$38,590	\$22,720		
Less: (loss) gain before provision for income taxes of Manning & Napier, Inc. (a)	(18	) 2,105		
Income before provision for income taxes, as adjusted	38,608	20,615		
Controlling interest percentage (b)	14.5	% 14.0		%
Net income attributable to controlling interest	5,614	2,876		
Plus: (loss) gain before provision for income taxes of Manning & Napier, Inc. (a)	(18	) 2,105		
Income before income taxes attributable to Manning & Napier, Inc.	5,596	4,981		
Less: provision for income taxes of Manning & Napier, Inc. (c)				