

COHEN & STEERS INC  
Form 10-Q  
November 10, 2005

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, 2005

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: 001-32236

COHEN & STEERS, INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

14-1904657  
(I.R.S. Employer  
Identification No.)

757 Third Avenue  
New York, NY  
(Address of principal executive  
offices)

10017  
(Zip Code)

(212) 832-3232  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Edgar Filing: COHEN & STEERS INC - Form 10-Q

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.)

Yes  No

The number of shares of the Registrant's common stock, par value \$0.01 per share, outstanding as of November 9, 2005 was 35,407,029.

---

**COHEN & STEERS, INC. AND SUBSIDIARIES**  
**Form 10-Q**  
**Index**

	<u>Page</u>
<b>Part I. <u>Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2005 (Unaudited) and December 31, 2004</u>	2
<u>Condensed Consolidated Statements of Income (Unaudited) For The Three and Nine Months Ended September 30, 2005 and 2004</u>	3
<u>Condensed Consolidated Statement of Stockholders' Equity (Unaudited) For The Nine Months Ended September 30, 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) For The Nine Months Ended September 30, 2005 and 2004</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	27
<b>Part II. <u>Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	28
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	28
Item 6. <u>Exhibits</u>	29
<u>Signature</u>	30
<b>Forward-Looking Statements</b>	

This report and other documents filed by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties.

Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, those described in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2004, which is accessible on the Securities and Exchange Commission's Web site at <http://www.sec.gov> and on our Web site at [cohenandsteers.com](http://cohenandsteers.com). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

**Part I Financial Information**  
**Item 1. Financial Statements**

**COHEN & STEERS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(in thousands, except share data)

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
<b>(Unaudited)</b>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 27,731	\$ 30,164
Marketable securities available-for-sale	90,629	69,935
Accounts receivable:		
Company-sponsored mutual funds	10,405	8,498
Other	6,366	4,654
Due from company-sponsored mutual funds	309	386
Income tax refunds receivable	170	380
Prepaid expenses and other current assets	5,273	2,119
	140,883	116,136
Property and equipment-net	4,621	2,638
Intangible asset-net	10,362	13,693
Other assets:		
Deferred commissions-net	4,740	5,716
Investments, company-sponsored mutual funds		100
Equity investment	4,276	3,961
Deferred income tax asset	21,455	18,003
Deposits	1,990	43
	32,461	27,823
Total assets	\$ 188,327	\$ 160,290
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accrued expenses and compensation	\$ 20,982	\$ 7,328
Dividends payable	4,385	3,983
Current portion of long-term debt		115
Current portion of obligations under capital leases	56	20
Deferred income tax liability	1,795	1,301
Other current liabilities	121	254
	27,339	13,001
Long-term liabilities:		
Long-term debt		1,558
Deferred rent less current maturities	1,230	66
Obligations under capital leases less current maturities	70	30
	1,300	1,654

Edgar Filing: COHEN & STEERS INC - Form 10-Q

<hr/>		
Stockholders' equity:		
Common stock, \$0.01 par value; 500,000,000 shares authorized; 35,407,029 shares issued and outstanding at September 30, 2005 and 35,388,736 shares issued and outstanding at December 31, 2004	354	354
Additional paid-in capital	183,538	178,594
Accumulated deficit	(10,336)	(21,557)
Unearned compensation	(14,711)	(13,546)
Accumulated other comprehensive income, net of tax	843	1,790
	<hr/>	
Total stockholders' equity	159,688	145,635
	<hr/>	
Total liabilities and stockholders' equity	\$ 188,327	\$ 160,290
	<hr/>	

*See notes to condensed consolidated financial statements*

**COHEN & STEERS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
<b>Revenue</b>				
Investment advisory and administration fees	\$ 31,402	\$ 24,174	\$ 87,732	\$ 66,077
Distribution and service fee revenue	3,122	2,554	8,941	7,246
Portfolio consulting and other	720	512	2,515	2,136
Investment banking fees	1,187	1,881	9,618	6,599
	<u>36,431</u>	<u>29,121</u>	<u>108,806</u>	<u>82,058</u>
<b>Expenses</b>				
Employee compensation and benefits	10,154	55,183	27,963	71,006
Distribution and service fee expenses	7,838	7,072	21,861	16,202
General and administrative	5,195	2,789	16,400	8,916
Depreciation and amortization	1,380	889	4,144	1,454
Amortization, deferred commissions	826	1,005	2,625	3,295
	<u>25,393</u>	<u>66,938</u>	<u>72,993</u>	<u>100,873</u>
Operating income (loss)	<u>11,038</u>	<u>(37,817)</u>	<u>35,813</u>	<u>(18,815)</u>
<b>Non-operating income (expense)</b>				
Interest and dividend income	877	302	2,232	515
Gain from sale of marketable securities	827		1,976	
Gain from sale of property and equipment	289		289	
Foreign currency transaction loss	(33)		(64)	
Interest expense	(54)	(30)	(102)	(111)
	<u>1,906</u>	<u>272</u>	<u>4,331</u>	<u>404</u>
Income (loss) before provision for income taxes and equity in earnings of affiliate	12,944	(37,545)	40,144	(18,411)
Provision for income taxes	5,226	(16,956)	17,250	(15,753)
Equity in earnings of affiliate	285		683	
	<u>8,003</u>	<u>(20,589)</u>	<u>23,577</u>	<u>(2,658)</u>
Net income (loss)	<u>\$ 8,003</u>	<u>\$ (20,589)</u>	<u>\$ 23,577</u>	<u>\$ (2,658)</u>
<b>Earnings (loss) per share</b>				
Basic	<u>\$ 0.20</u>	<u>\$ (0.60)</u>	<u>\$ 0.59</u>	<u>\$ (0.09)</u>
Diluted	<u>\$ 0.20</u>	<u>\$ (0.60)</u>	<u>\$ 0.58</u>	<u>\$ (0.09)</u>
<b>Weighted average shares outstanding</b>				
Basic	<u>39,980</u>	<u>34,068</u>	<u>39,999</u>	<u>29,156</u>
Diluted	<u>40,371</u>	<u>34,138</u>	<u>40,303</u>	<u>29,226</u>

*See notes to condensed consolidated financial statements*



**COHEN & STEERS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (Unaudited)**  
(in thousands)

Nine Months Ended September 30, 2005

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Unearned Compensation	Accumulated Other Comprehensive Income, Net	Total
<b>Beginning balance, January 1, 2005</b>	\$ 354	\$ 178,594	\$ (21,557)	\$ (13,546)	\$ 1,790	\$ 145,635
Dividends			(12,356)			(12,356)
Issuance of common stock		319				319
Tax benefit from issuance of dividends on restricted stock units		941				941
Issuance of restricted stock units		5,101		(4,950)		151
Amortization of unearned compensation				3,437		3,437
Forfeitures of restricted stock awards		(1,417)		348		(1,069)
Net income			23,577			23,577
Other comprehensive loss, net of taxes					(947)	(947)
<b>Ending balance, September 30, 2005</b>	<b>\$ 354</b>	<b>\$ 183,538</b>	<b>\$ (10,336)</b>	<b>\$ (14,711)</b>	<b>\$ 843</b>	<b>\$ 159,688</b>

*See notes to condensed consolidated financial statements*



**COHEN & STEERS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
(in thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 23,577	\$ (2,658)
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation expense	4,020	46,330
Stock appreciation right plan expense		869
Amortization, deferred commissions	2,625	3,295
Depreciation and amortization	4,144	1,454
Amortization, bond discount - net	(131)	
Deferred rent	1,164	(23)
Gain from sale of marketable securities	(1,976)	
Equity in earnings of affiliate	683	
Deferred income taxes	(2,958)	(17,103)
Foreign currency transaction loss	64	
Gain from sale of property and equipment	(289)	
Tax benefit from issuance of dividends on restricted stock units	941	
Changes in operating assets and liabilities:		
Accounts receivable, company-sponsored mutual funds	(1,907)	(2,152)
Accounts receivable, others	(1,776)	169
Due from company-sponsored mutual funds	77	230
Deferred initial public offering costs		139
Income tax refunds receivable	210	46
Prepaid expenses and other current assets	(3,154)	(1,566)
Deferred commissions	(1,649)	(2,524)
Deposits	(1,947)	
Accrued expenses and compensation	12,323	13,617
Income taxes payable		(99)
Other current liabilities	(133)	
<b>Net cash provided by operating activities</b>	<b>33,908</b>	<b>40,024</b>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities available-for-sale	(52,450)	(56,763)
Proceeds from maturities of marketable securities available-for-sale	24,747	
Proceeds from sale of marketable securities available-for-sale	8,199	
Purchases of property and equipment	(2,981)	(333)
<b>Net cash used in investing activities</b>	<b>(22,485)</b>	<b>(57,096)</b>
<b>Cash flows from financing activities:</b>		
Distributions to S-corporation shareholders		(37,741)
Dividends to stockholders	(11,954)	
Repayment of bank line of credit		(4,713)
Payment of capital lease obligations	(76)	
Principal payments on long-term debt	(1,673)	(89)
Offering costs		(4,837)
Issuance of common stock	215	104,276
<b>Net cash (used in) provided by financing activities</b>	<b>(13,488)</b>	<b>56,896</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,065)</b>	<b>39,824</b>

Edgar Filing: COHEN & STEERS INC - Form 10-Q

Effect of foreign currency translation	(368)	
Cash and cash equivalents, beginning of period	30,164	7,526
Cash and cash equivalents, end of period	\$ 27,731	\$ 47,350
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$ 107	\$ 117
Cash paid for taxes, net	\$ 21,217	\$ 530

*See notes to condensed consolidated financial statements*

**COHEN & STEERS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Organization and Description of Business**

Cohen & Steers, Inc. ( CNS ) completed the initial public offering of its common stock on August 18, 2004. On August 17, 2004, prior to the completion of the initial public offering and pursuant to a reorganization into a holding company structure, CNS became the parent holding company of Cohen & Steers Capital Management, Inc. ( CSCM ). CNS, through its direct and indirect subsidiaries, succeeded to the business conducted by CSCM and its subsidiaries. The reorganization is described in greater detail in the Registration Statement on Form S-1 (File No. 333-114027) (the Registration Statement ) filed with the Securities and Exchange Commission (the SEC ) in connection with the initial public offering. On August 16, 2004, the Company terminated its status as an S-corporation under Subchapter S of the Internal Revenue Code and converted to a C-corporation. The results for the three and nine months ended September 30, 2004 include operations as a private company and are not necessarily comparable with the results of operations as a public company in the three and nine months ended September 30, 2005.

The unaudited condensed consolidated financial statements include the accounts of CNS and its direct and indirect subsidiaries, which include CSCM, Cohen & Steers Securities, LLC ( Securities, LLC ), and Cohen & Steers Capital Advisors, LLC ( Advisors, LLC and collectively, the Company ). On September 9, 2005, CNS terminated Cohen & Steers Holdings, LLC ( Holdings, LLC ). Holdings, LLC was organized to retain fractional ownership interests in two aircraft. During the quarter ended September 30, 2005, these interests were transferred to CSCM. Material intercompany transactions and balances have been eliminated in consolidation.

The Company provides investment management services to individual and institutional investors through a wide range of open-end mutual funds, closed-end mutual funds and institutional separate accounts. The Company manages high-income equity portfolios, specializing in U.S. REITs, international real estate securities, preferred securities, utilities and large cap value stocks. Through its registered broker-dealers, Securities, LLC and Advisors, LLC, the Company provides distribution services for certain of its funds as well as investment banking services to companies in real estate and real estate intensive businesses. On January 27, 2005, the National Association of Securities Dealers (the NASD ) approved the expansion of Advisors, LLC s underwriting business to include firm commitment underwriting.

**2. Basis of Presentation and Significant Accounting Policies**

The unaudited condensed consolidated financial statements of the Company included herein have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the interim results have been made. The preparation of the unaudited condensed consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

The Company s unaudited condensed consolidated financial statements and the related notes should be read together with the consolidated financial statements and the related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004 and the unaudited condensed

## Edgar Filing: COHEN & STEERS INC - Form 10-Q

consolidated financial statements and the related notes included in the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 2005 and June 30, 2005. Certain prior period amounts have been reclassified to conform to the three and nine months ended September 30, 2005 presentation.

*Cash Equivalents* Cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash and have original maturities of three months or less.

*Investments* The management of the Company determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination at each statement of financial condition date. Marketable securities classified as available-for-sale consist of investments in Company-sponsored open-end and closed-end mutual funds as well as highly rated debt and preferred instruments. These investments are carried at fair value based on quoted market prices, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income.

*Goodwill and Intangible Asset* Intangible assets are amortized over their useful life. Goodwill represents the excess of the cost of the Company's investment in the net assets of an acquired company over the fair value of the underlying identifiable net assets at the date of acquisition. Goodwill is not amortized but is tested at least annually for impairment by comparing the fair value to carrying amount, including goodwill. See Note 3 for further discussion about the Company's goodwill and intangible assets.

*Deferred Commissions* Deferred commissions consist of commissions paid in advance to broker-dealers in connection with the sale of certain shares of Company-sponsored open-end load mutual funds and are capitalized and amortized over a period not to exceed six years.

*Investment Advisory and Administration Fees* The Company earns the majority of its revenue by providing asset management services to Company-sponsored open-end and closed-end mutual funds and to institutional separate accounts. This revenue is earned pursuant to the terms of the underlying advisory contract and is based on a contractual investment advisory fee applied to the assets in the respective portfolios. The Company also earns revenue from administration fees paid by certain Company-sponsored open-end and closed-end mutual funds, based on the average daily net assets of such funds. This revenue is recognized as such fees are earned.

*Distribution and Service Fee Revenue* Distribution and service fee revenue is earned as the services are performed, generally based on contractually-predetermined percentages of the average daily net assets of the open-end load mutual funds. Distribution and service fee revenue is recorded gross of any third-party distribution and service arrangements; the expenses associated with these third-party distribution and service arrangements are recorded in distribution and service fee expenses.

*Portfolio Consulting Fees* The Company earns revenue for various portfolio consulting services provided to clients, as well as for providing a license to use its name. This revenue is recognized pursuant to the terms of individual agreements and is based on the net assets of the clients' funds.

*New Accounting Pronouncements* In March 2005, a Financial Accounting Standards Board (FASB) Staff Position was issued addressing the application of Emerging Issues Task Force (EITF) Issue No. 85-24 (FSP EITF 85-24-1), Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge, when cash for the right to future distribution fees for shares previously sold is received from third parties. FSP EITF 85-24-1 did not materially impact the Company's unaudited condensed consolidated financial position or results of operations.

### 3. Intangible Asset

The Company's intangible asset, which expires in January 2008, reflects the independently determined value of the non-competition agreements that the Company received from certain employees who received fully vested restricted stock units ( RSUs ) at the time of the Company's initial public offering in exchange for terminated stock appreciation rights granted to such holders prior to the Company's initial public offering. The intangible asset, with an original value of \$15,400,000, is being amortized on a straight-line basis over the life of these agreements. The following table details the gross carrying amounts and accumulated amortization for the intangible asset at September 30, 2005 and December 31, 2004 (in thousands):

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Gross carrying amount	\$ 15,400	\$ 15,400
Accumulated amortization	(5,038)	(1,707)
Intangible asset, net	<u>\$ 10,362</u>	<u>\$ 13,693</u>

Amortization expense related to the intangible asset was approximately \$1,110,000 and \$3,331,000 in the three and nine months ended September 30, 2005, respectively. Estimated amortization expense from October 1, 2005 through January 31, 2008, the date of expiration, is as follows (in thousands):

Years Ending December 31,	Estimated Amortization Expense
2005	\$ 1,110
2006	4,441
2007	4,441
2008	370

### 4. Investments

#### Marketable Securities

The following is a summary of the cost and fair value of investments in marketable securities at September 30, 2005 and December 31, 2004 (in thousands):

	<u>September 30, 2005 Gross Unrealized</u>				<u>December 31, 2004 Gross Unrealized</u>			
	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Market Value</u>	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Market Value</u>
Debt securities (1):								
Maturity Less than 1 year	23,953		(120)	23,833	27,451		(65)	27,386
Maturity Between 1yr - 5 yrs	34,880		(250)	34,630	19,990		(150)	19,840
Preferred securities	17,689	117		17,806	13,000	72		13,072
Company sponsored mutual funds	12,033	2,327		14,360	6,403	3,235	(1)	9,637
Total marketable securities, available for sale	<u>88,555</u>	<u>2,444</u>	<u>(370)</u>	<u>90,629</u>	<u>66,844</u>	<u>3,307</u>	<u>(216)</u>	<u>69,935</u>

(1) Debt securities consist of U.S. Treasury and U.S. Government agency securities.

In the three months ended September 30, 2005, sales proceeds and gross realized gains from Company-sponsored mutual funds were approximately \$1,797,000 and \$775,000, respectively. In the nine months ended September 30, 2005, sales proceeds and gross realized gains from Company-sponsored mutual



## Edgar Filing: COHEN & STEERS INC - Form 10-Q

funds were approximately \$4,970,000 and \$1,924,000, respectively. There was no sales activity in the three and nine months ended September 30, 2004. Dividend income from Company-sponsored mutual funds was approximately \$85,000 and \$138,000, in the three months ended September 30, 2005 and 2004, respectively and approximately \$288,000 and \$315,000 in the nine months ended September 30, 2005 and 2004, respectively.

### *Equity Investment*

At September 30, 2005, the Company had a non-controlling 50% investment of approximately \$4,276,000, which includes approximately \$2,721,000 of goodwill, in Houlihan Rovers, the Company's Brussels-based investment advisor affiliate. The Company accounts for its investment in Houlihan Rovers using the equity method of accounting. Under such accounting method, the investor recognizes its respective share of the investee's net income for the period. In the three and nine months ended September 30, 2005, the Company recognized approximately \$285,000 and \$683,000, respectively, of income from Houlihan Rovers.

### **5. Property and Equipment**

On September 30, 2005, the Company sold its fractional ownership interest in an aircraft for approximately \$485,000, net of commissions. The aircraft had a net book value of approximately \$196,000 at September 30, 2005. Pursuant to this transaction, the Company recognized a gain on sale of approximately \$289,000.

### **6. Earnings Per Share**

Basic earnings per share are calculated by dividing net income by the weighted average shares outstanding. Diluted earnings per share are calculated by dividing net income by the total weighted average shares of common stock outstanding and common stock equivalents. Common stock equivalents are comprised of dilutive potential shares from restricted stock unit awards. Common stock equivalents are excluded from the computation if their effect is anti-dilutive. Diluted earnings per share are computed using the treasury stock method.

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations in the three and nine months ended September 30, 2005 and 2004 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	\$ 8,003	\$ (20,589)	\$ 23,577	\$ (2,658)
Basic weighted average shares outstanding	39,980	34,068	39,999	29,156
Dilutive potential shares from restricted stock awards	391	70	304	70
Dilutive weighted average shares outstanding	40,371	34,138	40,303	29,226
Basic earnings (loss) per share	\$ 0.20	\$ (0.60)	\$ 0.59	\$ (0.09)
Diluted earnings (loss) per share	\$ 0.20	\$ (0.60)	\$ 0.58	\$ (0.09)

## 7. Income Taxes

On August 16, 2004, the Company terminated its status as an S-corporation and converted to a C-corporation. For all periods prior to such date, the Company operated as an S-corporation and was not subject to U.S. Federal and certain state income taxes. The Company's historical income tax expense consisted of New York State and New York City income taxes. As a C-corporation, the Company is liable for U.S. Federal and certain state and local income taxes to which it had not been previously subject.

The Company accounts for taxes in accordance with the guidance set forth in Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting For Income Taxes. In accordance with SFAS No. 109, recognition of tax benefits or expenses is required for temporary differences between the book and tax bases of assets and liabilities.

Deferred income taxes represent the tax effects of the temporary differences between book and tax bases and are measured using the tax rates expected during the periods in which the differences are expected to reverse. The provision for income taxes for the three months ended September 30, 2005, reflects U.S. federal, state and local income taxes at an effective tax rate equal to 39.5%. Under Accounting Principles Board Opinion 23 *Accounting for income taxes-special areas* ( APB 23 ), the Company has not provided for U.S. taxes for the undistributed earnings of Houlihan Rovers, which reduced the Company's effective tax rate for the three months ended September 30, 2005. The provision for income taxes for the nine months ended September 30, 2005, includes U.S. federal, state and local income taxes at an effective tax rate equal to 42.3%. Included in the tax provision for the nine months ended September 30, 2005 is an adjustment to the net deferred tax asset resulting from a recent change in the New York State tax law. The deferred tax asset is primarily attributable to future income tax deductions derived from vested restricted stock units granted at the time of the Company's initial public offering.

## 8. Long-Term Debt

During the three months ended September 30, 2005, the Company prepaid its long-term debt, which included two loans with original principal of approximately \$1,440,000 and \$620,000, respectively. These loans were collateralized by fractional ownership interests in certain aircraft. Amounts paid pursuant to these loan pre-payments as of September 30, 2005, were approximately \$1,135,000 million and \$493,000 respectively. No gains or losses were recognized on such pre-payments.

## 9. Contingencies

As previously disclosed, on October 11, 2004, the Company's Compensation Committee canceled fully vested RSUs previously granted to an employee who resigned from the Company due to such employee's violation of the non-competition covenants relating to the RSUs. On October 29, 2004, this former employee filed a lawsuit against the Company challenging the forfeiture of these RSUs. On November 18, 2004, the Company filed a motion to dismiss this action and on April 1, 2005, the court granted the Company's motion to dismiss. On November 7, 2005, this former employee appealed the Supreme Court's decision to dismiss the matter to the Appellate Division of the Supreme Court, First Department. Based on information currently available and advice of counsel, the Company believes that the eventual outcome of the action against it will not have a material adverse effect on its unaudited condensed consolidated financial position, results of operations or liquidity.



**10. Comprehensive Income**

Total comprehensive income includes net income and other comprehensive income, net of tax. The components of comprehensive income in the three months and nine months ended September 30, 2005 and 2004 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	\$ 8,003	\$ (20,589)	\$ 23,577	\$ (2,658)
Foreign currency translation adjustment	(330)		(368)	
Net unrealized gain (loss) on available-for-sale securities, net of tax	(509)	(307)	(1,744)	(204)
Reclassification of realized gain on available-for-sale securities, net of tax	488		1,165	
Total comprehensive income (loss)	\$ 7,652	\$ (20,896)	\$ 22,630	\$ (2,862)

**11. Regulatory Requirements**

Securities, LLC and Advisors, LLC, as registered broker-dealers and member firms of the NASD, are subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Net Capital Rule"), which requires that broker-dealers maintain a minimum level of net capital, as defined. At September 30, 2005, Securities, LLC and Advisors, LLC had net capital of approximately \$2,325,000 and \$7,143,000, respectively, which exceeded their requirements by approximately \$2,097,000 and \$6,827,000, respectively.

The Net Capital Rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital of a broker-dealer is less than the amount required under the Net Capital Rule.

Securities, LLC and Advisors, LLC do not carry customer accounts and are exempt from the SEC's Rule 15c3-3 pursuant to provisions (k)(2)(i) and (k)(2)(ii) of such rule.

**12. Related Party Transactions**

The Company is an investment advisor to, and has administrative agreements with, affiliated open-end and closed-end mutual funds for which certain employees are officers and/or directors. In the three months ended September 30, 2005 and 2004, the Company earned advisory and administrative fee revenue of approximately \$27,269,000 and \$21,126,000, respectively, from these affiliated funds. In the nine months ended September 30, 2005 and 2004, the Company earned advisory and administrative fee revenue of approximately \$76,248,000 and \$57,539,000, respectively, from these affiliated funds. In the three months ended September 30, 2005 and 2004, distribution and service fee revenue from such funds aggregated approximately \$3,091,000 and \$2,561,000, respectively. In the nine months ended September 30, 2005 and 2004, distribution and service fee revenue from such funds aggregated approximately \$8,941,000 and \$7,246,000, respectively.

## Edgar Filing: COHEN & STEERS INC - Form 10-Q

The Company incurs expenses associated with the launch of its open and closed-end funds. These organizational costs, which are included in general and administrative expenses, totaled approximately \$242,000 and \$100,000 in the three months ended September 30, 2005 and 2004, respectively, and \$2,411,000 and \$600,000 in the nine months ended September 30, 2005 and 2004, respectively.

The Company has an agreement with an affiliated open-end mutual fund that contractually requires the Company to pay expenses of the fund so that its total annual operating expenses do not exceed 0.75% of average daily net assets. This commitment will remain in place for the fund's life. In the three months ended September 30, 2005 and 2004, expenses of approximately \$270,000 and \$200,000, respectively, were incurred by the Company pursuant to this agreement and are included in general and administrative expenses. In the nine months ended September 30, 2005 and 2004, expenses of approximately \$770,000 and \$600,000, respectively, were incurred.

The Company has agreements with five other affiliated open-end mutual funds to waive and/or reimburse certain fund expenses. These commitments will remain in place through December 31, 2005. In the three months ended September 30, 2005 and 2004, expenses of approximately \$167,000 and \$54,000, respectively, were incurred by the Company pursuant to these agreements and are included in general and administrative expenses. In the nine months ended September 30, 2005 and 2004, expenses of approximately \$567,000 and \$154,000, respectively, were incurred.

General and administrative expenses include \$227,000 and \$344,000 of sub-advisory fees paid to Houlihan Rovers in the three and nine months ended September 30, 2005, respectively.

See Note 4 relating to additional investments in Company-sponsored mutual funds.

### 13. Segment Reporting

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes disclosure requirements relating to operating segments in financial statements. The Company operates in two business segments: Asset Management and Investment Banking. The Company's reporting segments are strategic divisions that offer different services and are managed separately, as each division requires different resources and marketing strategies.

The Company does not record revenue between segments (referred to as inter-segment revenue).

The Company evaluates performance of its segments based on profit or loss from operations before taxes. Information on the unaudited condensed consolidated statement of financial condition data by segment is not disclosed because it is not used in evaluating segment performance and deciding how to allocate resources to segments.

Summarized financial information for the Company's reportable segments is presented in the following tables (in thousands):

Edgar Filing: COHEN & STEERS INC - Form 10-Q

Three Months Ended

	September 30, 2005	September 30, 2004
<b><u>Asset Management</u></b>		
Total revenue	\$ 35,244	\$ 27,240
Total expenses	(23,693)	(62,420)
Net non-operating income, including equity in earnings of affiliate	2,123	257
Income (loss) before provision for income taxes	<u>\$ 13,674</u>	<u>\$ (34,923)</u>

**Investment Banking**

Total revenue	\$ 1,187	\$ 1,881
Total expenses	(1,700)	(4,518)
Net non-operating income	68	15
Loss before provision for income taxes	<u>\$ (445)</u>	<u>\$ (2,622)</u>

**Total**

Total revenue	\$ 36,431	\$ 29,121
Total expenses	(25,393)	(66,938)
Net non-operating income, including equity in earnings of affiliate	2,191	272
Income (loss) before provision for income taxes	<u>\$ 13,229</u>	<u>\$ (37,545)</u>

Nine Months Ended

	September 30, 2005	September 30, 2004
<b><u>Asset Management</u></b>		
Total revenue	\$ 99,188	\$ 75,459
Total expenses	(65,982)	(92,618)
Net non-operating income, including equity in earnings of affiliate	4,865	374
Income (loss) before provision for income taxes	<u>\$ 38,071</u>	<u>\$ (16,785)</u>

**Investment Banking**

Total revenue	\$ 9,618	\$ 6,599
Total expenses	(7,011)	(8,255)
Net non-operating income	149	30
Income (loss) before provision for income taxes	<u>\$ 2,756</u>	<u>\$ (1,626)</u>

**Total**

Total revenue	\$ 108,806	\$ 82,058
Total expenses	(72,993)	(100,873)
Net non-operating income, including equity in earnings of affiliate	5,014	404
Income (loss) before provision for income taxes	<u>\$ 40,827</u>	<u>\$ (18,411)</u>

---

**14. Subsequent Events**

On October 18, 2005, the Company paid a cash dividend of \$0.11 per share to the Company's stockholders of record at the close of business on September 29, 2005.

On November 9, 2005, the Company's Board of Directors declared a cash dividend of \$0.11 per share to the Company's stockholders. The dividend will be payable on January 18, 2006 to stockholders of record at the close of business on December 29, 2005.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Set forth on the following pages is management's discussion and analysis of our financial condition and results of operations for the three and nine months ended September 30, 2005 and September 30, 2004. Such information should be read in conjunction with our unaudited condensed consolidated financial statements together with the notes to the unaudited condensed consolidated financial statements. When we use the terms Cohen & Steers, the Company, we, us, and our, we mean Cohen & Steers, Inc., a Delaware corporation, and its consolidated subsidiaries.

**Overview**

Cohen & Steers is a manager of high-income equity portfolios, specializing in U.S. REITs, international real estate securities, preferred securities, utilities, and large cap value stocks. We serve individual and institutional investors through a wide range of open-end mutual funds, closed-end mutual funds and institutional separate accounts. As a complement to our asset management business, we also provide investment banking services to companies in real estate and real estate intensive businesses.

**Assets Under Management**

We manage three types of accounts: closed-end mutual funds, open-end load and no-load mutual funds and institutional separate accounts.

The following table sets forth information regarding the net flows and appreciation/(depreciation) of assets under management for the periods presented (in millions):

Edgar Filing: COHEN & STEERS INC - Form 10-Q

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
<b><u>Closed-End Mutual Funds</u></b>				
Assets under management, beginning of period	\$ 10,007	\$ 7,671	\$ 8,984	\$ 4,791
Inflows			755	2,931
Market appreciation	78	334	346	283
Total increase	78	334	1,101	3,214
Assets under management, end of period	\$ 10,085	\$ 8,005	\$ 10,085	\$ 8,005
<b><u>Open-End Mutual Funds</u></b>				
Assets under management, beginning of period	\$ 5,428	\$ 4,029	\$ 5,199	\$ 3,897
Inflows	448	315	1,287	998
Outflows	(399)	(215)	(1,345)	(963)
Net inflows (outflows)	49	100	(58)	35
Market appreciation	119	336	455	533
Total increase	168	436	397	568
Assets under management, end of period (1)	\$ 5,596	\$ 4,465	\$ 5,596	\$ 4,465
<b><u>Institutional Separate Accounts</u></b>				
Assets under management, beginning of period	\$ 4,428	\$ 3,280	\$ 4,118	\$ 2,992
Inflows	83	75	351	360
Outflows	(197)	(82)	(461)	(287)
Net inflows (outflows)	(114)	(7)	(110)	73
Market appreciation	165	324	471	532
Total increase	51	317	361	605
Assets under management, end of period	\$ 4,479	\$ 3,597	\$ 4,479	\$ 3,597
<b><u>Total</u></b>				
Assets under management, beginning of period	\$ 19,863	\$ 14,980	\$ 18,301	\$ 11,680
Inflows	531	390	2,393	4,289
Outflows	(596)	(297)	(1,806)	(1,250)
Net inflows (outflows)	(65)	93	587	3,039
Market appreciation	362	994	1,272	1,348
Total increase	297	1,087	1,859	4,387
Assets under management, end of period (1)	\$ 20,160	\$ 16,067	\$ 20,160	\$ 16,067

Edgar Filing: COHEN & STEERS INC - Form 10-Q

(1) As of September 30, 2005, assets under management included \$387 million of assets sub-advised by Houlihan Rovers.

## Edgar Filing: COHEN & STEERS INC - Form 10-Q

Assets under management were \$20.2 billion at September 30, 2005, a 25% increase from \$16.1 billion at September 30, 2004.

### *Closed-end mutual funds*

Closed-end mutual fund assets under management increased 26% to \$10.1 billion at September 30, 2005, compared with \$8.0 billion at September 30, 2004. The increase in assets under management was attributable to offerings of common shares for new funds and preferred shares for new and existing funds as well as market appreciation.

There were no closed-end mutual fund net inflows in the three months ended September 30, 2005 or 2004 as no new common or preferred shares were offered during these periods. Market appreciation was \$78 million in the three months ended September 30, 2005, compared with market appreciation of \$334 million in the three months ended September 30, 2004.

Closed-end mutual fund inflows were \$755 million in the nine months ended September 30, 2005, compared with \$2.9 billion in the nine months ended September 30, 2004. In January 2005, we launched Cohen & Steers Dividend Majors Fund, our first diversified portfolio of high dividend-paying common stocks. This fund raised \$244 million, net of underwriting fees. In March 2005, we launched Cohen & Steers Worldwide Realty Income Fund, a closed-end fund that invests primarily in a portfolio of global real estate equity securities, which raised \$287 million, net of underwriting fees. In May 2005, Cohen & Steers Worldwide Realty Income Fund issued \$150 million in variable rate preferred shares bringing the total raised for this fund to \$437 million. Also, one of our existing closed-end funds raised \$74 million of variable rate preferred shares during the nine months ended September 30, 2005.

Market appreciation was \$346 million in the nine months ended September 30, 2005, compared with market appreciation of \$283 million in the nine months ended September 30, 2004.

### *Open-end mutual funds*

Open-end mutual fund assets under management increased 25% to \$5.6 billion at September 30, 2005 from \$4.5 billion at September 30, 2004. The increase was primarily attributable to market appreciation.

Net inflows for open-end mutual funds were \$49 million in the three months ended September 30, 2005, compared with net inflows of \$100 million in the three months ended September 30, 2004. Gross inflows increased to \$448 million in the three months ended September 30, 2005 from \$315 million in the three months ended September 30, 2004. Gross outflows totaled \$399 million in the three months ended September 30, 2005, compared with \$215 million in the three months ended September 30, 2004.

Market appreciation across all of our open-end mutual funds was \$119 million in the three months ended September 30, 2005, compared with market appreciation of \$336 million in the three months ended September 30, 2004.



## Edgar Filing: COHEN & STEERS INC - Form 10-Q

Net outflows for open-end mutual funds were \$58 million in the nine months ended September 30, 2005, compared with net inflows of \$35 million in the nine months ended September 30, 2004. Gross inflows increased to \$1.3 billion in the nine months ended September 30, 2005 from \$998 million in the nine months ended September 30, 2004. Gross outflows totaled \$1.3 billion in the nine months ended September 30, 2005, compared with \$963 million in the nine months ended September 30, 2004. Included in our open-end mutual fund gross outflows for the nine months ended September 30, 2005 was a client transfer of \$100 million into our institutional separate accounts.

Market appreciation across all of our open-end mutual funds was \$455 million in the nine months ended September 30, 2005, compared with market appreciation of \$533 million in the nine months ended September 30, 2004.

### *Institutional separate accounts*

Institutional separate account assets under management increased 25% to \$4.5 billion at September 30, 2005 from \$3.6 billion at September 30, 2004. The majority of the increase in assets under management during this period was due to market appreciation.

Institutional separate accounts had net outflows of \$114 million in the three months ended September 30, 2005, compared with net outflows of \$7 million in the three months ended September 30, 2004. Gross inflows increased to \$83 million in the three months ended September 30, 2005 from \$75 million in the three months ended September 30, 2004. Gross outflows were \$197 million in the three months ended September 30, 2005, compared with \$82 million in the three months ended September 30, 2004.

Market appreciation was \$165 million in the three months ended September 30, 2005, compared with market appreciation of \$324 million in the three months ended September 30, 2004.

Institutional separate accounts had net outflows of \$110 million in the nine months ended September 30, 2005, compared with net inflows of \$73 million in the nine months ended September 30, 2004. Gross inflows were \$351 million in the nine months ended September 30, 2005, compared with \$360 million in the nine months ended September 30, 2004. Included in our institutional separate account inflows for the nine months ended September 30, 2005 was a client transfer in the amount of \$100 million from one of our open-end mutual funds. Gross outflows were \$461 million in the nine months ended September 30, 2005, compared with \$287 million in the nine months ended September 30, 2004.

Market appreciation was \$471 million in the nine months ended September 30, 2005, compared with market appreciation of \$532 million in the nine months ended September 30, 2004.

**Results of Operations***Three Months Ended September 30, 2005 compared with Three Months Ended September 30, 2004*

The following table of selected financial data presents our business segments in a manner consistent with the way that we manage our businesses (in thousands):

	<b>Three Months Ended</b>	
	<b>September 30, 2005</b>	<b>September 30, 2004</b>
<b><u>Asset Management</u></b>		
Total revenue	\$ 35,244	\$ 27,240
Total expenses	(23,693)	(62,420)
Net non-operating income, including equity in earnings of affiliate	2,123	257
Income (loss) before provision for income taxes	\$ 13,674	\$ (34,923)
<b><u>Investment Banking</u></b>		
Total revenue	\$ 1,187	\$ 1,881
Total expenses	(1,700)	(4,518)
Net non-operating income	68	15
Loss before provision for income taxes	\$ (445)	\$ (2,622)
<b><u>Total</u></b>		
Total revenue	\$ 36,431	\$ 29,121
Total expenses	(25,393)	(66,938)
Net non-operating income, including equity in earnings of affiliate	2,191	272
Income (loss) before provision for income taxes	\$ 13,229	\$ (37,545)

**Revenue**

Total revenue increased 25% to \$36.4 million in the three months ended September 30, 2005 from \$29.1 million in the three months ended September 30, 2004. This increase was primarily due to an increase in investment advisory and administration fees attributable to higher assets under management.

***Asset Management***

Revenue increased 29% to \$35.2 million in the three months ended September 30, 2005 from \$27.2 million in the three months ended September 30, 2004. Investment advisory and administration fees increased 30% to \$31.4 million in the three months ended September 30, 2005, compared with \$24.2 million in the three months ended September 30, 2004.

In the three months ended September 30, 2005, total investment advisory and administration revenue from closed-end mutual funds increased 28% to \$16.2 million from \$12.6 million in the three months ended September 30, 2004. The third quarter of 2005 included a full quarter of revenue from the completion of two new fund offerings during the first quarter of 2005. The remaining increase in closed-end mutual fund revenue was due to higher levels of average daily net assets resulting from market appreciation and additional auction market preferred share offerings for certain funds during the fourth quarter of 2004 and the first half of 2005.

In the three months ended September 30, 2005, total investment advisory and administration revenue from open-end mutual funds increased 31% to \$11.2 million from \$8.5 million in the three months ended September 30, 2004. The increase was attributable to increased assets under management across all of our new and existing open-end mutual funds. Distribution and service fee revenue increased 22% to \$3.1 million in the three months ended September 30, 2005 from \$2.6 million in the three months ended September 30, 2004. This increase in

Edgar Filing: COHEN & STEERS INC - Form 10-Q

distribution and service fee revenue was primarily due to increased assets in two open-end mutual funds.

In the three months ended September 30, 2005, total investment advisory and administration revenue from institutional separate accounts increased 34% to \$4.1 million from \$3.1 million in the three months

## Edgar Filing: COHEN & STEERS INC - Form 10-Q

ended September 30 2004. This increase was attributable to higher levels of assets resulting from market appreciation, despite net outflows during the period.

### ***Investment Banking***

Revenue decreased 37% to \$1.2 million in the three months ended September 30, 2005 from \$1.9 million in the three months ended September 30, 2004. Third quarter 2005 revenue was primarily attributable to fees generated in connection with merger advisory assignments and capital raising transactions, including the final settlement of two co-managed underwritten public offerings.

### **Expenses**

Total operating expenses decreased 62% to \$25.4 million in the three months ended September 30, 2005 from \$66.9 million in the three months ended September 30, 2004, primarily due to a decrease in employee compensation and benefits expense.

Employee compensation and benefits expense decreased 82% to \$10.2 million in the three months ended September 30, 2005, from \$55.2 million in the three months ended September 30, 2004. This was due to a third quarter 2004 one-time non-cash compensation charge of \$46.0 million and an associated Medicare tax expense of \$1.0 million related to the termination of a stock appreciation rights plan for the predecessor company and the simultaneous grant of fully-vested restricted stock unit awards ( RSUs ) to certain employees coincident with the initial public offering of Cohen & Steers, Inc. common stock, partially offset by increases in base and incentive compensation for new employees and amortization of unearned compensation related to RSUs and deferred compensation plans. As a result of the new hires that occurred during the third quarter of 2005, we expect employee compensation and benefits to be higher in the fourth quarter.

Distribution and service fee expenses increased 11% to \$7.8 million in the three months ended September 30, 2005 from \$7.1 million in the three months ended September 30, 2004. This increase was primarily due to higher levels of average daily net assets resulting from market appreciation and the launch of new closed-end mutual funds in 2005.

General and administrative expenses increased 86% to \$5.2 million in the three months ended September 30, 2005 from \$2.8 million in the three months ended September 30, 2004. The majority of the increase was attributable to higher professional fees resulting from costs related to compliance with the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ), sub-advisory fees paid to Houlihan Rovers, higher recruiting fees and higher accounting, tax and auditing fees associated with the requirements of being a public company. Occupancy costs were primarily higher due to the recognition of a full quarter s rent expense for our new corporate headquarters to which we will relocate in November 2005. In connection with our relocation, we will record a charge of approximately \$1.8 million comprised primarily of moving costs and remaining lease payments, partially offset by sublease income for our current location.

Depreciation and amortization increased 55% to \$1.4 million in the three months ended September 30, 2005 from \$0.9 million in the three months ended September 30, 2004. Included in depreciation and amortization expense in the third quarter of 2005 was a full quarter of non-cash expense of \$1.1 million relating to amortization of the intangible asset recorded in connection with the grant of fully vested RSUs at the initial public offering of Cohen & Steers, Inc. common stock. The intangible asset, which expires in

2008, reflects the independently determined value of the non-competition agreements we have received from each of the employees that received fully vested RSUs at our initial public offering. As a result of our relocation to our new corporate headquarters in November, we will record a charge of approximately \$0.7 million attributable to the abandonment of certain furniture and fixtures and leasehold improvements.

### **Non-operating Income**

Non-operating income, including our share of the net income of Houlihan Rovers, was \$2.2 million in the three months ended September 30, 2005, compared with \$0.3 million in the three months ended September 30, 2004. The third quarter 2005 non-operating income was primarily attributable to \$0.9 million of interest and dividend income, \$0.8 million of realized gains from the sale of investments in our Company-sponsored mutual funds and a \$0.3 million gain from the sale of our fractional interest in an aircraft.

### **Income Taxes**

Historical income tax expense consisted solely of New York state and local income taxes; prior to the initial public offering of Cohen & Steers, Inc. common stock, we were exempt from federal income taxes due to our status as an S-corporation. However, upon our conversion from an S-corporation to C-corporation status on August 16, 2004, we became subject to U.S. federal and certain state and local income taxes. We recorded an income tax expense of \$5.2 million in the three months ended September 30, 2005, compared with an income tax benefit of \$17.0 million in the three months ended September 30, 2004. The provision for income taxes for the three months ended September 30, 2005, reflects U.S. federal, state and local income taxes at an effective tax rate equal to 39.5%. Under Accounting Principles Board Opinion 23 *Accounting for income taxes-special areas* ( APB 23 ), we have not provided for U.S. taxes for the undistributed earnings of Houlihan Rovers, which reduced our effective tax rate for the three months ended September 30, 2005. The income tax benefit in the third quarter of 2004 was due primarily to a benefit derived from vested restricted stock units granted at the time of the initial public offering of Cohen & Steers, Inc. common stock. We expect our effective tax rate to be approximately 40% for the fourth quarter of 2005.

### ***Nine Months Ended September 30, 2005 compared with Nine Months Ended September 30, 2004***

The following table of selected financial data presents our business segments in a manner consistent with the way that we manage our businesses (in thousands):

	Nine Months Ended	
	September 30, 2005	September 30, 2004
<b>Asset Management</b>		
Total revenue	\$ 99,188	\$ 75,459
Total expenses	(65,982)	(92,618)
Net non-operating income, including equity in earnings of affiliate	4,865	374
Income (loss) before provision for income taxes	\$ 38,071	\$ (16,785)
<b>Investment Banking</b>		
Total revenue	\$ 9,618	\$ 6,599
Total expenses	(7,011)	(8,255)
Net non-operating income	149	30
Income (loss) before provision for income taxes	\$ 2,756	\$ (1,626)
<b>Total</b>		
Total revenue	\$ 108,806	\$ 82,058
Total expenses	(72,993)	(100,873)
Net non-operating income, including equity in earnings of affiliate	5,014	404
Income (loss) before provision for income taxes	\$ 40,827	\$ (18,411)

**Revenue**

Total revenue increased 33% to \$108.8 million in the nine months ended September 30, 2005, from \$82.1 million in the nine months ended September 30, 2004. This increase was primarily the result of an increase in investment advisory and administration fees attributable to higher assets under management and an increase in investment banking fees.

**Asset Management**

Revenue increased 31% to \$99.2 million in the nine months ended September 30, 2005, from \$75.5 million in the nine months ended September 30, 2004. Investment advisory and administration fees increased 33% to \$87.7 million in the nine months ended September 30, 2005, compared with \$66.1 million in the nine months ended September 30, 2004.

In the nine months ended September 30, 2005, total investment advisory and administration revenue from closed-end mutual funds increased 38% to \$45.3 million from \$33.0 million in the nine months ended September 30, 2004. The nine months ended September 30, 2005 included revenue from the completion of two new closed-end fund offerings during the first half of 2005. The remaining increase in closed-end mutual fund revenue was due to higher levels of average daily net assets from market appreciation and common and additional auction market preferred share offerings for certain funds during the fourth quarter of 2004 and the first half of 2005.

In the nine months ended September 30, 2005, total investment advisory and administration revenue from open-end mutual funds increased 26% to \$30.9 million from \$24.6 million in the nine months ended September 30, 2004. The increase was attributable to increased assets under management across all of our open-end mutual funds.

In the nine months ended September 30, 2005, total investment advisory and administration revenue from institutional separate accounts increased 35% to \$11.5 million from \$8.5 million in the nine months ended September 30, 2004. This increase was attributable to higher levels of assets resulting from market appreciation, despite net outflows during the period. Distribution and service fee revenue increased 23% to \$8.9 million in the nine months ended September 30, 2005 from \$7.2 million in the nine months ended September 30, 2004. This

increase in distribution and service fee revenue was primarily due to increased assets in two open-end mutual funds.

***Investment Banking***

Revenue increased 46% to \$9.6 million in the nine months ended September 30, 2005 from \$6.6 million in the nine months ended September 30, 2004. This increased revenue was primarily attributable to a mix of merger advisory, restructuring and capital raising assignments.

**Expenses**

Total operating expenses decreased 28% to \$73.0 million in the nine months ended September 30, 2005 from \$100.9 million in the nine months ended September 30, 2004, primarily due to a decrease in employee compensation and benefits expense, partially offset by decreases in general and administrative expenses and distribution and service fee expenses.

Employee compensation and benefits expense decreased 61% to \$28.0 million in the nine months ended September 30, 2005 from \$71.0 million in the nine months ended September 30, 2004. This was due to a third quarter 2004 one-time non-cash compensation charge of \$46.0 million and an associated Medicare tax expense of \$1.0 million related to the termination of a stock appreciation rights plan for the predecessor company and the simultaneous grant of fully-vested RSUs to certain employees coincident with the initial public offering of Cohen & Steers, Inc. common stock, partially offset by increases in base and incentive compensation for new employees and amortization of unearned compensation related to RSUs and deferred compensation plans. As a result of the new hires that occurred during the third quarter of 2005, we expect employee compensation and benefits to be higher in the fourth quarter.

Distribution and service fee expenses increased 35% to \$21.9 million in the nine months ended September 30, 2005 from \$16.2 million in the nine months ended September 30, 2004. This increase was primarily due to higher levels of average daily net assets resulting from market appreciation and the launch of new closed-end mutual funds in 2005.

General and administrative expenses increased 84% to \$16.4 million in the nine months ended September 30, 2005, from \$8.9 million in the nine months ended September 30, 2004. The majority of the increase was attributable to higher professional fees resulting from costs related to compliance with Sarbanes-Oxley, sub-advisory fees paid to Houlihan Rovers, increased recruiting fees, higher accounting, tax and auditing fees associated with the requirements of being a public company and additional organizational expenses incurred as part of the launch of four new mutual funds during the nine months ended September 30, 2005. Occupancy costs were primarily higher due to the recognition of two full quarter's rent expense for our new corporate headquarters. In connection with our relocation, we will record a charge of approximately \$1.8 million comprised primarily of moving costs remaining lease payments, partially offset by sublease income for our current location.

Depreciation and amortization increased to \$4.1 million in the nine months ended September 30, 2005 from \$1.5 million in the nine months ended September 30, 2004. Included in depreciation and amortization expense for the nine months ended September 30, 2005 was a non-cash expense of \$3.3 million relating to amortization of the intangible asset recorded in connection with the grant of fully vested RSUs at the initial public offering of Cohen & Steers, Inc. common stock. The intangible asset, which expires in 2008, reflects the independently determined value of the non-competition agreements we have received from each of the



employees that received fully vested RSUs at the initial public offering. As a result of our relocation to our new corporate headquarters in November, we will record a charge of approximately \$0.7 million attributable to the abandonment of certain furniture and fixtures and leasehold improvements.

### **Non-operating Income**

Non-operating income, including our share of the net income of Houlihan Rovers, was \$5.0 million in the nine months ended September 30, 2005, compared with \$0.4 million in the nine months ended September 30, 2004. Non-operating income for the 2005 period was primarily attributable to \$2.2 million of interest and dividend income on our investments, \$2.0 million of realized gains from the sale of investments in our sponsored mutual funds and a \$0.3 million gain from the sale of our fractional interest in an aircraft.

### **Income Taxes**

Historical income tax expense consisted solely of New York state and local income taxes; prior to the initial public offering of Cohen & Steers, Inc. common stock, we were exempt from federal income taxes due to our status as an S-corporation. However, upon our conversion from an S-corporation to C-corporation status on August 16, 2004, we became subject to U.S. federal and certain state and local income taxes. We recorded an income tax expense of \$17.3 million in the nine months ended September 30, 2005, compared with an income tax benefit of \$15.8 million in the nine months ended September 30, 2004. The provision for income taxes for the nine months ended September 30, 2005, includes U.S. federal, state and local income taxes at an effective tax rate equal to 42.3%. Included in the tax provision for the nine months ended September 30, 2005 is an adjustment to the net deferred tax asset resulting from a recent change in the New York State tax law. The deferred tax asset is primarily attributable to future income tax deductions derived from vested restricted stock units granted at the time of our initial public offering. The income tax benefit in the nine months ended September 30, 2004 was due primarily to a benefit derived from vested restricted stock units granted at the time of our initial public offering. We expect our effective tax rate to be approximately 40% for the fourth quarter of 2005.

### **Liquidity and Capital Resources**

Our investment advisory business does not require us to maintain significant capital balances. Our current financial condition is highly liquid, with the majority of our assets comprised of cash and cash equivalents and marketable securities. Our cash flows are generally created as a result of the operating activities of our business segments, with investment advisory and administrative fees a significant contributor.

Cash, cash equivalents, accounts receivable and marketable securities were 72% and 71% of total assets as of September 30, 2005 and December 31, 2004, respectively. Working capital was \$113.5 million at September 30, 2005, compared with \$103.1 million at December 31, 2004.

Net cash from operating activities was \$33.9 million in the nine months ended September 30, 2005. Cash of \$22.5 million was used in investing activities, primarily for the purchase of \$52.5 million of marketable securities, partially offset by proceeds from sales and maturities of marketable securities in the amount of \$32.9 million. Cash of \$13.5 million was used in financing activities, primarily for dividends paid to stockholders.

Net cash from operating activities was \$40.0 million in the nine months ended September 30, 2004. Cash of \$57.1 million was used in investing activities, primarily for the purchase of marketable securities. Cash of \$56.9 million was provided by financing activities, primarily related to proceeds from our initial public offering of Cohen & Steers, Inc. common stock net of related offering costs partially offset by S-corporation cash distributions

made to shareholders.

It is our policy to continuously monitor and evaluate the adequacy of our capital. We have consistently maintained net capital in excess of the regulatory requirements for our broker-dealers, as prescribed by the Securities and Exchange Commission ( SEC ). At September 30, 2005, our regulatory net capital exceeded the minimum requirement by \$8.9 million. The SEC's Uniform Net Capital Rule 15c3-1 imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital. We believe that our cash flows from operations will be more than adequate to meet our anticipated capital requirements and other obligations as they become due.

### Contractual Obligations

We have contractual obligations to make future payments in connection with our non-cancelable operating lease agreements for office space and capital leases for office equipment. The following summarizes our contractual obligations as of September 30, 2005 (in thousands):

	Contractual Obligations						Total
	2005	2006	2007	2008	2009	2010 and after	
Operating leases	\$ 534	\$ 3,516	\$ 3,516	\$ 2,167	\$ 2,071	\$ 9,164	\$ 20,968
Capital lease obligations, net	14	57	46	9			126
Total contractual obligations	\$ 548	\$ 3,573	\$ 3,562	\$ 2,176	\$ 2,071	\$ 9,164	21,094

### Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide liquidity, capital resources, market or credit risk support, or engage in any leasing activities that expose us to any liability that is not reflected in our unaudited condensed consolidated financial statements.

### Critical Accounting Policies and Estimates

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

A thorough understanding of our accounting policies is essential when reviewing our reported results of operations and our financial position. Our management considers the following accounting policies critical to an informed review of our consolidated financial statements. For a summary of these and

additional accounting policies, see the notes to the annual audited consolidated financial statements on our Annual Report on Form 10-K for the year ended December 31, 2004.

***Investments***

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination at each statement of financial condition date. Marketable securities classified as available-for-sale consist of investments in our sponsored open-end and closed-end mutual funds as well as highly rated debt and preferred instruments. These investments are carried at fair value based on quoted market prices, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income.

***Deferred Commissions***

Deferred commissions consist of commissions paid in advance to broker-dealers in connection with the sale of certain shares of our sponsored open-end load mutual funds and are capitalized and amortized over a period not to exceed six years.

***Investment Advisory and Administration Fees***

We earn the majority of our revenue by providing asset management services to our sponsored open-end and closed-end mutual funds and to institutional separate accounts. This revenue is earned pursuant to the terms of the underlying advisory contract and is based on a contractual investment advisory fee applied to the assets in the portfolio. We also earn revenue from administration fees paid by certain sponsored open-end and closed-end mutual funds, based on the average daily net assets of such funds. We recognize this revenue as such fees are earned.

***Distribution and Service Fee Revenue***

Distribution and service fee revenue is recognized as the services are performed, generally based on contractually-predetermined percentages of the average daily net assets of the open-end load mutual funds. Distribution and service fee revenue is recorded gross of any third-party distribution and service arrangements; the expenses associated with these third-party distribution and service arrangements are recorded in distribution and service fee expenses.

***Portfolio Consulting Fees***

We earn revenue for various portfolio consulting services provided to clients, as well as for providing a license to use our name. This revenue is recognized pursuant to the terms of individual agreements and is based on the net assets of the clients' funds.

**New Accounting Pronouncements**

In March 2005, a Financial Accounting Standards Board ( FASB ) Staff Position was issued addressing the application of Emerging Issue Task Force ( EITF ) Issue No. 85-24 ( FSP EITF 85-24-1 ), Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge, when cash for the right to future distribution fees for shares previously sold is received from third parties. FSP EITF 85-24-1 did not materially impact our unaudited condensed consolidated financial position or results of operations.

## Forward-Looking Statements

This report and other documents filed by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties.

Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, those described in the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, which is accessible on the Securities and Exchange Commission's Web site at <http://www.sec.gov> and on Cohen & Steers' Web site at [cohenandsteers.com](http://cohenandsteers.com). These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of our business, we are exposed to the risk of interest rate, securities market and general economic fluctuations which may have an adverse impact on the value of our marketable securities. As of September 30, 2005, our marketable securities totaled \$90.6 million and consisted of investments in our sponsored open-end and closed-end mutual funds as well as investment grade debt and preferred instruments. In addition, a significant majority of our revenue approximately 86% and 83% in the three months ended September 30, 2005 and 2004, respectively is derived from investment advisory and administrative agreements with our clients. Under these agreements, the investment advisory and administration fees we receive are typically based on the market value of the assets we manage. Accordingly, a decline in the prices of securities generally, and real estate securities in particular, may cause our revenue and income to decline by:

causing the value of the assets we manage to decrease, which would result in lower investment advisory and administration fees; or

causing our clients to withdraw funds in favor of investments that they perceive as offering greater opportunity or lower risk, which would also result in lower investment advisory and administration fees.

In addition, market conditions may preclude us from increasing the assets we manage in closed-end mutual funds. A significant portion of our recent growth in the assets we manage has resulted from public offerings of the shares of closed-end mutual funds. The market conditions for these offerings may not be as favorable in the future, which could adversely impact our ability to grow the assets we manage and realize higher fee revenue associated with such growth.

## Edgar Filing: COHEN & STEERS INC - Form 10-Q

The returns for REIT common stocks have demonstrated a relatively low correlation with interest rates over longer periods of time. However, an increase in interest rates could have a negative impact on the valuation of REITs and other securities in our clients' portfolios, which could reduce our revenue. In addition, an increase in interest rates could negatively impact our ability to increase open-end mutual fund assets and to offer new mutual funds.

### **ITEM 4. Controls and Procedures**

Based on their evaluation as of a date as of the end of the period covered by this Quarterly Report on Form 10-Q, our co-chief executive officers and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There has been no change in our internal control over financial reporting that occurred during the nine months ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information****ITEM 1. Legal Proceedings**

As previously disclosed, on October 11, 2004, our Compensation Committee canceled fully vested RSUs previously granted to an employee who resigned from Cohen & Steers, due to such employee's violation of the non-competition covenants relating to the RSUs. On October 29, 2004, this former employee filed a lawsuit in the Supreme Court of the State of New York against Cohen & Steers, Inc. and its wholly owned subsidiary, Cohen & Steers Capital Management, Inc., challenging the forfeiture of these RSUs. On November 18, 2004, we filed a motion to dismiss this action and on April 1, 2005, the court granted our motion to dismiss. On November 7, 2005, this former employee appealed the Supreme Court's decision to dismiss the matter to the Appellate Division of the Supreme Court, First Department. Although the Company cannot predict with certainty the outcome of this action at this time, the Company believes that the Complaint is without merit and will defend this matter vigorously. In addition, the Company believes that the eventual outcome of the action against it will not have a material adverse effect on its unaudited condensed consolidated financial position, results of operations or liquidity.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

The annual meeting of stockholders of Cohen & Steers was held on May 9, 2005, for the purpose of considering and acting upon the following:

- (1) **Election of Directors.** Six directors were elected and the votes cast for or against/withheld were as follows:

	<b>Aggregate Votes</b>	
	<b>For</b>	<b>Withheld</b>
<b>Nominees</b>		
Martin Cohen	35,050,502	8,763
Robert H. Steers	35,050,502	8,763
Richard E. Bruce	34,408,974	650,291
Peter L. Rhein	34,409,709	649,456
Richard P. Simon	34,409,709	649,556
Edmond D. Villani	34,409,709	649,556

- (2) **Ratification of Independent Registered Public Accounting Firm.** The appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm was ratified and the votes cast for or against and the abstentions were as follows:

	<b>Aggregate Votes</b>		
	<b>For</b>	<b>Against</b>	<b>Abstained</b>
Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm	32,600,962	2,455,402	2,900

## Edgar Filing: COHEN & STEERS INC - Form 10-Q

There were no broker non-votes. With respect to the preceding matters, holders of the Company's common stock are entitled to one vote per share.

### ITEM 6. Exhibits

#### Exhibit

<u>No.</u>	<u>Description</u>
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant (1)
3.2	Form of Amended and Restated Bylaws of the Registrant (1)
4.1	Specimen Common Stock Certificate (1)
4.2	Form of Registration Rights Agreement among the Registrant, Martin Cohen, Robert H. Steers, The Martin Cohen 1998 Family Trust and Robert H. Steers Family Trust (1)
31.1	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.3	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.3	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

(1) Incorporated by Reference to the Registrant's Registration Statement on Form S-1 (Registration No. 333-114027), as amended, originally filed with the Securities and Exchange Commission on March 30, 2004.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 10, 2005

**Cohen & Steers, Inc.**

/s/ Matthew S. Stadler

Name: Matthew S. Stadler

Title: Executive Vice President & Chief  
Financial Officer

30

---