COHEN & STEERS INC
Form 10-Q
August 08, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007**

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	**14-1904657**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
280 Park Avenue	
New York, NY	**10017**
(Address of principal executive offices)	**(Zip Code)**

(212) 832-3232

(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 x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

The number of shares of the Registrant s common stock, par value $0.01 per share, outstanding as of August 8, 2007 was 39,771,325.

COHEN & STEERS, INC. AND SUBSIDIARIES

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Items other than those listed above have been omitted because they are not applicable.

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, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative versions of these 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, 2006, which is accessible on the Securities and Exchange Commission s Web site at *http://www.sec.gov* and on our Web site at *www.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 (Unaudited)

(in thousands, except share data)

	June 30, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 112,488	$ 139,360
Marketable securities available-for-sale	73,438	39,408
Accounts receivable	32,196	31,611
Property and equipment net	11,917	10,539
Deferred commissions net	8,610	6.248
Goodwill	20,598	20,609
Intangible assets net	8,719	10,597
Deferred income tax asset net	10,328	17,869
Current income tax receivable	15,754	4,952
Other assets	3,912	3,953
Total assets	$ 297,960	$ 285,146
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accrued compensation	$ 18,025	$ 24,100
Dividends payable		5,481
Deferred rent	2,130	1,773
Other liabilities and accrued expenses	11,546	12,383
	31,701	43,737
Stockholders equity:		
Common stock, $0.01 par value; 500,000,000 shares authorized; 40,811,039 and 38,848,412 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	408	388
Additional paid-in capital	302,091	265,326
Retained earnings (accumulated deficit)	1,932	(22,053)
Accumulated other comprehensive income, net of tax	3,601	4,376
Less: Treasury stock, at cost, 1,047,600 and 314,576 shares at June 30, 2007 and December 31, 2006, respectively	(41,773)	(6,628)
Total stockholders equity	266,259	241,409
Total liabilities and stockholders equity	$ 297,960	$ 285,146

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenue:				
Investment advisory and administration fees	$ 56,186	$ 35,298	$ 108,342	$ 68,304
Distribution and service fees	7,746	3,530	14,126	6,731
Portfolio consulting and other	2,425	1,165	4,910	2,099
Investment banking fees	2,930	2,128	18,676	2,833
Total revenue	69,287	42,121	146,054	79,967
Expenses:				
Employee compensation and benefits	20,094	11,992	42,356	22,589
Distribution and service fees	9,297	81,118	18,564	88,794
General and administrative	8,146	6,703	15,417	12,398
Depreciation and amortization	1,731	1,623	3,402	3,174
Amortization, deferred commissions	2,755	991	4,825	1,740
Total expenses	42,023	102,427	84,564	128,695
Operating income (loss)	27,264	(60,306)	61,490	(48,728)
Non-operating income (expense):				
Interest and dividend income	2,043	645	3,700	1,702
Gain from sale of marketable securities	716	530	911	1,189
Gain (loss) from sale of property and equipment	(2)	1,056	(2)	1,056
Foreign currency transaction gain (loss)	1	(29)	(75)	(45)
Total non-operating income	2,758	2,202	4,534	3,902
Income (loss) before provision for income taxes and equity in earnings of affiliate	30,022	(58,104)	66,024	(44,826)
Provision for income taxes	11,400	(19,925)	25,086	(15,016)
Equity in earnings of affiliate		360		708
Net income (loss)	$ 18,622	$ (37,819)	$ 40,938	$ (29,102)
Earnings (loss) per share				
Basic	$ 0.45	$ (0.95)	$ 0.98	$ (0.73)
Diluted	$ 0.44	$ (0.95)	$ 0.96	$ (0.73)
Weighted average shares outstanding				
Basic	41,809	39,805	41,895	39,831
Diluted	42,666	39,805	42,746	39,831

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited)

Six Months Ended June 30, 2007

(in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income, Net	Treasury Stock	Total
Beginning balance, January 1, 2007	$ 388	$ 265,326	$ (22,053)	$ 4,376	$ (6,628)	$ 241,409
Dividends			(16,953)			(16,953)
Issuance of common stock	20	946				966
Acquisition of treasury stock					(35,145)	(35,145)
Tax benefits associated with restricted stock units		27,501				27,501
Issuance of restricted stock units		2,766				2,766
Amortization of unearned compensation-net		5,552				5,552
Net income			40,938			40,938
Other comprehensive loss, net of taxes				(775)		(775)
Ending balance, June 30, 2007	$ 408	$ 302,091	$ 1,932	$ 3,601	$ (41,773)	$ 266,259

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash flows from operating activities:		
Net income (loss)	$ 40,938	$ (29,102)
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock compensation expense	5,697	3,643
Amortization, deferred commissions	4,825	1,740
Depreciation and amortization	3,402	3,174
Amortization, bond discount-net		(30)
Deferred rent	357	27
Gain from sale of marketable securities	(911)	(1,189)
Loss (gain) from sale of property and equipment	2	(1,056)
Equity in earnings of affiliate		(708)
Deferred income taxes	7,552	5,856
Foreign currency transaction loss	75	45
Changes in operating assets and liabilities:		
Accounts receivable	(585)	(586)
Deferred commissions	(7,187)	(2,452)
Current income tax receivable	(10,514)	(19,950)
Other assets	41	(4,814)
Accrued compensation	(3,734)	(5,868)
Other liabilities and accrued expenses	(493)	(3,277)
Net cash (used in) provided by operating activities	39,465	(54,547)
Cash flows from investing activities:		
Purchases of marketable securities available-for-sale	(38,433)	(26,675)
Proceeds from sale and maturities of marketable securities available-for-sale	4,041	87,283
Purchases of property and equipment	(2,667)	(2,144)
Proceeds from sale of property and equipment		1,162
Net cash (used in) provided by investing activities	(37,059)	59,626
Cash flows from financing activities:		
Excess tax benefit associated with restricted stock awards	27,074	3,128
Issuance of common stock	820	791
Repurchase of common stock	(35,145)	(6,204)
Dividends to stockholders	(22,092)	(8,746)
Payment of capital lease obligations	(40)	(89)
Net cash used in financing activities	(29,383)	(11,120)
Net decrease in cash and cash equivalents	(26,977)	(6,041)
Effect of exchange rate changes	105	
Cash and cash equivalents, beginning of the period	139,360	39,092
Cash and cash equivalents, end of the period	$ 112,488	$ 33,051

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

Supplemental disclosures of cash flow information:

For the six months ended June 30, 2007 and June 30, 2006, there was no cash paid for interest.

For the six months ended June 30, 2007, the Company received cash tax refunds, net of taxes paid, of approximately $95,000. For the six months ended June 30, 2006, the Company paid taxes, net of refunds, of approximately $1.3 million.

Supplemental disclosures of non-cash investing and financing activities:

In connection with its stock incentive plan, for the six months ended June 30, 2007 and 2006, the Company issued fully vested restricted stock units in the amount of $2.4 million and $2.0 million, respectively. For the six months ended June 30, 2007 and 2006, the Company issued unvested restricted stock units in the amount of $25.5 million and $11.1 million, respectively. For the six months ended June 30, 2007 and 2006, forfeitures of restricted stock units totaled $2.2 million and $141,000, respectively. In addition, for the six months ended June 30, 2007 and 2006, the Company recorded restricted stock unit dividend equivalents in the amount of $342,000 and $175,000, respectively.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization and Description of Business

Cohen & Steers, Inc. (CNS) was organized as a Delaware corporation on March 17, 2004. CNS was formed to be the holding company for Cohen & Steers Capital Management, Inc. (CSCM), a New York corporation, and to allow for the issuance of common stock to the public.

The condensed consolidated financial statements set forth herein include the accounts of CNS and its direct and indirect subsidiaries. CNS s significant wholly-owned subsidiaries are CSCM, Cohen & Steers Securities, LLC (Securities) and Cohen & Steers Capital Advisors, LLC (Advisors and collectively, the Company). In addition, CNS has direct and indirect wholly-owned subsidiaries in Brussels, Hong Kong and London. All material intercompany balances and transactions have been eliminated in consolidation.

Through CSCM, a registered investment advisor under the Investment Advisers Act of 1940, the Company provides investment management services to individual and institutional investors through a wide range of closed-end mutual funds, open-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. Its clients include Company-sponsored open-end and closed-end mutual funds and domestic corporate and public pension plans, foreign pension plans, endowment funds and individuals. Through its registered broker/dealers, Securities and Advisors, the Company provides distribution services for certain of its funds and investment banking services to companies in real estate and real estate intensive businesses, including healthcare.

2. Basis of Presentation and Significant Accounting Policies

The condensed consolidated financial statements of the Company included herein are unaudited and have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (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 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Management believes the estimates used in preparing the condensed consolidated financial statements are reasonable and prudent. Actual results could differ from those estimates.

The Company s 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, 2006. Certain prior period amounts have been reclassified to conform to the three and six months ended June 30, 2007 presentation.

Cash and 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 are primarily comprised of Company-sponsored open-end and closed-end mutual funds as well as highly rated 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

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

comprehensive income. The Company periodically reviews each individual security position that has an unrealized loss, or impairment, to determine if that impairment is other than temporary. If the Company believes an impairment on a security position is other than temporary, the loss will be recognized in the Company s statement of operations. Impairments that arise from changes in interest rates and not credit quality are generally considered temporary.

Goodwill and Intangible Assets 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 and indefinite lived intangible assets are not amortized but are tested at least annually for impairment by comparing the fair value to their carrying amounts. Finite lived intangible assets are amortized over their useful lives.

Investment Advisory and Administration Fees The Company earns 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 client s portfolio. 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.

Investment Banking Fees Revenue is generally recognized when transactions are completed, pursuant to the terms of the agreements applicable to each transaction.

Distribution and Service Fees 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 fee expense arrangements. The expenses associated with these third-party distribution and service arrangements are recorded as incurred. During the second quarter of 2006, the Company made lump sum payments of $75.7 million to terminate compensation agreements entered into in connection with the common share offerings of certain of our closed-end mutual funds. These payments were reflected as expenses in distribution and service fees on the accompanying condensed consolidated statements of operations.

Income Taxes The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting For Income Taxes* (SFAS 109). The Company recognizes the current and deferred tax consequences of all transactions that have been recognized in the condensed consolidated financial statements using the provisions of the enacted tax laws. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years. The effective tax rate for interim periods represents the Company s best estimate of the effective tax rate expected to be applied to the full fiscal year. The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of SFAS 109, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no adjustment in the net liability for unrecognized tax benefits.

Stock-based Compensation The Company accounts for stock-based compensation awards in accordance with SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)), which requires public companies to recognize expense for the grant-date fair value of awards of equity instruments granted to employees. This expense is recognized over the period during which employees are required to provide service. SFAS 123(R) also requires the Company to estimate forfeitures.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Recently Issued Accounting Pronouncements In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards,* (EITF 06-11). EITF 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units that are expected to vest be recorded as an increase to additional paid-in capital. The consensus reached in EITF 06-11 should be applied prospectively to the income tax benefits of dividends declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The Company does not anticipate EITF 06-11 to have a material impact on its condensed consolidated financial position or results of operations.

In February 2007, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159) was issued, which allows companies to elect to measure certain financial assets and liabilities at fair value. The fair value election can be made on an instrument by instrument basis but is irrevocable once made. SFAS 159 is effective for the 2008 calendar year, with earlier application permitted. Management is evaluating this standard and its impact, if any, on its condensed consolidated financial position or results of operations.

In September 2006, SFAS No. 157, *Fair Value Measurements* (SFAS 157) was issued, which defines fair value, establishes a framework for measuring fair value, and enhances disclosures about instruments carried at fair value, but does not change existing guidance as to whether or not an instrument should be carried at fair value. SFAS 157 is effective for the 2008 calendar year, with earlier application permitted. Management is evaluating this standard and its impact, if any, on its condensed consolidated financial position or results of operations.

3. Intangible Assets

The following table details the gross carrying amounts and accumulated amortization for the intangible assets at June 30, 2007 (in thousands):

(in thousands)	**Remaining Amortization Period (In Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Intangible Assets, Net**
Amortized intangible assets:				
Non-compete agreements	1	$ 15,400	$ (12,809)	$ 2,591
Client relationships	12	3,800	(172)	3,628
Non-amortized intangible assets:				
Mutual fund management contracts		2,500		2,500
Total		$ 21,700	$ (12,981)	$ 8,719

Amortization expense related to the intangible assets were approximately $1,188,000 and $1,110,000 for the three months ended June 30, 2007 and 2006, and approximately $2,376,000 and $2,221,000 for the six months ended June 30, 2007 and 2006, respectively. Estimated future amortization expense is as follows (in thousands):

Periods Ending December 31,	**Estimated Amortization Expense**
2007	$ 2,378
2008	689
2009	317

2010		317
2011		317
Thereafter		2,201
Total	$	6,219

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

4. Investments

The following is a summary of the cost and fair value of investments in marketable securities as of June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007				December 31, 2006		
		Gross Unrealized				Gross Unrealized	
	Cost	Gains	Losses	Market Value	Cost	Gains	Market Value
Preferred securities	$ 38,856	$	$ 190	$ 38,666	$ 10,845	$ 111	$ 10,956
Equities	3,226	773		3,999	3,050	1,177	4,227
Fixed income	3,992		53	3,939			
Company sponsored mutual funds	22,330	4,504		26,834	19,178	5,047	24,225
Total marketable securities	$ 68,404	$ 5,277	$ 243	$ 73,438	$ 33,073	$ 6,335	$ 39,408

For the three months ended June 30, 2007 and 2006, sales proceeds from Company-sponsored mutual funds were approximately $2,616,000 and $134,000, respectively, and gross realized gains were approximately $678,000 and $33,000, respectively. For the six months ended June 30, 2007 and 2006, sales proceeds from Company-sponsored mutual funds were approximately $2,888,000 and $3,356,000, respectively, and gross realized gains were approximately $806,000 and $671,000, respectively. Dividend income from Company-sponsored mutual funds was approximately $88,000 and $65,000, for the three months ended June 30, 2007 and 2006, respectively, and approximately $132,000 and $138,000 for the six months ended June 30, 2007 and 2006, respectively.

5. Property and Equipment

On June 1, 2006, the Company sold its fractional ownership interest in an aircraft for approximately $1,152,000. The aircraft had a net book value of approximately $96,000 at June 1, 2006. Pursuant to this transaction, the Company recognized a gain on sale of approximately $1,056,000.

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. For the three and six months ended June 30, 2006, due to the Company s loss, all common stock equivalents were excluded from the diluted loss per share calculation because their inclusion would have been anti-dilutive. Had the Company earned a profit for the three and six months ended June 30, 2006, the Company would have added 639,000 and 582,000 common stock equivalent shares, respectively, to the Company s basic weighted average shares outstanding to compute diluted weighted average shares outstanding. There were no anti-dilutive common stock equivalents excluded from the computation for the three and six months ended June 30, 2007.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2007 and 2006 (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	$ 18,622	$ (37,819)	$ 40,938	$ (29,102)
Basic weighted average shares outstanding	41,809	39,805	41,895	39,831
Dilutive potential shares from restricted stock awards	857		851	
Diluted weighted average shares outstanding	42,666	39,805	42,746	39,831
Basic earnings (loss) per share	$ 0.45	$ (0.95)	$ 0.98	$ (0.73)
Diluted earnings (loss) per share	$ 0.44	$ (0.95)	$ 0.96	$ (0.73)

7. Income Taxes

In accordance with SFAS 109, recognition of tax benefits or expenses is required for temporary differences between 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 enacted tax rates that will be in effect when such items are expected to reverse. The provision for income taxes for the six months ended June 30, 2007 includes U.S. federal, state, local and foreign taxes at an approximate effective tax rate of 38%, which represents management s best estimate of the rate expected to be applied to the full fiscal year of 2007. The lower effective tax rate for the six months ended June 30, 2006 of 33.5% was primarily the result of an adjustment to the net deferred tax asset resulting from lower state and local taxes and the application of a net operating loss, which was generated by the $75.7 million of lump sum payments made to terminate certain fund compensation agreements, to periods of lower tax rates.

The Company s 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. The Company records a valuation allowance, when necessary, to reduce deferred tax assets to an amount that more likely than not will be realized.

The Company adopted the provisions of FIN 48, an interpretation of SFAS 109, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no adjustment in the net liability for unrecognized tax benefits. At the adoption date of January 1, 2007, the Company had approximately $1,731,000 of total gross unrecognized tax benefits. Of this total, approximately $1,133,000 (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the Company s effective tax rate in future periods. At June 30, 2007, the Company had approximately $2,655,000 of total gross unrecognized tax benefits of which approximately $1,570,000 (net of federal benefit on state issues) would favorably affect the Company s effective tax rate in future periods.

The Company recognizes potential interest and penalties related to uncertain tax positions in the provision for income taxes. The Company had accrued approximately $80,000 for the potential payment of interest at January 1, 2007, related to uncertain tax positions. At June 30, 2007, the Company had accrued approximately $272,000 in potential interest associated with uncertain tax positions.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The tax years 2003 through 2006 remain open to examination by various taxing jurisdictions.

8. Comprehensive Income

Total comprehensive income includes net income and other comprehensive income, net of tax. The components of comprehensive income for the three and six months ended June 30, 2007 and 2006 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	$ 18,622	$ (37,819)	$ 40,938	$ (29,102)
Foreign currency translation gain adjustment	241	187	454	256
Net unrealized gain (loss) on available-for-sale securities, net of tax	(2,178)	(524)	(1,770)	(98)
Reclassification of realized gain on available-for-sale securities, net of tax	425	348	541	791
Total comprehensive income (loss)	$ 17,110	$ (37,808)	$ 40,163	$ (28,153)

9. Regulatory Requirements

Securities and Advisors, as registered broker/dealers and member firms of the National Association of Securities Dealers, are subject to the SEC s Uniform Net Capital Rule 15c3-1 (the Rule), which requires that broker/dealers maintain a minimum level of net capital, as defined. As of June 30, 2007, Securities and Advisors had net capital of approximately $1,383,000 and $17,148,000, respectively, which exceeded their requirements by approximately $1,214,000 and $16,171,000, respectively. The 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 Rule.

Securities and Advisors do not carry customer accounts and are exempt from the SEC s Rule 15c3-3 pursuant to provisions (k)(1) and (k)(2)(i) of such rule, respectively.

10. 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. The following table sets forth the amount of revenue the Company earned from these affiliated funds for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Investment advisory and administration fees	$ 44,813	$ 29,248	$ 86,419	$ 57,357
Distribution and service fees	7,746	3,530	14,126	6,731
	$ 52,559	$ 32,778	$ 100,545	$ 64,088

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COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

For the three months ended June 30, 2007 and 2006, the Company had investment advisory agreements with certain affiliated closed-end mutual funds, pursuant to which the Company contractually waived approximately $4,899,000 and $4,858,000, respectively, of advisory fees it was otherwise entitled to receive. For the six months ended June 30, 2007 and 2006, the Company waived approximately $9,943,000 and $9,686,000 of advisory fees, respectively. These investment advisory agreements contractually require the Company to waive a portion of the advisory fees the Company otherwise would charge for up to ten years from the respective fund s inception date. The board of directors of these mutual funds must approve the renewal of the advisory agreements each year, including any reduction in advisory fee waiver scheduled to take effect during that year. As of June 30, 2007, such scheduled reductions in advisory fee waiver were effective for three funds.

The Company has agreements with certain affiliated open and closed-end mutual funds to reimburse certain fund expenses. For the three months ended June 30, 2007 and 2006, expenses of approximately $1,047,000 and $560,000, respectively, were incurred by the Company pursuant to these agreements and are included in general and administrative expenses. For the six months ended June 30, 2007 and 2006, expenses of approximately $1,970,000 and $1,066,000, respectively, were incurred.

For the three and six months ended June 30, 2006, general and administrative expenses included $1,161,000 and $1,785,000, respectively, of sub-advisory fees paid to Cohen & Steers Europe S.A. (formerly Houlihan Rovers S.A.).

Included in accounts receivable at June 30, 2007 and December 31, 2006 are receivables due from Company-sponsored mutual funds of approximately $16,247,000 and $14,469,000, respectively. Included in other assets at December 31, 2006 are amounts due from Company-sponsored mutual funds of approximately $104,000.

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

11. Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, establishes disclosure requirements relating to operating segments in condensed consolidated 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 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.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

	Three Months Ended	
	June 30, 2007	June 30, 2006
Asset Management		
Total revenue (1)	$ 66,357	$ 40,353
Total expenses	(39,135)	(100,471)
Net non-operating income	2,388	2,135
Income (loss) before provision for income taxes	$ 29,610	$ (57,983)

Investment Banking