

Cowen Group, Inc.
Form 10-Q
August 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark
One)

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

For the quarterly period ended **June 30, 2008**

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: **000-52048**

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

84-1702964
(I.R.S. Employer
Identification No.)

1221 Avenue of the Americas
New York, New York
(Address of principal executive offices)

10020
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 5, 2008, there were 14,352,735 shares of the registrant's common stock outstanding.

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Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q 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," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "intend" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are only predictions 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, 2007.

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, 2008 and 2007. The Consolidated Financial Statements as of December 31, 2007 were audited.

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.

Condensed Consolidated Statements of Financial Condition

(in thousands, except share and per share data)

(unaudited)

	June 30, 2008	December 31, 2007
Assets		
Cash and cash equivalents	\$ 108,155	\$ 139,879
Restricted cash pursuant to escrow agreement	23,336	23,515
Securities owned, at fair value	29,872	25,613
Receivable from brokers, dealers and clearing brokers	38,948	48,776
Corporate finance and syndicate receivables	7,800	12,956
Due from related parties	8,774	2,708
Exchange memberships, at cost (fair value of \$705 and \$961 at June 30, 2008 and December 31, 2007, respectively)	486	486
Investments	6,158	
Furniture, fixtures, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$10,453 and \$9,303 at June 30, 2008 and December 31, 2007, respectively)	10,840	11,414
Goodwill	50,000	50,000
Other assets	26,300	33,691
 Total assets	 \$ 310,669	 \$ 349,038
Liabilities, Minority Interest and Stockholders' Equity		
Liabilities		
Bank overdrafts	\$ 791	\$ 1,719
Securities sold, not yet purchased, at fair value	34,048	25,639
Payable to brokers, dealers and clearing brokers	5,840	373
Employee compensation and benefits payable	21,243	73,077
Legal reserves and legal expenses payable (see Note 11, Commitments, Contingencies and Guarantees)	23,726	25,464
Accounts payable, accrued expenses and other liabilities	17,595	14,111
 Total liabilities	 103,243	 140,383
Minority interest	467	
Stockholders' equity		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 14,367,181 and 14,641,776 shares issued, and 14,367,181 and 14,488,759 shares outstanding at June 30, 2008 and December 31, 2007, respectively (including 3,129,693 and 2,999,031 restricted shares, respectively)	110	115
Additional paid-in capital	215,420	217,102
Accumulated deficit	(8,619)	(8,562)
Accumulated other comprehensive income	48	
Less: common stock held in treasury, at cost: 153,017 shares		

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at December 31, 2007

Total stockholders' equity	206,959	208,655
Total liabilities, minority interest and stockholders' equity	\$ 310,669	\$ 349,038

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Cowen Group, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues				
Investment banking	\$ 20,502	\$ 30,148	\$ 34,364	\$ 55,511
Brokerage	37,116	38,539	75,199	83,750
Interest and dividend income	919	1,894	2,142	4,031
Other	4,133	642	5,955	1,472
Total revenues	62,670	71,223	117,660	144,764
Expenses				
Employee compensation and benefits	38,905	43,823	67,714	88,990
Floor brokerage and trade execution	3,073	3,187	5,513	6,641
Service fees	4,117	3,714	8,326	7,217
Communications	3,893	4,418	7,542	8,615
Occupancy and equipment	4,030	4,373	8,219	8,650
Marketing and business development	3,877	4,129	7,503	7,344
Depreciation and amortization	649	1,015	1,287	1,781
Interest	63	154	106	295
Other	6,430	6,031	11,552	12,228
Total expenses	65,037	70,844	117,762	141,761
Operating (loss) income	(2,367)	379	(102)	3,003
Gain on exchange memberships				1,775
(Loss) income before income taxes	(2,367)	379	(102)	4,778
(Benefit) provision for income taxes	(1,656)	155	(45)	2,083
Net (loss) income	\$ (711)	\$ 224	\$ (57)	\$ 2,695
Weighted average common shares outstanding:				
Basic	11,238	12,912	11,246	12,911
Diluted	11,238	13,530	11,246	13,474
Earnings (loss) per share:				
Basic	\$ (0.06)	\$ 0.02	\$ (0.01)	\$ 0.21
Diluted	\$ (0.06)	\$ 0.02	\$ (0.01)	\$ 0.20

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Cowen Group, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30	
	2008	2007
Cash flows from operating activities		
Net (loss) income	\$ (57)	\$ 2,695
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Share-based compensation	2,662	9,710
Depreciation and amortization	1,287	1,781
Deferred income taxes	(12)	(3,518)
(Increase) decrease in operating assets:		
Restricted cash pursuant to escrow agreement	179	15,724
Securities owned, at fair value	(4,259)	83,767
Receivable from brokers, dealers and clearing brokers	9,828	16,714
Corporate finance and syndicate receivables	5,156	4,804
Exchange memberships		325
Due from related parties	(6,066)	886
Other assets	7,681	(3,460)
Increase (decrease) in operating liabilities:		
Bank overdrafts	(928)	316
Securities sold, not yet purchased, at fair value	8,409	(89,385)
Payable to brokers, dealers and clearing brokers	5,467	(29,020)
Employee compensation and benefits payable	(51,834)	(80,526)
Legal reserves and legal expenses payable	(1,738)	(27,962)
Accounts payable, accrued expenses and other liabilities	3,256	11,691
Net cash used in operating activities	(20,969)	(85,458)
Cash flows from investing activities		
Purchase of fixed assets	(713)	(783)
Investments purchased	(6,158)	
Net cash used in investing activities	(6,871)	(783)
Cash flows from financing activities		
Share repurchases	(4,351)	
Contributions from minority interest holders	467	
Net cash used in financing activities		