COHEN & STEERS INC
Form 10-Q
November 09, 2012

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 SEPTEMBER 30, 2012

OR

o 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.)
280 Park Avenue New York, NY (Address of Principal Executive Offices)	10017 (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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x No o

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	o	Accelerated Filer	x
Non-Accelerated Filer	o (Do not check if a smaller reporting company)	Smaller Reporting Company	o

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

The number of shares of the Registrant's common stock, par value $0.01 per share, outstanding as of November 2, 2012 was 43,759,838.

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 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, 2011, which is accessible on the Securities and Exchange Commission’s website at www.sec.gov and on our website 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)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$121,240	$127,824
Securities owned ($24,946 and $21,952)*	91,441	25,304
Equity investments	7,770	7,868
Investments, available-for-sale	24,383	27,133
Accounts receivable	61,169	39,590
Due from broker ($10,064 and $10,321)*	14,234	10,443
Property and equipment—net	9,418	11,200
Goodwill	19,824	19,934
Intangible assets—net	1,813	1,879
Deferred income tax asset—net	6,812	9,233
Other assets ($310 and $209)*	7,812	5,825
Total assets	$365,916	$286,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accrued compensation	$22,511	$23,337
Securities sold but not yet purchased ($12,598 and $9,277)*	12,598	9,277
Income tax payable	2,584	4,948
Other liabilities and accrued expenses ($226 and $493)*	20,343	13,363
Total liabilities	58,036	50,925
Commitments and contingencies		
Redeemable noncontrolling interest	46,769	4,796
Stockholders' equity:		
Common stock, $0.01 par value; 500,000,000 shares authorized; 46,995,121 and 46,155,192 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	470	462
Additional paid-in capital	420,373	402,573
Accumulated deficit	(62,907)	(83,063)
Accumulated other comprehensive income (loss), net of tax	887	(225)
Less: Treasury stock, at cost, 3,238,859 and 2,986,913 shares at September 30, 2012 and December 31, 2011 respectively	(97,712)	(89,235)
Total stockholders' equity	261,111	230,512
Total liabilities and stockholders' equity	$365,916	$286,233

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* Assets and liability amounts in parentheses represent the portion of the September 30, 2012 and December 31, 2011, respectively, consolidated balances attributable to the onshore global real estate long-short fund which is a variable interest entity.

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue:				
Investment advisory and administration fees	$63,224	$58,048	$181,066	$166,569
Distribution and service fees	2,881	2,457	8,129	7,458
Portfolio consulting and other	5,191	1,111	13,263	3,803
Total revenue	71,296	61,616	202,458	177,830
Expenses:				
Employee compensation and benefits	25,101	21,873	69,696	63,677
Distribution and service fees	21,376	6,205	34,148	18,109
General and administrative	10,601	9,365	29,061	26,824
Depreciation and amortization	1,384	1,279	4,218	3,760
Amortization, deferred commissions	595	497	1,636	1,255
Total expenses	59,057	39,219	138,759	113,625
Operating income	12,239	22,397	63,699	64,205
Non-operating income:				
Interest and dividend income—net	478	260	1,768	799
Gain (loss) from trading securities—net	3,999	21	3,251	(456)
Gain (loss) from available-for-sale securities—net	437	(368)	1,040	222
Equity in earnings (losses) of affiliates	71	(5,248)	714	(4,635)
Other	330	502	(433)	1,518
Total non-operating income (loss)	5,315	(4,833)	6,340	(2,552)
Income before provision for income taxes	17,554	17,564	70,039	61,653
Provision for income taxes	4,987	8,022	24,187	23,450
Net income	12,567	9,542	45,852	38,203
Less: Net (income) loss attributable to redeemable noncontrolling interest	(2,306)	64	(1,458)	57
Net income attributable to common shareholders	$10,261	$9,606	$44,394	$38,260
Earnings per share attributable to common shareholders:				
Basic	$0.23	$0.22	$1.01	$0.89
Diluted	$0.23	$0.22	$1.00	$0.87
Weighted average shares outstanding:				
Basic	43,822	43,237	43,744	43,170
Diluted	44,537	44,133	44,439	43,919

See notes to condensed consolidated financial statements

COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to common shareholders	$10,261	$9,606	$44,394	$38,260
Foreign currency translation gain (loss)	630	(3,084)	(184)	45
Net unrealized gain (loss) from available-for-sale securities, net of tax	344	(3,769)	2,336	(3,368)
Reclassification to statements of operations of (gain) loss from available-for-sale securities, net of tax	(437)	368	(1,040)	(222)
Total comprehensive income attributable to common shareholders	$10,798	$3,121	$45,506	$34,715

See notes to condensed consolidated financial statements

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COHEN & STEERS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND REDEEMABLE NONCONTROLLING INTEREST (Unaudited)
Nine Months Ended September 30, 2012 and 2011
(in thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss), net of tax	Treasury Stock	Total Stockholders' Equity	Redeemable Noncontrolling Interest	Shares of Common Stock, net
Beginning balance, January 1, 2011	$ 454	$ 378,081	$ (65,553)	$ 2,971	$ (82,588)	$ 233,365	$ —	42,640
Dividends	—	—	(65,190)	—	—	(65,190)	—	—
Issuance of common stock	7	433	—	—	—	440	—	751
Repurchase of common stock	—	—	—	—	(6,630)	(6,630)	—	(231)
Tax benefits associated with restricted stock units—net	—	1,930	—	—	—	1,930	—	—
Issuance of restricted stock units	—	3,163	—	—	—	3,163	—	—
Amortization of restricted stock units—net	—	12,832	—	—	—	12,832	—	—
Forfeitures of vested restricted stock units	—	(2)	—	—	—	(2)	—	—
Net income (loss)	—	—	38,260	—	—	38,260	(57)	—
Other comprehensive loss, net of tax	—	—	—	(3,545)	—	(3,545)	—	—
Distributions to redeemable noncontrolling interest	—	—	—	—	—	—	(744)	—
Contributions from redeemable noncontrolling interest	—	—	—	—	—	—	744	—
Redemptions of redeemable noncontrolling interest	—	—	—	—	—	—	(3,734)	—
Foreign currency translation adjustment on redeemable noncontrolling interest	—	—	—	—	—	—	350	—
	—	—	—	—	—	—	3,877	—

Transfer of redeemable noncontrolling interest								
Ending balance, September 30, 2011	$461	$396,437	$ (92,483)	$ (574)	$(89,218)	$ 214,623	$ 436	43,160
Beginning balance, January 1, 2012	$462	$402,573	$ (83,063)	$ (225)	$(89,235)	$ 230,512	$ 4,796	43,168
Dividends	—	—	(24,238)	—	—	(24,238)	—	—
Issuance of common stock	8	402	—	—	—	410	—	840
Repurchase of common stock	—	—	—	—	(8,477)	(8,477)	—	(252)
Tax benefits associated with restricted stock units—net	—	2,947	—	—	—	2,947	—	—
Issuance of restricted stock units	—	1,399	—	—	—	1,399	—	—
Amortization of restricted stock units—net	—	13,053	—	—	—	13,053	—	—
Forfeitures of vested restricted stock units	—	(1)	—	—	—	(1)	—	—
Net income	—	—	44,394	—	—	44,394	1,458	—
Other comprehensive income, net of tax	—	—	—	1,112	—	1,112	—	—
Distributions to redeemable noncontrolling interest	—	—	—	—	—	—	(3,647)	—
Contributions from redeemable noncontrolling interest	—	—	—	—	—	—	44,118	—
Foreign currency translation adjustment on redeemable noncontrolling interest	—	—	—	—	—	—	44	—
Ending balance, September 30, 2012	$470	$420,373	$ (62,907)	$ 887	$(97,712)	$ 261,111	$ 46,769	43,756

See notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$45,852	$38,203
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Stock compensation expense	13,101	12,904
Amortization, deferred commissions	1,636	1,255
Depreciation and amortization	4,218	3,760
Deferred rent	226	(392)
(Gain) loss from trading securities - net	(3,251)	456
Equity in (earnings) losses of affiliates	(714)	4,635
Gain from available-for-sale securities - net	(1,040)	(222)
Deferred income taxes	1,954	1,348
Foreign currency gain	(1,398)	(741)
Changes in operating assets and liabilities:		
Accounts receivable	(20,181)	(17,118)
Due from broker	(6,349)	—
Deferred commissions	(2,328)	(1,547)
Securities owned	(58,948)	2,851
Other assets	(1,295)	(1,172)
Accrued compensation	(295)	(480)
Securities sold but not yet purchased	2,273	—
Income tax payable	(1,790)	(1,575)
Other liabilities and accrued expenses	6,589	1,621
Net cash (used in) provided by operating activities	(21,740)	43,786
Cash flows from investing activities:		
Proceeds from redemption of equity investments	811	—
Purchases of investments, available-for-sale	(18,535)	(32,898)
Proceeds from sales of investments, available-for-sale	23,720	20,817
Purchases of property and equipment	(2,357)	(2,219)
Net cash provided by (used in) investing activities	3,639	(14,300)
Cash flows from financing activities:		
Excess tax benefits associated with restricted stock units	2,843	1,482
Issuance of common stock	357	381
Repurchase of common stock	(8,477)	(6,630)
Dividends to stockholders	(23,622)	(62,636)
Redemptions of redeemable noncontrolling interest	(3,647)	(3,734)
Contributions from redeemable noncontrolling interest	44,118	—
Net cash provided by (used in) financing activities	11,572	(71,137)
Net decrease in cash and cash equivalents	(6,529)	(41,651)
Effect of foreign exchange rate changes	(55)	672
Cash and cash equivalents, beginning of the period	127,824	136,191
Cash and cash equivalents, end of the period	$121,240	$95,212

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 nine months ended September 30, 2012 and 2011, the Company paid taxes, net of tax refunds, of approximately $21,301,000 and $22,089,000, respectively.
Supplemental disclosures of non-cash investing and financing activities:
In connection with its stock incentive plan, for the nine months ended September 30, 2012 and 2011, the Company issued fully vested restricted stock units in the amount of $783,000 and $608,000, respectively. For the nine months ended September 30, 2012 and 2011, the Company issued restricted stock unit dividend equivalents in the amount of $616,000 and $2,554,000, 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 wholly-owned subsidiaries are CSCM, Cohen & Steers Securities, LLC ("Securities"), Cohen & Steers Asia Limited, Cohen & Steers UK Limited and Cohen & Steers Europe S.A. (collectively, the "Company"). 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 "Advisers Act"), the Company serves institutional and individual investors around the world. Founded in 1986, the Company is a leading global investment manager focused on global real estate securities, global listed infrastructure, real assets, large cap value stocks and preferred securities. The Company also manages alternative investment strategies for qualified investors such as hedged real estate securities portfolios and private real estate strategies. Its clients include Company-sponsored open-end and closed-end mutual funds, U.S. and non-U.S. pension plans, endowment funds, foundations and sub-advised funds for other financial institutions. Through Securities, its registered broker/dealer, the Company provides distribution services for certain of its funds.

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 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, 2011.

Accounting Estimates—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 disclosures 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.

Reclassifications—Certain prior year amounts have been reclassified to conform to the current year presentation. The amounts related to these reclassifications are not material to the Company's condensed consolidated financial statements.

Consolidation—The Company consolidates operating entities deemed to be voting interest entities if the Company owns a majority of the voting interest. The equity method of accounting is used for investments in non-controlled affiliates in which the Company's ownership ranges from 20 to 50 percent, or in instances in which the Company is able to exercise significant influence but not control. The Company also consolidates any variable interest entities ("VIEs") in which the Company is the primary beneficiary. The Company provides for noncontrolling interests in consolidated subsidiaries for which the Company's ownership is less than 100 percent.

A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the group of holders of the equity investment at risk lack certain characteristics of a controlling financial interest. The primary beneficiary is the entity that has the obligation to absorb a majority of the expected losses or the right to receive the majority of the residual returns. Investments and redemptions or amendments to the governing documents of the respective entities could affect an entity's status as a VIE or the determination of the primary beneficiary. The Company assesses whether entities in which it has an interest are VIEs upon initial involvement and at each reporting date. The Company assesses whether it is the primary beneficiary of any VIEs identified

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

by evaluating its economic interests in the entity held either directly by the Company and its affiliates or indirectly through employees. See Note 4 for further discussion about the Company’s investments.

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.

Due from Broker—The Company conducts business, through its consolidated seed investments, with brokers for certain of its investment activities. The clearing and custody operations for these investment activities are performed pursuant to agreements with prime brokers. The due from broker balance represents cash and cash equivalents balances at brokers and net receivables and payables for unsettled security transactions.

Investments—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.

Securities owned and securities sold but not yet purchased are classified as trading securities and are measured at fair value based on quoted market prices, market prices obtained from independent pricing services engaged by management or as determined by the Company’s valuation committee. Unrealized gains and losses are recorded as gain (loss) from trading securities—net reported in the Company’s condensed consolidated statements of operations.

Investments classified as equity investments are accounted for using the equity method, under which the Company recognizes its respective share of the investee’s net income or loss for the period. The carrying amounts of these investments approximate their fair value.

Investments classified as available-for-sale are comprised of equity securities, investment-grade preferred instruments and investments in Company-sponsored open-end and closed-end mutual funds. These investments are carried at fair value based on quoted market prices or market prices obtained from independent pricing services engaged by management, with unrealized gains and losses, net of tax, reported in accumulated other 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 of a security position is other than temporary, the loss will be recognized in the Company’s condensed consolidated statements of operations. An other than temporary impairment is generally presumed to have occurred if the available-for-sale investment has an unrealized loss continuously for 12 or more months.

From time to time, the consolidated funds of the Company enter into derivative contracts to hedge market and credit risks of the underlying portfolios utilizing options, total return swaps, credit default swaps and futures contracts. These instruments are measured at fair value with gains and losses recorded as gain (loss) from trading securities—net in the Company's condensed consolidated statements of operations. The fair value of these instruments is recorded in other assets or other liabilities and accrued expenses in the Company's condensed consolidated statements of financial condition.

Additionally, from time to time, the Company enters into foreign currency forward contracts to hedge its currency exposure related to client receivables. These instruments are measured at fair value with gains and losses recorded in other non-operating income in the Company's condensed consolidated statements of operations. The Company records these contracts as either assets or liabilities in due from broker or other liabilities and accrued expenses, respectively, in its condensed consolidated statements of financial condition.

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. See Note 3 for further discussion about the Company’s goodwill and intangible assets.

Redeemable Noncontrolling Interest—Redeemable noncontrolling interest represents third-party minority voting interests in the Company's consolidated entities. This interest is redeemable at the option of the investors and therefore is not treated as permanent equity.

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

Investment Advisory and Administration Fees—The Company earns revenue by providing asset management services to institutional accounts and to Company-sponsored open-end and closed-end mutual funds. 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, net of applicable waivers. The Company also earns revenue from administration fees paid by certain Company-sponsored open-end and closed-end mutual funds, based on the average assets under management of such funds. This revenue is recognized as such fees are earned.

Distribution and Service Fees—Distribution and service fee revenue is earned as the services are performed, based on contractually-predetermined percentages of the average assets under management of the Company-sponsored 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 fee arrangements are recorded as incurred.

Stock-based Compensation—The Company recognizes compensation 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. The Company also estimates forfeitures.

Income Taxes—The Company records the current and deferred tax consequences of all transactions that have been recognized in the condensed consolidated financial statements in accordance with 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 Company records a valuation allowance, when necessary, to reduce deferred tax assets to an amount that more likely than not will be realized. 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.

Currency Translation and Transactions—Assets and liabilities of subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the applicable condensed consolidated statement of financial condition date. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating non-U.S. dollar functional currency into U.S. dollars are included in the Company's condensed consolidated statements of comprehensive income. Gains or losses resulting from non-U.S. dollar currency transactions are included in other non-operating income in the condensed consolidated statements of operations.

Comprehensive Income—The Company reports all changes in comprehensive income in the condensed consolidated statements of comprehensive income. Comprehensive income includes net income or loss attributable to common shareholders, unrealized gains and losses from available-for-sale securities (net of tax), foreign currency translation gains and losses and reclassification to statements of operations of gains and losses from available-for-sale securities (net of tax).

Recently Issued Accounting Pronouncements—In October 2012, the Financial Accounting Standards Board (“FASB”) issued new guidance to make certain technical corrections to the FASB Accounting Standards Codification ("Codification"), which identifies when the use of fair value should be linked to the definition of fair value in Codification Topic 820, Fair Value Measurements and Disclosures (“Topic 820”). The amendments affect various Codification topics and include source literature amendments, guidance clarification and reference corrections and relocated guidance. The amendments that will not have transition guidance were effective upon issuance and the amendments that are subject to the transition guidance will be effective for the Company's first quarter of 2013. The adoption of this new guidance did not have and is not expected to have a material impact on the Company's condensed consolidated financial statements.

In July 2012, the FASB issued new guidance to simplify how entities test indefinite-lived intangible assets for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform the second step to measure the amount of the impairment loss, if any. This new guidance will be effective for the Company's first quarter of 2013. The Company does not anticipate the adoption of this new guidance to have a material impact on the Company's condensed consolidated financial statements.

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

In December 2011, the FASB issued new guidance to create new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. This new guidance will be effective for the Company's first quarter of 2013. The Company does not anticipate the adoption of this new guidance to have a material impact on the Company's condensed consolidated financial statements.

In September 2011, the FASB issued new guidance to simplify how entities test goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the second step to measure the amount of the impairment loss, if any. This new guidance was effective for the Company's first quarter of 2012. The adoption of this new guidance did not have a material impact on the Company's condensed consolidated financial statements.

In June 2011, the FASB issued new guidance eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The new guidance requires changes to the components of net income and comprehensive income in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The new guidance should be applied retrospectively. This new guidance was effective for the Company's first quarter of 2012. The adoption of this new guidance did not have a material impact on the Company's condensed consolidated financial statements.

In May 2011, the FASB issued new guidance regarding fair value measurement and disclosures. The new guidance results in common fair value measurement and disclosure requirements in U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Requirements. This new guidance changed the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. This new guidance was effective for the Company's first quarter of 2012. See Note 5 for further discussion about the fair value of the Company's investments which incorporates this new guidance.

3. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of purchase price over the net tangible assets and identifiable intangible assets of an acquired business. At September 30, 2012 and December 31, 2011, goodwill was approximately $19,824,000 and $19,934,000, respectively. The Company’s goodwill decreased by $110,000 in the nine months ended September 30, 2012 as a result of foreign currency revaluation.

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Intangible Assets
The following table details the gross carrying amounts and accumulated amortization for the intangible assets at September 30, 2012 and December 31, 2011 (in thousands):

	Remaining Amortization Period (In Months)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
September 30, 2012:				
Amortized intangible assets:				
Client relationships	75	$1,543	$(980)	$563
Non-amortized intangible assets:				
Mutual fund management contracts	—	1,250	—	1,250
Total		$2,793	$(980)	$1,813
December 31, 2011:				
Amortized intangible assets:				
Client relationships	84	$1,543	$(914)	$629
Non-amortized intangible assets:				
Mutual fund management contracts	—	1,250	—	1,250
Total		$2,793	$(914)	$1,879

Amortization expense related to the intangible assets was approximately $22,000 for both the three months ended September 30, 2012 and 2011, respectively, and approximately $66,000 for both the nine months ended September 30, 2012 and 2011, respectively. Estimated future amortization expense is as follows (in thousands):

Periods Ending December 31,	Estimated Amortization Expense
2012	$23
2013	89
2014	89
2015	89
2016	89
Thereafter	184
Total	$563

4. Investments
The following is a summary of the Company's investments as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Securities owned	$91,441	$25,304

Equity investments	7,770	7,868
Investments, available-for-sale	24,383	27,133

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Trading and equity investments

Cohen & Steers Global Realty Partners III-TE, L.P. ("GRP-TE"), which had an initial closing in October 2011, is structured as a partnership. The Company is the general partner and investment manager of GRP-TE, for which it receives a management fee and is entitled to receive an incentive distribution, if earned. GRP-TE is a VIE and the Company is not deemed the primary beneficiary. As the general partner, the Company has significant influence over the financial decisions of GRP-TE and therefore records its investment in this fund using the equity method of accounting. The Company's equity interest in GRP-TE represents a seed investment to launch the fund which was made during the first quarter of 2012, adjusted for the Company's proportionate share of the fund's earnings. As of September 30, 2012, the fair value of the Company's equity interest in GRP-TE was approximately $89,000. The Company's risk with respect to its investment in GRP-TE is limited to its equity ownership and any uncollected management fees. In conjunction with the launch of GRP-TE, the Company established Cohen & Steers Co-Investment Partnership ("GRP-CIP"), which is used by the Company to fulfill its contractual commitment to co-invest with GRP-TE. See Note 11 for further discussion regarding the Company's co-investment commitment. As of September 30, 2012, the Company owned all of the voting interest in GRP-CIP. Accordingly, the underlying assets and liabilities of GRP-CIP have been included in the Company's condensed consolidated financial statements.

The Cohen & Steers Real Asset Fund ("RAP"), launched by the Company on January 31, 2012, is an open-end mutual fund for which the Company is the investment manager. As of September 30, 2012, the Company had a controlling financial interest in RAP. Accordingly, the underlying assets and liabilities of RAP have been included in the Company's condensed consolidated financial statements with the third party interests classified as redeemable noncontrolling interest.

Prior to the sale of the Company's interest in Cohen & Steers Global Listed Infrastructure Fund ("GLIF") during June 2012, the Company owned the majority of the voting interest in GLIF. Accordingly, the underlying assets and liabilities of GLIF had been included in the Company's condensed consolidated financial statements with the third party interests classified as redeemable noncontrolling interest.

During 2008, the Company launched an onshore global real estate long-short fund (the "Onshore Fund"). As of September 30, 2012, the Company determined that the Onshore Fund was a VIE and the Company was the primary beneficiary. Therefore, the underlying assets and liabilities of the Onshore Fund have been included in the Company's condensed consolidated financial statements with the third party interests classified as redeemable noncontrolling interest.

The following represents the portion of the consolidated statements of financial condition attributable to the consolidated Onshore Fund as of September 30, 2012 and December 31, 2011. The following assets may only be used to settle obligations of the Onshore Fund and these liabilities are only the obligations of the Onshore Fund for which the creditors do not have recourse to the general credit of the Company (in thousands):

	September 30, 2012	December 31, 2011
Assets		
Securities owned	$24,946	$21,952
Due from broker	10,064	10,321
Other assets	310	209
Total assets	$35,320	$32,482
Liabilities		
Securities sold but not yet purchased	$12,598	$9,277

Other liabilities	226	493
Total liabilities	$12,824	$9,770

As of September 30, 2012 and December 31, 2011, cash and cash equivalents included in due from broker, which was related to the Company's consolidated funds, in the condensed consolidated statements of financial condition of

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approximately $12,599,000 and $9,360,000, respectively, was held at two brokers for the purpose of covering securities sold but not yet purchased.

The offshore global real estate long-short fund (the "Offshore Fund"), launched by the Company in 2008, is structured as a partnership. The Company is the general partner and investment manager of the Offshore Fund for which it receives a management fee and is entitled to receive a performance fee, if earned. As the general partner, the Company has significant influence over the financial decisions of the Offshore Fund and therefore, as of September 30, 2012, records its investment in this fund using the equity method of accounting. The Company's equity interest in the Offshore Fund represents a seed investment to launch the fund, adjusted for the Company's proportionate share of the fund's earnings.

The following is a summary of the fair value of securities owned and equity investments as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012		December 31, 2011	
	Securities Owned	Equity Investments	Securities Owned	Equity Investments
GLIF	$—	$—	$3,352	$—
Onshore Fund	24,946	—	21,952	—
GRP-CIP	2,041	—	—	—
RAP	64,454	—	—	—
GRP-TE	—	89	—	—
Offshore Fund	—	7,681	—	7,868
Total	$91,441	$7,770	$25,304	$7,868

Gain (loss) from trading securities—net for the three and nine months ended September 30, 2012 and 2011 are summarized below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
GLIF	$—	$21	$142	$(456)
Onshore Fund	67	—	1,921	—
RAP	3,932	—	1,179	—
GRP-CIP	—	—	9	—
Total gain (loss) from trading securities—net	$3,999	$21	$3,251	$(456)

Equity in earnings (losses) of affiliates for the three and nine months ended September 30, 2012 and 2011 are summarized below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
GLIF	$—	$—	$—	$67
GRP-TE	—	—	—	—
Onshore Fund	—	(3,716)	—	(3,317)
Offshore Fund	71	(1,532)	714	(1,385)
Total equity in earnings (losses) of affiliates	$71	$(5,248)	$714	$(4,635)

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Available-for-sale
The following is a summary of the cost, gross unrealized gains, gross unrealized losses and fair value of investments, available-for-sale as of September 30, 2012 and December 31, 2011 (in thousands):

	September 30, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses < 12 months	Fair Value
Preferred securities	$4,332	$82	$(78)	$4,336
Common stocks	9,091	965	(186)	9,870
Company-sponsored mutual funds	10,100	77	—	10,177
Total investments, available-for-sale	$23,523	$1,124	$(264)	$24,383

	December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses < 12 months	Fair Value
Preferred securities	$5,236	$98	$(117)	$5,217
Common stocks	12,247	698	(401)	12,544
Company-sponsored mutual funds	10,100	—	(728)	9,372
Total investments, available-for-sale	$27,583	$796	$(1,246)	$27,133

Unrealized losses on investments, available-for-sale as of September 30, 2012 were generally caused by market conditions. When evaluating whether an unrealized loss on an investment, available-for-sale is other than temporary, the Company reviews such factors as extent and duration of the loss, deterioration in the issuer's credit quality, reduction or cessation of dividend payments and overall financial strength of the issuer. As of September 30, 2012, the Company determined that it had the ability and intent to hold the remaining investments for which no other-than-temporary impairment has occurred until a recovery of fair value. Accordingly, impairment of these investments is considered temporary.
Sales proceeds, gross realized gains and losses from investments, available-for-sale for the three and nine months ended September 30, 2012 and 2011 are summarized below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Proceeds from sales	$7,005	$6,960	$24,166	$20,817
Gross realized gains	562	259	1,704	1,139
Gross realized losses	(125)	(627)	(664)	(917)

5. Fair Value
Topic 820 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.

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ASC 820 specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

- Level 1—Unadjusted quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Company defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Company performed a detailed analysis of the assets and liabilities that are subject to ASC 820. Transfers among levels, if any, are recorded at the beginning of the reporting period. There were no transfers between level 1 and level 2 during the three months ended September 30, 2012.

The following table presents fair value measurements as of September 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents*	$48,908	$—	$—	$48,908
Due from broker*	$1,880	$—	$—	$1,880
Securities owned				
Preferred securities	$2,811	$845	$—	$3,656
Common stocks	63,270	—	1,193	64,463
Fixed income securities	—	21,281	—	21,281
Limited partnership interest	—	—	2,041	2,041
Total securities owned	$66,081	$22,126	$3,234	$91,441
Equity investments **	$—	$7,681	$89	$7,770
Investments, available-for-sale				
Preferred securities	$1,236	$5	$3,095	$4,336
Common stocks	9,870	—	—	9,870
Company-sponsored mutual funds	10,177	—	—	10,177
Total investments, available-for-sale	$21,283	$5	$3,095	$24,383
Derivatives - assets				
Equity contracts	$125	$184	$—	$309
Commodity contracts	1,097	—	—	1,097
Total derivatives - assets	$1,222	$184	$—	$1,406
Derivatives - liabilities				
Equity contracts	$20	$19	$—	$39
Foreign exchange contracts	—	520	—	520
Commodity contracts	394	—	—	394
Credit contracts	—	20	—	20
Total derivatives - liabilities	$414	$559	$—	$973
Securities sold but not yet purchased	$12,598	$—	$—	$12,598

* Comprised of investments in money market funds.
** Comprised of investments accounted for using the equity method of accounting.

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Securities owned classified as level 2 in the above table was primarily comprised of investments in United States Treasury Bills carried at amortized cost, which approximates fair value.
Securities owned classified as level 3 in the above table was comprised of investments in the common stock of a privately held bank holding company and limited partnership interests. The investments in the common stock of a privately held bank holding company was valued by the Company's valuation committee using a market approach which utilized market multiples derived from a set of comparables. The limited partnership interests made during 2012 as a co-investment along with GRP-TE represent the Company's ownership interests in private equity vehicles that invest directly in U.S. commercial real estate and were valued primarily based on the recent transaction value of the underlying investments.
Equity investments classified as level 2 in the above table primarily represent the fair value measurement of an equity investment in the Offshore Fund, which is measured at fair value based on the fund's net asset value. The fund makes long and short investments in listed real estate securities to maximize absolute and risk-adjusted returns with modest volatility. The Company has the ability to redeem its investment in the fund monthly at net asset value per share with prior written notice of 30 days and there are no significant restrictions to redemption.
Investments, available-for-sale classified as level 3 in the above table were comprised primarily of auction rate preferred securities which were measured at fair value using a third party pricing service by utilizing a combination of a market approach based on the quoted prices for identical or similar instruments in markets that are not active and an income approach in which the expected cash flows of the securities were discounted back to the measurement date.
The following table presents fair value measurements as of December 31, 2011 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash equivalents*	$35,050	$—	$—	$35,050
Securities owned				
Preferred securities	$2,528	$—	$—	$2,528
Common stocks	21,501	—	1,275	22,776
Total securities owned	$24,029	$—	$1,275	$25,304
Equity investments **	$—	$7,868	$—	$7,868
Investments, available-for-sale				
Preferred securities	$1,052	$15	$4,150	$5,217
Common stocks	12,544	—	—	12,544
Company-sponsored mutual funds	9,372	—	—	9,372
Total investments, available-for-sale	$22,968	$15	$4,150	$27,133
Derivatives - assets				
Equity contracts	$48	$98	$—	$146
Credit contracts	—	2	—	2
Total derivatives - assets	$48	$100	$—	$148
Derivatives - liabilities				
Equity contracts	$11	$245	$—	$256
Securities sold but not yet purchased	$9,277	$—	$—	$9,277

* Comprised of investments in money market funds.
** Comprised of investments accounted for using the equity method of accounting.

Securities owned classified as level 3 in the above table was comprised of investments in the common stock of a privately held bank holding company. These securities were valued by the Company's valuation committee using a market approach which incorporated the transaction data for privately negotiated transactions and market multiples derived from a set of comparables.

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Equity investments classified as level 2 in the above table represent the fair value measurement of an equity investment in the Offshore Fund, which is measured at fair value based on the fund's net asset value. The fund makes long and short investments in listed real estate securities to maximize absolute and risk-adjusted returns with modest volatility. The Company has the ability to redeem its investment in the fund monthly at net asset value per share with prior written notice of 30 days and there are no significant restrictions to redemption.

Investments, available-for-sale classified as level 3 in the above table were comprised of auction rate preferred securities, which were measured at fair value using a third party pricing service by utilizing a combination of a market approach based on the quoted prices for identical or similar instruments in markets that are not active and an income approach in which the expected cash flows of the securities were discounted back to the measurement date.

The following table summarizes the changes in level 3 investments measured at fair value on a recurring basis for the three months ended September 30, 2012 (in thousands):

	Securities Owned		Equity Investments	Investments, available-for-sale
	Common Stocks	Limited Partnership Interests	GRP-TE	Preferred Securities
Balance at July 1, 2012	$1,343	$994	$43	$ 3,753
Purchases	—	1,047	46	13
Sales	—	—	—	—
Realized gains	—	—	—	—
Unrealized losses	(150)	—	—	(649)
Transfers out of level 3 investments	—	—	—	(22) #
Reclassification from equity investments due to consolidation	—	—	—	—
Balance at September 30, 2012	$1,193	$2,041	$89	$ 3,095

Transferred from level 3 to level 1 because securities started trading actively on an exchange during the three months ended September 30, 2012.

The following table summarizes the changes in level 3 investments measured at fair value on a recurring basis for the nine months ended September 30, 2012 (in thousands):

	Securities Owned		Equity Investments	Investments, available-for-sale
	Common Stocks	Limited Partnership Interests	GRP-TE	Preferred Securities
Balance at January 1, 2012	$1,275	$—	$—	$ 4,150
Purchases	628	2,025	89	125
Sales	—	—	—	(1,213)
Realized gains	—	—	—	100
Unrealized (losses) gains	(82)	16	—	8
Transfers out of level 3 investments	(628) ##	—	—	(75) #
	—	—	—	—

Reclassification from equity investments due to consolidation				
Balance at September 30, 2012	$1,193	$2,041	$ 89	$ 3,095

Transferred from level 3 to level 2 because observable market data became available for the securities at September 30, 2012.

Transferred from level 3 to level 1 because securities started trading actively on an exchange during the nine months ended September 30, 2012.

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The Company had no level 3 investments during the three and nine months ended September 30, 2011.
Realized gains (losses) from investments classified as securities owned, equity investments and investments, available-for-sale in the above tables were recorded as gain (loss) from trading securities, equity in earnings (losses) of affiliates and gain (loss) from available-for-sale securities, respectively, in the Company's condensed consolidated statements of operations. Unrealized gains (losses) from investments classified as securities owned and equity investments in the above tables were recorded as gain (loss) from trading securities and equity in earnings (losses) of affiliates, respectively, in the Company's condensed consolidated statements of operations. Unrealized gains (losses) from investments, available-for-sale in the above tables were recorded as unrealized gain (loss) from available-for-sale securities in the Company's condensed consolidated statements of comprehensive income.
Valuation Techniques
In certain instances, debt and equity securities are valued on the basis of prices from an orderly transaction between market participants provided by reputable brokers/dealers or pricing services. In determining the value of a particular investment, pricing services may use information with respect to transactions in such investments, broker quotes, pricing matrices, market transactions in comparable investments and various relationships between investments.
In the absence of observable market prices, the Company values its investments using valuation methodologies applied on a consistent basis. For some investments, little market activity may exist; management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions and involves a significant degree of judgment, taking into consideration a combination of internal and external factors.
Such investments are valued on a quarterly basis, taking into consideration any changes in key unobservable inputs and changes in economic and other relevant conditions and valuation models are updated accordingly. The valuation process also includes a review by the Company's valuation committee which includes primarily senior members from administration departments. The valuation committee provides independent oversight of the valuation policies and procedures.
The valuation technique and significant unobservable inputs used in the fair value measurement of the following Level 3 investments as of September 30, 2012 were (in thousands):

	Fair Value	Fair Value Methodology	Significant Unobservable Inputs	Price to Book Ratio Range
Common shares of privately-held company	$1,193	Market comparable companies	Price / book ratio	1.07x - 1.14x
Limited partnership interests	$2,041	Transaction value	Recent transaction price	

The significant unobservable input related to common shares of a privately-held company utilized in the fair value measurement of the level 3 investments in the above table is the price to book ratio. Significant changes in this input may result in a materially higher or lower fair value measurement. The disclosure in the above table excludes auction rate preferred securities for which fair value is based on unobservable but non-quantitative inputs. Such items include financial instruments for which the determination of fair value is based on unadjusted quotations provided by a third party pricing service.

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