

COWEN GROUP, INC.  
Form 10-Q  
August 07, 2014

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, 2014  
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  
(State or Other Jurisdiction of  
Incorporation or Organization)

27-0423711  
(I.R.S. Employer  
Identification No.)

599 Lexington Avenue  
New York, New York  
(Address of Principal Executive Offices)

10022  
(Zip Code)

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

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

As of August 6, 2014 there were 115,010,131 shares of the registrant's common stock outstanding.



Table of Contents

Item No.	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
<u>1. Unaudited Condensed Consolidated Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Statements of Financial Condition</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Changes in Equity</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>49</u>
<u>3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>78</u>
<u>4. Controls and Procedures</u>	<u>79</u>
<u>PART II. OTHER INFORMATION</u>	<u>79</u>
<u>1. Legal Proceedings</u>	<u>79</u>
<u>1A. Risk Factors</u>	<u>80</u>
<u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>80</u>
<u>3. Defaults Upon Senior Securities</u>	<u>80</u>
<u>4. Mine Safety Disclosures</u>	<u>80</u>
<u>5. Other Information</u>	<u>80</u>
<u>6. Exhibits</u>	<u>80</u>
<u>SIGNATURES</u>	<u>81</u>
<u>EXHIBIT INDEX</u>	<u>E - 1</u>

### 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, 2013.

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, 2014 and 2013. The Consolidated Financial Statements as of December 31, 2013 were audited.

Table of Contents

## 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, 2014	As of December 31, 2013
Assets		
Cash and cash equivalents	\$75,012	\$54,720
Cash collateral pledged	8,729	10,907
Securities owned, at fair value	580,963	311,039
Receivable on derivative contracts, at fair value	45,043	10,075
Securities borrowed	2,252,521	927,773
Other investments	114,551	99,483
Receivable from brokers	121,873	66,980
Fees receivable, net of allowance	46,630	45,067
Due from related parties	29,818	26,910
Fixed assets, net of accumulated depreciation and amortization of \$22,876 and \$21,853, respectively	28,097	26,999
Goodwill	37,240	37,240
Intangible assets, net of accumulated amortization of \$25,561 and \$26,610, respectively	10,613	12,094
Other assets	21,490	17,561
Consolidated Funds		
Cash and cash equivalents	337	2,048
Other investments	198,564	187,480
Other assets	693	5,624
Total Assets	\$3,572,174	\$1,842,000
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$235,592	\$130,954
Securities sold under agreement to repurchase	—	3,657
Payable for derivative contracts, at fair value	53,353	7,674
Securities loaned	2,250,562	918,577
Payable to brokers	185,274	75,420
Compensation payable	39,456	51,807
Short-term borrowings and other debt	5,498	2,564
Convertible debt	115,549	—
Fees payable	9,009	6,324
Due to related parties	377	382
Accounts payable, accrued expenses and other liabilities	48,064	45,290
Consolidated Funds		
Capital withdrawals payable	1,431	5,222
Accounts payable, accrued expenses and other liabilities	62	549
Total Liabilities	2,944,227	1,248,420
Commitments and Contingencies (Note 13)		
Redeemable non-controlling interests	92,935	85,814
Stockholders' equity		

Edgar Filing: COWEN GROUP, INC. - Form 10-Q

Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—	
Class A common stock, par value \$0.01 per share: 250,000,000 shares authorized, 134,928,538 shares issued and 114,966,803 outstanding as of June 30, 2014 and 130,900,182 shares issued and 115,026,633 outstanding as of December 31, 2013, respectively (including 424,479 and 482,522 restricted shares, respectively)	1,160	1,160	
Class B common stock, par value \$0.01 per share: 250,000,000 authorized, no shares issued and outstanding	—	—	
Additional paid-in capital	763,152	737,341	
(Accumulated deficit) retained earnings	(165,021	) (183,243	)
Accumulated other comprehensive income (loss)	453	592	
Less: Class A common stock held in treasury, at cost, 19,961,735 and 15,873,549 shares as of June 30, 2014 and December 31, 2013, respectively.	(64,732	) (48,084	)
Total Stockholders' Equity	535,012	507,766	
Total Liabilities and Stockholders' Equity	\$3,572,174	\$1,842,000	

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Investment banking	\$30,292	\$25,571	\$79,854	\$42,737
Brokerage	33,311	31,521	66,141	58,121
Management fees	9,692	9,698	18,616	19,191
Incentive income	2,724	1,954	5,222	4,565
Interest and dividends	12,460	10,521	21,712	19,842
Reimbursement from affiliates	3,018	1,214	4,918	2,699
Other revenues	752	485	1,307	963
Consolidated Funds				
Interest and dividends	655	241	1,141	253
Other revenues	(2	) 2	668	77
Total revenues	92,902	81,207	199,579	148,448
Expenses				
Employee compensation and benefits	64,404	47,507	131,965	91,730
Floor brokerage and trade execution	5,858	6,320	11,513	12,173
Interest and dividends	10,193	7,489	17,265	14,109
Professional, advisory and other fees	4,374	3,002	7,975	6,855
Service fees	2,086	2,687	4,228	5,264
Communications	3,022	2,771	6,268	6,510
Occupancy and equipment	6,324	6,548	12,721	12,267
Depreciation and amortization	2,382	2,609	4,762	5,162
Client services and business development	5,635	4,659	10,149	8,758
Other expenses	3,228	2,535	6,386	5,977
Consolidated Funds				
Interest and dividends	189	106	299	106
Professional, advisory and other fees	140	92	274	488
Floor brokerage and trade execution	4	180	6	180
Other expenses	65	107	121	145
Total expenses	107,904	86,612	213,932	169,724
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	23,037	4,994	34,391	16,801
Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	5,778	3,711	7,942	8,781
Net realized and unrealized gains (losses) on derivatives	(190	) 158	(211	) 462
Net gains (losses) on foreign currency transactions	21	48	(19	) (167
Total other income (loss)	28,646	8,911	42,103	25,877
Income (loss) before income taxes	13,644	3,506	27,750	4,601
Income tax expense (benefit)	46	158	125	334
Net income (loss)	13,598	3,348	27,625	4,267
	5,216	2,255	9,403	5,750

Edgar Filing: COWEN GROUP, INC. - Form 10-Q

Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds				
Net income (loss) attributable to Cowen Group, Inc. stockholders	\$8,382	\$1,093	\$18,222	\$(1,483 )
Weighted average common shares outstanding:				
Basic	115,569	117,235	115,626	115,471
Diluted	120,199	120,901	120,635	115,471
Earnings (loss) per share:				
Basic	\$0.07	\$0.01	\$0.16	\$(0.01 )
Diluted	\$0.07	\$0.01	\$0.15	\$(0.01 )

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

5

---

Table of Contents

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income (loss)	\$27,625	\$4,267
Other comprehensive income (loss), net of tax:		
Foreign currency translation	(231 )	(4 )
Defined benefit pension plan:		
Net gain/(loss) arising during the period	92	(252 )
Add: amortization of prior service cost included in net periodic pension cost	— 92	10 (242 )
Total other comprehensive income, net of tax	(139 )	(246 )
Comprehensive income (loss)	\$27,486	\$4,021

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

Table of Contents

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

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders Equity	Redeemable Non-controlling Interest
Balance, December 31, 2013	115,026,633	\$ 1,160	\$(48,084)	\$737,341	\$ 592	\$(183,243 )	\$ 507,766	\$ 85,814
Net income (loss)	—	—	—	—	—	18,222	18,222	9,403
Defined benefit plan	—	—	—	—	92	—	92	—
Foreign currency translation	—	—	—	—	(231 )	—	(231 )	—
Capital contributions	—	—	—	—	—	—	—	10,140
Capital withdrawals	—	—	—	—	—	—	—	(12,422 )
Restricted stock awards issued	4,028,356	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(4,088,186 )	—	(16,648 )	—	—	—	(16,648 )	—
Warrants issued (see Note 5)	—	—	—	15,218	—	—	15,218	—
Stock options exercised (See Note 10)	—	—	—	116	—	—	116	—
Amortization of share based compensation	—	—	—	10,477	—	—	10,477	—
Balance, June 30, 2014	114,966,803	\$ 1,160	\$(64,732)	\$763,152	\$ 453	\$(165,021 )	\$ 535,012	\$ 92,935
	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders Equity	Redeemable Non-controlling Interest
Balance, December 31, 2012	112,447,892	\$ 1,135	\$(31,728)	\$713,211	\$ 356	\$(187,865 )	\$ 495,109	\$ 85,703
Net income (loss)	—	—	—	—	—	(1,483 )	(1,483 )	5,750
Defined benefit plan	—	—	—	—	(242 )	—	(242 )	—
Foreign currency translation	—	—	—	—	(4 )	—	(4 )	—
Capital contributions	—	—	—	—	—	—	—	10,181
Capital withdrawals	—	—	—	—	—	—	—	(10,072 )