

COWEN GROUP, INC.  
Form 10-Q  
August 07, 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 June 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  
Incorporation or Organization)

(I.R.S. Employer  
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 August 6, 2012 there were 114,313,439 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 six months ended June 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 June 30,<br>2012 | As of<br>December 31,<br>2011 |
|---|------------------------|-------------------------------|
| Assets  |                        |                               |
| Cash and cash equivalents   | \$80,069               | \$128,875                     |
| Cash collateral pledged   | 9,257                  | 9,785                         |
| Securities owned, at fair value   | 807,266                | 744,914                       |
| Securities purchased under agreement to resell  | 224,573                | 166,260                       |
| Other investments   | 68,336                 | 59,943                        |
| Receivable from brokers   | 15,238                 | 62,046                        |
| Fees receivable   | 18,789                 | 22,297                        |
| Due from related parties  | 16,107                 | 16,554                        |
| Fixed assets, net of accumulated depreciation and amortization of \$27,127 and \$23,852, respectively       | 34,807                 | 37,042                        |
| Goodwill  | 26,211                 | 20,028                        |
| Intangible assets, net of accumulated amortization of \$21,419 and \$20,220, respectively                   | 12,399                 | 5,760                         |
| Other assets  | 23,495                 | 26,620                        |
| Consolidated Funds  |                        |                               |
| Cash and cash equivalents   | 307                    | 297                           |
| Securities owned, at fair value   | 2,234                  | 6,334                         |
| Other investments, at fair value  | 227,918                | 228,820                       |
| Other assets  | 625                    | 263                           |
| Total Assets  | \$1,567,631            | \$1,535,838                   |
| Liabilities and Stockholders' Equity  |                        |                               |
| Liabilities   |                        |                               |
| Securities sold, not yet purchased, at fair value   | \$400,945              | \$334,251                     |
| Securities sold under agreement to repurchase   | 234,958                | 228,783                       |
| Payable to brokers  | 226,794                | 213,360                       |
| Compensation payable  | 22,365                 | 71,223                        |
| Short-term borrowings and other debt  | 4,856                  | 5,650                         |
| Fees payable  | 6,049                  | 5,503                         |
| Due to related parties  | 771                    | 1,914                         |
| Accounts payable, accrued expenses and other liabilities  | 59,850                 | 61,462                        |
| Consolidated Funds  |                        |                               |
| Capital withdrawals payable   | 69                     | 394                           |
| Accounts payable, accrued expenses and other liabilities  | 589                    | 246                           |
| Total Liabilities   | 957,246                | 922,786                       |
| Commitments and Contingencies (Note 13)   |                        |                               |
| Redeemable non-controlling interests  | 98,460                 | 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, 122,094,954 shares issued and 114,208,268 outstanding as of June 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  | 701,953     | 688,427      |
| (Accumulated deficit) retained earnings   | (167,931    | ) (163,980 ) |
| Accumulated other comprehensive income (loss)   | 27          | (215 )       |
| Less: Class A common stock held in treasury, at cost, 7,886,686 and 5,346,003 shares as of June 30, 2012 and December 31, 2011, respectively. | (23,259     | ) (16,902 )  |
| Total Stockholders' Equity  | 511,925     | 508,465      |
| Total Liabilities and Stockholders' Equity  | \$1,567,631 | \$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<br>June 30, |           | Six Months Ended June<br>30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2012                           | 2011      | 2012                         | 2011      |
| Revenues  |                                |           |                              |           |
| Investment banking  | \$ 16,254                      | \$ 14,343 | \$ 31,884                    | \$ 29,025 |
| Brokerage   | 24,568                         | 24,607    | 48,581                       | 52,198    |
| Management fees   | 9,932                          | 11,857    | 19,649                       | 23,021    |
| Incentive income  | 580                            | 675       | 1,271                        | 5,056     |
| Interest and dividends  | 5,868                          | 5,840     | 11,240                       | 10,399    |
| Reimbursement from affiliates   | 1,381                          | 981       | 2,426                        | 1,990     |
| Other revenues  | 831                            | 232       | 1,698                        | 922       |
| Consolidated Funds  |                                |           |                              |           |
| Interest and dividends  | 30                             | 136       | 91                           | 305       |
| Other revenues  | 26                             | 8         | 109                          | 8         |
| Total revenues  | 59,470                         | 58,679    | 116,949                      | 122,924   |
| Expenses  |                                |           |                              |           |
| Employee compensation and benefits  | 43,097                         | 43,575    | 89,780                       | 88,662    |
| Floor brokerage and trade execution   | 4,182                          | 3,685     | 7,934                        | 7,795     |
| Interest and dividends  | 3,207                          | 3,115     | 4,931                        | 5,724     |
| Professional, advisory and other fees   | 3,695                          | 10,398    | 7,621                        | 17,538    |
| Service fees  | 3,155                          | 4,366     | 5,392                        | 7,978     |
| Communications  | 3,853                          | 4,342     | 7,254                        | 7,235     |
| Occupancy and equipment   | 5,544                          | 5,591     | 10,786                       | 11,298    |
| Depreciation and amortization   | 2,363                          | 2,011     | 4,518                        | 4,069     |
| Client services and business development  | 3,753                          | 4,132     | 7,579                        | 8,809     |
| Other expenses  | 3,941                          | (859)     | 7,360                        | 2,849     |
| Consolidated Funds  |                                |           |                              |           |
| Interest and dividends  | 4                              | 40        | 20                           | 87        |
| Professional, advisory and other fees   | 561                            | 613       | 849                          | 1,073     |
| Other expenses  | 70                             | 219       | 140                          | 341       |
| Total expenses  | 77,425                         | 81,228    | 154,164                      | 163,458   |
| Other income (loss)   |                                |           |                              |           |
| Net gains (losses) on securities, derivatives and other investments                                 | 9,787                          | 76        | 29,458                       | 17,358    |
| Bargain purchase gain   | —                              | 22,244    | —                            | 22,244    |
| Consolidated Funds:   |                                |           |                              |           |
| Net realized and unrealized gains (losses) on investments and other transactions                    | (2,417)                        | ) 4,971   | 3,547                        | 7,314     |
| Net realized and unrealized gains (losses) on derivatives   | 373                            | (84)      | ) 414                        | (525)     |
| Net gains (losses) on foreign currency transactions   | 23                             | (117)     | ) (15)                       | (273)     |
| Total other income (loss)   | 7,766                          | 27,090    | 33,404                       | 46,118    |
| Income (loss) before income taxes   | (10,189)                       | ) 4,541   | (3,811)                      | ) 5,584   |
| Income tax expense (benefit)  | 191                            | (17,954)  | ) 333                        | (17,791)  |
| Net income (loss)   | (10,380)                       | ) 22,495  | (4,144)                      | ) 23,375  |
| Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries | (2,434)                        | ) 2,458   | (193)                        | ) 3,256   |

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|  |            |          |            |          |
|--|------------|----------|------------|----------|
| Net income (loss) attributable to Cowen Group, Inc. stockholders | \$(7,946 ) | \$20,037 | \$(3,951 ) | \$20,119 |
| Weighted average common shares outstanding:                      |            |          |            |          |
| Basic  | 114,561    | 76,330   | 114,420    | 75,600   |
| Diluted  | 114,561    | 77,898   | 114,420    | 76,889   |
| Earnings (loss) per share:                                       |            |          |            |          |
| Basic  | \$(0.07 )  | \$0.26   | \$(0.03 )  | \$0.27   |
| Diluted  | \$(0.07 )  | \$0.26   | \$(0.03 )  | \$0.26   |

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

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Cowen Group, Inc.  
 Condensed Consolidated Statements of Comprehensive Income (Loss)  
 (dollars in thousands)  
 (unaudited)

|   | Six Months Ended June 30,<br>2012 | Six Months Ended June 30,<br>2011 |
|---|-----------------------------------|-----------------------------------|
| Net income (loss)                       |                                   | \$23,375                          |
| Other comprehensive income, net of tax: |                                   |                                   |
| Foreign currency translation            | 72                                | 160                               |
| Defined benefit pension plans:          |                                   |                                   |
|   | \$(4,144 )                        |                                   |