Aircastle LTD
Form 10-Q
August 07, 2009

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

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

For the quarterly period ended June 30, 2009

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 001-32959

AIRCASTLE LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**98-0444035**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
c/o Aircastle Advisor LLC 300 First Stamford Place, 5th Floor, Stamford, CT	**06902**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code **(203) 504-1020**

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 þ NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o 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 the 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 þ	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 þ

As of July 31, 2009, there were 79,234,663 outstanding shares of the registrant s common shares, par value $0.01 per share.

Aircastle Limited and Subsidiaries
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Aircastle Limited and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	December 31, 2008	June 30, 2009 (Unaudited)
ASSETS		
Cash and cash equivalents	$ 80,947	$ 95,785
Accounts receivable	3,161	5,597
Debt investments	14,349	13,691
Restricted cash and cash equivalents	182,623	199,377
Restricted liquidity facility collateral		81,186
Flight equipment held for lease, net of accumulated depreciation of $371,591 and $474,350	3,837,543	3,832,039
Aircraft purchase deposits and progress payments	68,923	107,357
Leasehold improvements, furnishings and equipment, net of accumulated depreciation of $1,999 and $2,240	1,174	1,016
Other assets	62,852	82,648
Total assets	$ 4,251,572	$ 4,418,696
LIABILITIES AND SHAREHOLDERS EQUITY		
LIABILITIES		
Borrowings from securitizations and term debt financings	$ 2,476,296	$ 2,481,365
Accounts payable, accrued expenses and other liabilities	60,789	62,269
Dividends payable	7,862	7,923
Lease rentals received in advance	28,463	27,235
Liquidity facility		81,186
Security deposits	65,307	94,837
Maintenance payments	224,288	241,074
Fair value of derivative liabilities	276,401	191,411
Total liabilities	3,139,406	3,187,300
Commitments and Contingencies		
SHAREHOLDERS EQUITY		
Preference shares, $.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Common shares, $.01 par value, 250,000,000 shares authorized, 78,620,320 shares issued and outstanding at December 31, 2008; and 79,234,663 shares issued and outstanding at June 30, 2009	786	792
Additional paid-in capital	1,474,455	1,476,533

Retained earnings (deficit)	(473)	29,723
Accumulated other comprehensive loss	(362,602)	(275,652)
Total shareholders equity	1,112,166	1,231,396
Total liabilities and shareholders equity	$ 4,251,572	$ 4,418,696

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

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Aircastle Limited and Subsidiaries
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2009**	**2008**	**2009**
Revenues:				
Lease rental revenue	$ 137,647	$ 129,406	$ 268,628	$ 255,400
Amortization of net lease discounts and lease incentives	2,502	(2,810)	5,148	(3,927)
Maintenance revenue	4,142	9,637	4,142	16,240
Total lease rentals	144,291	136,233	277,918	267,713
Interest income	614	594	1,905	1,227
Other revenue	490	86	528	111
Total revenues	145,395	136,913	280,351	269,051
Expenses:				
Depreciation	51,605	51,688	99,820	103,249
Interest, net	51,319	41,482	92,330	84,893
Selling, general and administrative (including non-cash share based payment expense of $1,615 and $1,729 for the three months ended, and $3,213 and $3,387 for the six months ended June 30, 2008 and 2009, respectively)	11,354	11,122	22,843	22,217
Maintenance and other costs	597	4,502	1,242	10,278
Total expenses	114,875	108,794	216,235	220,637
Other income:				
Gain on sale of aircraft	5,126		5,126	
Other	1,328	1,501	1,083	1,593
Total other income	6,454	1,501	6,209	1,593
Income from continuing operations before income taxes	36,974	29,620	70,325	50,007
Income tax provision	1,633	2,049	3,347	3,965
Net income	$ 35,341	$ 27,571	$ 66,978	$ 46,042
Earnings per common share Basic	$ 0.45	$ 0.35	$ 0.85	$ 0.58

Earnings per common share Diluted	$	0.45	$	0.35	$	0.85	$	0.58
Dividends declared per share	$	0.25	$	0.10	$	0.50	$	0.20

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

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Aircastle Limited and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net income	$ 66,978	$ 46,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	99,820	103,249
Amortization of deferred financing costs	6,787	5,731
Amortization of net lease discounts and lease incentives	(5,148)	3,927
Deferred income taxes	2,604	3,348
Accretion of purchase discounts on debt investments	(277)	(288)
Non-cash share based payment expense	3,213	3,387
Cash flow hedges reclassified into earnings	530	10,554
Ineffective portion of cash flow hedges	5,905	(3,331)
Gain on sale of flight equipment	(5,126)	
Security deposits and maintenance payments included in earnings	(3,322)	(10,506)
Loss on sale of investments	245	
Other	(731)	(1,164)
Changes in certain assets and liabilities:		
Accounts receivable	(1,731)	(2,281)
Restricted cash and cash equivalents	(26,686)	(16,754)
Other assets	1,210	(4,077)
Accounts payable, accrued expenses and other liabilities	(2,773)	(10,118)
Payable to affiliates	(200)	
Lease rentals received in advance	(4,110)	(1,228)
Net cash provided by operating activities	137,188	126,491
Cash flows from investing activities:		
Acquisition and improvement of flight equipment and lease incentives	(221,310)	(105,746)
Aircraft purchase deposits and progress payments, net of returned deposits	8,974	(39,715)
Proceeds from sale of flight equipment	21,366	
Proceeds from sale of debt investments	65,335	
Principal repayments on debt investments	11,467	808
Collateral call payments on derivatives and repurchase agreements	(296,605)	
Collateral call receipts on derivatives and repurchase agreements	330,943	
Leasehold improvements, furnishings and equipment	(334)	(82)
Net cash used in investing activities	(80,164)	(144,735)
Cash flows from financing activities:		
Issuance, net of repurchases, of common shares to directors and employees	(1,263)	(247)

Proceeds from term debt financings	786,135	70,916
Securitization and term debt financing repayments	(49,504)	(65,847)
Restricted cash and cash equivalents related to unreleased securitization and credit facility borrowings	(138)	
Deferred financing costs	(17,568)	(3,098)
Credit facility borrowings	482,723	
Credit facility repayments	(1,025,720)	
Principal repayments on repurchase agreements	(67,744)	
Security deposits and maintenance payments received	56,498	70,695
Security deposits and maintenance payments returned	(14,066)	(20,794)
Payments for terminated cash flow hedges	(68,332)	(2,758)
Dividends paid	(74,644)	(15,785)
Net cash provided by financing activities	6,377	33,082
Net increase in cash and cash equivalents	63,401	14,838
Cash and cash equivalents at beginning of period	13,546	80,947
Cash and cash equivalents at end of period	$ 76,947	$ 95,785
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 81,334	$ 73,428
Cash paid for income taxes	$ 1,594	$ 1,568

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

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2009

Note 1. Summary of Significant Accounting Policies

Organization

Aircastle Limited (Aircastle, the Company, we, us or our) is a Bermuda exempted company that was incorpo on October 29, 2004 by Fortress Investment Group LLC and certain of its affiliates (together, the Fortress Shareholders or Fortress) under the provisions of Section 14 of the Companies Act of 1981 of Bermuda. Aircastle s business is investing in aviation assets, including leasing, managing and selling commercial jet aircraft to airlines throughout the world and in aircraft related debt investments.

Basis of Presentation

Aircastle is a holding company that conducts its business through subsidiaries. Aircastle directly or indirectly owns all of the outstanding common shares of its subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (GAAP). We operate in a single segment.

The accompanying consolidated financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial reporting and, in our opinion, reflect all adjustments, including normal recurring items, which are necessary to present fairly the results for interim periods. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC; however, we believe that the disclosures are adequate to make information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The Company s management has reviewed and evaluated all events or transactions for potential recognition and/or disclosure since the balance sheet date of June 30, 2009 through August 7, 2009, the date on which the consolidated financial statements included in this Form 10-Q were issued.

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Statement of Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities,* an amendment of FASB Statement No. 133 *Accounting for Derivative Instruments and Hedging Activities,* (SFAS No. 161). SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. See Note 10 Derivatives.

Also effective January 1, 2009, the Company adopted FASB Staff Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1). FSP No. EITF 03-6-1 addresses whether unvested share-based payment awards with rights to receive dividends or dividend equivalents should be considered participating securities for the purposes of applying the two-class method of calculating earnings per share (EPS) under SFAS No. 128, *Earnings per Share*. The FASB staff concluded that unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities and thus should be included in the two-class method of computing EPS. The adoption of FSP No. EITF 03-6-1 requires us to present EPS using the two-class method for our current period EPS computations and to retrospectively revise our comparative prior period EPS computations using the two-class method. The adoption of FSP No. EITF 03-6-1 did not have a material effect on EPS. See Note 6 Earnings Per Share.

Principles of Consolidation

The consolidated financial statements include the accounts of Aircastle and all of its subsidiaries. Aircastle consolidates four Variable Interest Entities (VIEs) in accordance with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46) of which Aircastle is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

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Aircastle Limited and Subsidiaries
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(Dollars in thousands, except per share amounts)
June 30, 2009

Recent Accounting Pronouncements

In April, 2009, the FASB issued three final FSPs intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides guidelines for making fair value measurements more consistent with the principles presented in FASB Statement No. 157, *Fair Value Measurements*. FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2, FAS 124-2 and EITF 99-20-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The FSPs are effective for interim and annual periods ending after June 15, 2009. The Company adopted these FSPs during the second quarter of 2009 and the adoption of these FSPs did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 is intended to establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The Company adopted SFAS No. 165 during the second quarter of 2009 and the adoption of SFAS No. 165 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation (FIN) No. 46(R)* (SFAS No. 167), which amends FIN No. 46(R) to require an enterprise to perform an analysis to determine whether the enterprise s variable interest, or interests, give it a controlling financial interest in a variable interest entity. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. This Statement amends certain guidance in FIN No. 46(R) for determining whether an entity is a variable interest entity and requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS No. 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS No. 167 will be effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company is currently evaluating the requirements of SFAS No. 167 and has not yet determined the impact on the Company s consolidated financial statements.

Also in June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™* (Codification) *and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS No. 168). This Statement replaces FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* and identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification does not replace or affect guidance issued by the SEC or its staff for public entities in their filings with the SEC. SFAS No. 168 shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company plans to adopt SFAS No. 168 during the third quarter of 2009 and the adoption of SFAS No. 168 is not expected to have a material effect on our consolidated financial statements.

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Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2009

Note 2. Fair Value Measurements

SFAS No. 157, *Fair Value Measurements,* requires the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities or market corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants price the asset or liability.

The valuation techniques that may be used to measure fair value are as follows:

Market approach Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach Uses valuation techniques to convert future amounts to a single present amount based on current market expectation about those future amounts.

Cost approach Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

The following table sets forth our financial assets and liabilities as of June 30, 2009 that we measured at fair value on a recurring basis by level within the fair value hierarchy. As required by SFAS No. 157, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

	Fair Value as of June 30, 2009	Fair Value Measurements at June 30, 2009 Using Fair Value Hierarchy			
		Level 1	Level 2	Level 3	Valuation Technique
Assets:					
Cash and cash equivalents	$ 95,785	$ 95,785	$	$	Market
Restricted cash and cash equivalents	199,377	199,377			Market
Debt investments	13,691			13,691	Income
Total	$ 308,853	$ 295,162	$	$ 13,691	
Liabilities:					
Derivative liabilities	$ 191,411	$	$ 152,571	$ 38,840	Income

Our cash and cash equivalents, along with our restricted cash and cash equivalents balances, consist largely of money market securities that are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as level 1 within our fair value hierarchy. Our interest rate derivatives included in level 2 consist of United States dollar denominated interest rate swaps, and their fair values are determined by applying standard modeling techniques under the income approach to relevant market interest rates (cash rates, futures rates, swap rates) in effect at the period close to determine appropriate reset and discount rates.

Aircastle Limited and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(Dollars in thousands, except per share amounts)
June 30, 2009

Our debt investments included in Level 3 consist of available-for-sale United States corporate obligations consisting of interests in pools of loans which are collateralized by interests in commercial aircraft. The fair value of our debt investments included within Level 3 is valued by using discounted cash flow methodologies, where the inputs to those models are based on unobservable market inputs. The Company used two sources of unobservable inputs; we obtained broker quotes which provided an indication of the market value and we obtained market values from a pricing service. We used the broker quotes and/or the pricing service market values to validate the discount rate used for our cash flow model for these debt investments in accordance with SFAS 157-3.

Our interest rate derivatives included in Level 3 consist of United States dollar denominated interest rate swaps with a guaranteed notional balance. The guaranteed notional balance has an upper notional band that matches the hedged debt and a lower notional band. The notional balance is guaranteed to match the hedged debt balance if the debt balances decreases within the upper and lower notional band. The fair value of the interest rate derivative is determined based on the upper notional band using cash flows discounted at the relevant market interest rates in effect at the period close. The range of the guaranteed notional between the upper and lower band represents an option that may not be exercised independently of the debt notional and is therefore valued based on unobservable market inputs.

The following tables reflect the activity for the major classes of our assets and liabilities measured at fair value using level 3 inputs for the three and six months ended June 30, 2009:

	Three Months Ended June 30, 2009		Six Months Ended June 30, 2009	
	Assets Debt Investments	Liabilities Derivative Liabilities	Assets Debt Investments	Liabilities Derivative Liabilities
Balance at beginning of period	$ 12,626	$ (62,327)	$ 14,349	$ (66,321)
Transfers in (out)				
Principal repayments	(1)		(808)	
Total gains/(losses), net:				
Included in interest income	130		288	
Included in other income (expense)		(146)		(295)
Included in interest expense		(65)		(123)
Included in other comprehensive income	936	23,698	(138)	27,899
Balance at end of period	$ 13,691	$ (38,840)	$ 13,691	$ (38,840)

There were no assets and liabilities measured at fair value on a non-recurring basis.

Our financial instruments, other than cash, consist principally of cash equivalents, restricted cash and cash equivalents, accounts receivable, debt investments, accounts payable, amounts borrowed under financings and interest rate derivatives. The fair value of cash, cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short term nature.

The fair values of our securitizations which contain third-party credit enhancements are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates of borrowing arrangements that do not contain third-party credit enhancements. The fair values of our term debt financings are estimated using a discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of our financial instruments at December 31, 2008 and June 30, 2009 are as follows:

	December 31, 2008		June 30, 2009	
	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)	Carrying Amount of Asset (Liability)	Fair Value of Asset (Liability)
Debt investments	$ 14,349	$ 14,349	$ 13,691	$ 13,691
Securitizations and term debt financings	(2,476,296)	(2,328,574)	(2,410,822)	(2,065,329)
ECA term financing			(70,543)	(70,543)
Derivative liabilities	(276,401)	(276,401)	(191,411)	(191,411)

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Net cash (used in) provided by investing activities

4,383 (15,893)

Cash flows from financing activities:

Dividends to stockholders

(4,385) (3,976)

Acquisition of treasury stock

(5,983)

Payment of capital lease obligations

(42) (5)

Principal payments on long-term debt

(34)

Issuance of common stock

656

Net cash used in financing activities

(9,754) (4,015)

Effect of foreign currency translation

69 (39)

Net decrease in cash and cash equivalents

(4,661) (3,052)

Cash and cash equivalents, beginning of the period

39,092 30,164

Cash and cash equivalents, end of the period

$34,431 $27,112

Supplementary disclosure of cash flow information:

Cash paid for interest

$ $28

Cash paid for taxes, net

$2,492 $465

Non-cash transactions acquisition of property and equipment under capital leases

$89 $110

Non-cash transactions issuance of restricted stock unit dividend equivalents

$175 $

See notes to condensed consolidated financial statements.

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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 unaudited 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). All material intercompany balances and transactions have been eliminated in consolidation.

The Company provides investment management services to individual and institutional investors through a wide range of open-end mutual funds, closed-end mutual funds and institutional separate accounts. The Company manages high-income equity portfolios, specializing in U.S. REITs, international real estate securities, preferred securities, utilities and large cap value stocks. 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 as well as investment banking services to companies in real estate and real estate intensive businesses.

2. Basis of Presentation and Significant Accounting Policies

The unaudited condensed consolidated financial statements of the Company included herein have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the 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 unaudited condensed consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Management believes the estimates used in preparing the unaudited condensed consolidated financial statements are reasonable and prudent. Actual results could differ from those estimates.

The Company s unaudited condensed consolidated financial statements and the related notes should be read together with the consolidated financial statements and the related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. Certain prior period amounts have been reclassified to conform to the three months ended March 31, 2006 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 debt and preferred instruments. These investments are carried at fair value based on quoted market prices, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income. The Company 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

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

an impairment on a security position is other than temporary, the loss will be recognized in operations. Minor impairments that arise from changes in interest rates and not credit quality are generally considered temporary.

Goodwill and Intangible Assets Intangible assets are amortized over their useful life. Goodwill represents the excess of the cost of the Company s investment in the net assets of an acquired company over the fair value of the underlying identifiable net assets at the date of acquisition. Goodwill is not amortized but is tested at least annually for impairment by comparing the fair value to carrying amount, including goodwill. See Notes 3 and 4 for further discussion about the Company s goodwill and intangible asset.

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.

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 arrangements. The expenses associated with these third-party distribution and service arrangements are recorded as incurred in distribution and service fees.

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 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.

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 at the date of grant instead of recognizing them as incurred.

3. Intangible Asset

The Company s intangible asset, which expires in January 2008, reflects the independently determined value of the non-competition agreements that the Company received from certain employees who received fully vested restricted stock units (RSUs) at the time of the Company s initial public offering. The intangible asset, with an original value of $15,400,000, is being amortized on a straight-line basis over the life of these agreements. The following table details the gross carrying amounts and accumulated amortization for the intangible asset at March 31, 2006 and December 31, 2005 (in thousands):

	March 31, 2006	December 31, 2005
Gross carrying amount	$ 15,400	$ 15,400
Accumulated amortization	(7,258)	(6,148)
Intangible asset, net	$ 8,142	$ 9,252

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Amortization expense related to the intangible asset was approximately $1,110,000 for the three months ended March 31, 2006 and 2005, respectively. Estimated amortization expense from April 1, 2006 through January 31, 2008, the date of expiration, is as follows (in thousands):

Periods Ending December 31,	Estimated Amortization Expense
2006	$ 3,331
2007	4,441
2008	370

4. Investments

Marketable Securities

The following is a summary of the cost and fair value of investments in marketable securities at March 31, 2006 and December 31, 2005 (in thousands):

	March 31, 2006				December 31, 2005			
		Gross Unrealized				Gross Unrealized		
	Cost	Gains	Losses	Market Value	Cost	Gains	Losses	Market Value
Debt securities (1):								
Maturity less than 1 year	$ 31,954	$	$ (253)	$ 31,701	$ 36,938	$	$ (243)	$ 36,695
Maturity between 1yr - 5 yrs	4,968		(49)	4,919	14,940		(119)	14,821
Preferred securities	25,878	290		26,168	18,710	223		18,933
Equities	6,068	868		6,936	3,852	123		3,975
Company sponsored mutual funds	11,623	1,993		13,616	11,180	1,672		12,852
Total marketable securities	$ 80,491	$ 3,151	$ (302)	$ 83,340	$ 85,620	$ 2,018	$ (362)	$ 87,276

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

For the three months ended March 31, 2006 and March 31, 2005, sales proceeds from Company-sponsored mutual funds were approximately $3,222,000 and $1,522,000, respectively, and gross realized gains were approximately $638,000 and $507,000, respectively. Dividend income from Company-sponsored mutual funds was approximately $73,000 and $44,000, for the three months ended March 31, 2006 and 2005, respectively.

Unrealized losses on investments in marketable securities as of March 31, 2006 were generally due to interest rate increases. The Company has the ability and intent to hold these investments until a recovery of fair value, which may mean until maturity, and to collect all contractual cash flows. Accordingly, impairment of these investments is considered temporary.

Equity Investment

At March 31, 2006 and December 31, 2005, the Company had a non-controlling 50% investment of approximately $4,856,000 and $4,427,000, respectively, which included approximately $2,728,000 and $2,676,000 of goodwill, respectively, in Houlihan Rovers S.A. (Houlihan Rovers), the Company s

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COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Brussels-based investment advisor affiliate. The Company accounts for its investment in Houlihan Rovers using the equity method of accounting. Under such accounting method, the investor recognizes its respective share of the investee s net income for the period. For the three months ended March 31, 2006 and 2005, the Company recognized income of approximately $348,000 and $152,000, respectively.

5. 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. There were no anti-dilutive common stock equivalents excluded from the computation for the three months ended March 31, 2006 and 2005.

The following is a reconciliation of the income and share data used in the basic and diluted earnings per share computations for the three months ended March 31, 2006 and 2005 (in thousands, except per share data):

	Three Months Ended March 31, 2006	2005
Net income	$ 8,717	$ 7,065
Basic weighted average shares outstanding	39,803	40,022
Dilutive potential shares from restricted stock awards	524	213
Diluted weighted average shares outstanding	40,327	40,235
Basic earnings per share	$ 0.22	$ 0.18
Diluted earnings per share	$ 0.22	$ 0.18

6. 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 three months ended March 31, 2006 includes U.S. federal, state and local taxes at a 37% effective tax rate, which represents management s best estimate of the rate expected to be applied to the full fiscal year of 2006. In estimating the full year s effective tax rate, the Company has anticipated the effect of a $72 million expense that will be recorded in the second quarter of 2006 related to the termination of certain agreements entered into in connection with the common share offerings of seven Company-sponsored closed-end mutual funds (see Note 12). The expense, which is anticipated to create a tax loss for the full fiscal year 2006, will be applied to periods in which the Company expects to have lower tax rates. Management s estimate of the full year s effective tax rate also includes an adjustment to the net deferred tax asset resulting from lower state and local 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.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

7. Contingencies

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

8. Comprehensive Income

Total comprehensive income includes net income and other comprehensive income, net of tax. The components of comprehensive income for the three months ended March 31, 2006 and 2005 are as follows (in thousands):

	Three Months Ended March 31, 2006	2005
Net income	$ 8,717	$ 7,065
Foreign currency translation gain (loss) adjustment	69	(39)
Net unrealized gain (loss) on available-for-sale securities, net of tax	869	(743)
Total comprehensive income	$ 9,655	$ 6,283

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 March 31, 2006, Securities and Advisors had net capital of approximately $4,201,000 and $7,082,000, respectively, which exceeded their requirements by approximately $3,891,000 and $6,897,000, 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. For the three months ended March 31, 2006 and 2005, the Company earned advisory and administrative fee revenue of approximately $28,109,000 and $23,800,000, respectively, from these affiliated funds. For the three months ended March 31, 2006 and 2005, distribution and service fee revenue from such funds totaled approximately $3,201,000 and $2,869,000, respectively.

COHEN & STEERS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

For the three months ended March 31, 2006 and 2005, the Company had investment advisory agreements with certain affiliated closed-end mutual funds, pursuant to which the Company contractually waived approximately $4,828,000 and $4,200,000, respectively, of advisory fees it was otherwise entitled to receive. 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 January 1, 2006, the first such scheduled reduction in advisory fee waiver became effective for one fund.

The Company incurs expenses associated with the launch of its open and closed-end mutual funds. These organizational costs, which are included in general and administrative expenses, totaled approximately $39,000 and $1,800,000 for the three months ended March 31, 2006 and 2005, respectively.

The Company has agreements with six affiliated open-end mutual funds to reimburse certain fund expenses. For the three months ended March 31, 2006 and 2005, expenses of approximately $506,000 and $400,000 respectively, were incurred by the Company pursuant to these agreements and are included in general and administrative expenses.

General and administrative expenses include $624,000 of sub-advisory fees paid to Houlihan Rovers for the three months ended March 31, 2006.

Included in accounts receivable at March 31, 2006 and December 31, 2005 are receivables due from Company-sponsored mutual funds of approximately $11,378,000 and $10,344,000, respectively. Included in other assets at March 31, 2005 and December 31, 2005 are amounts due from Company-sponsored mutual funds of approximately $69,000 and $77,000, respectively.

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 financial statements. The Company operates in two business segments: Asset Management and Investment Banking. The Company s reporting segments are strategic divisions that offer different services and are managed separately, as each division requires different resources and marketing strategies.

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

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

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 March 31, 2006	Three Months Ended March 31, 2005
Asset Management		
Total revenue, including equity in earnings of affiliate	$ 37,489	$ 31,370
Total expenses	(24,517)	(20,855)
Net non-operating income	1,571	991
Income before provision for income taxes	$ 14,543	$ 11,506
Investment Banking		
Total revenue	$ 705	$ 2,889
Total expenses	(1,751)	(2,231)
Net non-operating income	129	24
Income (loss) before provision for income taxes	$ (917)	$ 682
Total		
Total revenue, including equity in earnings of affiliate	$ 38,194	$ 34,259
Total expenses	(26,268)	(23,086)
Net non-operating income	1,700	1,015
Income before provision for income taxes	$ 13,626	$ 12,188

The following table is a reconciliation of reportable segment income before provision for income taxes and income before provision for income taxes and equity in earnings of affiliate in the Company s unaudited condensed consolidated statements of income (in thousands):

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Income before provision for income taxes	$ 13,626	$ 12,188
Less: Equity in earnings of affiliate	(348)	(152)
Income before provision for income taxes and equity in earnings of affiliate	$ 13,278	$ 12,036

12. Subsequent Events

On April 10, 2006, the Company agreed to terminate additional compensation agreements entered into in connection with the common share offerings of seven Cohen & Steers closed-end mutual funds. In exchange for the termination of these agreements, the Company made a lump sum payment of $72 million that will be recorded as an expense in the second quarter of 2006.

On May 2, 2006, CNS declared a quarterly cash dividend on its common stock in the amount of $0.11 per share. The dividend will be payable on July 19, 2006 to stockholders of record at the close of business on June 29, 2006.

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

Set forth on the following pages is management s discussion and analysis of our financial condition and results of operations for the three months ended March 31, 2006 and March 31, 2005. Such information should be read in conjunction with our unaudited condensed consolidated financial statements together with the notes to the unaudited condensed consolidated financial statements. When we use the terms Cohen & Steers, the Company, we, us, and our, we mean Cohen & Steers, Inc., a Delaware corporation, and its consolidated subsidiaries.

Overview

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

Assets Under Management

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

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

	Three Months Ended	
	March 31, 2006	**March 31, 2005**
Closed-End Mutual Funds		
Assets under management, beginning of period	$ 9,674	$ 8,984
Inflows	54	605
Market appreciation (depreciation)	534	(463)
Total increase	588	142
Assets under management, end of period	$ 10,262	$ 9,126
Open-End Mutual Funds		
Assets under management, beginning of period	$ 5,591	$ 5,199
Inflows	719	418
Outflows	(500)	(423)
Net inflows (outflows)	219	(5)
Market appreciation (depreciation)	767	(370)
Total increase (decrease)	986	(375)
Assets under management, end of period	$ 6,577	$ 4,824

	Three Months Ended	
	March 31, 2006	March 31, 2005
Institutional Separate Accounts		
Assets under management, beginning of period	$ 5,226	$ 4,118
Inflows	405	86
Outflows	(226)	(112)
Net inflows (outflows)	179	(26)
Market appreciation (depreciation)	719	(264)
Total increase (decrease)	898	(290)
Assets under management, end of period	$ 6,124	$ 3,828
Total		
Assets under management, beginning of period	$ 20,491	$ 18,301
Inflows	1,178	1,109
Outflows	(726)	(535)
Net inflows	452	574
Market appreciation (depreciation)	2,020	(1,097)
Total increase (decrease)	2,472	(523)
Assets under management, end of period (1)	$ 22,963	$ 17,778

(1) As of March 31, 2006 and 2005, assets under management included $1.3 billion and $148 million, respectively, of assets managed by Houlihan Rovers through sub-advisory and similar arrangements.

Assets under management were $23.0 billion at March 31, 2006, a 29% increase from $17.8 billion at March 31, 2005.

Closed-end mutual funds

Closed-end mutual fund assets under management increased 12% to $10.3 billion at March 31, 2006, compared with $9.1 billion at March 31, 2005. The increase in assets under management was attributable to market appreciation and the offerings of preferred shares for existing funds.

Closed-end mutual fund inflows were $54 million in the three months ended March 31, 2006, compared with $605 million in the three months ended March 31, 2005. In the three months ended March 31, 2006, Cohen & Steers REIT and Utility Income Fund issued $54 million of variable preferred shares for the purpose of maintaining the target leverage ratio. The assets raised in the first quarter of 2005 were primarily the result of the common share offerings for two closed-end mutual funds.

Market appreciation was $534 million in the three months ended March 31, 2006, compared with market depreciation of $463 million in the three months ended March 31, 2005.

Open-end mutual funds

Open-end mutual fund assets under management increased 36% to $6.6 billion at March 31, 2006 from $4.8 billion at March 31, 2005. The increase in assets under management was primarily due to market appreciation.

Net inflows for open-end mutual funds were $219 million in the three months ended March 31, 2006, compared with net outflows of $5 million in the three months ended March 31, 2005. Gross inflows increased to

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$719 million in the three months ended March 31, 2006 from $418 million in the three months ended March 31, 2005. Gross outflows totaled $500 million in the three months ended March 31, 2006, compared with $423 million in the three months ended March 31, 2005.

Market appreciation was $767 million in the three months ended March 31, 2006, compared with market depreciation of $370 million in the three months ended March 31, 2005.

Institutional separate accounts

Institutional separate account assets under management increased 60% to $6.1 billion at March 31, 2006 from $3.8 billion at March 31, 2005. The increase in assets under management was due to market appreciation and net inflows.

Institutional separate accounts had net inflows of $179 million in the three months ended March 31, 2006, compared with net outflows of $26 million in the three months ended March 31, 2005. Gross inflows increased to $405 million in the three months ended March 31, 2006 from $86 million in the three months ended March 31, 2005. Gross outflows totaled $226 million in the three months ended March 31, 2006, compared with $112 million in the three months ended March 31, 2005.

Market appreciation was $719 million in the three months ended March 31, 2006, compared with market depreciation of $264 million in the three months ended March 31, 2005.

Results of Operations

Three Months Ended March 31, 2006 compared with Three Months Ended March 31, 2005

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

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Asset Management		
Total revenue, including equity in earnings of affiliate	$ 37,489	$ 31,370
Total expenses	(24,517)	(20,855)
Net non-operating income	1,571	991
Income before provision for income taxes	$ 14,543	$ 11,506
Investment Banking		
Total revenue	$ 705	$ 2,889
Total expenses	(1,751)	(2,231)
Net non-operating income	129	24
Income (loss) before provision for income taxes	$ (917)	$ 682
Total		
Total revenue, including equity in earnings of affiliate	$ 38,194	$ 34,259
Total expenses	(26,268)	(23,086)
Net non-operating income	1,700	1,015
Income before provision for income taxes	$ 13,626	$ 12,188

Revenue

Total revenue, including equity in earnings of affiliate, increased 11% to $38.2 million in the three months ended March 31, 2006 from $34.3 million in the three months ended March 31, 2005. This increase was primarily the result of an increase in investment advisory and administration fees attributable to higher assets under management, partially offset by a decrease in investment banking fees.

Asset Management

Revenue, including equity in earnings of affiliate, increased 20% to $37.5 million in the three months ended March 31, 2006 from $31.4 million in the three months ended March 31, 2005. Investment advisory and administration fees increased 21% to $33.0 million in the three months ended March 31, 2006, compared with $27.3 million in the three months ended March 31, 2005.

In the three months ended March 31, 2006, total investment advisory and administration revenue from closed-end mutual funds increased 13% to $15.9 million from $14.1 million in the three months ended March 31, 2005. The first quarter of 2006 included a full quarter of revenue from the completion of two fund offerings during the first quarter of 2005. The remaining increase in closed-end mutual fund revenue was due to higher levels of average daily net assets resulting primarily from market appreciation.

In the three months ended March 31, 2006, total investment advisory and administration revenue from open-end mutual funds increased 26% to $12.2 million from $9.7 million in the three months ended March 31, 2005. The increase was attributable to higher levels of average daily net assets under management resulting from market appreciation and net inflows during the period.

In the three months ended March 31, 2006, total investment advisory and administration revenue from institutional separate accounts increased 37% to $4.9 million from $3.5 million in the three months ended March 31, 2005. The increase was attributable to higher levels of assets under management resulting from market appreciation and net inflows during the period.

Distribution and service fee revenue increased 12% to $3.2 million in the three months ended March 31, 2006 from $2.9 million in the three months ended March 31, 2005. The first quarter of 2006 included a full quarter of revenue from the completion of a fund offering in the first quarter of 2005.

Investment Banking

Revenue decreased 76% to $0.7 million in the three months ended March 31, 2006 from $2.9 million in the three months ended March 31, 2005. First quarter 2006 revenue was primarily attributable to fees generated in connection with merger advisory assignments and capital raising transactions. Revenue from investment banking activity is dependent on the completion of transactions, the timing of which cannot be predicted.

Expenses

Total operating expenses increased 14% to $26.3 million in the three months ended March 31, 2006 from $23.1 million in the three months ended March 31, 2005, primarily due to increases in employee compensation and benefits and distribution and service fees.

Employee compensation and benefits expense increased 22% to $10.6 million in the three months ended March 31, 2006, from $8.7 million in the three months ended March 31, 2005, primarily due to increased salary, incentive compensation and amortization of stock based compensation awards for new employees hired during 2005 and the first quarter of 2006.

Distribution and service fee expenses increased 15% to $7.7 million in the three months ended March 31, 2006 from $6.7 million in the three months ended March 31, 2005. This increase was primarily due to higher levels of average daily net assets resulting from market appreciation and a full quarter of expense for two closed-end mutual funds launched in the three months ended March 31, 2005. On April 10, 2006, we agreed to terminate additional compensation agreements entered into in connection with the common share offerings of seven Cohen & Steers closed-end mutual funds. In exchange for the termination of these agreements, we made a lump sum payment of $72 million, thereby reducing the distribution and service fee expenses related to these closed-end mutual funds, beginning April 1, 2006. Prior to the termination of these additional compensation agreements, in the three months ended March 31, 2006 we incurred approximately $3 million in such distribution and service fee expenses.

General and administrative expenses increased 5% to $5.7 million in the three months ended March 31, 2006 from $5.4 million in the three months ended March 31, 2005. This increase was primarily attributable to sub-advisory fees paid to Houlihan Rovers, increased occupancy costs due to a full quarter of expense for our new corporate headquarters, increased IT infrastructure costs and increased travel and entertainment as a result of an expanded sales effort. These increases in costs were partially offset by a decrease in printing and certain professional fees related to the launch of four funds during the three months ended March 31, 2005.

Depreciation and amortization increased 13% to $1.6 million in the three months ended March 31, 2006 from $1.4 million in the three months ended March 31, 2005. This increase was primarily attributable to a full quarter of depreciation and amortization for leasehold improvements and new assets acquired as a result of our relocation to our new corporate headquarters in the fourth quarter of 2005.

Amortization of deferred commissions decreased 24% to $0.7 million in the three months ended March 31, 2006 from $1.0 million in the three months ended March 31, 2005. The decrease was primarily attributable to a higher proportion of inflows into front-end load, class A shares, which are not amortized.

Non-operating Income

Non-operating income, excluding our share of the net income of Houlihan Rovers, S.A., increased 68% to $1.7 million in the three months ended March 31, 2006, compared with $1.0 million in the three months ended March 31, 2005. Non-operating income in the three months ended March 31, 2006 was primarily attributable to approximately $1.1 million of interest and dividend income on our investments and approximately $638,000 of realized gains from the sale of investments in our sponsored mutual funds.

As previously discussed, in exchange for the termination of certain additional compensation agreements related to the offerings of seven Cohen & Steers closed-end mutual funds, we made a lump sum payment of $72 million. This payment will reduce cash and cash equivalents and marketable securities, thereby reducing non-operating income.

Income Taxes

We recorded an income tax expense of $4.9 million in the three months ended March 31, 2006, compared with an income tax expense of $5.1 million in the three months ended March 31, 2005. The provision for income taxes in the three months ended March 31, 2006 includes U.S. federal, state and local taxes at 37% effective tax rate, which represents management s best estimate of the rate expected to be applied to the full fiscal year of 2006. In estimating the full year s effective tax rate, we have anticipated the effect of a $72 million expense that will be recorded in the second quarter of 2006 related to the termination of certain agreements entered into in connection with the common share offerings of seven Company-sponsored closed-end mutual funds. The expense, which is anticipated to create a tax loss for the full fiscal year 2006, will be applied to periods in which the Company expects to have lower tax rates. Management s estimate of the full year s effective tax rate also includes an adjustment to the net deferred tax asset resulting from lower state and local tax rates.

Liquidity and Capital Resources

Our investment advisory business does not require us to maintain significant capital balances. Our current financial condition is highly liquid, with the majority of our assets comprised of cash and cash equivalents and marketable securities. Our cash flows generally result from the operating activities of our business segments, with investment advisory and administrative fees a significant contributor. Cash, cash equivalents, accounts receivable and marketable securities were 72% and 73% of total assets as of March 31, 2006 and December 31, 2005, respectively.

Cash and cash equivalents decreased by $4.7 million in the three months ended March 31, 2006. Net cash from operating activities was $0.6 million in the three months ended March 31, 2006. Cash of $4.4 million was provided by investing activities, primarily from the proceeds from sales and maturities of marketable securities in the amount of $24.7 million, partially offset by the purchase of $18.9 million of marketable securities. Cash of $9.8 million was used in financing activities, primarily for common stock repurchases to satisfy employee withholding tax obligations on the delivery of restricted stock units and for dividends paid to stockholders.

Cash and cash equivalents decreased by $3.1 million in the three months ended March 31, 2005. Net cash from operating activities was $16.9 million in the three months ended March 31, 2005. Cash of $15.9 million was used in investing activities, primarily for the purchase of $27.0 million of marketable securities, partially offset by proceeds from sales and maturities of marketable securities in the amount of $11.5 million. Cash of $4.0 million was used in financing activities, primarily for dividends paid to stockholders.

As previously discussed, in exchange for the termination of certain additional compensation agreements related to the offerings of seven Cohen & Steers closed-end mutual funds, we made a lump sum payment of $72 million, which was funded from our working capital. Following the $72 million payment, we expect our remaining cash and cash equivalents and marketable securities coupled with cash generated from operating activities to provide a sufficient level of working capital.

It is our policy to continuously monitor and evaluate the adequacy of our capital. We have consistently maintained net capital in excess of the regulatory requirements for our broker/dealers, as prescribed by the Securities and Exchange Commission (SEC). At March 31, 2006, our regulatory net capital exceeded the minimum requirement by $10.8 million. The SEC s Uniform Net Capital Rule 15c3-1 imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital. We believe that our cash flows from operations will be more than adequate to meet our anticipated capital requirements and other obligations as they become due.

Contractual Obligations

We have contractual obligations to make future payments in connection with our non-cancelable operating lease agreements for office space and capital leases for office equipment. The following summarizes our contractual obligations as of March 31, 2006 (in thousands):

	2006	2007	2008	2009	2010	2011 and after	Total
Operating leases	$ 2,989	$ 4,033	$ 2,688	$ 2,596	$ 2,717	$ 8,362	$ 23,385
Capital lease obligations, net	48	66	30	12	3		159
Total contractual obligations	$ 3,037	$ 4,099	$ 2,718	$ 2,608	$ 2,720	$ 8,362	$ 23,544

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Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

A thorough understanding of our accounting policies is essential when reviewing our reported results of operations and our financial position. Our management considers the following accounting policies critical to an informed review of our consolidated financial statements. For a summary of these and additional accounting policies, see the notes to the annual audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2005.

Investments

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determination at each statement of financial condition date. Marketable securities classified as available-for-sale are primarily comprised of investments in our sponsored open-end and closed-end mutual funds as well as highly rated debt and preferred instruments. These investments are carried at fair value based on quoted market prices, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income. We review each individual security position that has an unrealized loss, or impairment, to determine if that impairment is other than temporary. If we believe an impairment on a security position is other than temporary, the loss will be recognized in our unaudited condensed consolidated statement of operations. Minor impairments that arise from changes in interest rates and not credit quality are generally considered temporary.

Goodwill and Intangible Assets

Intangible assets are amortized over their useful lives. Goodwill represents the excess of the cost of our investment in the net assets of an acquired company over the fair value of the underlying identifiable net assets at the date of acquisition. Goodwill is not amortized but is tested at least annually for impairment by comparing the fair value to the carrying amount, including goodwill.

Investment Advisory and Administration Fees

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

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting For Income Taxes. We recognize the current and deferred tax consequences of all transactions that have been recognized in the 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. Our effective tax rate in interim periods represents our best estimate of the rate expected to be applied to the full fiscal year.

Stock-based Compensation

We account 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 in the income statement for the grant-date fair value of awards of equity instruments granted to employees. Expense is recognized over the period during which employees are required to provide service. SFAS 123(R) also requires us to estimate forfeitures at the date of grant instead of recognizing them as incurred.

Forward-Looking Statements

This report and other documents filed by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative versions 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, 2005, which is accessible on the Securities and Exchange Commission s Web site at http://www.sec.gov and on Cohen & Steers 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of our business, we are exposed to the risk of interest rate, securities market and general economic fluctuations which may have an adverse impact on the value of our marketable securities. At March 31, 2006, approximately $13.6 million was invested in our sponsored equity funds. We had approximately $36.6 million invested in U.S. Treasury and U.S. Government agency securities, $26.2 million invested in preferred securities and $6.9 million invested in foreign and domestic equities as of March 31, 2006.

In addition, a significant majority of our revenue approximately 87% and 80% for the three months ended March 31, 2006 and 2005, respectively, is derived from investment advisory agreements with our clients. Under these agreements, the investment advisory and administration fee we receive is typically based on the market value of the assets we manage. Accordingly, a decline in the prices of securities generally, and real estate securities in particular, may cause our revenue and income to decline by:

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

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

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

ITEM 4. Controls and Procedures

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

There has been no change in our internal control over financial reporting that occurred during the three months ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

ITEM 1. Legal Proceedings

As previously disclosed, on October 11, 2004, our Compensation Committee canceled 404,971 fully vested RSUs previously granted to an employee who resigned from Cohen & Steers, due to such employee s violation of the non-competition covenants relating to the RSUs. On October 29, 2004, this former employee filed a lawsuit in the Supreme Court of the State of New York against Cohen & Steers, Inc. and its wholly owned subsidiary, Cohen & Steers Capital Management, Inc., challenging the forfeiture of these RSUs. On November 18, 2004, we filed a motion to dismiss this action and on April 1, 2005, the court granted our motion to dismiss. On April 21, 2005, the former employee filed a Notice of Appeal appealing the Supreme Court s decision to dismiss the matter to the Appellate Division of the Supreme Court, First Department. Based on information currently available and advice of counsel, we believe that the eventual outcome of the action against us will not have a material adverse effect on our unaudited condensed consolidated financial position, results of operations or liquidity.

ITEM 1A. Risk Factors

For a discussion of the Company s potential risks and uncertainties, please see Part 1, Item 1A of our 2005 Annual Report on Form 10-K filed with the SEC. There have been no material changes to the risk factors disclosed in Part 1, Item 1A of our 2005 Annual Report on Form 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2006, the Company made the following purchases of its equity securities that are registered pursuant to Section 12(b) of the Securities Exchange Act of 1934.

Period	Total Number of Shares purchased	Average Price Paid Per Share	Total Number of Shares Purchases as part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 through January 31, 2006	291,100[1]	$ 20.56	N/A	N/A
February 1 through February 28, 2006	0	N/A	N/A	N/A
March 1 through March 31, 2006	0	N/A	N/A	N/A
Total	291,100	$ 20.56	N/A	N/A

1. Purchases made by the Company primarily to satisfy income tax withholding obligations of certain employees.

ITEM 6. Exhibits

Exhibit No.	Description
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant (1)
3.2	Form of Amended and Restated Bylaws of the Registrant (1)
4.1	Specimen Common Stock Certificate (1)
4.2	Form of Registration Rights Agreement among the Registrant, Martin Cohen, Robert H. Steers, The Martin Cohen 1998 Family Trust and Robert H. Steers Family Trust (1)
10.1	Additional Compensation Termination Agreement, dated as of April 10, 2006, between Merrill Lynch, Pierce, Fenner & Smith Incorporated and Cohen & Steers Capital Management, Inc.
31.1	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).

Exhibit No.	Description
31.2	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.3	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.3	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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

SIGNATURE

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

Date: May 9, 2006	**Cohen & Steers, Inc.**
	/s/ Matthew S. Stadler
	Name: Matthew S. Stadler
	Title: Executive Vice President & Chief
	Financial Officer