

COWEN GROUP, INC.  
Form 10-Q  
November 08, 2012

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 September 30, 2012

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: 001-34516

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-0423711

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

599 Lexington Avenue

10022

New York, New York

(Zip Code)

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

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 (§232.405 of this chapter) 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
		(Do not check if a smaller reporting company)	

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 7, 2012 there were 113,508,235 shares of the registrant's common stock outstanding.

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#### Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in “Management's Discussion and Analysis of Financial Condition and Results of Operations”) that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as “may,” “might,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “believe,” “predict,” “project,” “possible,” “potential,” “intend,” “seek” or “continue,” the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations.

Unaudited Condensed Consolidated Financial Statements are presented for the three and nine months ended September 30, 2012 and 2011. The Consolidated Financial Statements as of December 31, 2011 were audited.

## PART I. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.

Condensed Consolidated Statements of Financial Condition

(dollars in thousands, except share and per share data)

(unaudited)

	As of September 30, 2012	As of December 31, 2011
Assets		
Cash and cash equivalents	\$55,776	\$128,875
Cash collateral pledged	9,269	9,785
Securities owned, at fair value	648,772	744,914
Securities purchased under agreement to resell	—	166,260
Other investments	70,151	59,943
Receivable from brokers	103,825	62,046
Fees receivable	22,113	22,297
Due from related parties	16,366	16,554
Fixed assets, net of accumulated depreciation and amortization of \$28,720 and \$23,852, respectively	33,722	37,042
Goodwill	26,211	20,028
Intangible assets, net of accumulated amortization of \$22,116 and \$20,220, respectively	11,668	5,760
Other assets	23,192	26,620
Consolidated Funds		
Cash and cash equivalents	1,892	297
Securities owned, at fair value	3,095	6,334
Other investments, at fair value	205,095	228,820
Other assets	372	263
Total Assets	\$1,231,519	\$1,535,838
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$210,705	\$334,251
Securities sold under agreement to repurchase	123,839	228,783
Payable to brokers	203,250	213,360
Compensation payable	27,313	71,223
Short-term borrowings and other debt	4,516	5,650
Fees payable	4,972	5,503
Due to related parties	646	1,914
Accounts payable, accrued expenses and other liabilities	60,405	61,462
Consolidated Funds		
Capital withdrawals payable	2,841	394
Accounts payable, accrued expenses and other liabilities	1,042	246
Total Liabilities	639,529	922,786
Commitments and Contingencies (Note 14)		
Redeemable non-controlling interests	88,011	104,587
Stockholders' equity		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
	1,135	1,135

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Class A common stock, par value \$0.01 per share: 250,000,000 shares authorized, 123,583,040 shares issued and 113,962,889 outstanding as of September 30, 2012 and 119,393,640 shares issued and 114,047,637 outstanding as of December 31, 2011, respectively (including 420,276 and 576,892 restricted shares, respectively)

Class B common stock, par value \$0.01 per share: 250,000,000 authorized, no shares issued and outstanding	—	—
Additional paid-in capital	709,005	688,427
(Accumulated deficit) retained earnings	(178,516	) (163,980 )
Accumulated other comprehensive income (loss)	161	(215 )
Less: Class A common stock held in treasury, at cost, 9,620,151 and 5,346,003 shares as of September 30, 2012 and December 31, 2011, respectively.	(27,806	) (16,902 )
Total Stockholders' Equity	503,979	508,465
Total Liabilities and Stockholders' Equity	\$1,231,519	\$1,535,838

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

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Cowen Group, Inc.  
Condensed Consolidated Statements of Operations  
(dollars in thousands, except per share data)  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Investment banking	\$18,666	\$10,816	\$50,550	\$39,841
Brokerage	22,701	25,670	71,282	77,868
Management fees	8,866	14,778	28,515	37,799
Incentive income	1,416	(1,823)	2,687	3,233
Interest and dividends	3,605	10,930	14,845	21,330
Reimbursement from affiliates	1,370	978	3,796	2,968
Other revenues	701	309	2,398	1,230
Consolidated Funds				
Interest and dividends	24	138	115	443
Other revenues	249	163	359	171
Total revenues	57,598	61,959	174,547	184,883
Expenses				
Employee compensation and benefits	47,322	43,651	137,102	132,313
Floor brokerage and trade execution	3,058	4,488	10,992	12,283
Interest and dividends	1,957	1,904	6,888	7,627
Professional, advisory and other fees	3,534	8,063	11,158	25,601
Service fees	2,807	3,815	8,198	11,792
Communications	4,522	3,636	11,775	10,872
Occupancy and equipment	5,808	6,225	16,594	17,523
Depreciation and amortization	2,427	2,421	6,945	6,490
Client services and business development	3,510	3,534	11,089	12,343
Other expenses	3,779	2,158	11,138	5,007
Consolidated Funds				
Interest and dividends	2	51	22	137
Professional, advisory and other fees	263	1,002	1,112	2,075
Other expenses	65	82	205	423
Total expenses	79,054	81,030	233,218	244,486
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	12,510	(21,989)	41,969	(4,631)
Bargain purchase gain	—	—	—	22,244
Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	(2,730)	(3,181)	817	4,133
Net realized and unrealized gains (losses) on derivatives	212	70	626	(456)
Net gains (losses) on foreign currency transactions	9	313	(6)	40
Total other income (loss)	10,001	(24,787)	43,406	21,330
Income (loss) before income taxes	(11,455)	(43,858)	(15,265)	(38,273)
Income tax expense (benefit)	163	72	496	(17,720)
Net income (loss) from continuing operations	(11,618)	(43,930)	(15,761)	(20,553)
Net income (loss) from discontinued operations, net of tax	—	(5,087)	—	(5,087)

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Net income (loss)	(11,618	)	(49,017	)	(15,761	)	(25,640	)
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	(1,033	)	(783	)	(1,225	)	2,473	)
Net income (loss) attributable to Cowen Group, Inc. stockholders	\$(10,585	)	\$(48,234	)	\$(14,536	)	\$(28,113	)
Weighted average common shares outstanding:								
Basic	114,989		115,664		114,587		89,118	
Diluted	114,989		115,664		114,587		89,118	
Earnings (loss) per share:								
Basic								
Income (loss) from continuing operations	\$(0.09	)	\$(0.37	)	\$(0.13	)	\$(0.26	)
Income (loss) from discontinued operations	\$—		\$(0.04	)	\$—		\$(0.06	)
Diluted								
Income (loss) from continuing operations	\$(0.09	)	\$(0.37	)	\$(0.13	)	\$(0.26	)
Income (loss) from discontinued operations	\$—		\$(0.04	)	\$—		\$(0.06	)

The accompanying notes are an integral part of these condensed consolidated financ