COWEN GROUP, INC.
Form 10-K
March 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K
Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2011 Commission file number: 001-34516

Cowen Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-0423711 (I.R.S. Employer Identification No.)

599 Lexington Avenue
New York, New York 10022
(212) 845-7900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Class A Common Stock, par value $0.01 per share	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No Q

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No Q

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 Q 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 Q No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Annual Report on Form 10-K or any amendment to the Annual Report on Form 10-K. Q

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.

Large accelerated filer o	Accelerated filer Q	Non-accelerated filer o (Do not check if a smaller	Smaller reporting company o

reporting company)

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

The aggregate market value of Class A common stock held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the Class A common stock on the NASDAQ Global Market on that date was $301,319,256.

As of March 8, 2012 there were 114.4 million shares of the registrant's common stock outstanding.

Documents incorporated by reference:

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders.

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Special Note Regarding Forward-Looking Statements

We have included or incorporated by reference into our Annual Report on Form 10-K (the "Annual Report"), and from time to time may make in our public filings, press releases or other public documents, certain statements, including (without limitation) those under Item 1—"Business," Item 1A—"Risk Factors," Item 3—"Legal Proceedings," Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A—"Quantitative and Qualitative Disclosures about Market Risk" that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as "may," "might," "will," "would," "could," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "possible," "potential," "intend," "seek" or "continue," the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks outlined under Item 1A—"Risk Factors" in this Annual Report. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations.

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PART I

When we use the terms "we," "us," "Cowen Group" and the "Company," we mean Cowen Group, Inc., a Delaware corporation, its consolidated subsidiaries and entities in which it has a controlling financial interest, taken as a whole, as well as any predecessor entities, unless the context otherwise indicates.

Item 1. Business

Overview

Cowen Group, Inc., a Delaware corporation formed in 2009, is a diversified financial services firm and, together with its consolidated subsidiaries (collectively, "Cowen", "Cowen Group" or the "Company"), provides alternative investment management, investment banking, research, and sales and trading services through its two business segments: Ramius LLC and its affiliates (“Ramius”) comprise the Company's alternative investment management segment, while Cowen and Company, LLC ("Cowen and Company") and its affiliates comprise the Company's broker-dealer segment. For a discussion of certain financial information broken down by segment, please see the notes to the Company's consolidated financial statements.

Our alternative investment management business had approximately $10.3 billion of assets under management as of January 1, 2012. The predecessor to this business was founded in 1994 and, through one of its subsidiaries, has been a registered investment adviser under the Investment Advisers Act since 1997. Our alternative investment management products, solutions and services include hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate, healthcare royalty funds, and cash management and mortgage advisory services offered primarily under the Ramius name. Our institutional investors include pension funds, insurance companies, banks, foundations and endowments, wealth management organizations and family offices.

Our broker-dealer businesses include research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade securities, principally in our target sectors. Historically, we have focused our investment banking efforts on small to mid-capitalization public companies as well as private companies.

In April 2011, we completed the spin-off of our Value and Opportunity business, which focuses on investing in deep value situations and using shareholder activism to generate superior returns, into a stand-alone and independent business that is managed by Starboard Value LP ("Starboard"). We maintain a significant minority interest in Starboard.

In June 2011, we completed the acquisition of LaBranche & Co Inc. (“LaBranche”), a market-maker in exchange traded funds (“ETFs”) on various exchanges domestically and internationally. In the last quarter of 2011, we decided to discontinue this business as the subsidiaries were not meeting the Company's expectations as to their results of operations and were not generating positive cash flows.

In September 2011, we announced the launch of the Ramius Trading Strategies Managed Futures Fund, which provides investors access to a portfolio of institutional-caliber managed futures managers in a daily liquidity format utilizing Ramius's proprietary managed account infrastructure.

In September 2011, we also announced the expansion of our sales and trading platform with the addition of a group focused on Institutional Options and Event Driven Strategies, which includes both equity and options sales and trading.

In November 2011, we entered into an exclusive relationship with CRT Capital Group, LLC (“CRT”) for the origination and distribution of corporate fixed income and convertible securities. Under the terms of the agreement, it is anticipated that Cowen and Company's Investment Banking and Global Capital Markets teams will focus on origination activities, while CRT will utilize its sales force in the distribution of these securities.

Principal Business Lines

Alternative Investment Management Business

We operate our alternative investment management business primarily through Ramius. Our alternative investment management business had approximately $10.3 billion of assets under management as of January 1, 2012. The predecessor to this business was founded in 1994 and, through one of its subsidiaries, has been a registered investment

adviser under the Investment Advisers Act since 1997. Our alternative investment management products, solutions and services include hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate, healthcare royalty funds, and cash management and mortgage advisory services offered primarily under the Ramius name. Our institutional investors include pension funds, insurance companies, banks, foundations and endowments, wealth management organizations and family offices.

Alternative Investment Management Products and Services

Hedge Funds

The Company's hedge funds are focused on addressing the needs of institutional investors and high net worth individuals to preserve and grow allocated capital. The Company offers two single-strategy hedge funds, one focused on global long/short credit and another small-cap value creation focused on corporate credit and credit-related products. The Company also manages multi-strategy hedge funds. The majority of assets remaining in these funds includes private investments in public companies, investments in private companies, real estate and special situations.

Alternative Solutions

The Company's Alternative Solutions business includes replication funds, individual portfolio solutions for large institutional clients, and traditional fund of funds products. Our replication funds and accounts focus on replication of a custom alternative investment index and seek to provide investors the opportunity to access market exposures typically characterized by investments in less liquid alternative investments. The individual portfolio solutions business seeks to provide institutional clients with customized products and services designed to the characteristics of their individual portfolio. The Company offers fund of funds investment products that invest in a number of alternative investment management vehicles that are selected by the Company and are not affiliated with the Company, with the goal of achieving consistent and stable returns to investors. A fund of funds offers investors the opportunity to invest in private investment vehicles whose purpose is to invest in a group of underlying hedge funds or other alternative investment management vehicles selected by the fund of funds investment manager. We have created a number of programs including long/short equity, global value creation, diversified absolute return, concentrated multi-strategy, as well as client-focused solutions based on hedging overlays and replication, varying regulatory structures and other client-driven portfolio constraints. The fund of funds program employs evaluation procedures to determine the opportunity set for each strategy, identifies appropriate institutional quality underlying-managers with a history of longevity and stability, conducts detailed investment, operational, legal, financial and risk due diligence on each underlying-manager, and utilizes qualitative and quantitative techniques to construct portfolios of those underlying-managers' alternative investment management vehicles. The resulting portfolio allocations are continuously analyzed and adjusted according to the outlook for each strategy and underlying-manager. The Company's fund of funds program invests with approximately 75 underlying fund managers and was established in 1998.

Ramius Trading Strategies ("RTS")

RTS manages various funds and accounts that seek to provide investors with returns uncorrelated with the public equity and debt markets while maintaining a strong liquidity profile. In order to achieve this objective, RTS identifies, and allocates capital to various third party commodity trading advisors that pursue a managed futures strategy in a managed account format.

Real Estate Funds

The Company's real estate funds have focused on generating attractive, risk adjusted returns by using our owner/manager approach to underwriting, structuring, financing and redevelopment of all real estate property types since 1999. This approach emphasizes a focus on real estate fundamentals and potential market inefficiencies. As of December 31, 2011, the Ramius Urban American Funds owned interests in and managed approximately 12,346 multi family housing units in the New York metropolitan area. The RCG Longview platform provides bridge senior loans, subordinated mortgages, mezzanine loans, and preferred equity through its debt fund series, and makes equity investments through its equity fund. As of December 31, 2011, the members of the general partners of the RCG Longview Platform and its affiliates, independent of the RCG Longview Funds, collectively owned interests in and/or manage approximately 27,000 apartments and over 22 million square feet of commercial space for their own accounts. The Company's ownership interests in the various general partners of the Ramius Urban American Funds and RCG Longview Funds range from 30% to 55%.

Cowen Healthcare Royalty Partners ("CHRP")

The funds managed by CHRP (the "CHRP Funds") invest principally in commercial-stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments. The CHRP Funds seek these royalty interests in end-user sales of commercial-stage or near commercial-stage medical products such as pharmaceuticals, biotechnology products and medical devices. We share the net management fees from the CHRP Funds equally with the founders of the CHRP Funds. In addition, we have interests in the general partners of the CHRP Funds ranging from 27% to 40.2%.

Cash Management and Mortgage Advisory Services

The Company's cash management services business provides clients with investment guidelines for managing cash and establishes investment programs for managing their cash in separately managed accounts. The Company's cash management products are focused on preserving principal, maintaining daily liquidity and maximizing returns for investors. Portfolios are separately managed according to each investor's investment guidelines and are held at a custodian. Investor cash and other short term fixed income assets are managed for corporate, municipal, not-for-profit and other institutional clients (including hedge funds). The Company's mortgage advisory business involves collateral management services for certain collateralized debt obligation products.

Broker-Dealer Business

We operate our broker-dealer business through Cowen and Company. Cowen and Company is an international investment bank dedicated to providing superior research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy sectors. We provide research and sales and trading services to over 1,000 domestic and international clients seeking to trade securities, principally in our target sectors. We focus our investment banking efforts on growth-oriented public companies as well as private companies.

Investment Banking

Our investment banking professionals are focused on providing strategic advisory and capital raising services to U.S. and international public and private companies in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy sectors. By focusing on Cowen and Company's target sectors over a long period of time, we have developed a significant understanding of the unique challenges and demands with respect to public and private capital raising and strategic advice in these sectors. Our advisory and capital raising capabilities begin at the early stages of a private company's accelerated growth phase and continue through its evolution as a public company. Our advisory business focuses on mergers and acquisitions, including providing fairness opinions and providing advice on other strategic transactions. Our capital markets capabilities include equity, including private investments in public equity and registered direct offerings, credit and fixed income, including public and private debt placements, exchange offers, consent solicitations and tender offers, as well as origination and distribution capabilities for convertible securities. We have a unified capital markets group which we believe will allow us to be more effective in providing cohesive solutions for our clients. Historically, a significant majority of Cowen and Company's investment banking revenue has been earned from high-growth small and mid-capitalization companies. We believe that our relationship with CRT for the origination and distribution of corporate fixed income and convertible securities will enhance our capital markets origination activities.

Brokerage

Our team of brokerage professionals serves institutional investor clients in the United States and internationally. Cowen and Company trades common stocks, listed options and equity-linked and fixed income securities on behalf of its clients. We also provide our clients with an electronic execution suite and, until the end of the fourth quarter of 2011, an ETF trading and market making platform. We have relationships with over 1,000 institutional investor clients. Our brokerage team is comprised of experienced professionals dedicated to Cowen and Company's target sectors, which allows us to develop a level of knowledge and focus that we believe differentiates our brokerage capabilities from those of many of our competitors. We tailor our account coverage to the unique needs of our clients. We believe that our sector traders are able to provide superior execution because of their knowledge of the interests of our institutional investor clients in specific companies in Cowen and Company's target sectors.

Our sales professionals also provide our institutional investor clients with access to the management of our investment banking clients outside the context of financing transactions. These meetings are commonly referred to as non-deal road shows. Non-deal road shows allow our investment banking clients to increase their visibility within the

institutional investor community while providing our institutional investor clients with the opportunity to further educate themselves on companies and industries through meetings with management. We believe Cowen and Company's deep relationships with company management teams and its sector-focused approach provide us with broad access to management for the benefit of our institutional investor and investment banking clients.

Research

As of December 31, 2011, we have a research team of 26 senior analysts covering approximately 405 companies. Within our coverage universe, approximately 135 are healthcare companies, 120 are technology companies, 48 are consumer companies, 29 are aerospace and defense companies, 11 are alternative energy companies, 39 are REITs and 23 are Chinese companies. Our differentiated approach to research focuses our analysts' efforts toward delivering specific investment ideas and de-emphasizes maintenance research. We sponsor a number of conferences every year that are focused on our target sectors and sub-sectors. During these conferences we highlight our investment research and provide significant investor access to corporate management teams.

Information About Geographic Areas

We are principally engaged in providing alternative investment management services to global institutional investors and investment banking sales and trading and research services to corporations and institutional investor clients primarily in the United States. We provide investment banking services to companies in China through Cowen and Company (Asia) Limited ("Cowen Asia"). We provide investment banking services to companies and institutional investor clients in Europe through our U.K. broker-dealer, Cowen International Limited ("CIL").

Employees

As of March 8, 2012, the Company had 589 employees.

Competition

We compete with many other firms in all aspects of our business, including raising funds, seeking investment opportunities and hiring and retaining professionals, and we expect our business will continue to be highly competitive. The alternative investment management and investment banking industries are currently undergoing contraction and consolidation, reducing the number of industry participants and generally resulting in the larger firms being better positioned to retain and gain market share. We compete in the United States and globally for investment opportunities, investor capital, client relationships, reputation and talent. We face competitors that are larger than we are and have greater financial, technical and marketing resources. Certain of these competitors continue to raise additional amounts of capital to pursue investment strategies that may be similar to ours. Some of these competitors may also have access to liquidity sources that are not available to us, which may pose challenges for us with respect to investment opportunities. In addition, some of these competitors may have higher risk tolerances or make different risk assessments than we do, allowing them to consider a wider variety of investments and establish broader networks of business relationships. Our competitive position depends on our reputation, our investment performance and processes, the breadth of our business platform and our ability to continue to attract and retain qualified employees while managing compensation and other costs. For additional information regarding the competitive risks that we face, see "Item 1A Risk Factors-Risks Related to the Company's Alternative Investment Management Business" and "Risk Factors-Risks Related to the Company's Broker-Dealer Business."

Regulation

Our businesses, as well as the financial services industry generally, are subject to extensive regulation, including periodic examinations by governmental and self-regulatory organizations, in the United States and the jurisdictions in which we operate around the world. As a publicly traded company in the United States, we are subject to the U.S. federal securities laws and regulation by the Securities and Exchange Commission ("SEC").

Most of the investment advisers of our alternative investment funds are registered as investment advisers with the SEC. Registered investment advisers are subject to the requirements of the Investment Advisers Act of 1940 (the "Advisers Act") and the regulations promulgated thereunder. Such requirements relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an advisor and advisory clients and general anti-fraud prohibitions. We believe all of our wholly-owned investment advisers to our alternative investment funds comply in all material respects with the Advisers Act requirements and regulations.

We are also subject to regulation under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Securities Act of 1933, as amended (the "Securities Act"), and various other statutes. Many of the investment advisers to our alternative investment funds are also subject to regulation by the National Futures Association and the U.S. Commodities Futures Trading Commission. In addition, we are subject to regulation by the Department of Labor under the U.S. Employee Retirement Income Security Act of 1974 ("ERISA"). In the United Kingdom, we are subject to regulation by the U.K. Financial Services Authority ("FSA"), in Luxembourg by the Commission de Surveillance du Secteur Financier, in Japan by the Financial Services Agency and in Hong Kong by the Securities and Futures Commission ("SFC"). Our investment activities around the globe are subject to a variety of regulatory regimes that vary country by country.

Regulatory bodies in the United States and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In light of recent events in the financial markets, governmental authorities in the United States and in the other countries in which we operate have proposed or adopted additional disclosure requirements and regulation of hedge funds and other alternative asset managers. For example, rulemaking by the SEC and other regulatory authorities outside the United States has imposed trading and reporting requirements on short selling, which could adversely affect trading opportunities, including hedging opportunities, for our funds. In addition, on July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law in the United States. Implementation of the Dodd-Frank Act will be accomplished through extensive rulemaking by the SEC and other governmental agencies. The Dodd-Frank Act establishes the Financial Services Oversight Council (the "FSOC") to identify threats to the financial stability of the United States; promote market discipline; and respond to emerging risks to the stability of the United States financial system. The FSOC is empowered to determine whether the material financial distress or failure of a non-bank financial company would threaten the stability of the United States financial system, and such a determination can subject a non-bank financial company to supervision by the Board of Governors of the Federal Reserve and the imposition of standards and supervision including stress tests, liquidity requirements and enhanced public disclosures. The FSOC has released a proposed rule regarding its authority to require the supervision and regulation of systemically significant non-bank financial companies. A final rule and designations of systemically significant non-bank financial companies are expected later this year. The Dodd-Frank Act also mandates the preparation of studies on a wide range of issues that could lead to additional regulatory changes. Until these rules and resulting changes are fully developed, it is not practical to assess the impact that the Dodd-Frank Act or the resulting rules and regulations will have on us and on the financial services industry. On February 9, 2012 the CFTC issued final rules on the registration and compliance of commodity pool operators (“CPOs”), including rescinding an exemption relating to private funds and narrowing an exception from registration with respect to registered investment companies. While certain details have yet to be clarified, these new rules are expected to result in additional regulatory and registration requirements for certain of the private funds and registered funds managed by our investment advisers. See "Item 1A Risk Factors" for more information.

Our businesses have operated for many years within a legal framework that requires us to be able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. In addition, certain of our businesses are subject to compliance with laws and regulations of United States federal and state governments, foreign governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to the privacy of client information, and any failure to comply with these regulations could expose us to liability and/or reputational damage. Additional legislation, changes in rules promulgated by the SEC and self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect the mode of our operation and profitability. The United States and non-United States government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees. Occasionally, we have been subject to investigations and proceedings, and sanctions have been imposed for infractions of various regulations relating to our activities.

Cowen and Company is a registered broker-dealer with the SEC and in all 50 states, the District of Columbia and Puerto Rico. Self-regulatory organizations, including the Financial Industry Regulatory Authority ("FINRA"), adopt and enforce rules governing the conduct and activities of its member firms, including Cowen and Company. In

addition, state securities regulators have regulatory or oversight authority over our broker-dealer entities. Accordingly, Cowen and Company is subject to regulation and oversight by the SEC and FINRA. Cowen and Company is also a member of, and subject to regulation by, the New York Stock Exchange ("NYSE"), the Chicago Board Options Exchange, the Philadelphia Stock Exchange, the American Stock Exchange, the International Stock Exchange, the Nasdaq Stock Exchange, the Chicago Board of Trade and the New York Mercantile Exchange.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds, securities and information, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as registered broker-dealers and members of various self-regulatory organizations, Cowen and Company and Cowen Capital LLC ("Cowen Capital") are subject to the SEC's uniform net capital rule. Rule 15c3-1 under the Exchange Act. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule requires us to give prior notice to the SEC for certain withdrawals of capital. As a result, our ability to withdraw capital from our broker-dealer subsidiaries may be limited.

The research functions of investment banks have been, and continue to be, the subject of regulatory scrutiny. In 2002 and 2003, acting in part pursuant to a mandate contained in the Sarbanes-Oxley Act of 2002, the SEC, the NYSE and the predecessor to FINRA adopted rules imposing heightened restrictions on the interaction between equity research analysts and investment banking personnel at member securities firms. The requirements resulting from these regulations have necessitated the development and enhancement of corresponding policies and procedures.

The effort to combat money laundering and terrorist financing is a priority in governmental policy with respect to financial institutions. The Bank Secrecy Act ("BSA"), as amended by Title III of the USA PATRIOT Act of 2001 and its implementing regulations ("Patriot Act"), requires broker-dealers and other financial services companies to maintain an anti-money laundering compliance program that includes written policies and procedures, designated compliance officer(s), appropriate training, independent review of the program, standards for verifying client identity at account opening and obligations to report suspicious activities and certain other financial transactions. Through these and other provisions, the BSA and Patriot Act seek to promote the identification of parties that may be involved in financing terrorism or money laundering. We must also comply with sanctions programs administered by the U.S. Department of Treasury's Office of Foreign Asset Control, which may include prohibitions on transactions with designated individuals and entities and with individuals and entities from certain countries.

Anti-money laundering laws outside the United States contain certain similar provisions. The obligation of financial institutions, including us, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls that have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities.

Rigorous legal and compliance analysis of our businesses and investments is important to our culture and risk management. In addition, disclosure controls and procedures and internal controls over financial reporting are documented, tested and assessed for design and operating effectiveness in compliance with the Sarbanes-Oxley Act of 2002. We strive to maintain a culture of compliance through the use of policies and procedures such as oversight compliance, codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Our corporate risk management function further analyzes our business, investment and other key risks, reinforcing their importance in our environment. We have a compliance group that monitors our compliance with all of the regulatory requirements to which we are subject and manages our compliance policies and procedures. Our General Counsel supervises our compliance group, which is responsible for addressing all regulatory and compliance matters that affect our activities. Our compliance policies and procedures address a variety of regulatory and compliance risks such as the handling of material non-public information, position reporting, personal securities trading, valuation of investments on a fund-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities. Our compliance group also monitors the information barriers that we maintain

between each of our different businesses. We believe that our various businesses' access to the intellectual capital, contacts and relationships that reside throughout our firm benefits all of our businesses. However, in order to maximize that access without compromising our legal and contractual obligations, our compliance group oversees and monitors the communications between or among our firm's different businesses.

Available Information

We routinely file annual, quarterly and current reports, proxy statements and other information required by the Exchange Act with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings also are available to the public from the SEC's internet site at http://www.sec.gov.

We maintain a public internet site at http://www.cowen.com and make available free of charge through this site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers, as well as any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also post on our website the charters for our Board of Directors' Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, as well as our Corporate Governance Guidelines, our Code of Business Conduct and Ethics governing our directors, officers and employees and other related materials. The information on our website is not incorporated by reference into this Annual Report.

Item 1A. Risk Factors
RISK FACTORS
Risks Related to the Company's Businesses and Industry

For purposes of the following risk factors, references made to the Company's funds include hedge funds and other alternative investment management products, services and solutions offered by the Company, investment vehicles through which the Company invests its own capital, funds in the Company's fund of funds business and real estate funds.

The Company

The Company's alternative investment management and broker-dealer businesses have incurred losses in recent periods and may incur losses in the future.

The Company's broker-dealer businesses have incurred losses in several recent periods, including a substantial loss in 2011, and the Company's alternative investment management and broker dealer businesses have also recorded net losses in certain quarters within other fiscal years. The Company may incur losses in any of its future periods. Future losses may have a significant effect on the Company's liquidity as well as our ability to operate.

In addition, we may incur significant expenses in connection with any expansion, strategic acquisition or investment with respect to our businesses. Specifically, we have invested, and will continue to invest, in our broker-dealer business, including hiring a number of senior professionals to expand our sales and trading product offerings. Accordingly, the Company will need to increase its revenues at a rate greater than its expenses to achieve and maintain profitability. If the Company's revenues do not increase sufficiently, or even if its revenues increase but it is unable to manage its expenses, the Company will not achieve and maintain profitability in future periods. As an alternative to increasing its revenues, the Company may seek additional capital through the sale of additional common stock or other forms of debt or equity financing. Particularly in light of current market conditions, the Company cannot be certain that it would have access to such financing on acceptable terms.

The Company depends on its key senior personnel and the loss of their services would have a material adverse effect on the Company's businesses and results of operations, financial condition and prospects.

The Company depends on the efforts, skill, reputations and business contacts of its principals and other key senior personnel, the information and investment activity these individuals generate during the normal course of their activities and the synergies among the diverse fields of expertise and knowledge held by the Company's senior professionals. Accordingly, the Company's continued success will depend on the continued service of these individuals. Key senior personnel may leave the Company in the future, and we cannot predict the impact that the departure of any key senior personnel will have on our ability to achieve our investment and business objectives. The loss of the services of any of them could have a material adverse effect on the Company's revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. Our senior and other key personnel possess substantial experience and expertise and have strong business relationships with investors in its funds, clients and other members of the business community. As a result, the loss of these personnel could have a material adverse effect on the Company's businesses and results of operations, financial condition and prospects.

The Company's ability to retain its senior professionals is critical to the success of its businesses, and its failure to do so may materially affect the Company's reputation, business and results of operations.

Our people are our most valuable resource. Our success depends upon the reputation, judgment, business generation capabilities and project execution skills of our senior professionals. Our employees' reputations and relationships with our clients are critical elements in obtaining and executing client engagements. Ramius and Cowen and Company encounter intense competition for qualified employees from other companies inside and outside of their industries. From time to time, Ramius and Cowen and Company have experienced departures of professionals. Losses of key personnel have occurred and may occur in the future. In addition, if any of our client-facing employees or executive officers were to join an existing competitor or form a competing company, some of our clients could choose to use the services of that competitor instead of the services of Ramius and Cowen and Company.

The success of our businesses is based largely on the quality of our employees and we must continually monitor the market for their services and seek to offer competitive compensation. In challenging market conditions, such as have

occurred over the past two years, it may be difficult to pay competitive compensation without the ratio of our compensation and benefits expense to revenues becoming higher. In addition, a portion of the compensation of many of our employees takes the form of restricted stock or deferred cash that vest over a period of years, which is not as attractive to existing and potential employees as compensation consisting solely of cash or a lesser percentage of stock or other deferred compensation that may be offered by our competitors.

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Difficult market conditions, market disruptions and volatility have adversely affected, and may continue to adversely affect, the Company's businesses, results of operations and financial condition.

The Company's businesses, by their nature, do not produce predictable earnings, and all of the Company's businesses may be materially affected by conditions in the global financial markets and by global economic conditions, such as interest rates, the availability of credit, inflation rates, economic uncertainty, changes in laws, commodity prices, asset prices (including real estate), currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts, protests or security operations). Recently, the sovereign debt crisis in Europe has impacted global credit and other financial markets and has resulted in substantial stress, volatility, illiquidity and disruption. These factors, combined with volatile commodity prices and foreign exchange rates, contributed to recessionary economic conditions globally and deterioration in consumer and corporate confidence and could further exacerbate the overall market disruptions and risks to market participants, including the Company's funds and managed accounts. These market conditions may affect the level and volatility of securities prices and the liquidity and the value of investments in the Company's funds, including Ramius Enterprise LP (which we refer to as Enterprise Fund), Cowen Overseas Investment LP (which we refer to as COIL) and Ramius Optimum Investments LLC (which we refer to as ROIL) in which the Company has investments of approximately $125.8 million, $149.7 million and $35.6 million, respectively, of its own capital as of December 31, 2011 and managed accounts, and the Company may not be able to effectively manage its alternative investment management business's exposure to these market conditions. Losses in the Enterprise Fund, COIL and ROIL could adversely affect our results of operations.

Volatility in the value of the Company's investments and securities portfolios or other assets and liabilities could adversely affect the financial condition or results of operations of the Company.

In accordance with US GAAP, we define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Changes in fair value are reflected in the statement of operations at each measurement period. Therefore, continued volatility in the value of the Company's investments and securities portfolios or other assets and liabilities, including funds, will result in volatility of the Company's results. As a result, changes in value may have an adverse effect on the Company's financial condition or operations in the future.

Limitations on access to capital by the Company and its subsidiaries could impair its liquidity and its ability to conduct its businesses.

Liquidity, or ready access to funds, is essential to the operations of financial services firms. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to Cowen and Company's trading business and perceived liquidity issues may affect the willingness of the Company's investment banking clients and counterparties to engage in brokerage transactions with Cowen and Company. Cowen and Company's liquidity could be impaired due to circumstances that the Company may be unable to control, such as a general market disruption or an operational problem that affects Cowen and Company, its trading clients or third parties. Furthermore, Cowen and Company's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

The Company is a holding company and primarily depends on its subsidiaries to fund its operations. Cowen and Company and Cowen Capital are subject to the net capital requirements of the SEC and various self-regulatory organizations of which they are members. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. CIL the Company's U.K. registered broker-dealer subsidiary, is subject to the capital requirements of the FSA. Cowen Asia is subject to the financial resources requirements of the SFC of Hong Kong. Any failure to comply with these capital requirements could impair the Company's ability to conduct its investment banking business.

The Company and its funds and/or Cowen and Company may become subject to additional regulations which could increase the costs and burdens of compliance or impose additional restrictions which could have a material adverse effect on the Company's businesses and the performance of the funds in its alternative investment management business.

Firms in the financial services industry have been subject to an increasingly regulated environment. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, FINRA, the NYSE and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. The Company may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. The Company also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. Among other things,

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the Company could be fined, prohibited from engaging in some of its business activities or subjected to limitations or conditions on its business activities. In addition, the Company could incur significant expense associated with compliance with any such legislation or regulations or the regulatory and enforcement environment generally. Substantial legal liability or significant regulatory action against the Company could have a material adverse effect on the financial condition and results of operations of the Company or cause significant reputational harm to the Company, which could seriously affect its business prospects.

The Company may need to modify the strategies or operations of its alternative investment management business, face increased constraints or incur additional costs in order to satisfy new regulatory requirements or to compete in a changed business environment. The Company's alternative investment management business is subject to regulation by various regulatory authorities that are charged with protecting the interests of investors. The activities of certain of the Company's subsidiaries are regulated primarily within the United States by the SEC, FINRA, and the National Futures Association, as well as various state agencies, and are also subject to regulation by other agencies in the various jurisdictions in which they operate, including the FSA, the Financial Services Agency of Japan, the SFC, the German Federal Financial Supervisory Authority and the Commission de Surveillance du Secteur Financier in Luxembourg. The activities of Ramius LLC, Ramius Advisors, LLC, Ramius Asia LLC, Ramius Alternative Solutions LLC, Ramius Structured Credit Group LLC and Ramius Trading Strategies LLC are all regulated by the SEC due to their registrations as U.S. investment advisers. In addition, the funds in the Company's alternative investment management business are subject to regulation in the jurisdictions in which they are organized. These and other regulators in these jurisdictions have broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to make inquiries of companies regarding compliance with applicable regulations, to grant permits and to regulate marketing and sales practices and the maintenance of adequate financial resources. The Company is also subject to applicable anti-money laundering regulations and net capital requirements in the jurisdictions in which it operates. Additionally, the regulatory environment in which the Company operates frequently changes and has seen significant increased regulation in recent years and it is possible that this trend may continue. Such additional regulation could, among other things, increase compliance costs or limit our ability to pursue investment opportunities and strategies.

The regulatory environment continues to be turbulent. There is an extraordinary volume of regulatory discussion papers, draft directives and proposals being issued around the world and these initiatives are not always coordinated. The European Commission has issued a draft Directive on Alternative Investment Fund Managers, recommendations on directors' pay and financial services sector compensation and proposals on packaged retail investment products. In addition, the FSA of the United Kingdom has issued a discussion paper entitled "A Regulatory Response to the Global Banking Crisis" as well as undertaken an exercise to collect data to assess the systemic risk that hedge funds may or may not pose. The Bank of England is also collecting data on the systemic risk of hedge funds. Recent rulemaking by the SEC and other regulatory authorities outside the United States have imposed trading restrictions and reporting requirements on short selling, which have impacted certain of the investment strategies of the Company's investment funds and managed accounts, and continued restrictions on or further regulations of short sales could negatively impact the performance of the investment funds and managed accounts.

In addition, financial services firms are subject to numerous perceived or actual conflicts of interest, which have drawn and which we expect will continue to draw scrutiny from the SEC and other federal and state regulators. For example, the research areas of investment banks have been and remain the subject of heightened regulatory scrutiny, which has led to increased restrictions on the interaction between equity research analysts and investment banking personnel at securities firms. More recently, regulations have been focusing on the use of experts and expert networks and potential conflicts of interest or issues relating to impermissible disclosure of material nonpublic information. While the Company maintains various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seeks to review and update such policies, controls and procedures, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if it fails to do so. Such policies and procedures to address or limit actual or perceived conflicts may also result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation.

Cowen and Company, Ramius and the Company are subject to third party litigation risk and regulatory risk which could result in significant liabilities and reputational harm which, in turn, could materially adversely affect their business, results of operations and financial condition.

As an investment banking firm, Cowen and Company depends to a large extent on its reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with Cowen and Company's services, it may be more damaging in its business than in other businesses. Moreover, Cowen and Company's role as advisor to clients on underwriting or merger and acquisition transactions involves complex analysis and the exercise of professional judgment, including rendering "fairness opinions" in connection with mergers and other transactions. Such activities may subject the Company to the risk of significant legal liabilities to clients and aggrieved third parties, including stockholders of clients who could commence litigation against Cowen and Company and/or the Company. Although Cowen and Company's

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investment banking engagements typically include broad indemnities from its clients and provisions to limit exposure to legal claims relating to such services, these provisions may not protect the Company or may not be enforceable in all cases. As a result, the Company may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and/or adverse judgments. Substantial legal liability or significant regulatory action against the Company could have a material adverse effect on our results of operations or cause significant reputational harm, which could seriously harm our business and prospects.

In connection with the initial public offering of the former Cowen Group, Inc. (now Cowen Holdings) in July 2006 ("Cowen Holdings's IPO"), Cowen Holdings entered into an Indemnification Agreement with Société Générale, wherein, among other things, Société Générale agreed to indemnify Cowen Holdings for all liability arising out of all known, pending or threatened litigation (including the cost of such litigation) and arbitrations and certain known regulatory matters, in each case, that existed prior to the date of Cowen Holdings's IPO. Société Générale, however, will not indemnify Cowen Holdings, and Cowen Holdings will instead indemnify Société Générale, for most litigation, arbitration and regulatory matters that may occur in the future but were unknown at the time of Cowen Holdings's IPO and certain known regulatory matters.

In general, the Company is exposed to risk of litigation by investors in its alternative investment management business if the management of any of its funds is alleged to constitute negligence or dishonesty. Investors could sue to recover amounts lost by the Company's funds due to any alleged misconduct, up to the entire amount of the loss. In addition, the Company faces the risk of litigation from investors in the Company's funds if restrictions applicable to such funds are violated. We may also be exposed to litigation by investors in the Company's fund of funds platform for losses resulting from similar conduct at an underlying fund. Furthermore, the Company may be subject to litigation arising from investor dissatisfaction with the performance of the Company's funds and the funds invested in by the Company's fund of funds platform. In addition, the Company is exposed to risks of litigation or investigation relating to transactions that presented conflicts of interest that were not properly addressed. In the majority of such actions the Company would be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. In addition, although the Company is indemnified by the Company's funds, our rights to indemnification may be challenged. If the Company is required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds, if any, or fails to obtain indemnification from its funds, our business, results of operations and financial condition could be materially adversely affected. In its alternative investment management business, the Company is exposed to the risk of litigation if a fund suffers catastrophic losses due to the failure of a particular investment strategy or due to the trading activity of an employee who has violated market rules or regulations. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances which are materially damaging to the Company's reputation and businesses.

The potential for conflicts of interest within the Company, and a failure to appropriately identify and deal with conflicts of interest could adversely affect our businesses.

Due to the combination of our alternative investment management and investment banking businesses, we face an increased potential for conflicts of interest, including situations where our services to a particular client or investor or our own interests in our investments conflict with the interests of another client. Such conflicts may also arise if our investment banking business has access to material non-public information that may not be shared with our alternative investment management business or vice versa. Additionally, our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions.

We have developed and implemented procedures and controls that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses. In addition, our spin-off of our Value and Opportunities business was initiated, in part, to address potential conflicts of interest. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and the willingness of clients to enter into transactions or engagements in which such a conflict might arise may be affected if we fail to identify and appropriately address potential conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or enforcement actions.

Employee misconduct could harm the Company by, among other things, impairing the Company's ability to attract and retain investors and subjecting the Company to significant legal liability, reputational harm and the loss of revenue from its own invested capital.

It is not always possible to detect and deter employee misconduct. The precautions that the Company takes to detect and prevent this activity may not be effective in all cases, and we may suffer significant reputational harm and financial loss for any misconduct by our employees. The potential harm to the Company's reputation and to our business caused by such misconduct is impossible to quantify.

There is a risk that the Company's employees or partners, or the managers of funds invested in by the Company's fund of

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funds platform, could engage in misconduct that materially adversely affects the Company's business, including a decrease in returns on its own invested capital. The Company is subject to a number of obligations and standards arising from its businesses. The violation of these obligations and standards by any of the Company's employees could materially adversely affect the Company and its investors. For instance, the Company's businesses require that the Company properly deal with confidential information. If the Company's employees were improperly to use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. If one of the Company's employees were to engage in misconduct or were to be accused of such misconduct, the business and reputation of the Company could be materially adversely affected.

The Company may be unable to successfully identify, manage and execute future acquisitions, investments and strategic alliances, which could adversely affect our results of operations.

We intend to continually evaluate potential acquisitions, investments and strategic alliances to expand our alternative investment management and broker-dealer businesses. In the future, we may seek additional acquisitions, investments, strategic alliances or similar arrangements, which may expose us to risks such as:

- the difficulty of identifying appropriate acquisitions, investments, strategic allies or opportunities on terms acceptable to us;
- the possibility that senior management may be required to spend considerable time negotiating agreements and monitoring these arrangements;
- potential regulatory issues applicable to the financial services business;
- the loss or reduction in value of the capital investment;
- our inability to capitalize on the opportunities presented by these arrangements; and
- the possibility of insolvency of a strategic ally.

Furthermore, any future acquisitions of businesses could entail a number of risks, including:

- problems with the effective integration of operations;
- inability to maintain key pre-acquisition business relationships;
- increased operating costs;
- exposure to unanticipated liabilities; and
- difficulties in realizing projected efficiencies, synergies and cost savings.

There can be no assurance that we would successfully overcome these risks or any other problems encountered with these acquisitions, investments, strategic alliances or similar arrangements.

RCG's significant ownership interest in the Company could affect the liquidity in the market for our Class A common stock.

RCG holds approximately 22.5% of our Class A common stock and therefore has significant influence over matters requiring approval by the Company's stockholders, including in the election of directors and approval of significant corporate transactions. Furthermore, RCG's managing member is controlled by certain members of our senior management, including Peter A. Cohen, our Chairman and Chief Executive Officer. RCG's concentration of ownership may discourage a third party from proposing a change of control or other strategic transaction concerning the Company or otherwise have the effect of delaying or preventing a change of control of the Company that other stockholders may view as beneficial. As a result, the Company's Class A common stock could trade at prices that do not reflect a "control premium" to the same extent as do the stocks of similarly situated companies that do not have any single stockholder with an ownership interest as large as RCG's ownership interest.

The Company's future results will suffer if the Company does not effectively manage its expanded operations.

The Company may continue to expand its operations through new product and service offerings and through additional strategic investments, acquisitions or joint ventures, some of which may involve complex technical and operational challenges. The Company's future success depends, in part, upon its ability to manage its expansion opportunities, which pose numerous risks and uncertainties, including the need to integrate new operations into its existing business in an efficient and timely manner, to combine accounting and data processing systems and management controls and to integrate relationships with customers and business partners. In addition, future

acquisitions or joint ventures may involve the issuance of additional shares of common stock of the Company, which may dilute the ownership of the Company's stockholders.

The Company's failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes Oxley Act could have a material adverse effect on the Company's financial condition, results of operations and business and the price of our Class A common stock.

The Sarbanes Oxley Act and the related rules require our management to conduct an annual assessment of the

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effectiveness of our internal control over financial reporting and require a report by our independent registered public accounting firm addressing our internal control over financial reporting. To comply with Section 404 of the Sarbanes Oxley Act, we are required to document formal policies, processes and practices related to financial reporting that are necessary to comply with Section 404. Such policies, processes and practices are important to ensure the identification of key financial reporting risks, assessment of their potential impact and linkage of those risks to specific areas and activities within our organization.

If we fail for any reason to comply with the requirements of Section 404 in a timely manner, our independent registered public accounting firm may, at that time, issue an adverse report regarding the effectiveness of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Any such event could adversely affect our financial condition, results of operations and business, and result in a decline in the price of our Class A common stock.

Certain provisions of the Company's amended and restated certificate of incorporation and bylaws and Delaware law may have the effect of delaying or preventing an acquisition by a third party.

The Company's amended and restated certificate of incorporation and bylaws contain several provisions that may make it more difficult for a third party to acquire control of the Company, even if such acquisition would be financially beneficial to the Company's stockholders. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in the Company's stockholders receiving a premium over the then-current trading price of Class A common stock. For example, the Company's amended and restated certificate of incorporation authorizes its board of directors to issue up to 10,000,000 shares of "blank check" preferred stock. Without stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire the Company. In addition, the Company's amended and restated bylaws provide for an advance notice procedure with regard to the nomination of candidates for election as directors and with regard to business to be brought before a meeting of stockholders. The Company is also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an "interested stockholder," the Company may not enter into a "business combination" with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For the purposes of Section 203, "interested stockholder" means, generally, someone owning 15% or more of the Company's outstanding voting stock or an affiliate of the Company that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may adversely impact the Company's business.

The Dodd-Frank Act, signed into law on July 21, 2010, represents a comprehensive overhaul of the financial services industry within the United States and will be implemented through extensive rulemaking by the SEC and other governmental agencies. In addition, the Dodd-Frank Act establishes the new federal Bureau of Consumer Financial Protection (the "BCFP") and the FSOC and will require the BCFP and FSOC, among other federal agencies, to implement new rules and regulations. Until these rules and resulting changes are fully developed, it is not practical to assess the impact that the Dodd-Frank Act or the resulting rules and regulations will have on the Company's business or the financial services industry within the United States.

Risks Related to the Company's Alternative Investment Management Business

Ramius's profitability and, thus, the Company's profitability may be adversely affected by decreases in revenue relating to changes in market and economic conditions.

Market conditions have been and remain inherently unpredictable and outside of the Company's control, and may result in reductions in Ramius's revenue and results of operations. Such reductions may be caused by a decline in assets under management, resulting in lower management fees and incentive income, an increase in the cost of

financial instruments, lower investment returns or reduced demand for assets held by the Company's funds, which would negatively affect the funds' ability to realize value from such assets or continued investor redemptions, resulting in lower fees and increased difficulty in raising new capital.

These factors may reduce the Company's revenue, revenue growth and income and may slow the growth of the alternative investment management business or may cause the contraction of the alternative investment management business. In particular, negative fund performance reduces assets under management, which decreases the management fees and incentive income that the Company earns. Negative performance of the Enterprise Fund, COIL and ROIL also decreases revenue derived from the Company's returns on investment of its own capital.

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Ramius's revenues and, in particular, its ability to earn incentive income, would be adversely affected if its funds or managed accounts fall beneath their "high-water marks" as a result of negative performance.

Incentive income, which has historically comprised a substantial portion of Ramius's annual revenues, is, in most cases, subject to "high-water marks" whereby incentive income is earned by Ramius only to the extent that the net asset value of a fund or managed account at the end of a measurement period exceeds the highest net asset value as of the end of a preceding measurement period for which Ramius earned incentive income. Ramius's incentive allocations are also subject, in some cases, to performance hurdles or benchmarks. To the extent Ramius's funds or managed accounts experience negative investment performance, the investors in these funds or managed accounts would need to recover cumulative losses before Ramius can earn incentive income with respect to the investments of those investors who previously suffered losses.

It may be difficult for Ramius to retain investment professionals during periods where market conditions make it more difficult to generate positive investment returns.

Certain of the Company's funds face particular retention issues with respect to investment professionals whose compensation is tied, often in large part, to such performance thresholds. This retention risk is heightened during periods where market conditions make it more difficult to generate positive investment returns. For example, several investment professionals receive performance-based compensation at the end of each year based upon their annual investment performance, and this performance-based compensation represents substantially all of the compensation the professional is entitled to receive during the year. If the investment professional's annual performance is negative, the professional may not be entitled to receive any performance-based compensation for the year. If investment professionals or funds, as the case may be, produce investment results that are negative (or below the applicable hurdle or benchmark), the affected investment professionals may be incentivized to join a competitor because doing so would allow them to earn performance-based compensation without the requirement that they first satisfy the high-water mark.

Investors in the Company's funds and investors with managed accounts can generally redeem investments with prior notice. The rate of redemptions could accelerate at any time. Historically, redemptions have created difficulties in managing the liquidity of certain of the Company's funds and managed accounts, reduced assets under management and adversely affected the Company's revenues, and may do so in the future.

Investors in the Company's funds and investors with managed accounts may generally redeem their investments with prior notice, subject to certain initial holding periods. Investors may reduce the aggregate amount of their investments, or transfer their investments to other funds or asset managers with different fee rate arrangements, for any number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. Furthermore, investors in the Company's funds may be investors in products managed by other alternative asset managers where redemptions have been restricted or suspended. Such investors may redeem capital from Company's funds, even if the Company's funds' performance is superior, due to an inability to redeem capital from other managers. The allocation process for many investors is more selective and deliberate than it was prior to 2008. Increased volatility in global markets could accelerate the pace of fund and managed account redemptions. Redemptions of investments in the Company's funds could also take place more quickly than assets may be sold by those funds to meet the price of such redemptions, which could result in the relevant funds and/or Ramius being in breach of applicable legal, regulatory and contractual requirements in relation to such redemptions, resulting in possible regulatory and investor actions against Ramius, the Company's funds and/or the Company. If the Company's funds or managed accounts underperform, existing investors may decide to reduce or redeem their investments or transfer asset management responsibility to other asset managers and the Company may be unable to obtain new alternative investment management business. Any such action could potentially cause further redemptions and/or make it more difficult to attract new investors.

The redemption of investments in the Company's funds or in managed accounts could also adversely affect the revenues of the Company's alternative investment management business, which are substantially dependent upon the assets under management in the Company's funds. If redemptions of investments cause revenues to decline, they would likely have a material adverse effect on our business, results of operations or financial condition. As a result of the disruptions and the resulting uncertainty during the second half of 2008 and early 2009, Ramius experienced an

increase in the level of redemptions from the Company's funds and managed accounts. If this level of redemption activity returns, it could become more difficult to manage the liquidity requirements of the Company's funds, making it more difficult or more costly for the Company's funds to liquidate positions rapidly to meet redemption requests or otherwise. This in turn may negatively impact the Company's returns on its own invested capital.

In addition to the impact on the market value of assets under management, illiquidity and volatility of the global financial markets could negatively affect Ramius's ability to manage inflows and outflows from the Company's funds. Several alternative investment managers, including Ramius, have in the past exercised, and may in the future exercise their rights to limit, and in some cases, suspend, redemptions from the funds they manage. Ramius has also and may in the future negotiate with investors

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or exercise such rights in an attempt to limit redemptions or create a variety of other investor structures to bring fund assets and liquidity requirements into a more manageable balance. To the extent that Ramius has negotiated with investors to limit redemptions, it may be likely that such investors will continue to seek further redemptions in the future. Such actions may have an adverse effect on the ability of the Company's funds to attract new capital to existing funds or to develop new investment platforms. The Ramius fund of funds platform may also be adversely impacted as the hedge funds in which it invests themselves face similar investor redemptions or if such hedge funds exercise their rights to limit or suspend Ramius's redemptions from such funds. Poor performance relative to other asset management firms may result in reduced investments in the Company's funds and managed accounts and increased redemptions from the Company's funds and managed accounts. As a result, investment underperformance would likely have a material adverse effect on the Company's results of operations and financial condition.

Hedge fund investments, including the investments of the Company's own capital in the Enterprise Fund, COIL and ROIL, are subject to other additional risks.

Investments by the Company's funds (including the Enterprise Fund, COIL and ROIL, in which the Company's own capital is invested) are subject to certain risks that may result in losses. Decreases to assets under management as a result of investment losses or client redemptions may have a material adverse effect on the Company's revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. Additional risks include the following:

- Generally, there are few limitations on hedge funds' investment strategies, which are often subject to the sole discretion of the management company or the general partner of such funds.
- Hedge funds may engage in short selling, which is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security sold short may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions. Furthermore, recent rulemaking by the SEC and other regulatory authorities outside the United States have imposed trading restrictions and reporting requirements on short selling, which in certain circumstances may impair hedge funds' ability to use short selling effectively.
- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position through a combination of financial instruments. A hedge fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the fund might only be able to acquire some but not all of the components of the position, or if the overall position were in need of adjustment, the fund might not be able to make such an adjustment. As a result, a hedge fund would not be able to achieve the market position selected by the management company or general partner of such fund, and might incur a loss in liquidating its position.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their respective liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms, other counterparties and exchanges) with which the hedge funds interact on a daily basis.
- Hedge funds are subject to risks due to the potential illiquidity of assets. Hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. The timely sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or highly costly for hedge funds to liquidate positions rapidly to meet margin calls, redemption requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time, if the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limitations on the market. In addition, increased levels of redemptions may result in increased illiquidity as more liquid assets are sold to fund redemptions. Moreover, these risks may be exacerbated for the Company's fund of funds platform. For example, if the Company's fund of funds platform invested in two or

more hedge funds that each had illiquid positions in the same issuer, the illiquidity risk for the Company's fund of funds portfolios would be compounded. Furthermore, certain of the investments of the Company's fund of funds platform were in third party hedge funds that halted redemptions in the recent past in the face of illiquidity and other issues, and could do so again in the future.

- Hedge fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political

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and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade.

If a Ramius fund's or managed account counterparty for any of its derivative or non-derivative contracts defaults on the performance of those contracts, the Company may not be able to cover its exposure under the relevant contract.
The Company's funds and managed accounts enter into numerous types of financing arrangements with a wide array of counterparties around the world, including loans, hedge contracts, swaps, repurchase agreements and other derivative and non-derivative contracts. The terms of these contracts are generally complex and often customized and generally are not subject to regulatory oversight. The Company is subject to the risk that the counterparty to one or more of these contracts may default, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur at any time without notice. Additionally, Ramius may not be able to take action to cover its exposure if a counterparty defaults under such a contract, either because of a lack of the contractual ability or because market conditions make it difficult to take effective action. The impact of market stress or counterparty financial condition may not be accurately foreseen or evaluated and, as a result, Ramius may not take sufficient action to reduce its risks effectively.

Counterparty risk is accentuated where the fund or managed account has concentrated its transactions with a single or small group of counterparties. Generally, hedge funds are not restricted from concentrating any or all of their transactions with one counterparty. Moreover, Ramius's internal review of the creditworthiness of their counterparties may prove inaccurate. The absence of a regulated market to facilitate settlement and the evaluation of creditworthiness may increase the potential for losses.

In addition, these financing arrangements often contain provisions that give counterparties the ability to terminate the arrangements if any of a number of defaults occurs with respect to the Company or its funds or managed accounts, as the case may be, including declines in performance or assets under management and losses of key management personnel, each of which may be beyond our control. In the event of any such termination, the Company's funds or managed accounts may not be able to enter into alternative arrangements with other counterparties and our business may be materially adversely affected.

The Company may suffer losses in connection with the insolvency of prime brokers, custodians, administrators and other agents whose services the Company uses and who may hold assets of the Company's funds.

All of the Company's funds use the services of prime brokers, custodians, administrators or other agents to carry out certain securities transactions and to conduct certain business of the Company's funds. In the event of the insolvency of a prime broker and/or custodian, the Company's funds might not be able to recover equivalent assets in full as they may rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, the Company's funds' cash held with a prime broker or custodian (if any) may not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation thereto. Specifically, certain of the Company's funds used an affiliate of Lehman Brothers as one of their prime brokers and some of these funds also held assets through accounts at Lehman Brothers. Other affiliates of Lehman Brothers that are now in insolvency proceedings were also trading counterparties for some of the hedge funds managed by Ramius. The total net equity claim of the Company's funds with respect to Lehman Brothers was approximately $254.0 million, of which the Company has recovered $36 million and anticipates recovering approximately $114.4 million more from Lehman Brothers and its affiliates.

Operational risks relating to the failure of data processing systems and other information systems and technology may disrupt our alternative investment management business, result in losses and/or limit the business's operations and growth.

Ramius and its funds rely heavily on financial, accounting, trading and other data processing systems to, among other things, execute, confirm, settle and record transactions across markets and geographic locations in a time-sensitive, efficient and accurate manner. If any of these systems does not operate properly or are disabled, the Company could suffer financial loss, a disruption of its business, liability to the Company's funds, regulatory intervention and/or reputational damage. In addition, Ramius is highly dependent on information systems and technology, and the cost of

maintaining such systems may increase from its current level. Such a failure to accommodate Ramius's operational needs, or an increase in costs related to such information systems, could have a material adverse effect on the Company, both with respect to a decrease in the operational performance of its alternative investment management business and an increase in costs that may be necessary to improve such systems.

The Company depends on its headquarters in New York, New York, where most of the Company's alternative investment management personnel are located, for the continued operation of its business. We have taken precautions to limit the impact that a disruption to operations at our New York headquarters could cause (for example, by ensuring that can operate independently of offices in other geographic locations). Although these precautions have been taken, a disaster or a disruption

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in the infrastructure that supports our alternative investment management business, including a disruption involving electronic communications or other services used by Ramius or third parties with whom Ramius does conduct business (including the funds invested in by the Ramius fund of funds platform), or directly affecting the New York, New York, headquarters, could have a material adverse impact on the Company's ability to continue to operate its alternative investment management business without interruption. Ramius's disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance might only partially reimburse us for our losses, if at all. Finally, the Company relies on third party service providers for certain aspects of its business, including for certain information systems and technology and administration of the Company's funds. Severe interruptions or deteriorations in the performance of these third parties or failures of their information systems and technology could impair the quality of Ramius's operations and could impact the Company's reputation and materially adversely affect our alternative investment management business.

Certain of the Company's funds may invest in relatively high-risk, illiquid assets, and Ramius may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amounts of these investments.

Certain of the Company's funds and managed accounts (including the Enterprise Fund, COIL and ROIL, in which the Company had approximately $125.8 million, $149.7 million and $35.6 million, respectively, of its own capital invested as of December 31, 2011) invest a portion of their assets in securities that are not publicly traded and funds invested in by the Ramius fund of funds platform may do the same. In many cases, such funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time or there may not be a public market for such securities. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Accordingly, under certain conditions, the Company's funds, or funds invested in by the Ramius fund of funds platform, may be forced to either sell securities at lower prices than they had expected to realize or defer, potentially for a considerable period of time, sales that they had planned to make. Investing in these types of investments can involve a high degree of risk, and the Company's funds (including the Enterprise Fund, COIL and ROIL) may lose some or all of the principal amount of such investments, including our own invested capital.

Risk management activities may materially adversely affect the return on the Company's funds' investments if such activities do not effectively limit a fund's exposure to decreases in investment values or if such exposure is overestimated.

When managing the Company's funds' exposure to market risks, the relevant fund (or one of the funds invested in by the Ramius fund of funds platform) may use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative financial instruments to limit its exposure to changes in the relative values of investments that may result from market developments, including changes in interest rates, currency exchange rates and asset prices. The success of such derivative transactions generally will depend on Ramius's (or the underlying fund manager's) ability to accurately predict market changes in a timely fashion, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, these transactions may result in poorer overall investment performance than if they had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases. For a variety of reasons, a perfect correlation between the instruments used in a hedging or other derivative transaction and the position being hedged may not be attained. An imperfect correlation could give rise to a loss. Also, it may not be possible to fully or perfectly limit exposure against all changes in the value of an investment because the value of an investment is likely to fluctuate as a result of a number of factors, many of which will be beyond Ramius's (or the underlying fund manager's) control or ability to hedge.

Fluctuations in currency exchange rates could materially affect the Company's alternative investment management business and its results of operations and financial condition.

The Company uses U.S. dollars as its reporting currency. Investments in the Company's funds and managed accounts are made in different currencies, including Euros, Pounds Sterling and Yen. In addition, the Company's funds and managed accounts hold investments denominated in many foreign currencies. To the extent that the Company's revenues from its alternative investment management business are based on assets under management denominated in

such foreign currencies, our reported revenues may be significantly affected by the exchange rate of the U.S. dollar against these currencies. Typically, an increase in the exchange rate between U.S. dollars and these currencies will reduce the impact of revenues denominated in these currencies in the financial results of our alternative investment management business. For example, management fee revenues derived from each Euro of assets under management denominated in Euros will decline in U.S. dollar terms if the value of the U.S. dollar appreciates against the Euro. In addition, the calculation of the amount of assets under management is affected by exchange rate movements as assets under management denominated in foreign currencies are converted to U.S. dollars. Ramius also incurs a portion of its expenditures in currencies other than U.S. dollars. As a result, our alternative investment management business is subject to the effects of exchange rate fluctuations with respect to any currency conversions and Ramius's ability to hedge these risks and the cost of such hedging or Ramius's decision not to hedge could impact the performance of the Company's funds and our alternative investment management business and its results of

operations and financial condition.

The due diligence process that Ramius undertakes in connection with investments by the Company's funds is inherently limited and may not reveal all facts that may be relevant in connection with making an investment.

Before making investments, particularly investments in securities that are not publicly traded, Ramius endeavors to conduct a due diligence review of such investment that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, Ramius is often required to evaluate critical and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment bankers and financial analysts may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, Ramius is limited to the resources available, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that Ramius conducts with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful, which may adversely affect the performance of the Company's funds and managed accounts and the Company's ability to generate returns on its own invested capital from any such investment.

The Ramius real estate funds are subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.

Investments in the Ramius real estate funds are subject to the risks inherent in the ownership and operation of real estate and real estate-related businesses and assets. These risks include those associated with general and local economic conditions, changes in supply of and demand for competing properties in an area, changes in environmental regulations and other laws, various uninsured or uninsurable risks, natural disasters, changes in real property tax rates, changes in interest rates, the reduced availability of mortgage financing which may render the sale or refinancing of properties difficult or impracticable, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. Further, the U.S. Environmental Protection Agency has found that global climate change could increase the severity and perhaps the frequency of extreme weather events, which could subject real property to increased weather-related risks in the coming years. There are also presently a number of current and proposed regulatory initiatives, both domestically and globally, that are geared towards limiting and scaling back the emission of greenhouse gases, which certain scientists have linked to global climate change. Although not known with certainty at this time, such regulation could adversely affect the costs to construct and operate real estate in the coming years, such as through increased energy costs.

In recent years commercial real estate markets in the United States and Japan generally experienced major disruptions due to the unprecedented lack of available capital, in the form of either debt or equity, and declines in value as a result of the overall economic decline. If these conditions were to occur again transaction volume may drop precipitously, negatively impacting the valuation and performance of the Ramius real estate funds significantly. Additionally, if the Ramius real estate funds acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost, potential for cost overruns and timely completion of construction (including risks beyond the control of Ramius fund, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

The alternative investment management industry is intensely competitive, which may adversely affect the Company's ability to attract and retain investors and investment professionals.

The alternative investment management industry is extremely competitive. Competition includes numerous international, national, regional and local asset management firms and broker-dealers, commercial bank and thrift institutions, and other financial institutions. Many of these institutions offer products and services that are similar to, or compete with, those offered by us and have substantially more personnel and greater financial resources than Ramius does. The key areas for competition include historical investment performance, the ability to identify investment opportunities, the ability to attract and retain the best investment professionals and the quality of service provided to investors. The Company's ability to compete may be adversely affected if it underperforms in comparison

to relevant benchmarks, peer groups or competing asset managers. The competitive market environment may result in increased downward pressure on fees, for example, by reduced management fee and incentive allocation percentages. The future results of operations of the Company's alternative investment management business are dependent in part on its ability to maintain appropriate fee levels for its products and services. In the current economic environment, many competing asset managers have experienced substantial declines in investment performance, increased redemptions, or counterparty exposures which impair their businesses. Some of these asset managers have reduced their fees in an attempt to avoid additional redemptions. Competition within the alternative investment management industry could lead to pressure on the Company to reduce the fees that it charges its clients for alternative investment management

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products and services. A failure to compete effectively in this environment may result in the loss of existing clients and business, and of opportunities to generate new business and grow assets under management, each of which could have a material adverse effect on the Company's alternative investment management business and results of operations, financial condition and prospects. Furthermore, consolidation in the alternative investment management industry may accelerate, as many asset managers are unable to withstand the substantial declines in investment performance, increased redemptions, and other pressures impacting their businesses, including increased regulatory, compliance and control requirements. Some competitors may acquire or combine with other competitors. The combined business may have greater resources than the Company does and may be able to compete more effectively against Ramius and rapidly acquire significant market share.

If Ramius or the Company were deemed an "investment company" under the U.S. Investment Company Act, applicable restrictions could make it impractical for Ramius and the Company to continue their respective businesses as contemplated and could have a material adverse effect on Ramius's and the Company's businesses and prospects.

A person will generally be deemed to be an "investment company" for purposes of the U.S. Investment Company Act of 1940, if:

- it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or
- absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis.

The Company believes it is engaged primarily in the business of providing asset management and financial advisory services and not in the business of investing, reinvesting or trading in securities. The Company also believes that the primary source of income from its business is properly characterized as income earned in exchange for the provision of services. Ramius is an alternative investment management company and the Company does not propose to engage primarily in the business of investing, reinvesting or trading in securities. Accordingly, the Company does not believe that Ramius is a traditional investment company as defined in Section 3(a)(1)(A) of the Investment Company Act and described in the first bullet point above. Additionally, neither Ramius nor the Company is an inadvertent investment company by virtue of the 40% test in Section 3(a)(1)(C) of the Investment Company Act as described in the second bullet point above.

The Investment Company Act and the rules thereunder contain detailed requirements for the organization and operation of investment companies. Among other things, the Investment Company Act and the rules thereunder limit transactions with affiliates, impose limitations on the issuance of debt and equity securities, generally prohibit the issuance of options and impose certain governance requirements. The Company intends to conduct its alternative investment management operations so that neither the Company nor Ramius will be deemed to be an investment company under the Investment Company Act. If anything were to happen which would cause Ramius or the Company to be deemed to be an investment company under the Investment Company Act, requirements imposed by the Investment Company Act, including limitations on their respective capital structures, ability to transact business with affiliates (including subsidiaries) and ability to compensate key employees, could make it impractical for either Ramius or the Company to continue their respective businesses as currently conducted, impair the agreements and arrangements between and among them, their subsidiaries and their senior personnel, or any combination thereof, and materially adversely affect their business, financial condition and results of operations. Accordingly, Ramius or the Company may be required to limit the amount of investments that it makes as a principal or otherwise conduct its business in a manner that does not subject Ramius or the Company to the registration and other requirements of the Investment Company Act.

Recently, the SEC has adopted rules that require a firm that is registered with the SEC under the Advisers Act to file reports with the SEC disclosing extensive information regarding certain private funds managed by the firm. As a result, compliance costs and burdens upon the Ramius business may increase.

Increased regulatory focus could result in regulation that may limit the manner in which the Company and the Company's funds invest and the types of investors that may invest in the Company's funds, materially impacting the Company's business.

The Company's alternative investment management business may be adversely affected if new or revised legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets and their participants. Such changes could place limitations on the type of investor that can invest in alternative investment funds or on the conditions under which such investors may invest. Further, such changes may limit the scope of investing activities that may be undertaken by alternative investment managers as well as their funds. It is impossible to determine the extent of the impact of any new or recently enacted laws, including the Dodd-Frank Act, or any regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could be difficult and expensive and affect the manner in which Ramius conducts business, which may adversely

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impact its results of operations, financial condition and prospects.
Additionally, as a result of highly publicized financial scandals, investors, regulators and the general public have exhibited concerns over the integrity of both the U.S. financial markets and the regulatory oversight of these markets. As a result, the business environment in which Ramius operates is subject to heightened regulation. With respect to alternative investment management funds, in recent years, there has been debate in both U.S. and foreign governments about new rules or regulations, including increased oversight or taxation, in addition to the recently proposed legislation described above. As calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative investment management funds, including the Company's funds. Such investigations may impose additional expenses on the Company, may require the attention of senior management and may result in fines if any of the Company's funds are deemed to have violated any regulations.
The Company's alternative investment management business may suffer as a result of loss of business from key investors.
The loss of all or a substantial portion of the business provided by key investors could have a material impact on income derived from management fees and incentive allocations and consequently have a material adverse effect on our alternative investment management business and results of operations or financial condition.
Risks Related to the Company's Broker-Dealer Business
The Company's broker-dealer business focuses principally on specific sectors of the economy, and deterioration in the business environment in these sectors or a decline in the market for securities of companies within these sectors could materially affect our broker-dealer business.
Cowen and Company focuses principally on the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy sectors of the economy. Therefore, volatility in the business environment in these sectors or in the market for securities of companies within these sectors could substantially affect the Company's financial results and, thus, the market value of the Class A common stock. The business environment for companies in these sectors has been subject to substantial volatility, and Cowen and Company's financial results have consequently been subject to significant variations from year to year. The market for securities in each of Cowen and Company's target sectors may also be subject to industry-specific risks. For example, changes in policies of the United States Food and Drug Administration, along with changes in Medicare and government reimbursement policies, may affect the market for securities of healthcare companies.
As an investment bank which focuses primarily on specific growth sectors of the economy, Cowen and Company also depends significantly on private company transactions for sources of revenues and potential business opportunities. Most of these private company clients are initially funded and controlled by private equity firms. To the extent the pace of these private company transactions slows or the average size declines due to a decrease in private equity financings, difficult market conditions in Cowen and Company's target sectors or other factors, the Company's business and results of operations may be adversely affected.
The financial results of the Company's broker-dealer business may fluctuate substantially from period to period, which may impair the stock price of the Class A common stock.
Cowen and Company has experienced, and we expect to experience in the future, significant periodic variations in its revenues and results of operations. These variations may be attributed in part to the fact that its investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond Cowen and Company's control. In most cases, Cowen and Company receives little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our investment banking business is highly dependent on market conditions as well as the decisions and actions of its clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If the parties fail to complete a transaction on which Cowen and Company is advising or an offering in which Cowen and Company is participating, we will earn little or no revenue from the transaction, and we may incur significant expenses that may not be recouped. This risk

may be intensified by Cowen and Company's focus on growth companies in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy sectors as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. Many companies initiating the process of an IPO are simultaneously exploring other strategic alternatives, such as a merger and acquisition transaction. The Company's investment banking revenues would be adversely affected in the event that an IPO for which it is acting as an underwriter is preempted by the company's sale if Cowen and Company is not also engaged as a strategic advisor in such sale. As a result, our investment banking business is unlikely to achieve steady and predictable

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earnings on a quarterly basis, which could in turn adversely affect the stock price of the Class A common stock.
Pricing and other competitive pressures may impair the revenues of the Company's brokerage business.
Cowen and Company's brokerage business accounted for approximately 63% of Cowen and Company's revenues during 2011. Along with other firms, Cowen and Company has experienced price competition in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the pressure on trading commissions and spreads. We expect to continue to experience competitive pressures in these and other areas in the future as some of our competitors in the investment banking industry seek to obtain market share by competing on the basis of price or use their own capital to facilitate client trading activities. In addition, the Company faces pressure from Cowen and Company's larger competitors, who may be better able to offer a broader range of complementary products and services to clients in order to win their trading business. We are committed to maintaining and improving Cowen and Company's comprehensive research coverage to support its brokerage business and the Company may be required to make additional investments in Cowen and Company's research capabilities.
Cowen and Company faces strong competition from larger firms.
The research, brokerage and investment banking industries are intensely competitive, and the Company expects them to remain so. Cowen and Company competes on the basis of a number of factors, including client relationships, reputation, the abilities of Cowen and Company's professionals, market focus and the relative quality and price of Cowen and Company's services and products. Cowen and Company has experienced intense price competition in some of its businesses, including trading commissions and spreads in its brokerage business. In addition, pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and financial advisors, and a larger share of the underwriting fees and discounts being allocated to the book-runners, could adversely affect the Company's revenues from its investment banking business.
Cowen and Company is a relatively small investment bank. Many of Cowen and Company's competitors in the research, brokerage and investment banking industries have a broader range of products and services, greater financial resources, larger customer bases, greater name recognition and marketing resources, a larger number of senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than Cowen and Company has. These larger competitors may be better able to respond to changes in the research, brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally.
The scale of our competitors in the investment banking industry has increased in recent years as a result of substantial consolidation among companies in the research, brokerage and investment banking industries. In addition, a number of large commercial banks and other broad-based financial services firms have established or acquired underwriting or financial advisory practices and broker- dealers or have merged with other financial institutions. These firms have the ability to offer a wider range of products than Cowen and Company does which may enhance their competitive position. They also have the ability to support their investment banking and advisory groups with commercial banking and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in Cowen and Company's businesses. If we are unable to compete effectively with our competitors in the investment banking industry, the Company's business and results of operations may be adversely affected.
A portion of Cowen and Company's investment banking business is from Chinese companies which could be materially adversely affected by an adverse change in investors' attitudes towards Chinese companies and changes in the political and economic policies of the government of the People's Republic of China.
During 2011, Cowen and Company derived a portion of its investment banking revenues from companies based in China and expects to pursue additional business in China in the future. Cowen and Company's ability to generate revenue from Chinese companies is significantly affected by investors' views of the Chinese economy and of the sophistication and integrity of a Chinese company's management. For instance, in the last few years, several publicly listed Chinese companies, one of which was a client and another of which was a potential client, were alleged to be engaging in fraud. Although this was limited to a small number of Chinese companies, negative publicity was generated for all Chinese issuers. While Cowen and Company performs extensive due diligence on all potential investment banking clients, including those located in China, if any such clients were alleged to be engaging in fraud,

Cowen and Company may be subject to legal liability and reputational harm, which could adversely affect our results of operations and business condition. In addition, the current government leadership of the People's Republic of China has been pursuing economic reform policies that encourage private economic activity, greater economic decentralization and globalization, there is no assurance that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time, with or without notice. Further, the China region and markets may experience volatility, political turmoil, uncertainty or difficult economic or market conditions that differ from those in the United States. Any of these changes could negatively impact Cowen and Company's current business and its

expansion plans within the China region which could have a negative impact on its revenues and results of operations.

The Company's capital markets and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.

The Company's investment banking clients generally retain Cowen and Company on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and Cowen and Company's engagements with these clients may not recur, Cowen and Company must seek out new engagements when its current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If Cowen and Company is unable to generate a substantial number of new engagements that generate fees from new or existing clients, the Company's investment banking business and results of operations would likely be adversely affected.

Larger and more frequent capital commitments in the Company's trading and underwriting businesses increase the potential for significant losses.

There has been a trend toward larger and more frequent commitments of capital by financial services firms in many of their activities. For example, in order to compete for certain transactions, investment banks may commit to purchase large blocks of stock from publicly traded issuers or significant stockholders, instead of the more traditional marketed underwriting process in which marketing is completed before an investment bank commits to purchase securities for resale. The Company anticipates participating in this trend and, as a result, Cowen and Company will be subject to increased risk as it commits capital to facilitate business. Furthermore, Cowen and Company may suffer losses as a result of the positions taken in these transactions even when economic and market conditions are generally favorable for others in the industry.

Cowen and Company may enter into large transactions in which it commits its own capital as part of its trading business to facilitate client trading activities. The number and size of these large transactions may materially affect Cowen and Company's results of operations in a given period. Market fluctuations may also cause Cowen and Company to incur significant losses from its trading activities. To the extent that Cowen and Company owns assets (i.e., has long positions), a downturn in the value of those assets or in the markets in which those assets are traded could result in losses. Conversely, to the extent that Cowen and Company has sold assets it does not own (i.e., has short positions), in any of those markets, an upturn in the value of those assets or in markets in which those assets are traded could expose the Company's investment banking business to potentially large losses as it attempts to cover short positions by acquiring assets in a rising market.

Operational risks relating to the failure of data processing systems and other information systems and technology or other infrastructure may disrupt the Company's broker-dealer business, result in losses or limit the our operations and growth in the industry.

Cowen and Company's broker-dealer business is highly dependent on its ability to process, on a daily basis, a large number of transactions across diverse markets, and the transactions that Cowen and Company processes have become increasingly complex. The inability of Cowen and Company's systems to accommodate an increasing volume of transactions could also constrain the Company's ability to expand its broker-dealer business. If any of these systems do not operate properly or are disabled, or if there are other shortcomings or failures in Cowen and Company's internal processes, people or systems, the Company could suffer impairments, financial loss, a disruption of its broker-dealer business, liability to clients, regulatory intervention or reputational damage.

Cowen and Company has outsourced certain aspects of its technology infrastructure including data centers and wide area networks, as well as some trading applications. Cowen and Company is dependent on its technology providers to manage and monitor those functions. A disruption of any of the outsourced services would be out of the Company's control and could negatively impact our broker-dealer business. Cowen and Company has experienced disruptions on occasion, none of which has been material to Cowen and Company's operations and results. However, there can be no guarantee that future material disruptions with these providers will not occur.

The Company also faces the risk of operational failure of or termination of relations with any of the clearing agents, exchanges, clearing houses or other financial intermediaries that Cowen and Company uses to facilitate its securities

transactions. Any such failure or termination could adversely affect Cowen and Company's ability to effect transactions and to manage its exposure to risk.

In addition, the Company's ability to conduct its broker-dealer business may be adversely impacted by a disruption in the infrastructure that supports Cowen and Company and the communities in which we are located. This may affect, among other things, the Company's financial, accounting or other data processing systems. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which Cowen and Company

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conducts business, whether due to fire, other natural disaster, power or communications failure, act of terrorism or war or otherwise. Nearly all of our broker-dealer employees in our primary locations in New York, Boston, San Francisco and London work in close proximity to each other. Although Cowen and Company has a formal disaster recovery plan in place, if a disruption occurs in one location and our broker-dealer employees in that location are unable to communicate with or travel to other locations, Cowen and Company's ability to service and interact with its clients may suffer, and the Company may not be able to implement successfully contingency plans that depend on communication or travel.

Our investment banking business also relies on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Cowen and Company's computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this could jeopardize our or our broker-dealer clients' or counterparties' confidential and other information processed and stored in, and transmitted through, Cowen and Company's computer systems and networks, or otherwise cause interruptions or malfunctions in our broker-dealer business', its clients', its counterparties' or third parties' operations. The Company may be required to expend significant additional resources to modify its protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and the Company may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Company.

The market structure in which our market-making business operates may continue to change or lose its viability, making it difficult for this business to achieve or maintain profitability.

Market structure changes have had an adverse affect on the results of operations of our market-making business. These changes may make it difficult for us to maintain and/or predict levels of profitability of, or may cause us to generate losses in, our market-making business.

The growth of electronic trading and the introduction of new technology in the markets in which our market-making business operates may adversely affect this business and may increase competition.

The continued growth of electronic trading and the introduction of new technologies is changing our market-making business and presenting new challenges. Securities, futures and options transactions are increasingly occurring electronically, through alternative trading systems. It appears that the trend toward alternative trading systems will continue to accelerate. This acceleration could further increase program trading, increase the speed of transactions and decrease our ability to participate in transactions as principal, which would reduce the profitability of our market-making business. Some of these alternative trading systems compete with our market-making business, and we may experience continued competitive pressures in these and other areas. Significant resources have been invested in the development of our electronic trading systems, but there is no assurance that the revenues generated by these systems will yield an adequate return on the investment, particularly given the increased program trading and increased percentage of stocks trading off of the historically manual trading markets.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our main offices, all of which are leased, are located in New York City, Boston, San Francisco and London. Our corporate headquarters are located at 599 Lexington Avenue, New York, New York, and comprise approximately 91,124 square feet of leased space pursuant to lease agreements expiring in 2022. We also lease approximately 42,217 square feet of space at 1221 Avenue of the Americas, New York, New York pursuant to a sublease agreement expiring in 2013. On December 31, 2011, the Company ceased using the leased premises located at 1221 Avenue of Americas. We acquired, through the LaBranche transaction during the second quarter of 2011, 48,000 square feet of leased space at 33 Whitehall Street which was subleased in the fourth quarter of 2011. We lease 38,217 square feet of space at Two International Place in Boston pursuant to a lease agreement expiring in 2014, which is used primarily by our broker-dealer segment. In San Francisco, we lease approximately 29,072 square feet of space at 555 California Street, pursuant to a lease agreement expiring in 2015 and used by our broker-dealer segment. Our London offices are located at Broadgate West Phase II, 1 Snowden Street, subject to a lease agreement expiring in 2017 that is used by our alternative investment management and broker-dealer segments, respectively. Our other offices, all of which are

leased, are located in Atlanta, Chicago, Dallas, Stamford, Geneva, Purchase (New York), Luxembourg, Tokyo, Hong Kong, Beijing and Shanghai.

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Item 3. Legal Proceedings

In the ordinary course of business, we are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of securities, banking, anti-fraud, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

In the ordinary course of business, we are also subject to governmental and regulatory examinations, information gathering requests (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Certain of our affiliates and subsidiaries are investment banks, registered broker-dealers, futures commission merchants, investment advisers or other regulated entities and, in those capacities, are subject to regulation by various U.S., state and foreign securities, commodity futures and other regulators. In connection with formal and informal inquiries by these regulators, we receive requests, and orders seeking documents and other information in connection with various aspects of our regulated activities.

Due to the global scope of our operations, and presence in countries around the world, we may be subject to litigation, and governmental and regulatory examinations, information gathering requests, investigations and proceedings (both formal and informal), in multiple jurisdictions with legal and regulatory regimes that may differ substantially, and present substantially different risks, from those we are subject to in the United States.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

In connection with Cowen Holdings' previous initial public offering (“IPO”) and separation from Société Générale (“SG”) in 2006, Cowen Holdings entered into an indemnification agreement with SG under which (1) SG will indemnify, and will defend and hold harmless Cowen Holdings and each of the Cowen Holdings' subsidiaries from and against certain liabilities assumed or retained by SG; and (2) SG will indemnify Cowen Holdings for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the Cowen Holdings' IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters (the “Indemnification Agreement”). To the extent that we are indemnified by SG, indemnified legal expenses and liabilities will be paid out of escrow pursuant to an escrow agreement with SG. As of December 31, 2011 and 2010, the total amount reserved in relation to the Indemnification Agreement was $0.5 million, respectively, and is accrued in accounts payable, accrued expenses and other liabilities in the consolidated statement of financial condition.

Except for the matters described below, based on currently available information, we do not believe that any matter will have a material adverse effect on our financial condition.

LaBranche Litigation

On February 22, 2011, a putative class action, captioned Moskal v. LaBranche & Co., et. al., was filed in the Supreme Court of the State of New York, County of New York, naming as defendants the Company, LaBranche & Co. and members of the board of directors of LaBranche & Co. (collectively, “LaBranche”), and Louisiana Merger Sub, Inc. On February 26, 2011, a separate lawsuit was filed, captioned Borowka v. LaBranche & Co., et al., in the Supreme Court of the State of New York, County of New York naming as defendants the same parties. The lawsuits challenged LaBranche's decision to sell all of its outstanding shares of common stock to the Company for $192.8 million. The complaints alleged, among other things, that the Company aided and abetted the LaBranche defendants in breaching their fiduciary duties to shareholders by failing to maximize the sale price for LaBranche.

On May 2, 2011, the parties to the consolidated lawsuit reached an agreement in principle to settle the consolidated lawsuit. On October 25, 2011, the parties executed a stipulation of settlement, which was filed with the Supreme Court on October 26, 2011. A hearing was held on February 1, 2012, at which the Supreme Court approved the settlement, which resolved all of the claims that were or could have been brought in the actions being settled, including all claims relating to the acquisition, the Merger Agreement and any disclosure made in connection

therewith.

In re NYSE Specialists Securities Litigation

On or about October 16, 2003 through December 16, 2003, four purported class action lawsuits were filed in the SDNY by persons or entities who purchased and/or sold shares of stocks of NYSE listed companies, including Pirelli v.

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LaBranche & Co Inc., et al., No. 03 CV 8264, Marcus v. LaBranche & Co Inc., et al., No. 03 CV 8521, Empire v. LaBranche & Co Inc., et al., No. 03 CV 8935, and California Public Employees' Retirement System (CalPERS) v. New York Stock Exchange, Inc., et al., No. 03 CV 9968. On March 11, 2004, a fifth action asserting similar claims, Rosenbaum Partners, LP v. New York Stock Exchange, Inc., et al., No. 04 CV 2038, was also filed in the SDNY by an individual plaintiff who does not allege to represent a class.
On May 27, 2004, the SDNY consolidated these lawsuits under the caption In re NYSE Specialists Securities Litigation, No. CV 8264. The court named the following lead plaintiffs: CalPERS and Empire Programs, Inc.
On December 5, 2011, CalPERS and defendants entered into a Memorandum of Understanding (MOU) reflecting an agreement in principle to settle the action. The portion of the settlement amount allocated to LaBranche & Co Inc., LaBranche & Co. LLC and Mr. LaBranche pursuant to a confidential allocation agreement entered into by the defendants will be paid by the Company with amounts to be received from one of the Company's insurers, we do not beleive that this matter will have a material effect on the Company's operating results for the year ended December 31, 2011. The MOU contemplates the negotiation and execution of a final settlement agreement, and the settlement is subject to notice to the class and approval by the Court.
Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Price Information and Stockholders

Our Class A common stock is listed and trades on the NASDAQ Global Market under the symbol "COWN." As of March 8, 2012, there were approximately 76 holders of record of our Class A common stock. This number does not include stockholders for whom shares were held in "nominee" or "street" name.

Prior to November 2, 2009, the common stock of Cowen Holdings had traded under the symbol "COWN" since Cowen Holdings's IPO in July 2006. Prior to November 2, 2009, our common stock was held by RCG and Cowen Holdings as restricted shares and was not publicly tradable.

The following table contains historical quarterly price information for the year ended December 31, 2011. On March 8, 2012, the last reported sale price of our common stock was $2.70.

2011 Fiscal Year	High	Low
First Quarter	$5.02	$3.74
Second Quarter	4.42	3.41
Third Quarter	4.28	2.56
Fourth Quarter	3.00	2.32

2010 Fiscal Year	High	Low
First Quarter	$6.02	$4.84
Second Quarter	6.02	3.87
Third Quarter	4.51	2.99
Fourth Quarter	5.04	3.25

Dividend Policy

We have never declared or paid any cash dividends on Class A common stock or any other class of stock. Any payment of cash dividends on stock in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our board of directors. We currently intend to retain any future earnings to fund the operation, development and expansion of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

In July 2011, the Company's Board of Directors approved a share repurchase program that authorizes the Company to purchase up to $20 million of Cowen Class A common stock from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. During the year ended December 31, 2011, through the share repurchase program, the Company repurchased 3,644,320 shares of Cowen Class A common stock at an average price of $3.12 per share.

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs	
Month 1 (July 1, 2011 – July 31, 2011)					
Common stock repurchases(1)	—	$—	—	—	(3)
Employee transactions(2)	—	$—	—	—	
Total					
Month 2 (August 1, 2011 – August 31, 2011)					
Common stock repurchases(1)	1,104,326	$3.41	—	—	(3)
Employee transactions(2)	114,482	$3.57	—	—	
Total					
Month 3 (September 1, 2011 – September 30, 2011)					
Common stock repurchases(1)	1,352,013	$3.30	—	—	(3)
Employee transactions(2)	338,769	$3.45	—	—	
Total					
Month 4 (October 1, 2011 – October 31, 2011)					
Common stock repurchases(1)	—	$—	—	—	(3)
Employee transactions(2)	134,035	$2.90	—	—	
Total					
Month 5 (November 1, 2011 – November 30, 2011)					
Common stock repurchases(1)	659,161	$2.63	—	—	(3)
Employee transactions(2)	540,479	$2.75	—	—	
Total					
Month 6 (December 1, 2011 – December 31, 2011)					
Common stock repurchases(1)	528,820	$2.66	—	—	(3)
Employee transactions(2)	74,917	$2.52	—	—	
Total					
Total (July 1, 2011 – December 31, 2011)					
Common stock repurchases(1)	3,644,320	$3.12	—	—	(3)
Employee transactions(2)	1,202,682	$3.02	—	—	
Total					

(1) As announced in July 2011, the Company's Board of Directors authorized the repurchase, subject to market conditions, of up to $20 million of the Company's outstanding common stock.

(2)

Represents shares of common stock withheld in satisfaction of tax withholding obligations upon the vesting of equity awards.

(3) Board approval of repurchases is based on dollar amount. The Company cannot estimate the number of shares that may yet be purchased.

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Item 6. Selected Financial Data

The following table sets forth our selected consolidated financial and other data for the years ended December 31, 2011, 2010, 2009, 2008, and 2007. The selected consolidated statements of financial condition data and consolidated statements of operations data as of and for the years ended December 31, 2011, 2010, 2009, 2008, and 2007 have been derived from our audited consolidated financial statements. Our selected consolidated financial data are only a summary and should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The selected financial data includes the results of Cowen Holdings for the period from November 2, 2009 through December 31, 2009 and for the subsequent years.

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands except per share data)				
Consolidated Statements of Operations Data:					
Revenues					
Investment banking	$50,976	$38,965	$10,557	$—	$—
Brokerage	99,611	112,217	17,812	—	—
Management fees	52,466	38,847	41,694	70,818	73,950
Incentive income	3,265	11,363	1,911	—	60,491
Interest and dividends	22,306	11,547	477	1,993	16,356
Reimbursement from affiliates	4,322	6,816	10,326	16,330	7,086
Other revenues	1,583	1,936	4,732	6,853	5,086
Consolidated Funds revenues	749	12,119	36,392	31,739	25,253
Total revenues	235,278	233,810	123,901	127,733	188,222
Expenses					
Employee compensation and benefits	203,767	194,919	96,592	84,769	123,511
Non-compensation expense	161,955	136,902	69,818	54,856	79,020
Goodwill impairment	7,151	—	—	10,200	—
Consolidated Funds expenses	2,782	8,121	23,581	34,268	21,014
Total expenses	375,655	339,942	189,991	184,093	223,545
Other income (loss)					
Net gain (loss) on securities, derivatives and other investments	15,128	21,980	(2,154)	(2,006)	94,078
Bargain purchase gain	22,244	—	—	—	—
Consolidated Funds net gains (losses)	4,395	31,062	20,999	(198,485)	84,846
Total other income (loss)	41,767	53,042	18,845	(200,491)	178,924
Income (loss) before income taxes	(98,610)	(53,090)	(47,245)	(256,851)	143,601
Income tax expense (benefit)	(20,073)	(21,400)	(8,206)	(1,301)	1,397
Net income (loss) from continuing operations	(78,537)	(31,690)	(39,039)	(255,550)	142,204
Net income (loss) from discontinued operations, net of tax	(23,646)	—	—	—	—
Net income (loss)	(102,183)	(31,690)	(39,039)	(255,550)	142,204
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	5,827	13,727	16,248	(113,786)	66,343
Special allocation to managing member	—	—	—	—	26,551
Net income (loss) attributable to Cowen Group, Inc. stockholders	$(108,010)	$(45,417)	$(55,287)	$(141,764)	$49,310
Weighted average common shares outstanding:					
Basic	95,532	73,149	41,001	37,537	37,537
Diluted	95,532	73,149	41,001	37,537	37,537
Earnings (loss) per share:					

Basic					
Income (loss) from continuing operations	$(0.88)	$(0.62)	$(1.35)	$(3.78)	$1.31
Income (loss) from discontinued operations	$(0.25)	$—	$—	$—	$—
Diluted					
Income (loss) from continuing operations	$(0.88)	$(0.62)	$(1.35)	$(3.78)	$1.31
Income (loss) from discontinued operations	$(0.25)	$—	$—	$—	$—

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	As of December 31,				
	2011	2010	2009	2008	2007
Consolidated Statements of Financial Condition Data:					
Total assets	$1,535,838	$1,247,170	$959,441	$797,831	$2,113,532
Total liabilities	922,786	653,568	255,091	182,003	1,430,029
Redeemable non-controlling interests	104,587	144,346	230,825	284,936	203,523
Total Stockholders' Equity	$508,465	$449,256	$473,525	$330,892	$479,980

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our audited consolidated financial statements and the related notes that appear elsewhere in this Annual Report. In addition to historical information, this discussion includes forward-looking information that involves risks and assumptions, which could cause actual results to differ materially from management's expectations. See "Special Note Regarding Forward-Looking Statements" included elsewhere in this Annual Report on Form 10-K.

Overview

Cowen Group, Inc. is a diversified financial services firm and, together with its consolidated subsidiaries, provides alternative investment management, investment banking, research, market-making and sales and trading services through its two business segments: alternative investment management and broker-dealer. The alternative investment management segment includes hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate, healthcare royalty funds, cash management services and mortgage advisory services, offered primarily under the Ramius name. The broker-dealer segment offers industry focused investment banking for growth-oriented companies including advisory and global capital markets origination and domain knowledge-driven research and a sales and trading platform for institutional investors, primarily under the Cowen name.

On November 2, 2009, the transactions contemplated by the Transaction Agreement (the "Transactions"), were consummated including (1) the merger of Lexington Merger Corp. with and into Cowen Holdings, pursuant to which each outstanding share of common stock of Cowen Holdings was converted into one share of Class A common stock of the Company and (2) the transfer by RCG (which prior to the consummation of the Transactions operated the Ramius business) of substantially all of its assets and liabilities to Park Exchange LLC in exchange for the Company's issuance to RCG of 37,536,826 shares of Class A common stock of the Company. Following the consummation of the Transactions, each of Park Exchange LLC and Cowen Holdings became wholly owned subsidiaries of the Company, and Park Exchange LLC was renamed Ramius LLC. Prior to the consumption of the Transactions, the Company conducted its operations through one reportable segment, the alternative investment management segment.

Our alternative investment management business had approximately $10.3 billion of assets under management as of January 1, 2012. The predecessor to this business was founded in 1994 and, through one of its subsidiaries, has been a registered investment adviser under the Investment Advisers Act since 1997. Our alternative investment management products, solutions and services include hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate, healthcare royalty funds, cash management services and mortgage advisory services. Our institutional investors include pension funds, insurance companies, banks, foundations and endowments, wealth management organizations and family offices.

Our broker-dealer businesses include research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs") and alternative energy sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade securities, principally in our target sectors. Historically, we have focused our investment banking efforts on small to mid-capitalization public companies as well as private companies.

As a result of the previously disclosed acquisition of LaBranche, the consolidated financial statements of the Company, for the year ended December 31, 2011, include LaBranche's operating results from June 28, 2011. These operating results are related to the ETF market making operations and, prior to being discontinued, were included in the Company's broker-dealer segment. Since the Company discontinued the LaBranche operations during the fourth quarter of 2011, these operating results are reported in net income (loss) from discontinued operations, net of tax in the accompanying consolidated statements of operations.

Certain Factors Impacting Our Business

Our alternative investment management business and results of operations are impacted by the following factors:

- Assets under management. Our revenues from management fees are directly linked to assets under management. As a result, the future performance of our alternative investment management business will depend on, among other things, our ability to retain assets under management and to grow assets under management from existing and new products.

In addition, positive performance increases assets under management which results in higher management fees. As previously disclosed, redemptions in Ramius Multi-Strategy Fund Ltd triggered certain contractual rights of affiliates of UniCredit S.p.A ("UniCredit S.p.A"), which would have allowed them to withdraw their assets held in that fund

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upon 30 days notice. Such affiliates of UniCredit S.p.A instead agreed, pursuant to a modification agreement, to extend the time period pursuant to which the Company was required to return the bulk of its assets in our funds to the end of 2010. The Company returned a significant portion of the assets during 2010 and as of December 31, 2011, including redemptions effective on January 1, 2012, we have returned approximately $526.6 million to affiliates of UniCredit S.p.A and these affiliates had a remaining investment of approximately $159.2 million invested in our investment vehicles, including a fund of funds managed account.

- Investment performance. Our revenues from incentive income are linked to the performance of the funds and accounts that we manage. Performance also affects assets under management because it influences investors' decisions to invest assets in, or withdraw assets from, the funds and accounts managed by us.
- Fee and allocation rates. Our management fee revenues are linked to the management fee rates we charge as a percentage of assets under management. Our incentive income revenues are linked to the incentive allocation rates we charge as a percentage of performance-driven asset growth. Our incentive allocations are generally subject to "high-water marks," whereby incentive income is generally earned by us only to the extent that the net asset value of a fund at the end of a measurement period exceeds the highest net asset value as of the end of the earlier measurement period for which we earned incentive income. Our incentive allocations, in some cases, are subject to performance hurdles. As of December 31, 2011, the Global Credit Fund was not above its "high-water mark".
- Investment performance of our own capital. We invest our own capital and the performance of such invested capital affects our revenues. As of January 1, 2012, we had investments of approximately $125.8 million, $149.7 million and $35.6 million in the Enterprise Fund (an entity which invests its capital in Ramius Enterprise Master Fund Ltd), Cowen Overseas Investment LP ("COIL") and Ramius Optimum Investments LLC ("ROIL"), respectively. Enterprise Fund is a fund vehicle that currently has external investors, is closed to new investors and is in liquidation. COIL and ROIL are wholly owned entities managed by Ramius that the Company uses solely for the firm's invested capital.

Our broker-dealer business and results of operations are impacted by the following factors:

- Underwriting, private placement and strategic/financial advisory fees. Our revenues from investment banking are directly linked to the underwriting fees we earn in securities offerings in which the Company acts as an underwriter, private placement fees earned in non-underwritten transactions and success fees earned in connection with advising both buyers and sellers, principally in mergers and acquisitions. As a result, the future performance of our investment banking business will depend on, among other things, our ability to secure lead manager and co-manager roles in clients capital raising transactions as well as our ability to secure mandates as a client's strategic financial advisor.
- Commissions. We receive commissions from executing customer transactions. Our commission revenues depend for the most part on our customer trading volumes.
- Principal transactions. Principal transactions revenue includes net trading gains and losses from the Company's market-making activities and net trading gains and losses on inventory and other firm positions. Commissions associated with these transactions are also included herein. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk.
- Equity research fees. Equity research fees are paid to the Company for providing equity research. The Company also permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. Our ability to generate revenues relating to our equity research depends on the quality of our research and its relevance to our institutional customers and other clients.

External Factors Impacting Our Business

Our financial performance is highly dependent on the environment in which our businesses operate. A favorable business environment is characterized by many factors, including a stable geopolitical climate, transparent financial markets, low inflation, low interest rates, low unemployment, strong business profitability and high business and investor confidence. Unfavorable or uncertain economic or market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability (or increases in the cost of) credit and capital, increases in inflation or interest rates, exchange rate volatility, unfavorable global asset allocation trends, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in the capital markets, or a combination of these or other factors. Our businesses and profitability

have been and may continue to be adversely affected by market conditions in many ways, including the following:

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- Our alternative investment management business was affected by the conditions impacting the global financial markets and the hedge fund industry during 2008, which was characterized by substantial declines in investment performance and unanticipated levels of requested redemptions. While the environment for investing in alternative investment products has since improved, the variability of redemptions could continue to affect our alternative investment management business, and it is possible that we could intermittently experience redemptions above historical levels, regardless of fund performance.
- Our broker-dealer business has been, and may continue to be, adversely affected by market conditions. Increased competition continues to affect our investment banking and capital markets businesses. The same factors also affect trading volumes in secondary financial markets, which affect our brokerage business. Commission rates, market volatility, increased competition from larger financial firms and other factors also affect our brokerage revenues and may cause these revenues to vary from period to period.
- Our broker-dealer business focuses primarily on small to mid-capitalization and private companies in specific industry sectors. These sectors may experience growth or downturns independent of general economic and market conditions, or may face market conditions that are disproportionately better or worse than those impacting the economy and markets generally. In addition, increased government regulation has had, and may continue to have, a disproportionate adverse effect on capital formation by smaller companies. Therefore, our broker-dealer business could be affected differently than overall market trends.

Our businesses, by their nature, do not produce predictable earnings. Our results in any period can be materially affected by conditions in global financial markets and economic conditions generally. We are also subject to various legal and regulatory actions that impact our business and financial results.

Recent Developments

In January 2012, the Company entered into a definitive agreement to acquire Algorithmic Trading Management, LLC (“ATM”), a provider of global, multi-asset class algorithmic execution trading models. The transaction, which is subject to certain regulatory approvals and customary closing conditions, is expected to close in the second quarter of 2012.

Basis of presentation

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification as the source of authoritative accounting principles in the preparation of financial statements, of the Company appearing in Part IV of this Form 10-K include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest or a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in the consolidated financial statements, are not subject to the consolidation provisions with respect to their own investments pursuant to their specialized accounting.

The Company serves as the managing member/general partner and/or investment manager to affiliated fund entities which it sponsors and manages. Certain of these funds in which the Company has a substantive, controlling general partner interest are consolidated with the Company pursuant to generally accepted accounting principles as described below (the “Consolidated Funds”). Consequently, the Company's consolidated financial statements reflect the assets, liabilities, income and expenses of these funds on a gross basis. The ownership interests in these funds which are not owned by the Company are reflected as redeemable non-controlling interests in consolidated subsidiaries in the consolidated financial statements appearing elsewhere in this Form 10-K. The management fees and incentive income earned by the Company from these funds are eliminated in consolidation.

The November 2009 business combination between Ramius and Cowen Holdings was accounted for under the acquisition method of accounting in according with US GAAP. As a result, the historical financial statements of Ramius (the business of which was operated by RCG Holdings LLC, the Company's accounting predecessor, prior to the consummation of the Transactions) have become the historical financial statements of the Company. As a result, the Company's 2010 results reflect twelve months of combined operations, while 2009 results reflect twelve months of legacy Ramius and two months of legacy Cowen operations.

The June 2011 acquisition of Labranche was accounted for under the acquisition method of accounting in accordance with US GAAP. In this case, the acquisition was accounted for as an acquisition by Cowen of LaBranche. As such, results of operations for LaBranche are included in the accompanying consolidated statements of operations since the date of acquisition, and the assets acquired and liabilities assumed were recorded at their estimated fair values. During the last quarter of 2011, the Company decided to discontinue the subsidiaries acquired through the LaBranche acquisition as the subsidiaries were not

meeting the Company's expectations as to their results of operations and were not generating positive cash flows.

Revenue recognition

The Company's principal sources of revenue are derived from two segments: an alternative investment management segment and a broker-dealer segment, as more fully described below.

Our alternative investment management segment generates revenue through three principal sources: management fees, incentive income and investment income from our own capital.

Our broker-dealer segment generates revenue through two principal sources: investment banking and brokerage.

Management fees

The Company earns management fees from affiliated funds and certain managed accounts that it serves as the investment manager based on assets under management. The actual management fees received vary depending on distribution fees or fee splits paid to third parties either in connection with raising the assets or structuring the investment.

Management fees are generally paid on a quarterly basis at the beginning of each quarter in arrears and are prorated for capital inflows and redemptions. While some investors may have separately negotiated fees, in general the management fees are as follows:

- Hedge Funds. Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income.

- Alternative Solutions. Management fees for the Alternative Solutions business are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income or based on assets under management at the beginning of the month. Management fees earned from the Alternative Solutions business are based and initially calculated on estimated net asset values and actual fees ultimately earned could be impacted to the extent of any changes in these estimates.

- Real Estate Funds. Management fees from the Company's real estate funds are generally charged by their general partners at an annual rate between 1% to 1.5% of total capital commitments during the investment period and of invested capital or net asset value of the applicable fund after the investment period has ended. Management fees are typically paid to the general partners on a quarterly basis, at the beginning of the quarter in arrears, and are prorated for changes in capital commitments throughout the investment period and invested capital after the investment period. The general partners of the Company's real estate funds are owned jointly by the Company and third parties. Accordingly, the management fees (in addition to incentive income and investment income) generated by these real estate funds are split between the Company and the other general partners. Pursuant to US GAAP, these fees and other income received by the general partners that are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.

- CHRP Funds. During the investment period (as defined in the management agreement of the CHRP Funds), management fees for the CHRP Funds are generally charged at an annual rate of up to 2% of committed capital. After the investment period, management fees are generally charged at an annual rate of up to 2% of assets under management. Management fees for the CHRP Funds are calculated on a quarterly basis.

- Ramius Trading Strategies. Management fees and platform fees for the Company's private commodity trading advisory business are generally charged at an annual rate of up to 3% and 1.50%, respectively, for the levered vehicle and 1% and 0.50%, respectively, for the unlevered vehicle. In addition, management fees for Ramius Trading Strategies Managed Futures Fund, a mutual fund launched in September 2011, are 1.60% per annum (subject to an overall expense cap of 1.85%). Management and platform fees are generally calculated monthly based on assets under management at the end of each month.

- Other. The Company also provides other investment advisory services. Other management fees are primarily earned from the Company's cash management business and range from annual rates of 0.04% to 0.20% of assets, based on the average daily balances of the assets under management.

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Incentive income

The Company earns incentive income based on net profits (as defined in the respective investment management agreements) with respect to certain of the Company's funds and managed accounts, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have carried forward from prior years. For the products we offer, incentive income earned is typically 20% for hedge funds and 10% for fund of funds and alternative solutions products (in certain cases on performance in excess of a benchmark), generally, of the net profits earned for the full year that are attributable to each fee-paying investor. Generally, incentive income on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However in certain real estate funds, the Company is entitled to receive incentive fees earlier provided that the investors have received their preferred return on a current basis. These funds are subject to a potential clawback of that incentive income upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income in the CHRP Funds is earned only after investors receive a full return of their capital plus a preferred return.

In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to that investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a “high-water mark.” The Company has elected to record incentive income revenue in accordance with “Method 2” of the US GAAP. Under Method 2, the incentive income from the Company's funds and managed accounts for any period is based upon the net profits of those funds and managed accounts at the reporting date. Any incentive income recognized in the consolidated statement of operations may be subject to reversal based on subsequent negative performance of the funds prior to the conclusion of the fiscal year, when all contingencies have been resolved.

Carried interest in the real estate funds is subject to clawback to the extent that the carried interest actually distributed to date exceeds the amount due to the Company based on cumulative results. As such, the accrual for potential repayment of previously received carried interest, which is a component of accounts payable, accrued expenses and other liabilities, represents all amounts previously distributed to the Company, less an assumed tax liability, that would need to be repaid to certain real estate funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability does not become realized until the end of a fund's life.

Investment Banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small and mid-capitalization companies within the Company's target sectors of healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees and private placement fees.

- Underwriting fees. The Company earns underwriting revenues in securities offerings in which the Company acts as an underwriter, such as initial public offerings, follow-on equity offerings, debt offerings, and convertible security offerings. Underwriting revenues include management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting process have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of securities from the issuer; and (iii) the Company has been informed of the number of securities that it has been allotted.

When the Company is not the lead manager for an underwriting transaction, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.

- Strategic/financial advisory fees. The Company's strategic advisory revenues include success fees earned in connection with advising companies, principally in mergers and acquisitions and liability management transactions.

The Company also earns fees for related advisory work such as providing fairness opinions. The Company records strategic advisory revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

- Private placement fees. The Company earns agency placement fees in non-underwritten transactions such as private placements of debt and equity securities, including, private investment in public equity transactions ("PIPEs") and

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registered direct offerings. The Company records private placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

Brokerage

Brokerage revenue consists of commissions, principal transactions, net and equity research fees.

- Commissions. Commission revenue includes fees from executing client transactions. These fees are recognized on a trade date basis. The Company permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Commissions on soft dollar brokerage are recorded net of the related expenditures on an accrual basis. During the years ended December 31, 2011, 2010 and 2009, the Company earned $66.0 million, $69.3 million and $9.3 million of revenues from commissions, respectively.
- Principal Transactions. Principal transaction, net revenue includes net trading gains and losses from the Company's market-making activities in fixed income and over-the-counter equity securities, listed options trading, trading of convertible securities, and trading gains and losses on inventory and other firm positions, which include warrants previously received as part of investment banking transactions. Commissions associated with these transactions are also included herein. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a very short duration. During the years ended December 31, 2011, 2010 and 2009, the Company earned $27.1 million, $36.1 million and $7.0 million of revenues from principal transactions, net, respectively.
- Equity Research Fees. Equity research fees are paid to the Company for providing equity research. Revenue is recognized once an arrangement exists, access to research has been provided, the fee amount is fixed or determinable, and collection is reasonably assured. During the years ended December 31, 2011, 2010 and 2009, the Company earned $6.5 million, $6.8 million and $1.5 million of revenues from equity research fees, respectively.

Interest and dividends

Interest and dividends are earned by the Company from various sources. The Company receives interest and dividends primarily from investments held by its Consolidated Funds and its brokerage balances from invested capital. Interest is recognized on an accrual basis and interest income is recognized on the debt of those issuers that is deemed collectible. Interest income and expense includes premiums and discounts amortized and accreted on debt investments based on criteria determined by the Company using the effective yield method, which assumes the reinvestment of all interest payments. Dividends are recognized on the ex-dividend date.

Reimbursement from affiliates

The Company allocates, at its discretion, certain expenses incurred on behalf of its hedge fund, fund of funds and real estate businesses. These expenses relate to the administration of such subsidiaries and assets that the Company manages for its funds. In addition, pursuant to the funds' offering documents, the Company charges certain allowable expenses to the funds, including charges and personnel costs for legal, compliance, accounting, tax compliance, risk and technology expenses that directly relate to administering the assets of the funds. Such expenses that have been reimbursed at their actual costs are included in the consolidated statements of operations as employee compensation and benefits, professional, advisory and other fees, communications, occupancy and equipment, client services and business development and other.

Expenses

The Company's expenses consist of compensation and benefits, interest expense and general, administrative and other expenses.

- Compensation and Benefits. Compensation and benefits is comprised of salaries, benefits, discretionary cash bonuses and equity-based compensation. Annual incentive compensation is variable, and the amount paid is generally based on a combination of employees' performance, their contribution to their business segment, and the Company's performance. Generally, compensation and benefits comprise a significant portion of total expenses, with annual incentive compensation comprising a significant portion of total compensation and benefits expenses.

Interest and Dividends. Interest and dividends expense relates primarily to interest on our credit facility (which was

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fully repaid and terminated in June 2011) in addition to increased trading activity with respect to the Company's investments.

- General, Administrative and Other. General, administrative and other expenses are primarily related to professional services, occupancy and equipment, business development expenses, communications, insurance and other miscellaneous expenses. These expenses may also include certain one-time charges and non-cash expenses.
- Consolidated Funds Expenses. Certain funds are consolidated by the Company pursuant to US GAAP. As such, the Company's consolidated financial statements reflect the expenses of these consolidated entities and the portion attributable to other investors is allocated to a redeemable non-controlling interest.

Income Taxes

The taxable results of the Company's U.S. operations are subject to U.S. federal, state and city taxation as a corporation. The Company is also subject to foreign taxation on income it generates in certain countries.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating or capital loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that, in management's view, is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. As of December 31, 2011, the Company recorded a valuation allowance against substantially all of its net deferred tax assets.

As of December 31, 2011, the Company recorded tax receivables resulting from refund claims resulting from the carry back of net operating losses to the Company's 2006 tax return.

Redeemable Non-controlling Interests

Redeemable non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities. Due to the fact that the non-controlling interests are redeemable at the option of the holder they have been classified as temporary equity.

Assets Under Management and Fund Performance

Assets Under Management

Assets under management refer to all of our alternative investment management products, solutions and services including hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate, healthcare royalty funds, cash management services and mortgage advisory services. Assets under management also include the fair value of assets we manage pursuant to separately managed accounts, collateralized debt obligations for which we are the collateral manager, and, as indicated in the footnotes to the table below, proprietary assets which the Company has invested in these products. Also, as indicated, assets under management for certain products represent committed capital and certain products where the Company owns a portion of the general partners.

As of January 1, 2012, the Company had assets under management of $10.3 billion, an 10.7% increase as compared to assets under management of $9.3 billion as of December 31, 2010. The $1.0 billion increase in assets under management during the year ended 2011 resulted from $1.1 billion in net subscriptions (this includes total redemptions during the year ended December 31, 2011, and redemptions effective on January 1, 2012, of $187.0 million, which represents assets returned to investors as a result of closing the Ramius Multi-Strategy and Ramius Enterprise funds and the return of assets to UniCredit pursuant to the terms of Modification Agreement), partially offset by a $76.6 million performance-related decrease in assets under management.

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The following table is a breakout of total assets under management by platform as of January 1, 2012.

Platform	Total Assets under Management (dollars in millions)		Primary Strategies
Hedge Funds (1)	1,918	(2)	Multi-Strategy Single Strategy
Alternative Solutions (3)	1,894		Multi-Strategy Single Strategy Customized Solutions Hedging Strategies
	855		Advisory
Ramius Trading Strategies (4)	262		Commodity Trading Advisory
Real Estate (1)	1,628	(7)	Debt Equity
Cowen Healthcare Royalty Partners (5)	1,473	(7)	Royalty Interests
Other (6)	2,235		Cash Management Mortgage Advisory
Total	10,265		

(1) The Company owns between 30% and 55% of the general partners of the real estate business and of the activist business (one of the single strategy hedge funds). We do not possess unilateral control over any of these general partners.

(2) This amount includes the Company's invested capital of approximately $125.8 million as of January 1, 2012.

(3) This amount includes the Company's invested capital of approximately $5.2 million as of January 1, 2012.

(4) This amount includes three funds: RTS Global Fund, LP, RTS Global 3X Funds, LP, Ramius Trading Strategies Managed Futures Fund. This amount includes the Company's invested capital of approximately $22.3 million (which includes the notional amount of the Company's investment in RTS Global 3X Fund LP) as of January 1, 2012.

(5) The Company shares the management fees from the CHRP Funds equally with the founders of the CHRP Funds. In addition, the Company receives a share of the carried interests of the general partners of the CHRP Funds of between 27% and 40.2%.

(6) The Company's cash management services business provides clients with investment guidelines for managing cash and establishes investment programs for managing their cash in separately managed accounts. The Company also provides mortgage advisory services where the Company manages collateralized debt obligations held by investors.

(7) This amount reflects committed capital.

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The following table presents total assets under management by period

	January 1, 2012	Year ended December 31, 2011	2010	2009	2008
		(dollars in thousands)			
Beginning Assets under Management	$10,347,173	$9,276,278	$8,313,638	$9,765,230	$12,900,355
Net Subscriptions (Redemptions)	(81,680)	1,147,447	812,555	(1,780,117) (2)	(1,066,714)
Net Performance(1)	—	(76,552)	150,085	328,525	(2,068,411)
Ending Assets under Management	$10,265,493	$10,347,173	$9,276,278	$8,313,638	$9,765,230

(1) Net performance is net of all management and incentive fees and includes the effect of any foreign exchange translation adjustments and leverage in certain funds.

(2) Net redemptions for 2009 include $807 million of capital commitments to the CHRP Funds that were part of Cowen Holdings prior to the Transactions.

Fund Performance

In hindsight, 2011 proved to be challenging for investors in risk assets across multiple global markets. In the fourth quarter, a number of overriding macro concerns that had been weighing on the markets remained in place. These concerns included softening global growth and rising industrial commodity prices, the unresolved European debt crisis, tensions in the Middle East and political inaction in the U.S. regarding the country's current deficit, increasing debt burden and employment rate. However, the “risk on, risk off” approach that dominated investor activity throughout 2011 reversed course after a weak third quarter and adopted a “risk on” position to close out the year. As one example, following a double- digit decline in the S&P 500 during the third quarter, U.S. equities rallied to have the index close out the year unchanged. Final results for the entire year often masked the day-to-day and week-to-week volatility experienced in many major markets and asset classes, including high yield debt, leveraged loans and real assets such as crude oil. Fourth quarter results also masked to some degree one of the more troubling aspects of global market activity during 2011- that of a substantial deterioration in liquidity. The lack of liquidity was evidenced in multiple asset classes, but was especially true in the fixed income markets at various points in time throughout the year. As was stated in the previous quarter's report, trading liquidity was often reminiscent of the fourth quarter of 2008, with the added pressure of liquidity providers aggressively withdrawing capital. Economic, regulatory and market uncertainties all contributed to recurrent spikes in both price volatility and correlation across multiple asset classes.

Ramius investment vehicles had varying results within the fourth quarter, but those funds that we would expect to participate in a recovery in risk assets did so. As had been the general trend throughout the year, longer-dated investments in real estate continued to benefit from firmer underlying investment valuations, further extending the recovery from the 2009 lows. More liquid but specialized funds investing in the equity and credit markets closed the year with positive fourth quarter performance. The small cap activist funds finished the year substantially ahead of any small cap long-only indices. In long/short corporate credit, third quarter losses had been concentrated within a small group of investments during a period dominated by high volatility and vastly reduced liquidity. Subsequent portfolio modifications led to reduced volatility and a positive result for the final quarter. The global macro and managed futures sectors had modestly negative fourth quarter results, as the sudden reversal in risk appetite during October --to "risk on"--presented challenges to the underlying managers. Prevailing trends were captured later in the fourth quarter of 2011, but not to the degree necessary to overcome October results. The multi-strategy funds maintained their focus on capital preservation, while still executing an opportunistic strategy for the sale of certain assets in order to make distributions to investors. Results were positive for the fourth quarter of 2011, led by an especially strong final month. Customized hedge fund of funds portfolios and client-specific solutions-based portfolios also had satisfactory results.

Invested Capital

The Company invests a significant portion of its capital base to help drive results and facilitate the growth of its alternative investment management and broker/dealer businesses. Management allocates capital to three primary investment categories: (i) trading strategies; (ii) merchant banking investments; and (iii) real estate investments. The Company aims to make strategic and opportunistic investments in varying capital structures across a diverse array of businesses, hedge funds and mutual funds. Much of the Company's trading strategy portfolio is invested along side the Company's alternative investment

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management clients and includes liquid investment strategies such as corporate credit trading, event driven, macro trading, and enhanced cash management. Within its merchant banking investments, management generally takes a long-term view that typically involves investing directly in public and private companies globally, private equity funds and along side its alternative investment management clients. The Company's real estate investment strategy focuses on making investments along side the Company's alternative investment management clients in Ramius managed funds such as the RCG Longview platform, as well as in direct investments in commercial real estate projects.

As of December 31, 2011, the Company's invested capital amounted to a net value $442.1 million (supporting a long market value of $689.1 million), representing approximately 87% of Cowen Group's stockholders' equity presented in accordance with US GAAP. The table below presents the Company's invested equity capital by strategy and as a percentage of Cowen Group's stockholders' equity as of December 31, 2011. The net values presented in the table below do not tie to Cowen Group's consolidated statement of financial condition as of December 31, 2011 because they are included in various line items of the consolidated statement of financial condition, including “securities owned, at fair value”, “other investments”, “cash and cash equivalents”, and “consolidated funds-securities owned, at fair value”.

Strategy	Net Value	% of Stockholders' Equity
	(dollars in millions)	
Trading	$293.8	58%
Merchant Banking	100.0	20%
Real Estate	48.3	9%
Total	442.1	87%
Stockholders' Equity	508.5	100%

The allocations shown in the table above will change over time.

Results of Operations

To provide comparative information of the Company's operating results for the periods presented, a discussion of Economic Income (Loss) of our alternative investment management and broker-dealer segments follows the discussion of our total consolidated US GAAP results. Economic Income (Loss) reflects, on a consistent basis for all periods presented in the Company's consolidated financial statements, income earned from the Company's funds and managed accounts and from its own invested capital. Economic Income (Loss) excludes certain adjustments required under US GAAP. See the section titled “Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company-Segment Analysis and Economic Income (Loss),” and Note 23 to the Company's consolidated financial statements, appearing elsewhere in this Form 10-K, for a reconciliation of Economic Income (Loss) to total Company US GAAP net income (loss).

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Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Consolidated Statements of Operations

	Year ended December 31,		Period to Period	
	2011	2010	$ Change	% Change
	(dollars in thousands)			
Revenues				
Investment banking	$50,976	$38,965	$12,011	31 %
Brokerage	99,611	112,217	(12,606)	(11)%
Management fees	52,466	38,847	13,619	35 %
Incentive income	3,265	11,363	(8,098)	(71)%
Interest and dividends	22,306	11,547	10,759	93 %
Reimbursement from affiliates	4,322	6,816	(2,494)	(37)%
Other revenues	1,583	1,936	(353)	(18)%
Consolidated Funds revenues	749	12,119	(11,370)	(94)%
Total revenues	235,278	233,810	1,468	1 %
Expenses				
Employee compensation and benefits	203,767	194,919	8,848	5 %
Interest and dividends	8,839	8,971	(132)	(1)%
General, administrative and other expenses	153,116	127,931	25,185	20 %
Goodwill impairment	7,151	—	7,151	NM
Consolidated Funds expenses	2,782	8,121	(5,339)	(66)%
Total expenses	375,655	339,942	35,713	11 %
Other income (loss)				
Net gain (loss) on securities, derivatives and other investments	15,128	21,980	(6,852)	(31)%
Bargain purchase gain	22,244	—	22,244	NM
Consolidated Funds net gains (losses)	4,395	31,062	(26,667)	(86)%
Total other income (loss)	41,767	53,042	(11,275)	(21)%
Income (loss) before income taxes	(98,610)	(53,090)	(45,520)	86 %
Income taxes expense (benefit)	(20,073)	(21,400)	1,327	(6)%
Net income (loss) from continuing operations	(78,537)	(31,690)	(46,847)	148 %
Net income (loss) from discontinued operations, net of tax	(23,646)	—	(23,646)	NM
Net income (loss)	(102,183)	(31,690)	(70,493)	222 %
Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	5,827	13,727	(7,900)	(58)%
Net income (loss) attributable to Cowen Group, Inc. stockholders	$(108,010)	$(45,417)	$(62,593)	138 %

Revenues

Investment Banking

Investment banking revenues increased $12.0 million to $51.0 million for the year ended December 31, 2011 compared with $39.0 million in 2010. During the year ended December 31, 2011, the Company completed 29 underwriting transactions, 8 private capital raising transactions, 3 debt capital market transactions and 8 strategic advisory transactions. During the year ended December 31, 2010, the Company completed 31 underwriting transactions, 6 private capital raising transactions and 12 strategic advisory transactions. During 2011, a higher proportion of our deals were lead managed which resulted in higher fees earned per transaction.

Brokerage

Brokerage revenues decreased $12.6 million to $99.6 million for the year ended December 31, 2011 compared with $112.2 million in 2010. The decrease was primarily attributable to lower commission revenues due to a reduction in customer trading volumes. Customer trading volumes across the industry decreased 11% in 2011 compared to 2010.

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Management Fees

Management fees increased $13.6 million to $52.5 million for the year ended December 31, 2011 compared with $38.8 million in 2010. The increase was primarily a result of:

•an increase in management fees for our Healthcare Royalty funds as a result of an increase in committed capital;

•an increase in management fees associated with our Global Credit fund and other credit managed accounts of approximately $1.8 million; and

•an increase in management fees for our Ramius Trading Strategies funds, including the launching of our Ramius Trading Strategies Managed Futures Fund, a mutual fund launched in September 2011, of $0.8 million.

These increases were partially offset by a decrease in fees of $3.6 million as a result of lower assets under management from returning assets to investors in 2011, as a result of closing the Ramius Multi-Strategy Fund and the Enterprise Fund, and the return of assets to, and no longer receiving management fees from certain affiliates of UniCredit S.p.A effective July 1, 2010, pursuant to the terms of the Modification Agreement. The increases were also offset by a decrease in fees of $1.8 million as a result of the spin off of our Value and Opportunity business in the second quarter of 2011.

Incentive Income

Incentive income decreased $8.1 million to $3.3 million for the year ended December 31, 2011, compared with $11.4 million in 2010. The decrease was a result of:

•$4.2 million decrease in performance fees from funds in our alternative solutions business;

•$3.1 million as a result of a spin off of our Value and Opportunity business in the second quarter of 2011; and

•$0.8 million decrease in performance fees in the Global Credit fund.

Interest and Dividends

Interest and dividends increased $10.8 million to $22.3 million for the year ended December 31, 2011 compared with $11.5 million in 2010. The increase was primarily attributable to an increase in interest income resulting from an increased number of investments in interest bearing securities during 2011 as compared to 2010.

Reimbursements from Affiliates

Reimbursements from affiliates decreased $2.5 million to $4.3 million for the year ended December 31, 2011 compared with $6.8 million in 2010. The decrease was attributable to a decrease in assets under management associated with the funds from which the Company receives the majority of its reimbursements.

Other Revenues

Other revenues decreased $0.3 million to $1.6 million for the year ended December 31, 2011 compared with $1.9 million in 2010. The higher amount in 2010 was primarily related to a non recurring investment advisory agreement.

Consolidated Funds Revenues

Consolidated Funds revenues decreased $11.4 million to $0.7 million for the year ended December 31, 2011 compared with $12.1 million in 2010. The decrease was primarily attributable to a decrease in Enterprise Fund's holdings of interest bearing securities due to the unwinding of its investments.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expenses increased $8.8 million to $203.8 million for the year ended December 31, 2011 compared with $194.9 million in 2010. The increase was primarily attributable to additional stock compensation expense, severance associated with the Company’s expense reduction activities in the broker-dealer business, and investments in new professionals in our investment banking, capital markets and sales and trading businesses. The compensation to revenue ratio was 87% for the twelve months ended December 31, 2011, compared to 83% for the prior year period. The increase in the compensation to revenue ratio resulted from a 5% increase in total compensation offset by only a 1% increase in revenue compared to the prior year end. Average headcount for 2011 increased by 2% from the prior year.

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Interest and Dividends

Interest and dividends expense decreased $0.2 million to $8.8 million for the year ended December 31, 2011 compared with $9.0 million in 2010. Interest and dividends expense relates to interest on our credit facility (which was fully repaid and terminated in June 2011) in addition to increased trading activity with respect to the Company's investments.

General, Administrative and Other Expenses

General, administrative and other expenses increased $25.2 million to $153.1 million for the year ended December 31, 2011 compared with $127.9 million in 2010. The increase was primarily due to:

- professional fees incurred in connection with the closing of and potential future acquisitions of Luxembourg reinsurance companies;
- transaction costs related to the LaBranche acquisition;
- higher employment agency fee expenses;
- an increase in expenses related to our data center services as we transitioned to a new provider;
- syndication costs related to a capital raise by an alternative investment fund;
- increased usage of market data services;
- recognition, in 2011, of a net $3.6 million expense related to cease-use of the remaining space at 1221 Avenue of America;
- $1.5 million for termination of service contracts;
- an impairment charge related to intangibles in the broker-dealer segment in the amount of $5.2 million.

The increases were partially offset by:

- a reversal of an accrual pertaining to subordination agreements entered into by the general partners of two real estate funds with those funds' lead investor and
- a credit to occupancy and equipment expense in 2010 related to a reversal of a previously recorded unfavorable lease liability at 1221 Avenue of Americas of $5.3 million partially offset by $2.2 million of depreciation and amortization related to the write-off of certain fixed assets at that location.

Goodwill Impairment

The Company recorded a goodwill impairment charge of $7.2 million for the year ended December 31, 2011. In the fourth quarter of 2011, the Company conducted its annual goodwill impairment test and recognized non-cash impairment to the goodwill associated with the broker dealer segment.

Consolidated Funds Expenses

Consolidated Funds expenses decreased $5.3 million to $2.8 million for the year ended December 31, 2011 compared with $8.1 million in 2010. The decrease was attributable to a decrease in interest expense recognized by the Enterprise Fund due to a decrease in short holdings of interest bearing securities, in connection with the unwinding of its investment portfolio.

Other Income (Loss)

Other income (loss) decreased $11.2 million to $41.8 million for the year ended December 31, 2011 compared with $53.0 million in 2010. The decrease primarily relates to a decrease in the Consolidated Funds' performance of Enterprise Master due to the closing and ongoing wind down of this fund and a decrease in performance of the Company's own invested capital driven by declining performance across certain investment strategies within our investment portfolio, particularly the concentrated public equity, credit, deep value and global macro strategies. This was offset by a $22.2 million bargain purchase gain in relation to the acquisition of LaBranche in June 2011. The gains and losses shown under Consolidated Funds reflect the consolidated total performance for such funds, and the portion of those gains or losses that are attributable to other investors is allocated to a non-controlling interest.

Income Taxes

Income tax benefit decreased $1.3 million to $20.1 million for the year ended December 31, 2011 from $21.4 million in 2010. This was primarily attributable to the lower deferred tax benefits recognized by the Company's Luxembourg subsidiaries.

Net income (loss) from discontinued operations, net of tax

As a result of the LaBranche subsidiaries not meeting the Company's expectations as to their results of operations and not generating positive cash flows, the Company's management decided, during the fourth quarter of 2011, to exit the business

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operated by these subsidiaries. Therefore, the Company reported the results of operations related to these subsidiaries in discontinued operations.

Income (Loss) Attributable to Redeemable Non-controlling Interests

Income (loss) attributable to redeemable non-controlling interests decreased by $7.9 million to $5.8 million for the year ended December 31, 2011 compared with $13.7 million in 2010. The period over period change was the result of an overall decrease in performance of the Consolidated Funds and therefore less allocations of gains/losses to non-controlling interest holders.

Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

Consolidated Statements of Operations

	Year ended December 31,		Period to Period	
	2010	2009	$ Change	% Change
	(dollars in thousands)			
Revenues				
Investment banking	$38,965	$10,557	$28,408	269%
Brokerage	112,217	17,812	94,405	530%
Management fees	38,847	41,694	(2,847)	(7)%
Incentive income	11,363	1,911	9,452	495%
Interest and dividends	11,547	477	11,070	NM
Reimbursement from affiliates	6,816	10,326	(3,510)	(34)%
Other revenues	1,936	4,732	(2,796)	(59)%
Consolidated Funds revenues	12,119	36,392	(24,273)	(67)%
Total revenues	233,810	123,901	109,909	89%
Expenses				
Employee compensation and benefits	194,919	96,592	98,327	102%
Interest and dividends	8,971	1,601	7,370	460%
General, administrative and other expenses	127,931	68,217	59,714	88%
Consolidated Funds expenses	8,121	23,581	(15,460)	(66)%
Total expenses	339,942	189,991	149,951	79%
Other income (loss)				
Net gain (loss) on securities, derivatives and other investments	21,980	(2,154)	24,134	NM
Consolidated Funds net gains (losses)	31,062	20,999	10,063	48%
Total other income (loss)	53,042	18,845	34,197	181%
Income (loss) before income taxes	(53,090)	(47,245)	(5,845)	12%
Income taxes expense (benefit)	(21,400)	(8,206)	(13,194)	161%
Net income (loss)	(31,690)	(39,039)	7,349	(19)%
Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	13,727	16,248	(2,521)	(16)%
Net income (loss) attributable to Cowen Group, Inc. stockholders	$(45,417)	$(55,287)	$9,870	(18)%

Revenues

Investment Banking

Investment banking revenues increased $28.4 million to $39.0 million for the year ended December 31, 2010 compared with $10.6 million in 2009. The 2009 revenues represent the investment banking activity for the period from November 2, 2009 to December 31, 2009, compared to a full year in 2010.

Brokerage

Brokerage revenues increased $94.4 million to $112.2 million for the year ended December 31, 2010 compared with $17.8 million in 2009. The 2009 revenues represent the brokerage activity for the period from November 2, 2009 to December 31, 2009, compared to a full year in 2010.

Management Fees

Management fees decreased $2.9 million to $38.8 million for the year ended December 31, 2010 compared with $41.7 million in 2009. The decrease was a result of returning assets to investors in 2010, as a result of closing the Ramius Multi-Strategy and Ramius Enterprise funds, and the return of assets to, and no longer charging management fees, to certain affiliates of UniCredit S.p.A effective July 1, 2010, pursuant to the terms of the Modification Agreement. This was partially offset by increases in assets under management in our single-strategy funds.

Incentive Income

Incentive income increased $9.5 million to $11.4 million for the year ended December 31, 2010, compared to $1.9 million in 2009. The incentive income in 2010 is primarily a result of:

- the performance fees related to the Ramius Value and Opportunity Master Fund Ltd surpassing its high-water marks;
- two fund of funds managed accounts that have also surpassed their high-water marks and hurdles during the year; and
- the performance of the Ramius Global Credit Master Fund Ltd.

Interest and Dividends

Interest and dividends increased $11.0 million to $11.5 million for the year ended December 31, 2010 compared with $0.5 million in 2009. The increase was primarily attributable to an increase in interest income resulting from an increased number of investments in interest bearing securities during 2010 compared to 2009.

Reimbursements from Affiliates

Reimbursements from affiliates decreased $3.5 million to $6.8 million for the year ended December 31, 2010 compared with $10.3 million in 2009. The decrease was attributable to a decrease in assets under management associated with the funds from which the Company receives the majority of its reimbursements.

Other Revenues

Other revenues decreased $2.8 million to $1.9 million for the year ended December 31, 2010 compared with $4.7 million in 2009. The higher amount in 2009 was primarily related to a $1.9 million one-time legal settlement claim.

Consolidated Funds Revenues

Consolidated Funds revenues decreased $24.3 million to $12.1 million for the year ended December 31, 2010 compared with $36.4 million in 2009. The decrease was primarily attributable to a decrease in Enterprise Fund's holdings of interest bearing securities due to unwinding of its investments.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expenses increased $98.4 million to $194.9 million for the year ended December 31, 2010 compared with $96.6 million in 2009. The increase was due to the impact of including two months of compensation and benefits expense associated with the legacy Cowen Holdings business in 2009 compared with twelve months in 2010, partially offset by lower accruals for incentive compensation and lower base salaries and benefit expense associated with a reduction in head count in 2010 compared to 2009.

Interest and Dividends

Interest and dividends expense increased $7.4 million to $9.0 million for the year ended December 31, 2010 compared with $1.6 million in 2009. Interest and dividends expense relates to interest on our credit facility in addition to increased trading activity with respect to the Company's investments.

General, Administrative and Other Expenses

General, administrative and other expenses increased $59.7 million to $127.9 million for the year ended December 31, 2010 compared with $68.2 million in 2009. The increase was due to the impact of including two months of general, administrative and other expense associated with the legacy Cowen Holdings business during 2009 compared with twelve months of 2010, or $62.2 million, partially offset by implementing approximately $2.5 million of cost savings related to the integration of systems and facilities related to the Transactions.

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Consolidated Funds Expenses

Consolidated Funds expenses decreased $15.5 million to $8.1 million for the year ended December 31, 2010 compared with $23.6 million in 2009. The decrease was attributable to a decrease in interest expense recognized by the Enterprise Fund due to a decrease in short holdings of interest bearing securities, due to the unwinding of its investment portfolio.

Other Income (Loss)

Other income (loss) increased $34.2 million to $53.0 million for the year ended December 31, 2010 compared with $18.8 million in 2009. This primarily relates to an increase of $24.1 million in the performance of the Company's directly owned traded invested capital. In addition, the increase in consolidated funds net gains (losses) of $10.1 million was primarily attributable to the performance of RTS Global 3X Fund LP, which was consolidated by the Company in the first quarter of 2010 and a decrease in net losses from derivative activities in the Enterprise Fund. This was partially offset by the decrease in the performance of certain of Ramius consolidated multi-strategy funds and the Enterprise Fund due to the closing and ongoing wind down of these funds in 2010. The gains and losses shown under Consolidated Funds reflect the consolidated total performance for such funds, and the portion of those gains or losses that are attributable to other investors is allocated to a non-controlling interest.

Income Taxes

Income tax benefit increased $13.2 million to $21.4 million for the year ended December 31, 2010 from $8.2 million in 2009. The Company's tax benefit increased primarily due to a $16.2 million increase in deferred tax benefits recorded pursuant to an Advance Tax Agreement upon the acquisition, by a consolidated subsidiary of the Company as part of a reinsurance service program, of Luxembourg reinsurance companies that carry deferred tax liabilities; partially offset by the recognition in 2009 of a $2.0 million benefit related to net operating loss carryback claims and $0.6 million of higher foreign taxes recorded by the Company's foreign subsidiaries resulting from increased pre-tax income, during 2010.

Income (Loss) Attributable to Redeemable Non-controlling Interests

Income (loss) attributable to redeemable non-controlling interests decreased by $2.5 million to $13.7 million for the year ended December 31, 2010 compared with $16.2 million in 2009. The period over period change was the result of an decrease in performance in the Consolidated Funds, primarily driven by Enterprise Master which has been in the process of closing and other consolidated multi strategy funds in wind down during 2010.

Segment Analysis and Economic Income (Loss)

Segments

Prior to the consummation of the Transactions, the Company conducted its operations through one reportable segment, the alternative investment management segment, which provides management services to its hedge funds, fund of funds, real estate and other investment platforms. Following the combination of Ramius and Cowen Holdings in 2009, the Company has conducted its operations through two segments: an alternative investment management segment and a broker-dealer segment. The Company's alternative investment management segment currently includes its hedge funds, replication products, managed futures funds, fund of funds, real estate, cash management services, and mortgage advisory services and other investment platforms businesses, as well as CHRP, which was a legacy Cowen Group operating business prior to the Transactions. The Company's broker-dealer segment currently includes its investment banking, brokerage and equity research businesses. The consolidated financial results of the Company for the year ended December 31, 2011 excludes LaBranche's operating results related to its ETF market-making business from the date of acquisition since these results are determined to be discontinued operations and excluded from economic income.

Economic Income (Loss)

The performance measure used by the Company for each segment is Economic Income (Loss), which management uses to evaluate the financial performance of and make operating decisions for the firm as a whole and each segment. Accordingly, management assesses its business by analyzing the performance of each segment and believes that investors should review the same performance measure that it uses to analyze its segment and business performance. In addition, management believes that Economic Income (Loss) is helpful to gain an understanding of its segment results of operations because it reflects such results on a consistent basis for all periods presented.

Our Economic Income (Loss) may not be comparable to similarly titled measures used by other companies. We use Economic Income (Loss) as a measure of each segment's operating performance, not as a measure of liquidity. Economic Income (Loss) should not be considered in isolation or as a substitute for operating income, net income, operating cash flows, investing and financing activities, or other income or cash flow statement data prepared in accordance with US GAAP. As a

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result of the adjustments made to arrive at Economic Income (Loss), Economic Income (Loss) has limitations in that it does not take into account certain items included or excluded under US GAAP, including our Consolidated Funds. Economic Income (Loss) is considered by management as a supplemental measure to the US GAAP results to provide a more complete understanding of each segment's performance as measured by management. For a reconciliation of Economic Income (Loss) to US GAAP net income (loss) for the periods presented and additional information regarding the reconciling adjustments discussed above, see Note 23 to the Company's consolidated financial statements included in this 10-K.

In general, Economic Income (Loss) is a pre-tax measure that (i) eliminates the impact of consolidation for consolidated funds, (ii) excludes equity award expense related to the November 2009 Ramius/Cowen transaction, (iii) excludes certain other acquisition-related and/or reorganization expenses (including the discontinued operations of LaBranche), (iv) excludes goodwill impairment, and (v) excludes the bargain purchase gain which resulted from the LaBranche acquisition. In addition, Economic Income (Loss) revenues include investment income that represents the income the Company has earned in investing its own capital, including realized and unrealized gains and losses, interest and dividends, net of associated investment related expenses. For US GAAP purposes, these items are included in each of their respective line items. Economic Income revenues also include management fees, incentive income and investment income earned through the Company's investment as a general partner in certain real estate entities. For US GAAP purposes, all of these items are recorded in other income (loss). In addition, Economic Income (Loss) expenses are reduced by reimbursement from affiliates, which for US GAAP purposes is presented gross as part of revenue.

Economic Income Revenues

The Company's principal sources of Economic Income revenues are derived from activities in the following business segments:

Our alternative investment management segment generates Economic Income revenues through three principal sources: management fees, incentive income and investment income from our own capital. Management fees are directly impacted by any increase or decrease in assets under management, while incentive income is impacted by our funds' performance and any increase or decrease in assets under management. Investment income from the Company's own capital is impacted by the performance of the funds and other securities in which our capital is invested. The Company periodically receives other Economic Income revenue which is unrelated to our own invested capital or our activities on behalf of the Company's funds.

Our broker-dealer segment generates Economic Income revenues through two principal sources: investment banking and brokerage. The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small and mid-capitalization companies within the Company's target sectors of healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy. The Company's brokerage revenues consist of commissions, principal transactions and fees paid for equity research. Management reviews brokerage revenue on a combined basis as the vast majority of the revenue is derived from the same group of clients. The Company derives its brokerage revenue primarily from trading equity and equity-linked securities on behalf of institutional investors. The majority of the Company's trading gains and losses are a result of activities that support the facilitation of client orders in both listed and over-the-counter securities, although all trading gains and losses are recorded in brokerage in the consolidated statement of operations.

Economic Income Expenses

The Company's Economic Income expenses consist of compensation and benefits, non-compensation expenses—fixed and non-compensation expenses—variable, less reimbursement from affiliates.

Non-controlling Interests

Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities. The non-wholly-owned entity included is Cowen Healthcare Royalty Management, LLC.

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Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

For the years ended December 31, 2011 and 2010, the Company's alternative investment management segment includes hedge funds, replication products, mutual funds, managed futures fund, fund of funds, real estate, healthcare royalty funds, cash management and mortgage advisory services, CHRP's operating results and other investment platforms operating results.

For the years ended December 31, 2011 and 2010, the Company's broker-dealer segment includes investment banking, research and brokerage businesses' operating results.

	Year ended December 31, 2011			2010			Total Period-to-Period	
	Alternative Investment Management	Broker-Dealer	Total 2011	Alternative Investment Management	Broker-Dealer	Total 2010	$ Change	% Change
	(dollars in thousands)							
Economic Income Revenues								
Investment banking	$—	$ 50,976	$50,976	$—	$ 38,965	$38,965	$12,011	31 %
Brokerage	—	99,611	99,611	—	112,217	112,217	(12,606)	(11)%
Management fees	67,309	—	67,309	51,440	—	51,440	15,869	31 %
Incentive income (loss)	10,366	—	10,366	9,615	—	9,615	751	8 %
Investment income (loss)	39,149	2,198	41,347	59,638	(221)	59,417	(18,070)	(30)%
Other revenues	622	(7)	615	932	7	939	(324)	(35)%
Total economic income revenues	117,446	152,778	270,224	121,625	150,968	272,593	(2,369)	(1)%
Economic Income Expenses								
Compensation and benefits	50,838	143,970	194,808	58,831	127,062	185,893	8,915	5 %
Non-compensation expenses—Fixed	34,138	69,778	103,916	29,228	64,255	93,483	10,433	11 %
Non-compensation expenses—Variable	17,085	24,412	41,497	7,338	27,022	34,360	7,137	21 %
Reimbursement from affiliates	(4,602)	—	(4,602)	(7,315)	—	(7,315)	2,713	(37)%
Total economic income expenses	97,459	238,160	335,619	88,082	218,339	306,421	29,198	10 %
Net economic income (loss) (before non-controlling interest)	19,987	(85,382)	(65,395)	33,543	(67,371)	(33,828)	(31,567)	93 %
Non-controlling interest	(6,042)	—	(6,042)	(1,759)	—	(1,759)	(4,283)	243 %
Economic income (loss)	$13,945	$ (85,382)	$(71,437)	$31,784	$ (67,371)	$(35,587)	$(35,850)	101 %

Economic Income Revenues

Total economic income revenues were $270.2 million for the year ended December 31, 2011, a decrease of $2.4 million compared to economic income revenues of $272.6 million for the year ended December 31, 2010. For purposes of the following section all references to revenue refer to economic income revenues.

Alternative Investment Management Segment

Alternative investment management segment economic income revenues was $117.4 million for the year ended December 31, 2011, a decrease of $4.2 million compared to economic income revenues of $121.6 million for the year ended December 31, 2010.

Management Fees. Management fees for the segment increased $15.9 million to $67.3 million for the year ended December 31, 2011 compared with $51.4 million for 2010. The increase was a result of:

- an increase in management fees for our Healthcare Royalty funds as a result of an increase in committed capital;
- an increase in management fees associated with our Global Credit fund and other credit managed accounts of approximately $1.8 million; and
- an increase in management fees for both our real estate funds and our Ramius Trading Strategies funds, including the launching of our Ramius Trading Strategies Managed Futures Fund, a mutual fund launched in September 2011, of $1.6 million and $1 million, respectively.

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These increases were partially offset by a decrease in fees of $4.9 million as a result of lower assets under management from returning assets to investors in 2011, as a result of closing the Ramius Multi-Strategy Fund and the Enterprise Fund, and the return of assets to, and no longer charging management fees from certain affiliates of UniCredit S.p.A effective July 1, 2010, pursuant to the terms of the Modification Agreement.

Incentive Income (Loss). Incentive income for the segment increased $0.8 million to $10.4 million for the year ended December 31, 2011 compared to an income of $9.6 million for 2010. The increase in 2011 was primarily the result of a reversal of $6.2 million of previously accrued expenses related to subordination agreements entered into by the general partners of two real estate funds with those funds' lead investor. The increase was partially offset by:

- $4.2 million decrease in performance fees from funds in our alternative solutions business;
- $2.7 million decrease in fees as a result of a spin off of our Value and Opportunity business in the second quarter of 2011; and
- $0.8 million decrease in performance fees in the Global Credit fund.

Investment Income. Investment income for the segment decreased $20.5 million to $39.1 million for the year ended December 31, 2011, compared to income of $59.6 million for 2010. The decrease was primarily the result of a decrease in performance for the firm's invested capital as a result of generally overall poor credit and equity markets and decreased performance of real estate investments. This was offset by the increase in the recognition of deferred tax benefits of $3.5 million for 2011 as compared to 2010, pursuant to the acquisition of a Luxembourg reinsurance company, which is reflected in Investment income in our economic income.

Other Revenues. Other revenues for the segment decreased $0.3 million to $0.6 million for the year ended December 31, 2011, compared to $0.9 million for 2010.

Broker-Dealer Segment

Broker-dealer segment economic income revenues were $152.8 million for the year ended December 31, 2011, an increase of $1.8 million compared with economic income revenues of $151.0 million for the year ended December 31, 2010.

Investment Banking. Investment banking revenues increased $12.0 million to $51.0 million for the year ended December 31, 2011 compared with $39.0 million for 2010. During the year ended December 31, 2011, the Company completed 29 underwriting transactions, 8 private capital raising transactions, 3 debt capital market transactions and 8 strategic advisory transactions. During the year ended December 31, 2010, the Company completed 31 underwriting transactions, 6 private capital raising transactions and 12 strategic advisory transactions. During 2011, a higher proportion of our deals were lead managed which resulted in higher fees earned per transaction.

Brokerage. Brokerage revenues decreased $12.6 million to $99.6 million for the year ended December 31, 2011, compared with $112.2 million for 2010. The decrease was primarily attributable to lower commission revenues due to a reduction in customer trading volumes. Customer trading volumes across the industry decreased 11% in 2011 compared to 2010.

Economic Income Expenses

Compensation and Benefits. Total compensation and benefits expense increased $8.9 million to $194.8 million for the year ended December 31, 2011, compared with $185.9 million in 2010. The increase was primarily attributable to additional stock compensation expense, severance associated with the Company’s expense reduction activities in the broker-dealer business and investments in new professionals in our investment banking, capital markets and sales and trading businesses. The compensation to revenue ratio was 72% for the twelve months ended December 31, 2011, compared to 68% for the prior year period. The increase in the compensation to revenue ratio resulted from a 5% increase in total compensation combined with a 1% decline in revenue compared to the prior year end. Average headcount for 2011 increased by 2% from the prior year.

Compensation and benefits expenses for the alternative investment management segment decreased $8.0 million to $50.8 million for the year ended December 31, 2011 compared with $58.8 million in 2010. The decrease is supported by a decrease in variable compensation due to lower alternative investment management revenues in accordance with the compensation to revenue ratio. The compensation to revenue ratio was 43% for the twelve months ended 2011 compared to 48% for the prior year period.

Compensation and benefits expenses for the broker-dealer segment increased $16.9 million to $144.0 million for the year ended December 31, 2011 compared with $127.1 million in 2010. The increase is attributable to severance associated with the Company's expense reduction activities in the broker-dealer business and increased headcount related to investments in new professionals. The compensation to revenue ratio was 94% for the twelve months ended 2011 compared to 84% for the prior

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year period.
Non-compensation Expenses—Fixed. Fixed non-compensation expenses increased $10.4 million to $103.9 million for the year ended December 31, 2011 compared to $93.5 million in 2010. The increase was primarily due to:
•higher employment agency fee expenses;
•an increase in expenses related to our data center services as we transitioned to a new provider;
•increased usage of market data services; and
•a credit to occupancy and equipment expense in 2010 related to a reversal of a previously recorded unfavorable lease liability at 1221 Avenue of Americas of $5.3 million partially offset by $2.2 million of depreciation and amortization related to the write-off of certain fixed assets at that location.
Fixed non-compensation expenses for the alternative investment management segment increased $4.9 million to $34.1 million for the year ended December 31, 2011 compared with $29.2 million in 2010. Fixed non-compensation expenses for the broker-dealer segment increased $5.5 million to $69.8 million for the year ended December 31, 2011 compared with $64.3 million in 2010.
The following table shows the components of the non-compensation expenses—fixed, for the year ended December 31, 2011 and 2010:

	Year ended December 31,		Period-to-Period	
	2011	2010	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—fixed:				
Interest expense	$735	$1,026	$(291)	(28)%
Professional, advisory and other fees	14,707	13,366	1,341	10%
Occupancy and equipment	21,660	18,167	3,493	19%
Depreciation and amortization	8,740	11,432	(2,692)	(24)%
Service fees	15,619	15,813	(194)	(1)%
Other	42,455	33,679	8,776	26%
Total	$103,916	$93,483	$10,433	11%

Non-compensation Expenses—Variable. Variable non-compensation expenses, which primarily are comprised of expenses which are incurred as a direct result of the processing and soliciting of revenue generating activities, increased $7.1 million to $41.5 million for the year ended December 31, 2011 compared to $34.4 million in 2010. The increase was due to professional fees incurred in connection with the closing of and potential future acquisitions of Luxembourg reinsurance companies, syndication costs related to a capital raise by an alternative investment asset fund, and increased conference related expenses, offset by a reduction in our floor brokerage and clearing costs due to lower volumes.
The following table shows the components of the non-compensation expenses—variable, for the year ended December 31, 2011 and 2010:

	Year ended December 31,		Period-to-Period	
	2011	2010	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—Variable:				
Floor brokerage and trade execution	$11,818	$15,280	$(3,462)	(23)%
CHRP Syndication Costs	5,644	666	4,978	747%
Expenses related to Luxembourg reinsurance companies	8,789	4,279	4,510	105%
Marketing and business development	15,246	14,135	1,111	8%
Total	$41,497	$34,360	$7,137	21%

Reimbursement from Affiliates. Reimbursements from affiliates, which relate to the alternative investment management segment, decreased $2.7 million to $4.6 million for the year ended December 31, 2011 compared with

$7.3 million in 2010. The decrease was mainly attributable to a decrease in AUM associated with the funds for which the Company receives the majority of its reimbursements.

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Non-Controlling Interest. Non-Controlling interest represents the portion of the net income or loss attributable to certain non-wholly owned subsidiaries that is allocated to other investors.

Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

For the year ended December 31, 2010, the Company's alternative investment management segment includes twelve months of its hedge funds, replication products, mutual funds, managed futures fund, fund of funds, real estate funds, healthcare royalty funds, cash management and mortgage advisory services and other investment platforms operating results. In addition, the alternative investment management segment includes twelve months of CHRP's operating results for the year ended December 31, 2010, as a result of the Transactions. For the year ended December 31, 2009, the Company's alternative investment management segment includes twelve months of its hedge funds, fund of funds, real estate and other investment platforms operating results. In addition, the alternative investment management segment includes two months of CHRP's operating results in 2009, as a result of the Transactions.

For the year ended December 31, 2010, the Company's broker-dealer segment includes twelve months of its investment banking, research and brokerage businesses' operating results. For the year ended December 31, 2009, the Company's broker-dealer segment includes two months of its investment banking and brokerage businesses' operating results as the historic results of operations reflect the legacy Ramius business only.

	Year ended December 31,							
	2010			2009			Total Period-to-Period	
	Alternative Investment Management	Broker-Dealer	Total 2010	Alternative Investment Management	Broker-Dealer	Total 2009	$ Change	% Change
	(dollars in thousands)							
Economic Income Revenues								
Investment banking	$—	$ 38,965	$38,965	$—	$ 10,557	$10,557	$28,408	269 %
Brokerage	—	112,217	112,217	—	17,812	17,812	94,405	530 %
Management fees	51,440	—	51,440	53,940	—	53,940	(2,500)	(5)%
Incentive income (loss)	9,615	—	9,615	(6,996)	—	(6,996)	16,611	(237)%
Investment income (loss)	59,638	(221)	59,417	21,958	—	21,958	37,459	171 %
Other revenues	932	7	939	3,536	—	3,536	(2,597)	(73)%
Total economic income revenues	121,625	150,968	272,593	72,438	28,369	100,807	171,786	170 %
Economic Income Expenses								
Compensation and benefits	58,831	127,062	185,893	63,207	30,032	93,239	92,654	99 %
Non-compensation expenses—Fixed	29,228	64,255	93,483	41,889	10,946	52,835	40,648	77 %
Non-compensation expenses—Variable	7,338	27,022	34,360	3,467	3,674	7,141	27,219	381 %
Reimbursement from affiliates	(7,315)	—	(7,315)	(11,044)	—	(11,044)	3,729	(34)%
Total economic income expenses	88,082	218,339	306,421	97,519	44,652	142,171	164,250	116 %
Net economic income (loss) (before non-controlling interest)	33,543	(67,371)	(33,828)	(25,081)	(16,283)	(41,364)	7,536	(18)%

Non-controlling interest	(1,759)	—	(1,759)	(602)	—	(602)	(1,157)	192 %
Economic income (loss)	$31,784	$ (67,371)	$(35,587)	$(25,683)	$ (16,283)	$(41,966)	$6,379	(15)%

Economic Income Revenues

Total economic income revenues were $272.6 million for the year ended December 31, 2010, an increase of $171.8 million compared to economic income revenues of $100.8 million for the year ended December 31, 2009. For purposes of the following section all references to revenue refers to economic income revenues.

Alternative Investment Management Segment

Alternative investment management segment economic income revenues was $121.6 million for the year ended December 31, 2010, an increase of $49.2 million compared to economic income revenues of $72.4 million for the year ended December 31, 2009.

Management Fees. Management fees for the segment decreased $2.5 million to $51.4 million for the year ended December 31, 2010 compared with $53.9 million for 2009. The decrease was a result of returning assets to investors in 2010, as

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a result of closing the Ramius Multi-Strategy Fund and the Enterprise Fund, and the return of assets to, and no longer charging management fees, to certain affiliates of UniCredit S.p.A effective July 1, 2010, pursuant to the terms of the Modification Agreement. This was partially offset by increases in assets under management in our single-strategy funds.

Incentive Income (Loss). Incentive income (loss) for the segment increased $16.6 million to $9.6 million for the year ended December 31, 2010 compared to a loss of $7.0 million for 2009. The loss in the prior year was primarily due to a reversal of previously recorded incentive income allocations from Ramius's interests in the general partner of a certain real estate fund pursuant to the terms of the governing documents of such funds. The incentive income in 2010 is primarily a result of:

- the performance fees related to the Value and Opportunity fund surpassing its high-water marks;
- two fund of funds managed accounts that have also surpassed their high-water marks and hurdles during the year; and
- the performance of the Global Credit fund.

Investment Income. Investment income for the segment increased $37.6 million to $59.6 million for the year ended December 31, 2010, compared to income of $22.0 million for 2009. The increase is a result of revenue generated from the Luxembourg reinsurance service program and a general increase in performance in the Company's invested capital.

Other Revenues. Other revenues for the segment decreased $2.5 million to $1.0 million for the year ended December 31, 2010, compared to $3.5 million for 2009.

Broker-Dealer Segment

Broker-dealer segment economic income revenues were $151.0 million for the year ended December 31, 2010, an increase of $122.6 million compared to economic income revenues of $28.4 million for the year ended December 31, 2009. The increase was primarily attributable to the inclusion of only two months of the legacy Cowen Holdings brokerage revenues as compared to twelve months during 2010.

Investment Banking. Investment banking revenues increased $28.4 million to $39.0 million for the year ended December 31, 2010 compared with $10.6 million for 2009. The 2009 represents the investment banking activity of Cowen and Company for the period from November 2, 2009 through December 31, 2009. During the year ended December 31, 2010, the Company completed thirty one underwriting transactions, six private capital raising transactions and twelve strategic advisory transactions. During November and December of 2009, the Company completed five underwriting transactions, two private capital raising transactions and three strategic advisory transactions.

Brokerage. Brokerage revenues increased $94.4 million to $112.2 million for the year ended December 31, 2010 compared with $17.8 million for 2009. The increase was primarily attributable to the inclusion of only two months of the legacy Cowen Holdings brokerage revenues as compared to twelve months during 2010.

Economic Income Expenses

Compensation and Benefits. Total compensation and benefits expense increased $92.7 million to $185.9 million for the year ended December 31, 2010, compared with $93.2 million in 2009. The increase was primarily attributable to the inclusion of only two months of legacy Cowen Holdings compensation and benefits expense during 2009.

Compensation and benefits expenses for the alternative investment management segment decreased $4.4 million to $58.8 million for the year ended December 31, 2010 compared with $63.2 million in 2009. The decrease was driven by lower accruals for incentive compensation and lower base salaries and benefit expense associated with a reduction in head count.

Compensation and benefits expenses for the broker-dealer segment increased $97.1 million to $127.1 million for the year ended December 31, 2010 compared with $30.0 million in 2009. The increase was primarily attributable to the inclusion of only two months of the legacy Cowen Holdings compensation and benefits expense during 2009 as compared to twelve months during 2010.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses increased $40.7 million to $93.5 million for the year ended December 31, 2010 compared to $52.8 million in 2009. The increase was primarily due to the inclusion of two months of fixed non-compensation expenses associated with the legacy Cowen Holdings business

during 2009, partially offset by a decrease in non-compensation expense from the alternative investment management business.

Fixed non-compensation expenses for the alternative investment management segment decreased $12.7 million to $29.2 million for the year ended December 31, 2010 compared with $41.9 million in 2009. Fixed non-compensation expenses for the broker-dealer segment increased $53.4 million to $64.3 million for the year ended December 31, 2010 compared with

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$10.9 million in 2009.

The following table shows the components of the non-compensation expenses—fixed, for the year ended December 31, 2010 and 2009:

	Year ended December 31,		Period-to-Period	
	2010	2009	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—fixed:				
Interest expense	$1,026	$1,549	$(523)	(34)%
Professional, advisory and other fees	13,366	12,249	1,117	9%
Occupancy and equipment	18,167	13,969	4,198	30%
Depreciation and amortization	11,432	5,751	5,681	99%
Service fees	15,813	4,453	11,360	255%
Other	33,679	14,864	18,815	127%
Total	$93,483	$52,835	$40,648	77%

Non-compensation Expenses—Variable. Variable non-compensation expenses, which primarily are comprised of expenses which are incurred as a direct result of the processing and soliciting of revenue generating activities, increased $27.2 million to $34.4 million for the year ended December 31, 2010 compared to $7.1 million in 2009. The increase was due to the inclusion of two months of variable non-compensation expenses associated with the legacy Cowen and Company business during 2009 related to Cowen and Company's investment banking and broker dealer businesses as compared to twelve months during 2010. During the fourth quarter of 2010, variable expenses of $4.3 million were incurred related to Luxembourg reinsurance transactions, of which $3.3 million related to transaction related costs, and $1.0 million related to administrative costs.

The following table shows the components of the non-compensation expenses—variable, for the year ended December 31, 2010 and 2009:

	Year ended December 31,		Period-to-Period	
	2010	2009	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—Variable:				
Floor brokerage and trade execution	$15,280	$2,451	$12,829	523%
CHRP Syndication Costs	666	—	666	NM
Expenses related to Luxembourg reinsurance companies	4,279	—	4,279	NM
Marketing and business development	14,135	4,690	9,445	201%
Total	$34,360	$7,141	$27,219	381%

Reimbursement from Affiliates. Reimbursements from affiliates, which relate to the alternative investment management segment, decreased $3.7 million to $7.3 million for the year ended December 31, 2010 compared with $11.0 million in 2009. The decrease was mainly attributable to a decrease in AUM associated with the funds for which the Company receives the majority of its reimbursements.

Non-Controlling Interest. Non-Controlling interest represents the portion of the net income or loss attributable to certain non-wholly owned subsidiaries that is allocated to other investors.

Liquidity and Capital Resources

We continually monitor our liquidity position. The working capital needs of the Company's business have been met through current levels of equity capital, current cash and cash equivalents, and anticipated cash generated from our operating activities, including management fees, incentive income, returns on the Company's own capital, investment banking fees and brokerage commissions. The Company expects that its primary working capital liquidity needs over the next twelve months will be:

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- pay our operating expenses, primarily consisting of compensation and benefits and general and administrative expenses; and
- provide capital to facilitate the growth of our existing business.

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Based on our historical results, management's experience, our current business strategy and current assets under management, the Company believes that its existing cash resources will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. Our cash reserves include cash, cash equivalents and assets readily convertible into cash such as our securities held in inventory. Securities inventories are stated at fair value and are generally readily marketable. As of December 31, 2011, we had cash and cash equivalents of $126.9 million, which includes $24.4 million held in foreign subsidiaries, and net liquid investment assets of $218.9 million.

The timing of cash bonus payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees are generally paid salaries semi-monthly during the year, cash bonus payments, which can make up a significant portion of total compensation, are generally paid once a year in February.

As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations-Certain Factors Impacting Our Business" we entered into a modification agreement with affiliates of Unicredit S.p.A in May 2010 and it is not expected to have a material impact on the Company's liquidity and capital resources.

As of December 31, 2011, the Company had unfunded commitments of $6.4 million pertaining to capital commitments in three real estate investments held by the Company, all of which pertain to related party investments. Such commitments can be called at any time, subject to advance notice. The Company also has committed to invest $42.2 million in the funds managed by Cowen Healthcare Royalty Partners (the "CHRP Funds") as a limited partner of the CHRP Funds and also as a member of CHRP GP, the general partner of the CHRP Funds. This commitment is expected to be called over a two to five year period. The Company will make its pro-rata investment in the CHRP Funds along with the other limited partners. Through December 31, 2011, the Company has funded $23.9 million towards these commitments. In April 2011, the Company committed $15.0 million to Starboard Value and Opportunity Fund LP, which may increase or decrease over time with the performance of Starboard Value and Opportunity Fund LP. As of December 31, 2011, the Company's unfunded commitment to Starboard Value and Opportunity Fund LP is $2.9 million.

Due to the nature of the securities business and our role as a market-maker and execution agent, the amount of our cash and short-term investments, as well as operating cash flow, may vary considerably due to a number of factors, including the dollar value of our positions as principal, whether we are net buyers or sellers of securities, the dollar volume of executions by our customers and clearing house requirements, among others. Certain regulatory requirements constrain the use of a portion of our liquid assets for financing, investing or operating activities. Similarly, due to the nature of our business lines, the capital necessary to maintain current operations and our current funding needs subject our cash and cash equivalents to different requirements and uses.

As registered broker dealers, Cowen and Company and Cowen Capital LLC (formerly known as LaBranche Capital, LLC) are subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital. Under the alternative method permitted by the Rule, Cowen and Company's minimum net capital requirement, as defined, is $1.0 million. Cowen Capital LLC is required to maintain minimum net capital, as defined, at an equivalent to the greater of $1.0 million or 2% of aggregate indebtedness, as defined. The broker-dealers are not permitted to withdraw equity if certain minimum net capital requirements are not met. As of December 31, 2011, Cowen and Company had total net capital of approximately $64.9 million, which was approximately $63.9 million in excess of its minimum net capital requirement of $1 million. As of December 31, 2011, Cowen Capital, LLC had total net capital of approximately $11.9 million, which exceeded minimum requirements by $10.9 million. Cowen and Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 as their activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

Proprietary accounts of introducing brokers ("PAIB") held at the clearing broker are considered allowable assets for net capital purposes, pursuant to agreements between Cowen and Company and the clearing broker, which require, among other things, that the clearing broker performs computations for PAIB and segregates certain balances on behalf of Cowen and Company, if applicable.

Ramius UK Ltd. ("Ramius UK") and Cowen International Limited ("CIL") are subject to the capital requirements of the Financial Services Authority ("FSA") of the UK. Financial Resources, as defined, must exceed the total Financial

Resources requirement of the FSA. As of December 31, 2011, Ramius UK's Financial Resources of $0.6 million exceeded its minimum requirement of $0.5 million by $0.1 million. As of December 31, 2011, CIL's Financial Resources of $5.4 million exceeded its minimum requirement of $2.3 million by $3.1 million.

Cowen and Company (Asia) Limited ("CCAL") (formerly known as Cowen Latitude Advisors Limited) is subject to the financial resources requirements of the Securities and Futures Commission ("SFC") of Hong Kong. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the SFC. As of December 31, 2011, CCAL's Financial

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Resources of $1.4 million exceeded the minimum requirement of $0.4 million by $1.0 million.

As a registered broker dealer in the United Kingdom, CITL (formerly known as LaBranche Structured Products Europe Limited) is subject to the capital adequacy and capital resources as managed and monitored in accordance with the regulatory capital requirements of the FSA in the United Kingdom. In calculating regulatory capital, CITL's capital consists wholly of Tier 1 capital. Tier 1 capital is the core measure of a company's financial strength from a regulator's point of view. It consists of the type of financial capital considered the most reliable and liquid, primarily Shareholder's Equity. As of December 31, 2011, Tier 1 capital, as defined, was $32.8 million which exceeded the total variable capital requirement by $27.8 million.

As a registered corporation under the Hong Kong Securities and Futures Ordinance, CSPH (formerly known as LaBranche Structured Products Hong Kong Limited) is subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules (“FRR”). The minimum paid-up share capital requirement is HKD 5,000,000 ($0.6 million as of December 31, 2011) and the minimum liquid capital requirement is the higher of HKD 3,000,000 ($0.4 million as of December 31, 2011) and the variable required liquid capital as defined in the FRR. The Company monitors its compliance with the requirements of the FRR on a daily basis. As of December 31, 2011, CSPH's liquid capital, as defined, was $2.2 million, which exceeded its minimum requirements by $1.8 million.

The Company may also incur additional indebtedness or raise additional capital under certain circumstances to respond to market opportunities and challenges. Current market conditions may make it more difficult or costly to borrow additional funds or raise additional capital.

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase (“Repurchase Agreements”) as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of December 31, 2011, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government-issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with multiple counterparties as of December 31, 2011 and December 31, 2010.

There were no material differences between the average and period-end balances of the Company's Repurchase Agreements. The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of December 31, 2011 and December 31, 2010:

	As of December 31, 2011 (dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Barclays Capital Inc bearing interest of (0.38%) - 0.25% due on January 3, 2012	$166,260
Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 1.53% - 1.58% due on January 3, 2012 to June 25, 2012	49,450
Agreements with Barclays Capital Inc bearing interest of 0.03% - 0.08% due on January 3, 2012	179,333
	$228,783

	As of December 31, 2010 (dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Barclays Capital Inc bearing interest of 0.07% - 0.14% due on January 3, 2011	$97,755
Securities sold under agreements to repurchase	
	48,532

Agreements with Royal Bank of Canada bearing interest of 1.42% due on February 22, 2011 to September 1, 2011	
Agreements with Barclays Capital Inc bearing interest of 0.18% - 1.50% due on January 7, 2011 to June 6, 2011	143,633
	$192,165

For all of the Company's holdings of Repurchase Agreements as of December 31, 2011, the repurchase dates are open and the agreement can be terminated by either party at any time. The agreements continue on a day-to-day basis.
Cash Flows Analysis
The Company's primary sources of cash are derived from its operating activities, fees and realized returns on its own invested capital. The Company's primary uses of cash include compensation, general and administrative expenses and

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payments of interest and principal under the former line of credit. Cash flow results during the year ended December 31, 2009 only include the cash flows of the legacy Cowen Holdings business for two months. As a result, the cash flow amounts from operating, investing and financing activities for the year ended December 31, 2011, 2010, and 2009 are not comparable.

Operating Activities. Net cash provided by operating activities of $232.9 million for the year ended December 31, 2011 was predominately related to an increase in amounts receivable from brokers, cash acquired upon the acquisition of Labranche and proceeds from sales of other investments and securities owned related to proprietary capital, partially offset by cash used to pay for year end bonuses and a net loss for the year. Net cash used in operating activities of $51.6 million for the year ended December 31, 2010 was predominately related to cash payments for purchases of securities related the Company's invested capital and Consolidated Funds offset partially by proceeds from sales of securities owned by the Company and the Consolidated Funds. Net cash provided by operating activities of $110.3 million for the year ended December 31, 2009 was predominately related to cash acquired upon the completion of the Transactions, proceeds from sales of securities and sales of other investments, partially offset by a net cash loss and purchases of securities owned.

Investing Activities. Net cash used in investing activities of $85.0 million for the year ended December 31, 2011 was primarily from the purchase of other investments related to the Company's invested capital and increased reverse repurchase agreement activity. Net cash used in investing activities of $109.5 million for the year ended December 31, 2010 was primarily from the purchase of other investments related to the Company's invested capital and increased reverse repurchase agreement activity. Net cash provided by investing activities of $8.8 million for the year ended December 31, 2009 was primarily due to the proceeds from sale of other investments.

Financing Activities. Net cash used in financing activities for the year ended December 31, 2011 was $57.3 million primarily related to increased repurchase activity, repayments on short term borrowings and other debt and payments by the Consolidated Funds to investors for capital withdrawals. Net cash provided by financing activities for the year ended December 31, 2010 was $50 million primarily related to increased repurchase agreement activity partially offset by a repayment on the line of credit and payments by the Consolidated Funds for capital withdrawals. For the year ended December 31, 2009 net cash used in financing activities was $18.5 million, the financing activities provided net cash of $80.6 million due to proceeds from a capital raising event in December 2009 which was partially offset by capital withdrawals of $23.9 million, which were mostly redeemed prior to the Transactions, $10.4 million used to purchase the 50% interest in Ramius Alternative Solutions, and payments by the Consolidated Funds to investors for capital withdrawals.

Short-Term Borrowings and other debt

On June 3, 2009, the Company entered into a collateralized revolving credit agreement with HVB AG, as lender, administrative agent and issuing bank, providing for a revolving credit facility with a $50.0 million aggregate loan commitment amount available. The first borrowing under this line occurred on June 30, 2009. As of December 31, 2011 and December 31, 2010, the Company had borrowings of nil and $24 million, respectively. At the Company's election and discretion, borrowings under the 2009 collateralized revolving credit agreement bore interest per annum (based on a 360 day year) equal to either: (1) the lender's prime rate plus 1.5% or (2) the 1, 2 or 3 month LIBOR rate plus 3.5%. Due to the variable interest rate on these borrowings, their carrying values approximate fair value. The Company was required to pay a quarterly commitment fee on the undrawn portion of the revolving credit facility equal to 1.0% per annum of the undrawn amount. The 2009 collateralized revolving credit agreement was to mature on September 29, 2011. However, during 2011, the Company agreed to repay in full its obligations pursuant to the credit agreement and HVB AG agreed to terminate the credit agreement. On June 27, 2011, the Company fully repaid the then borrowing amount outstanding of $23 million and the credit agreement was terminated as of that date. The 2009 collateralized revolving credit agreement contained financial and other restrictive covenants that limited the Company's ability to incur additional debt and engage in other activities. During the period from June 3, 2009 through June 27, 2011 the Company was in compliance with these covenants. The Company's investment in Enterprise Master through the Enterprise Fund had been pledged as collateral under the line of credit. Upon termination of the credit agreement on June 27, 2011, the Company's collateral pledge to HVB AG was released and the Company is no longer subject to the restrictive covenants contained in the credit agreement.

The Company had replaced the HVB AG letter of credit with a new letter of credit by another financial institution which expired December 12, 2011.

On January 4, 2010, in accordance with the terms of the collateralized revolving credit agreement, the Company remitted $25 million to HVB AG, reducing its revolving line of credit balance.

Interest incurred on the Company's lines of credit (in combination with all previous lines of credit) for the years ended December 31, 2011, 2010 and 2009 was $0.4 million, $1 million and $1.5 million, respectively.

In November 2010, the Company borrowed $0.6 million and $1.5 million to fund insurance premium payments. As of

December 31, 2011, these notes payable were paid in full. The interest rate on these notes were 5.05% and 4.95%, respectively. Interest expense for the year ended December 31, 2011 and 2010 was not significant. In addition, during the fourth quarter of 2010, the Company incurred $4.1 million of financing costs relating to short term borrowings from affiliated funds to finance the acquisition of one of the Luxembourg reinsurance captives.
The Company entered into several capital leases for computer equipment during the fourth quarter of 2010. These leases amount to $6.3 million and are recorded in fixed assets and as capital lease obligations, which is included in short-term borrowings and other debt in the accompanying consolidated statements of financial condition, and have lease terms that range from 48 to 60 months and interest rates that range from 0.60% to 6.14%. As of December 31, 2011, the remaining balance on these capital leases was $5.3 million. Interest expense for the year ended December 31, 2011 was $0.2 million and for the year ended December 31, 2010, no payments had been made on these leases.
As of December 31, 2011, the Company has six irrevocable letters of credit, for which there is cash or bond collateral pledged, including (i) $50,000, which expires on July 12, 2012, supporting workers' compensation insurance with Safety National Casualty Corporation, (ii) $57,000, which expires on May 12, 2012, supporting Cowen Healthcare Royalty Management, LLC's Stamford office lease, (iii) $82,000, which expires on May 12, 2012, supporting the Company's San Francisco office, (iv) $1.2 million which expires on August 31, 2012, supporting the Company's lease of additional office space in New York, (v) $6.7 million, which expires December 12, 2012, supporting the lease of office space in New York which the Company pays a fee on the stated amount of the letter of credit at a rate equal to 0.5% and (vi) $0.9 million which expires May 25, 2017, supporting the lease of additional office space in New York. To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of December 31, 2011 and 2010, there were no amounts due related to these letters of credit.
Contractual Obligations
The following tables summarize the Company's contractual cash obligations as of December 31, 2011:

	Total	1-3 Years	4-5 Years	More Than 5 Years
	(dollars in thousands)			
Equipment Leases, Service Payments and Facility Leases				
Real Estate	$121,857	$47,005	$22,357	$52,495
Service Payments	32,067	28,842	3,225	—
Capital leases	5,729	4,484	1,245	—
Aircraft	3,666	3,666	—	—
Total	$163,319	$83,997	$26,827	$52,495
Debt				
Notes Payable	370	370	—	—
Total	$370	$370	$—	$—

(1) Future contributions to the Company's defined benefit plan beyond 2011 cannot reasonably be estimated and are excluded from the table above. The Company had funded all 2011 requirements before December 31, 2011.
Clawback obligations
For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of a real estate fund, due to changes in the unrealized value of the fund's remaining investments and where the fund's general partner has previously received Carried Interest distributions.
The actual clawback liability, however, does not become realized until the end of a fund's life. The life of the real estate fund's with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at the end of 2013. Further extensions of such terms may be implemented under certain circumstances.
As of December 31, 2011, the clawback obligations were $6.2 million (See Notes 25 and 19).
Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as of December 31, 2011. However, through indemnification provisions in our clearing agreement, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreement, we are required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying

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security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

Cowen and Company is a member of various securities exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. Cowen and Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, management believes that the potential for Cowen and Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the accompanying consolidated statements of financial condition for these arrangements.

Critical Accounting Policies and Estimates

Critical accounting policies are those that require the Company to make significant judgments, estimates or assumptions that affect amounts reported in its consolidated financial statements or the notes thereto. The Company bases its judgments, estimates and assumptions on current facts, historical experience and various other factors that the Company believes to be reasonable and prudent. Actual results may differ materially from these estimates.

The following is a summary of what the Company believes to be its most critical accounting policies and estimates.

Consolidation

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting operating entity ("VOE") or a variable interest entity ("VIE") under US GAAP.

Voting Operating Entities—VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders at risk have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entity that most significantly impact the entity's economic performance. VOEs are consolidated in accordance with US GAAP.

Under US GAAP, the usual condition for a controlling financial interest in a VOE is ownership of a majority voting interest. Accordingly, the Company consolidates VOEs in which it owns a majority of the entity's voting shares or units. US GAAP also provides that a general partner of a limited partnership (or a managing member, in the case of a limited liability company) is presumed to control the partnership, and thus should consolidate it, unless a simple majority of the limited partners has the right to remove the general partner without cause or to terminate the partnership. In accordance with these standards, the Company presently consolidates five funds deemed to be VOEs for which it acts as the general partner and investment manager.

As of December 31, 2011 and 2010 the Company consolidates the following funds (the “Consolidated Funds”): Ramius Enterprise LP (“Enterprise LP”), Ramius Multi Strategy FOF LP (“Multi Strat FOF”), Ramius Vintage Multi Strategy FOF LP (“Vintage FOF”), Ramius Levered Multi Strategy FOF LP (“Levered FOF”), and RTS Global 3X Fund LP (“RTS Global 3X”).

In addition, RCG Linkem II LLC, an investment company that was formed to make an investment in a wireless broadband communication provider in Italy, was consolidated when it first commenced operations during the second quarter of 2011. The Company determined that RCG Linkem II LLC is a VOE due to equity interests held by the managing member and its affiliate, and is consolidated due to control held by the managing member who is not subject to substantive removal rights.

Variable Interest Entities— VIEs are entities that lack one or more of the characteristics of a VOE. In accordance with US GAAP, an enterprise must consolidate all VIEs of which it is the primary beneficiary. Under the US GAAP consolidation model for VIEs, an enterprise that (1) has the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance, and (2) has an obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE, is considered to be the primary beneficiary of the VIE and thus is required to consolidate it.

However, the FASB has deferred the application of the revised consolidation model for VIEs that meet the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with investment companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the

entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset backed financing entity or an entity that was formerly considered a qualifying special purpose entity. The Company's involvement with its funds is such that all three of the above conditions are met. Where the VIEs have qualified for the deferral, the analysis is based on previous consolidation rules. These rules require

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an analysis to (a) determine whether an entity in which the Company holds a variable interest is a variable interest entity and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIEs expected residual returns, or both. If these conditions are met, the Company is considered to be the primary beneficiary of the VIE and thus is required to consolidate it. Under both guidelines, the Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion on a periodic basis.

The Company determines whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of December 31, 2011 and 2010, the Company does not consolidate any VIEs.

The Company has determined that it no longer exercises control over Cowen Healthcare Royalty GP, LLC (the "CHRP GP") as it no longer acts as managing member of this entity, and beginning with the first quarter of 2010, no longer consolidates this entity. The Company now accounts for its investment in the CHRP GP under the equity method of accounting.

Ramius Alternative Replication Fund Ltd (“Replication Ltd”) was consolidated as of April 1, 2010, when the Company first invested in the fund. This fund was deconsolidated on October 1, 2010 when the investment in the fund ceased providing the Company with a controlling interest and is included within Portfolio Funds, at fair value as of December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the Company holds a variable interest in Ramius Enterprise Master Fund Ltd (“Enterprise Master”), Ramius Multi Strategy Master FOF LP and Ramius Vintage Multi Strategy Master FOF LP (the “Unconsolidated Master Funds”) through three of its Consolidated Funds: Enterprise LP, Multi Strat FOF and Vintage FOF (the “Consolidated Feeder Funds”), respectively. Investment companies like the Consolidated Feeder Funds, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under US GAAP, are not subject to the consolidation provisions for their investments. Therefore, the Company has not consolidated the Unconsolidated Master Funds.

In the ordinary course of business, the Company also sponsors various other entities that it has determined to be VIEs. These VIEs are primarily funds and real estate entities for which the Company serves as the general partner, managing member and/or investment manager with decision-making rights.

The Company does not consolidate any of these funds or real estate entities that are VIEs as it has concluded that it is not the primary beneficiary in each instance. Fund investors are entitled to all of the economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company's involvement with funds and real estate entities that are unconsolidated VIEs is limited to providing investment management services in exchange for management fees and incentive income. Although the Company may advance amounts and pay certain expenses on behalf of the funds and real estate entities that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services.

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $259.2 million and $2 million as of December 31, 2011 and $383.3 million and $26.7 million as of December 31, 2010, respectively. In addition, the maximum exposure relating to these variable interest entities as of December 31, 2011 was $211 million, all of which is in other investments, at fair value and as of December 31, 2010 was $307.8 million, of which $307.2 million is included in other investments, at fair value and $0.6 million is included in due from related parties in the Company's consolidated statements of financial condition, respectively. The exposure to loss primarily relates to the Consolidated Feeder Funds' investment in their respective Unconsolidated Master Funds as of December 31, 2011 and December 31, 2010. See Note 6 for further information regarding the Company's investments.

Equity Method Investments— For operating entities over which the Company exercises significant influence but which do not meet the requirements for consolidation as outlined above, the Company uses the equity method of accounting.

The Company's investments in equity method investees are recorded in other investments in the consolidated statements of financial condition. The Company's share of earnings or losses from equity method investees is included in net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.
The Company evaluates for impairment its equity method investments whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other than temporary.

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Other—If the Company does not consolidate an entity, apply the equity method of accounting or account for an investment under the cost method, the Company accounts for all other debt and marketable equity securities which are bought and held principally for the purpose of selling them in the near term as trading securities in accordance with US GAAP, at fair value with unrealized gains (losses) resulting from changes in fair value reflected within net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.
Retention of Specialized Accounting—The Consolidated Funds are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these funds pursuant to US GAAP. The Consolidated Funds report their investments on the consolidated statements of financial condition at their estimated fair value, with unrealized gains (losses) resulting from changes in fair value reflected as a component of operations. Accordingly, the accompanying consolidated financial statements reflect different accounting policies for investments depending on whether or not they are held through a consolidated investment company. In addition, the Company's broker dealer subsidiaries, Cowen and Company, LLC ("Cowen and Company"), Cowen Capital LLC, Cowen International Trading Limited ("CITL"), Cowen and Company (Asia) Limited ("CCAL"), and Cowen Structured Products Hong Kong Limited ("CSPH"), apply the specialized industry accounting for brokers and dealers in securities also prescribed under US GAAP. The Company also has retained this specialized accounting in consolidation.
Valuation of investments and derivative contracts
US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has
the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including
inputs in markets that are not considered to be active; and

Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little,
if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.
The Company and its operating company subsidiaries act as the manager for the Consolidated Funds. Both the Company and the Consolidated Funds hold certain investments which are valued by the Company, acting as the investment manager. The fair value of these investments is generally estimated based on proprietary models developed by the Company, which include discounted cash flow analysis, public market comparables, and other techniques and may be based, at least in part, on independently sourced market information. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of

discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions used in these models, and the timing and actual values realized with respect to investments could be materially different from values derived based on the use of those estimates. The valuation methodologies applied impact the reported value of the Company's investments and the investments held by the Consolidated Funds in the consolidated financial statements. Certain of the Company's investments are relatively illiquid or thinly traded and may not be immediately liquidated on demand if needed. Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed and such differences could be material.

The Company primarily uses the “market approach” valuation technique to value its financial instruments measured at fair value. In determining an instrument's placement within the hierarchy, the Company separates the Company's financial

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instruments into three categories: securities, derivative contracts and other investments. To the extent applicable, each of these categories can further be divided between those held long or sold short.

Securities— Securities whose values are based on quoted market prices in active markets for identical assets, and are therefore classified in level 1 of the fair value hierarchy, include active listed equities, certain U.S. government and sovereign obligations, ETF's and certain money market securities. The Company does not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Certain positions for which there is a limited market, consisting primarily of convertible debt, corporate debt and loans, are stated at fair value. The estimated fair values assigned by management are determined in good faith and are based on available information considering, among other things, quotations provided by published pricing services, counterparties and other market participants, and pricing models using quoted inputs, and do not necessarily represent the amounts which might ultimately be realized. Such positions that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources which are supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability.

Derivative contracts—Derivative contracts can be exchange traded or privately negotiated over-the-counter (“OTC”). Exchange traded derivatives, such as futures contracts and exchange traded option contracts, are typically classified within level 1 or level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded. OTC derivatives, such as generic forwards, swaps and options, have inputs which can generally be corroborated by market data and are therefore classified within level 2. Futures, equity swaps and credit default swaps are included within other assets on the consolidated statements of financial condition and all other derivatives are included within securities owned, at fair value on the consolidated statements of financial condition.

Other investments—Other investments consist primarily of portfolio funds, real estate investments and equity method investments, which are valued as follows:

i. Portfolio funds—Portfolio funds (“Portfolio Funds”) include interests in funds and investment companies managed by the Company or its affiliates. The Company follows US GAAP regarding fair value measurements and disclosures relating to investments in certain entities that calculate net asset value (“NAV”) per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that either are investment companies as defined by the AICPA Audit and Accounting Guide, Investment Companies, or have attributes similar to an investment company, and calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment.

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on its ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a level 2 investment within the fair value hierarchy. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a level 3 investment within the fair value hierarchy. See Notes 6 and 7 for further details of the Company's investments in Portfolio Funds.

ii. Real estate investments—Real estate investments are valued at estimated fair value. The fair value of real estate investments are estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Real estate investments without a public market are valued based on assumptions and valuation techniques used by the Company. Such valuation techniques may include discounted cash flow analysis, prevailing market capitalization rates or earning multiples applied to earnings from the investment, analysis of recent comparable sales transactions, actual sale negotiations and bona fide purchase offers received from third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a

quarterly basis by the Company for significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.

The Company also reflects its real estate equity investments net of investment level financing. Valuation adjustments attributable to underlying financing arrangements are considered in the real estate equity valuation based on amounts at which the financing liabilities could be transferred to market participants at the measurement date.

Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other

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things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the Company invests in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. Amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.

The Company's real estate investments are typically categorized as a level 3 investment within the fair value hierarchy as management uses significant unobservable inputs in determining their estimated fair value.

See Notes 6 and 7 for further information regarding the Company's investments, including equity method investments, and fair value measurements.

Revenue recognition

The Company's principal sources of revenue are derived from two segments: an alternative investment management segment and a broker-dealer segment, as more fully described below.

Our alternative investment management segment generates revenue through three principal sources: management fees, incentive income and investment income from our own capital.

Our broker-dealer segment generates revenue through two principal sources: investment banking and brokerage.

Management fees

The Company earns management fees from affiliated funds and certain managed accounts that it serves as the investment manager based on assets under management. The actual management fees received vary depending on distribution fees or fee splits paid to third parties either in connection with raising the assets or structuring the investment.

Management fees are generally paid on a quarterly basis at the beginning of each quarter in arrears and are prorated for capital inflows and redemptions. While some investors may have separately negotiated fees, in general the management fees are as follows:

- Hedge Funds. Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income.

- Alternative Solutions. Management fees for the Alternative Solutions business are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income or based on assets under management at the beginning of the month. Management fees earned from the Alternative Solutions business are based and initially calculated on estimated net asset values and actual fees ultimately earned could be impacted to the extent of any changes in these estimates.

- Real Estate Funds. Management fees from the Company's real estate funds are generally charged by their general partners at an annual rate between 1% to 1.5% of total capital commitments during the investment period and of invested capital or net asset value of the applicable fund after the investment period has ended. Management fees are typically paid to the general partners on a quarterly basis, at the beginning of the quarter in arrears, and are prorated for changes in capital commitments throughout the investment period and invested capital after the investment period. The general partners of the Company's real estate funds are owned jointly by the Company and third parties. Accordingly, the management fees (in addition to incentive income and investment income) generated by these real estate funds are split between the Company and the other general partners. Pursuant to US GAAP, these fees and other income received by the general partners that are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.

- CHRP Funds. During the investment period (as defined in the management agreement of the CHRP Funds), management fees for the CHRP Funds are generally charged at an annual rate of up to 2% of committed capital. After the investment period, management fees are generally charged at an annual rate of up to 2% of assets under management. Management fees for the CHRP Funds are calculated on a quarterly basis.

- Ramius Trading Strategies. Management fees and platform fees for the Company's private commodity trading advisory business are generally charged at an annual rate of up to 3% and 1.50%, respectively, for the levered vehicle and 1% and 0.50%, respectively, for the unlevered vehicle. In addition, management fees for Ramius Trading

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Strategies Managed Futures Fund, a mutual fund launched in September 2011, are 1.60% per annum (subject to an overall expense cap of 1.85%). Management and platform fees are generally calculated monthly based on assets under management at the end of each month.

- Other. The Company also provides other investment advisory services. Other management fees are primarily earned from the Company's cash management business and range from annual rates of 0.04% to 0.20% of assets, based on the average daily balances of the assets under management.

Incentive income

The Company earns incentive income based on net profits (as defined in the respective investment management agreements) with respect to certain of the Company's funds and managed accounts, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have carried forward from prior years. For the products we offer, incentive income earned is typically 20% for hedge funds and 10% for fund of funds and alternative solutions products (in certain cases on performance in excess of a benchmark), generally, of the net profits earned for the full year that are attributable to each fee-paying investor. Generally, incentive income on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However in certain real estate funds, the Company is entitled to receive incentive fees earlier provided that the investors have received their preferred return on a current basis. These funds are subject to a potential clawback of that incentive income upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income in the CHRP Funds is earned only after investors receive a full return of their capital plus a preferred return.

In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to that investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a “high-water mark.” The Company has elected to record incentive income revenue in accordance with “Method 2” of the US GAAP. Under Method 2, the incentive income from the Company's funds and managed accounts for any period is based upon the net profits of those funds and managed accounts at the reporting date. Any incentive income recognized in the consolidated statement of operations may be subject to reversal based on subsequent negative performance of the funds prior to the conclusion of the fiscal year, when all contingencies have been resolved.

Carried interest in the real estate funds is subject to clawback to the extent that the carried interest actually distributed to date exceeds the amount due to the Company based on cumulative results. As such, the accrual for potential repayment of previously received carried interest, which is a component of accounts payable, accrued expenses and other liabilities, represents all amounts previously distributed to the Company, less an assumed tax liability, that would need to be repaid to certain real estate funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability does not become realized until the end of a fund's life.

Investment Banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small and mid-capitalization companies within the Company's target sectors of healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees and private placement fees.

- Underwriting fees. The Company earns underwriting revenues in securities offerings in which the Company acts as an underwriter, such as initial public offerings, follow-on equity offerings, debt offerings, and convertible security offerings. Underwriting revenues include management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting process have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of securities from the issuer; and (iii) the Company has been informed of the number of securities that it has been allotted.

When the Company is not the lead manager for an underwriting transaction, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.

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- Strategic/financial advisory fees. The Company's strategic advisory revenues include success fees earned in connection with advising companies, principally in mergers and acquisitions and liability management transactions. The Company also earns fees for related advisory work such as providing fairness opinions. The Company records strategic advisory revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.
- Private placement fees. The Company earns agency placement fees in non-underwritten transactions such as private placements of debt and equity securities, including, private investment in public equity transactions (“PIPEs”) and registered direct offerings. The Company records private placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price consideration of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. Goodwill is allocated to the Company's reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its identification with a particular acquisition, but instead becomes identifiable with the reporting unit. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit.

In accordance with US GAAP, the Company tests goodwill for impairment on an annual basis, at December 31st each year, or at an interim period if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under US GAAP, the Company tests goodwill for impairment in accordance with the two-step approach. The first step requires a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the related goodwill is not considered impaired and no further analysis is required. If the carrying value of the reporting unit exceeds the fair value, there is an indication that the related goodwill might be impaired and the step two is performed to measure the amount of impairment, if any.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess. Goodwill impairment tests involve significant judgment in determining the estimates of future cash flows, discount rates, economic forecast and other assumptions which are then used in acceptable valuation techniques, such as the market approach (earning and or transactions multiples) and / or income approach (discounted cash flow method). Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill.

Intangible assets with finite lives are amortized over their estimated average useful lives. The Company does not have any intangible assets deemed to have indefinite lives. Intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized in the consolidated statements of operations if the sum of the estimated discounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

Legal Reserves

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with US GAAP. These amounts are reported in other expenses, net of recoveries, in the consolidated statements of operations. The consolidated statements of operations do not include litigation expenses

incurred by the Company in connection with indemnified litigation matters. See Note 19 for further discussion. As the successor of the named party in these litigation matters, the Company recognizes the related legal reserve in the consolidated statements of financial condition.

Recently adopted and future adoption of accounting pronouncements

See Note 3 "Significant Accounting Policies," in our consolidated financial statements, for a discussion of recently adopted and future adoption of accounting pronouncements.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's primary exposure to market risk is a function of our role as investment manager for our funds and managed accounts, our role as a financial intermediary in custom trading and our market making activities, as well as the fact that a significant portion of our own capital is invested in securities. Adverse movements in the prices of securities that are either owned or sold short may negatively impact the Company's management fees and incentive income, as well as the value of our own invested capital.

The market value of the assets and liabilities with our funds and managed accounts, as well as the Company's own securities, may fluctuate in response to changes in equity prices, interest rates, credit spreads, currency exchange rates, commodity prices, implied volatility, dividends, prepayments, recovery rates and the passage of time. The net effect of market value changes caused by fluctuations in these risk factors will result in gains (losses) for our funds and managed accounts which will impact our management fees and incentive income and for the Company's securities which will impact the value of our own invested capital as well as the capital utilized in facilitating customer trades.

The Company's risk measurement and risk management processes are an integral part of our daily investment process as well as market making and customer facilitation trading activities. These processes are implemented at the individual position, strategy and total portfolio levels and are designed to provide a complete picture of the Company's funds' and managed accounts' risks. The key elements of our risk reporting include sensitivities, exposures, stress testing and profit and loss attribution. As a result of our views of levels of risk being taken, the firm may undertake to hedge out some or all of any or all risks at either the individual position, strategy or total portfolio levels.

Impact on Management Fees

The Company's management fees are based on the net asset value of the Company's funds and managed accounts. Accordingly, management fees will change in proportion to changes in the market value of investments held by the Company's funds and managed accounts.

Impact on Incentive Income

The Company's incentive income is generally based on a percentage of the profits of the Company's various funds and managed accounts, which is impacted by global economies and market conditions and other factors. Consequently, incentive income cannot be readily predicted or estimated.

Custody and prime brokerage risks

There are risks involved in dealing with the custodians or prime brokers who settle trades. Under certain circumstances, including certain transactions where the Company's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the prime broker, or where the Company's assets are held at a non-U.S. prime broker, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical or timing problems associated with enforcing the Company's rights to its assets in the case of an insolvency of any such party.

Market risk

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Our exposure to market risk is primarily related to the fluctuation in the fair values of securities owned and sold, but not yet purchased in the Company's funds and our role as a financial intermediary in customer trading and to our market making and investment activities. Market risk is inherent in financial instruments and risks arise in options, warrants and derivative contracts from changes in the fair values of their underlying financial instruments. Securities sold, but not yet purchased, represent obligations of the Company's funds to deliver specified securities at contracted prices and thereby create a liability to repurchase the securities at prevailing future market prices. We trade in equity securities as an active participant in both listed and over the counter markets. We typically maintain securities in inventory to facilitate our market making activities and customer order flow. We may use a variety of risk management techniques and hedging strategies in the ordinary course of our trading business to manage our exposures. In connection with our trading business, management also reviews reports appropriate to the risk profile of specific trading activities. Typically, market conditions are evaluated and transaction details and securities positions are reviewed. These activities are intended to ensure that our trading strategies are conducted within acceptable risk tolerance parameters,

particularly when we commit our own capital to facilitate client trading. Activities include price verification procedures, position reconciliations and reviews of transaction booking. We believe these procedures, which stress timely communications between traders, trading management and senior management, are important elements of the risk management process.

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A 10% change in the fair value of the investments held by the Company's funds as of December 31, 2011 would result in a change of approximately $1.0 billion in our assets under management and would impact management fees by approximately $7.0 million. This number is an estimate. The amount would be dependent on the fee structure of the particular fund or funds that experienced such a change.

Currency risk

The Company is also exposed to foreign currency fluctuations. Currency risk arises from the possibility that fluctuations in foreign currency exchange rates will affect the value of such financial instruments, including direct or indirect investments in securities of non-U.S. companies. A 10% weakening or strengthening of the U.S. dollar against all or any combination of currencies to which the Company's investments or the Company's funds have exposure to exchange rates would not have a material effect on the Company's revenues, net loss or Economic Income.

Inflation risk

Because our assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our financial condition and results of operations in certain businesses.

Leverage and interest rate risk

There is no guarantee that the Company's borrowing arrangements or other arrangements for obtaining leverage will continue to be available, or if available, will be available on terms and conditions acceptable to the Company. Unfavorable economic conditions also could increase funding costs, limit access to the capital markets or result in a decision by lenders not to extend credit to the Company. In addition, a decline in market value of the Company's assets may have particular adverse consequences in instances where they have borrowed money based on the market value of those assets. A decrease in market value of those assets may result in the lender (including derivative counterparties) requiring the Company to post additional collateral or otherwise sell assets at a time when it may not be in the Company's best interest to do so.

Credit risk

The Company clears all of its securities transactions through clearing brokers on a fully disclosed basis. Pursuant to the terms of the agreements between the Company and the clearing brokers, the clearing brokers have the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, we believe there is no maximum amount assignable to this right. Accordingly, at December 31, 2011, the Company had recorded no liability.

Credit risk is the potential loss the Company may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the amounts reported as assets at such time.

In the normal course of business, our activities may include trade execution for our clients. These activities may expose us to risk arising from price volatility which can reduce clients' ability to meet their obligations. To the extent investors are unable to meet their commitments to us, we may be required to purchase or sell financial instruments at prevailing market prices to fulfill clients' obligations.

In accordance with industry practice, client trades are settled generally three business days after trade date. Should either the client or the counterparty fail to perform, we may be required to complete the transaction at prevailing market prices.

We manage credit risk by monitoring the credit exposure to and the standing of each counterparty, requiring additional collateral where appropriate, and using master netting agreements whenever possible.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. We outsource all or a portion of several critical business functions, such as clearing, data center and desktop maintenance and support. Accordingly, we negotiate our agreements with these firms with attention focused not only on the delivery of core services but also on the safeguards afforded by back-up systems and disaster recovery

capabilities. We make specific inquiries on any relevant exceptions noted in a service provider's Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization report on the state of its internal controls. We are focused on maintaining our overall operational risk management framework and minimizing or mitigating these risks through a formalized control assessment process to ensure awareness and adherence to key policies and control procedures.

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Our Internal Audit department oversees, monitors, measures, analyzes and reports on operational risk across the Company. The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the Company's system of internal controls and is sufficiently broad to help determine whether the Company's network of risk management, control and governance processes, as designed by management, is adequate and functioning as intended. Internal Audit works with the senior management to help ensure a transparent, consistent and comprehensive framework exists for managing operational risk within each area, across the Company and globally. Primary responsibility for management of operational risk is with the businesses and the business managers therein. The business managers, generally, maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. As new products and business activities are developed and processes are designed and modified, operational risks are considered.

Legal risk

Legal risk includes the risk of non-compliance with applicable legal and regulatory requirements and standards. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Company has established procedures based on legal and regulatory requirements that are designed to achieve compliance with applicable statutory and regulatory requirements. The Company, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Company's policies relating to conduct, ethics and business practices are followed. In connection with its businesses, the Company has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, use and safekeeping of customer funds and securities, money laundering, privacy and recordkeeping. In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are listed in Item 15—"Exhibits and Financial Statement Schedules" of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2011 we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

For Management's report on internal control over financial reporting see page F-2, and attestation report of our independent registered public accounting firm see page F-3.

In addition, there were no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that occurred in the fourth quarter of 2011 that materially affected, or are reasonably likely to

materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information in the definitive proxy statement for our 2012 annual meeting of stockholders under the captions "Executive Officers," "Board of Directors," "Information Regarding the Board of Directors and Corporate Governance—Committees of the Board—Audit Committee," "Information Regarding the Board of Directors and Corporate Governance—Director Nomination Process," "Information Regarding the Board of Directors and Corporate Governance—Procedures for Nominating Director Candidates," "Information Regarding the Board of Directors and Corporate Governance—Code of Business Conduct and Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

Item 11. Executive Compensation

The information in the definitive proxy statement for our 2012 annual meeting of stockholders under the captions "Executive Compensation—Compensation and Benefits Committee Report," "Certain Relationships and Related Transactions—Compensation and Benefits Committee Interlocks and Insider Participation" and "Information Regarding the Board of Directors and Corporate Governance—Compensation Program for Non-Employee Directors" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in the definitive proxy statement for our 2012 annual meeting of stockholders under the captions "Security Ownership—Beneficial Ownership of Directors, Nominees and Executive Officers," "Security Ownership—Beneficial Owners of More than Five Percent of our Common Stock" and "Securities Authorized for Issuance Under Equity Compensation Plans" are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information in the definitive proxy statement for our 2012 annual meeting of stockholders under the captions "Information Regarding the Board of Directors and Corporate Governance—Director Independence," "Certain Relationships and Related Transactions—Transactions with Related Persons," and "Certain Relationships and Related Transactions—Review and Approval of Transactions with Related Persons" is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information in the definitive proxy statement for our 2012 annual meeting of stockholders under the captions "Audit Committee Report and Payment of Fees to Our Independent Auditor—Auditor Fees" and "Audit Committee Report and Payment of Fees to Our Independent Auditor—Auditor Services Pre-Approval Policy" is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

The consolidated financial statements required to be filed in the Annual Report on Form 10-K are listed on page F-1 hereof. The required financial statements appear on pages F-1 through F-71 hereof.

2. Financial Statement Schedules

Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements.

3. Exhibits

See the Exhibit Index on pages E-1 through E-2 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

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Management's Report on Internal Control over Financial Reporting

Management of Cowen Group, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company's 2011 fiscal year, management conducted an assessment of the Company's internal control over financial reporting based on the framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2011 was effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

The Company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cowen Group, Inc.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, changes in equity, and cash flows present fairly, in all material respects, the financial position of Cowen Group, Inc. and its subsidiaries (the Company) at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page F-2. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2011 and 2010). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 9, 2012

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Cowen Group, Inc.
Consolidated Statements of Financial Condition
As of December 31, 2011 and 2010
(in thousands, except share and per share data)

	As of December 31,	
	2011	2010
Assets		
Cash and cash equivalents	$126,889	$36,354
Cash collateral pledged	9,785	8,633
Securities owned, at fair value	744,914	474,095
Securities purchased under agreement to resell	166,260	97,755
Other investments	61,929	40,320
Receivable from brokers	62,046	95,937
Fees receivable	22,297	31,688
Due from related parties	16,554	16,370
Fixed assets, net of accumulated depreciation and amortization of $23,852 and $17,764, respectively	37,042	36,591
Goodwill	20,028	27,179
Intangible assets, net of accumulated amortization of $20,220 and $8,146, respectively	5,760	12,754
Other assets	26,620	19,456
Consolidated Funds		
Cash and cash equivalents	297	7,210
Securities owned, at fair value	6,334	8,722
Other investments, at fair value	228,820	333,374
Other assets	263	732
Total Assets	$1,535,838	$1,247,170
Liabilities and Stockholders' Equity		
Securities sold, not yet purchased, at fair value	$334,251	$197,916
Securities sold under agreement to repurchase	228,783	192,165
Payable to brokers	213,360	85,655
Compensation payable	71,223	76,204
Short-term borrowings and other debt	5,650	31,733
Fees payable	5,503	8,797
Due to related parties	1,914	9,187
Accounts payable, accrued expenses and other liabilities	61,462	42,267
Consolidated Funds		
Capital withdrawals payable	394	7,817
Accounts payable, accrued expenses and other liabilities	246	1,827
Total Liabilities	922,786	653,568
Commitments and Contingencies (Note 19)		
Redeemable non-controlling interests	104,587	144,346
Stockholders' equity		
Preferred stock, par value $0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Class A common stock, par value $0.01 per share: 250,000,000 shares authorized, 119,393,640 shares issued and 114,047,637 outstanding as of December 31, 2011 and 75,490,209 shares issued and outstanding as of	1,135	726

December 31, 2010, respectively (including 576,892 and 1,554,124 restricted shares, respectively)		
Class B common stock, par value $0.01 per share: 250,000,000 authorized, no shares issued and outstanding	—	—
Additional paid-in capital	688,427	504,480
(Accumulated deficit) retained earnings	(163,980)	(55,970)
Accumulated other comprehensive income (loss)	(215)	20
Less: Class A common stock held in treasury, at cost, 5,346,003 shares as of December 31, 2011	(16,902)	—
Total Stockholders' Equity	508,465	449,256
Total Liabilities and Stockholders' Equity	$1,535,838	$1,247,170

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

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Cowen Group, Inc.
Consolidated Statements of Operations
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands, except per share data)

	Year ended December 31,		
	2011	2010	2009
Revenues			
Investment banking	$50,976	$38,965	$10,557
Brokerage	99,611	112,217	17,812
Management fees	52,466	38,847	41,694
Incentive income	3,265	11,363	1,911
Interest and dividends	22,306	11,547	477
Reimbursement from affiliates	4,322	6,816	10,326
Other revenues	1,583	1,936	4,732
Consolidated Funds			
Interest and dividends	569	11,733	33,697
Other revenues	180	386	2,695
Total revenues	235,278	233,810	123,901
Expenses			
Employee compensation and benefits	203,767	194,919	96,592
Floor brokerage and trade execution	16,475	17,143	2,451
Interest and dividends	8,839	8,971	1,601
Professional, advisory and other fees	33,702	14,547	20,140
Service fees	16,365	15,814	4,452
Communications	16,350	13,972	2,906
Occupancy and equipment	25,673	18,119	11,835
Depreciation and amortization	15,472	11,543	5,761
Client services and business development	16,725	14,470	7,804
Goodwill impairment	7,151	—	—
Other	12,354	22,323	12,868
Consolidated Funds			
Interest and dividends	147	3,078	14,017
Professional, advisory and other fees	2,136	3,094	6,500
Floor brokerage and trade execution	—	995	707
Other	499	954	2,357
Total expenses	375,655	339,942	189,991
Other income (loss)			
Net gains (losses) on securities, derivatives and other investments	15,128	21,980	(2,154)
Bargain purchase gain	22,244	—	—
Consolidated Funds:			
Net realized and unrealized gains (losses) on investments and other transactions	4,925	33,116	55,908
Net realized and unrealized gains (losses) on derivatives	(583)	(761)	(31,750)
Net gains (losses) on foreign currency transactions	53	(1,293)	(3,159)
Total other income (loss)	41,767	53,042	18,845
Income (loss) before income taxes	(98,610)	(53,090)	(47,245)
Income tax expense (benefit)	(20,073)	(21,400)	(8,206)
Net income (loss) from continuing operations	(78,537)	(31,690)	(39,039)
Net income (loss) from discontinued operations, net of tax	(23,646)	—	—

Net income (loss)	(102,183)	(31,690)	(39,039)
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	5,827	13,727	16,248
Net income (loss) attributable to Cowen Group, Inc. stockholders	$(108,010)	$(45,417)	$(55,287)
Weighted average common shares outstanding:			
Basic	95,532	73,149	41,001
Diluted	95,532	73,149	41,001
Earnings (loss) per share:			
Basic			
Income (loss) from continuing operations	$(0.88)	$(0.62)	$(1.35)
Income (loss) from discontinued operations	$(0.25)	$—	$—
Diluted			
Income (loss) from continuing operations	$(0.88)	$(0.62)	$(1.35)
Income (loss) from discontinued operations	$(0.25)	$—	$—

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

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Cowen Group, Inc.
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands, except share data)

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders Equity	Redeemable Non-controlling Interest	Total Comprehensive Income (Loss)
Balance, December 31, 2008	37,536,826	$375	$—	$277,464	$(1,163)	$54,216	$330,892	$284,936	
Comprehensive income (loss):									
Net income (loss)	—	—	—	—	—	(55,287)	(55,287)	16,248	$(39,039)
Defined benefit plans	—	—	—	—	636	—	636	—	636
Foreign currency translation	—	—	—	—	7	—	7	—	7
Total comprehensive income (loss)	—	—	—	—	643	(55,287)	(54,644)	16,248	(38,396)
Capital contributions	—	—	—	4,906	—	—	4,906	1,613	
Capital distributions	—	—	—	—	—	(9,482)	(9,482)	(60,214)	
Acquisition of non-controlling interest (see Note 2)	2,713,882	27	—	3,085	—	—	3,112	(13,482)	
Common stock issuance upon close of Transaction (see Note 2)	15,055,619	151	—	114,346	—	—	114,497	1,724	
Restricted stock awards issued	2,144,138	—	—	—	—	—	—	—	
Issuance of common stock on share offering (see Note 21)	17,292,698	173	—	80,434	—	—	80,607	—	
Amortization of share based compensation	—	—	—	3,637	—	—	3,637	—	
Balance, December 31,	74,743,163	726	—	483,872	(520)	(10,553)	473,525	230,825	

2009 Comprehensive income (loss):									
Net income (loss)	—	—	—	—	—	(45,417)	(45,417)	13,727	(31,690)
Defined benefit plans	—	—	—	—	241	—	241	—	241
Foreign currency translation	—	—	—	—	299	—	299	—	299
Total comprehensive income (loss)	—	—	—	—	540	(45,417)	(44,877)	13,727	(31,150)
Capital contributions	—	—	—	—	—	—	—	10,062	
Capital withdrawals	—	—	—	—	—	—	—	(105,869)	
Consolidation of Replication Ltd (see Note 3b)	—	—	—	—	—	—	—	409	
Deconsolidation of CHRP (see Note 3b)	—	—	—	—	—	—	—	(1,713)	
Deconsolidation of Replication Ltd (see Note 3b)	—	—	—	—	—	—	—	(3,095)	
Restricted stock awards issued	747,046	—	—	—	—	—	—	—	
Amortization of share based compensation	—	—	—	20,608	—	—	20,608	—	
Balance, December 31, 2010	75,490,209	726	—	504,480	20	(55,970)	449,256	144,346	
Comprehensive income (loss):									
Net income (loss)	—	—	—	—	—	(108,010)	(108,010)	5,827	(102,183)
Defined benefit plans	—	—	—	—	25	—	25	—	25
Foreign currency translation	—	—	—	—	(260)	—	(260)	—	(260)
Total comprehensive income (loss)	—	—	—	—	(235)	(108,010)	(108,245)	5,827	(102,418)
Capital contributions	—	—	—	—	—	—	—	4,038	
	—	—	—	—	—	—	—	(53,094)	

Capital withdrawals								
Consolidation of RCG Linkem II LLC	—	—	—	—	—	—	—	3,470
Restricted stock awards issued	3,053,298	—	—	—	—	—	—	—
Common stock issuance upon acquisition (see Note 2)	40,850,133	409	—	155,639	—	—	156,048	—
Purchase of treasury stock, at cost	(5,346,003)	—	(16,902)	—	—	—	(16,902)	—
Amortization of share based compensation	—	—	—	28,308	—	—	28,308	—
Balance, December 31, 2011	114,047,637	$1,135	$(16,902)	$688,427	$(215)	$(163,980)	$508,465	$104,587

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

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Cowen Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands)

	Year ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
Cash flows from operating activities:			
Net income (loss) from continuing operations	$(78,537)	$(31,690)	$(39,039)
Net income (loss) from discontinued operations, net of tax	(23,646)	—	—
Adjustments to reconcile net income (loss) to net cash (used in) / provided by operating activities:			
Bargain purchase gain	(22,244)	—	—
Depreciation and amortization	26,864	11,543	5,761
Share-based compensation	28,308	20,608	3,637
Deferred rent obligations	(4,061)	(8,574)	(543)
Net loss on disposal of fixed assets	103	299	249
Goodwill impairment	7,151	—	—
Purchases of securities owned, at fair value	(8,953,879)	(3,415,775)	(84,350)
Proceeds from sales of securities owned, at fair value	8,726,114	2,943,376	97,299
Proceeds from sales of securities sold, not yet purchased, at fair value	4,690,844	2,678,922	—
Payments to cover securities sold, not yet purchased, at fair value	(4,553,832)	(2,556,056)	—
Net (gains) losses on securities, derivatives and other investments	(3,164)	(20,339)	(1,891)
Consolidated Funds:			
Purchases of securities owned, at fair value	(480,251)	(445,913)	—
Proceeds from sales of securities owned, at fair value	482,630	437,147	—
Purchases of other investments	(18,356)	(30,583)	(2,181)
Proceeds from sales of other investments	127,664	285,915	75,743
Net realized and unrealized (gains) losses on investments and other transactions	(4,746)	(34,316)	(39,506)
(Increase) decrease in operating assets:			
Cash acquired from business acquisition	117,496	—	97,903
Cash collateral pledged	(25)	(8,132)	203
Securities owned, at fair value, held at broker dealer	152,080	50,895	(34,133)
Receivable from brokers	127,645	(63,412)	13,279
Fees receivable	9,391	(9,242)	1,686
Due from related parties	3,286	(1,510)	9,021
Other assets	(2,286)	5,040	(1,682)
Consolidated Funds:			
Cash and cash equivalents	6,913	(4,024)	(92)
Other assets	469	215	(645)
Increase (decrease) in operating liabilities:			
Securities sold, not yet purchased, at fair value, held at broker dealer	(157,134)	75,075	1,980
Payable to brokers	46,169	81,838	(1,304)
Compensation payable	(12,107)	(4,248)	4,425
Fees payable	(4,263)	3,410	(2,394)
Due to related parties	(7,273)	1,084	(2,446)
Accounts payable, accrued expenses and other liabilities	7,143	(14,758)	9,474

Consolidated Funds:			
Due to related parties	—	—	(136)
Accounts payable, accrued expenses and other liabilities	(1,582)	1,652	(20)
Net cash provided by / (used in) operating activities	232,884	(51,553)	110,298

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

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Cowen Group, Inc.
Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands)

(continued)	Year ended December 31, 2011	2010	2009
	(dollars in thousands)		
Cash flows from investing activities:			
Securities purchased under agreement to resell	(68,505)	(97,755)	—
Purchases of other investments	(67,914)	(321,914)	(233)
Proceeds from sales of other investments	57,917	316,063	9,477
Purchase of fixed assets	(6,539)	(5,853)	(399)
Net cash provided by / (used in) investing activities	(85,041)	(109,459)	8,845
Cash flows from financing activities:			
Securities sold under agreement to repurchase	36,618	192,165	(1,425)
Borrowings on short-term borrowings and other debt	493	8,059	—
Repayments on short-term borrowings and other debt	(26,576)	(25,663)	(203)
Purchase of treasury stock	(11,365)	—	—
Proceeds from issuance of common stock	—	—	80,607
Purchase of non-controlling interest (see Note 2)	—	—	(10,370)
Capital withdrawals to members	—	—	(23,943)
Capital withdrawals to non-controlling interests in operating entities	(5,009)	—	486
Consolidated Funds:			
Repayments on the line of credit	—	—	(10,207)
Capital contributions by non-controlling interests in Consolidated Funds	4,038	10,062	1,613
Capital withdrawals to non-controlling interests in Consolidated Funds	(55,507)	(134,624)	(55,011)
Net cash provided by / (used in) financing activities	(57,308)	49,999	(18,453)
Change in cash and cash equivalents	90,535	(111,013)	100,690
Cash and cash equivalents at beginning of year	36,354	147,367	46,677
Cash and cash equivalents at end of year	$126,889	$36,354	$147,367
Supplemental information			
Cash paid during the year for interest	$9,007	$6,943	$1,277
Cash paid during the year for taxes	$871	$1,310	$—
Supplemental non-cash information			
Purchase of treasury stock, at cost, upon close of acquisition (see Note 21)	$1,906	$—	$—
Purchase of treasury stock, at cost, through net settlement (See Note 21)	$3,631	$—	$—
Net assets acquired upon acquisition (net of cash) (See Note 2)	$58,486	$—	$11,167
Non compete agreements and covenants with limiting conditions acquired (see Note 2)	$2,310	$—	$—
Common stock issuance upon close of acquisition (see Note 2)	$156,048	$—	$114,497
Net assets of consolidated entities	$3,470	$—	$—
Net assets of deconsolidated entities	$—	$6,816	$—
Net settlement of cash collateral pledged with repayments on the line of credit	$—	$6,746	$—
Assets acquired under capital lease obligations	$—	$6,337	$—

Common stock issuance to acquire non-controlling interest (see Note 2)	$—	$—	$20,490
Capital contributions made through REOP Program (see Note 15)	$—	$—	$4,906

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

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Cowen Group, Inc.
Notes to Consolidated Financial Statements
1. Organization and Business

Cowen Group, Inc., a Delaware corporation, was formed on June 1, 2009 in connection with the Transaction Agreement and Agreement and Plan of Merger (“Transaction Agreement”), dated as of June 3, 2009, by and among Cowen Holdings, Inc. (“Cowen Holdings,” formerly Cowen Group, Inc.), Lexington Merger Corp., Ramius LLC (“Ramius,” formerly Park Exchange LLC) and RCG Holdings LLC (“RCG,” formerly Ramius LLC).

Cowen Group, Inc. is a diversified financial services firm and, together with its consolidated subsidiaries (collectively, “Cowen,” “Cowen Group” or the “Company”), provides alternative investment management, investment banking, research, market making and sales and trading services through its two business segments: alternative investment management and broker dealer. The Company's alternative investment segment includes hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate, healthcare royalty funds, cash management services and mortgage advisory services offered primarily under the Ramius name. The broker dealer segment offers research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs") and alternative energy sectors, primarily under the Cowen name.
2. Acquisition

LaBranche & Co Inc.
The acquisition of LaBranche & Co Inc. ("LaBranche") by the Company was consummated pursuant to the terms of the Agreement and Plan of Merger ("Merger Agreement"), dated as of February 16, 2011, after the market close on June 28, 2011. LaBranche Capital, LLC ("LCAP"), which was renamed "Cowen Capital LLC" following consummation of the acquisition, was a wholly owned subsidiary of LaBranche and is now a wholly-owned subsidiary of the Company. LCAP is a registered broker-dealer and Financial Industry Regulatory Authority ("FINRA") member firm that operates as a market-maker in ETFs, engages in hedging activities in options, exchange traded funds ("ETFs"), structured notes, foreign currency securities and futures related to its market-making operations and also conducts principal trading activities in these securities. Prior to the acquisition, LaBranche discontinued certain operations in its market-making segment, including upstairs options market-making on various exchanges and electronic market-making in the International Securities Exchange. As of the close of market on June 28, 2011, LaBranche stock was delisted and no longer trades on the New York Stock Exchange.
Under the terms of the Merger Agreement, each outstanding share of LaBranche was converted into 0.9980 shares of Cowen Class A common stock (the "Exchange Ratio"). The consideration received by LaBranche's shareholders was valued at approximately $156 million in the aggregate, based on the closing price of Cowen Class A common stock on the NASDAQ Global Select Market of $3.82 on June 28, 2011. This is based on 40,931,997 shares of LaBranche stock that were outstanding on the date of the completion of the acquisition.
The acquisition was accounted for under the acquisition method of accounting in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). In this case, the acquisition was accounted for as an acquisition by Cowen of LaBranche. As such, results of operations for LaBranche are included in the accompanying consolidated statements of operations since the date of acquisition, and the assets acquired and liabilities assumed were recorded at their estimated fair values. The fair value of Cowen shares issued to LaBranche shareholders was the purchase consideration for the acquisition. Based on the June 28, 2011 purchase price allocation, the fair value of the net identifiable assets acquired and liabilities assumed amounted to $175.9 million (excluding $2.3 million non-compete agreements and covenants with limiting conditions acquired), exceeding the fair value of the purchase price of $156 million. As a result, the Company recognized a nonrecurring bargain purchase gain of approximately $22.2 million in the second quarter of 2011, which is included in other income in the consolidated statements of operations for the twelve months ended December 31, 2011. The Company's share price has traded below its book value for a substantial part of the last 52 weeks, and as the purchase consideration (the Exchange

Ratio) was determined based on the stock price of Cowen on June 28, 2011, the purchase price allocation based on the fair value of LaBranche's net assets at acquisition date reflected in these consolidated financial statements has resulted in a bargain purchase gain.

The following table summarizes the purchase price allocation of net tangible and intangible assets acquired as of June 28, 2011:

	(dollars in thousands)	
Cash and cash equivalents	$117,496	
Cash collateral pledged	1,127	
Securities owned, at fair value	221,855	
Other investments	2,569	
Receivable from brokers	93,754	
Fixed assets, net	8,804	
Intangibles	2,770	
Other assets	5,137	
Securities sold, not yet purchased, at fair value	(175,391	)
Payable to brokers	(81,536	)
Compensation payable	(3,521	)
Fees payable	(969	)
Unfavorable lease	(3,388	)
Accounts payable, accrued expenses and other liabilities	(12,725	)
Total net assets acquired	$175,982	
Non compete agreements and covenants with limiting conditions acquired	2,310	
Goodwill/(Bargain purchase gain) on transaction	(22,244	)
Total purchase price	$156,048	

The Company believes that all of the acquired receivables and contractual amounts receivable as reflected above in the allocation of the purchase price are recorded at fair value.
The Company recognized approximately $3.3 million of acquisition-related costs, including legal, accounting, and valuation services for the twelve months ended December 31, 2011. These costs are included in professional, advisory and other fees and other expenses in the consolidated statements of operations.
As of the acquisition date, the estimated fair value of the Company's intangibles, as acquired through the acquisition, was $2.8 million. In addition, non-compete agreements and covenants with limiting conditions for the amount of $2.3 million were negotiated as part of the acquisition, which have been recognized separately from the acquisition of assets and liabilities assumed in accordance with US GAAP. The total non-compete agreements and covenants with limiting conditions acquired of $2.5 million have been included within intangible assets, net in the consolidated statements of financial condition. The allocation of the intangibles' amortization expense for the twelve months ended December 31, 2011 and estimated amortization expense in future years are shown in Note 10 "Goodwill and Intangible Assets".
As discussed in Note 4, the subsidiaries acquired through the LaBranche acquisition were discontinued. As a result, no unaudited supplemental proforma information is presented.
Cowen Group Inc.

On November 2, 2009, the transactions contemplated by the Transaction Agreement (the “Transactions”), were consummated including (1) the merger of Lexington Merger Corp. with and into Cowen Holdings, pursuant to which each outstanding share of common stock of Cowen Holdings was converted into one share of Class A common stock of the Company and (2) the transfer by RCG (which prior to the consummation of the Transactions operated the Ramius business) of substantially all of its assets and liabilities to Park Exchange LLC in exchange for the Company's issuance to RCG of 37,536,826 shares of Class A common stock of the Company. Following the consummation of the Transactions, each of Park Exchange LLC and Cowen Holdings became wholly owned subsidiaries of the Company, and Park Exchange LLC was renamed Ramius LLC.

The Transactions were accounted for under the acquisition method in accordance with US GAAP. Accordingly, the Transactions were accounted for as an acquisition by Ramius of Cowen Holdings. As such, results of operations for Cowen Holdings are included in the accompanying consolidated statements of operations since the date of acquisition, and the assets acquired and liabilities assumed were recorded at their fair value as at the acquisition date.
Under the terms of the Transaction Agreement, each outstanding share of common stock of Cowen Holdings was

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Cowen Group, Inc.
Notes to Consolidated Financial Statements (Continued)

converted into a share of the Class A common stock of the Company. The consideration received by Cowen Holdings's shareholders was valued at $7.55 per share, or approximately $114.5 million in the aggregate, based on the closing stock price of Cowen Holdings on October 30, 2009. This is based on the 14,883,968 shares of Cowen Holdings stock that were outstanding at the date of the completion of the Transactions, including 12,071,646 freely tradable shares, 2,784,816 restricted shares and 27,506 shares underlying vested restricted stock units at the acquisition date. The number of shares used to estimate the purchase consideration excludes 185,828 restricted shares at the acquisition date that did not vest as part of the Transactions and were not effectively purchased. Restricted shares, restricted share units and stock options of Cowen Holdings common stock at the acquisition date were converted into an equivalent number of restricted shares, restricted share units and stock options of the Company's Class A common stock.
The Company acquired Cowen Holdings due to its experienced teams and complementary strengths that will enable the combined company to take advantage of a wide variety of corporate finance and investment opportunities.

The estimated fair value of the Company's Class A common stock issued to Cowen Holdings stockholders represents the purchase consideration in the Transactions, which was computed as follows:

	(in thousands, except per share data)	
Number of Cowen Holdings common shares outstanding at closing:		
Common float	12,072	(1)
Restricted shares	2,785	(2)
Restricted share units	27	(3)
Total shares issued to Cowen Holdings stockholders	14,884	
Estimated market price a Cowen Holdings common share	$7.55	(4)
Estimated purchase price of Cowen Holdings common shares	$112,374	
Add: Fair value of unvested restricted shares and options issued	2,123	(5)
Estimated purchase price	$114,497	

(1) Based on the trading float of Cowen Holdings's common shares on the acquisition date.
(2) Based on Cowen Holdings's unvested restricted shares outstanding on the acquisition date. Excludes restricted shares that were not subject to accelerated vesting as a result of the Transactions.
(3) Based on Cowen Holdings's restricted share units outstanding on the acquisition date.
(4) The $7.55 share price used in calculating the estimated purchase consideration represents the closing share price of Cowen Holdings common stock on October 30, 2009.
(5) In connection with the Transactions, each outstanding Cowen Holdings stock option was exchanged for one stock option of the Company. Each newly issued stock option was fully vested upon issuance, and has a strike price and expiration date equal to that of the original stock option. Cowen Holdings had 892,782 stock options outstanding as of the closing date. The fair value of Cowen Holdings's stock option awards was estimated to be $0.7 million based on a Black Scholes valuation model. Also included in the $2.1 million is $1.4 million related to the fair value of pre-combination service on restricted shares that were not subject to accelerated vesting as a result of the Transactions.

The table below summarizes the fair value of identifiable assets acquired and liabilities assumed at the acquisition date as well as the acquisition date fair value of the non-controlling interest in Cowen Holdings that was acquired:

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Cowen Group, Inc.
Notes to Consolidated Financial Statements (Continued)

	(dollars in thousands)
Cash and cash equivalents	$97,903
Cash collateral pledged	501
Securities owned, at fair value	17,555
Receivable from brokers	19,893
Fees receivable	4,802
Other investments	17,121
Due from related parties	1,061
Fixed assets, net	8,379
Intangible assets, net	17,000
Other assets	17,535
Securities sold, not yet purchased, at fair value	(12,832)
Payable to brokers	(1,304)
Compensation payable	(37,592)
Accounts payable, accrued expenses and other liabilities	(40,952)
Total identifiable net assets acquired	109,070
Non-controlling interest	(1,724)
Goodwill	7,151
Total purchase price	$114,497

The amount of the acquired receivables and contractual amounts receivable as reflected above are shown net of approximately $0.4 million of receivables which were expected to be uncollectible.

The non-controlling interest in Cowen Holdings at the acquisition date represents the non-controlling equity interests in Cowen Healthcare Royalty GP, LLC and CHRP Overflow Fund GP, LLC (collectively, the “CHRP GPs”), the general partners, respectively, to Cowen Healthcare Royalty Partners, L.P. and CHRP Overflow Fund, L.P. (the “CHRP Funds”), and are recorded at fair value. The CHRP GPs' only significant assets are their investments in the CHRP Funds, which invest principally in commercial stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments. The CHRP Funds follow industry practices for valuation techniques including discounted cash flows, Black Scholes valuation models and sale price of recent transactions in the same or similar securities and significant inputs such as estimated future cash flows, discount rates, volatility and dividend yield to measure the fair value of the investments in the CHRP Funds. As such, the carrying value of CHRP GP's investments in the CHRP Funds, and the related non-controlling interest, approximate fair value.

Based on the November 2, 2009 estimated purchase price allocation, the purchase price of $114.5 million exceeded the fair value of the net identifiable assets acquired and liabilities assumed (net of non-controlling interest) of $107.3 million. As a result, the Company has recognized goodwill of $7.2 million related to the Transactions. The goodwill primarily relates to expected synergies from the merger. All of the goodwill has been assigned to the broker dealer segment of the Company. None of the goodwill is expected to be deductible for tax purposes. See Note 10 for a discussion of the intangible assets acquired and their amortization periods.

In addition to the purchase price consideration, the Company incurred acquisition related expenses of $12.2 million related to the Transactions, which are included in professional, advisory and other fees in the consolidated statement of operations for the year ended 2009.

Included in the accompanying consolidated statements of operations for the year ended December 31, 2009 are revenues of $31.2 million and a net loss of $15.0 million related to Cowen Holdings for the period from November 2, 2009 through December 31, 2009. The following table provides unaudited supplemental pro forma financial information for the year ended December 31, 2009 as if the Transactions had occurred as of the beginning of the period presented:

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Cowen Group, Inc.
Notes to Consolidated Financial Statements (Continued)

	Year ended December 31, 2009 (in thousands, except per share data) (unaudited)	
Revenues	$ 284,459	
Net income (loss)	(100,759	)
Net income (loss) attributable to Cowen Group, Inc. stockholders	(116,719	)
Net income (loss) per common share:		
Basic	$ (2.12	)
Diluted	(2.12	)

These amounts have been determined after applying the Company's accounting policies and adjusting the results for nonrecurring items, including the net deferred tax benefits and transaction costs, as if it had been applied as of January 1, 2009.

On November 2, 2009, in connection with the Transactions, Cowen Holdings purchased from HVB Alternative Advisors LLC (“HVB”) the 50% interest in Ramius Alternative Solutions LLC (“Ramius Alternative Solutions”), the Company's alternative solution business, that HVB owned in exchange for (1) the Company's issuance to HVB of 2,713,882 shares of the Company's Class A common stock and (2) approximately $10.4 million in cash, resulting in Ramius Alternative Solutions becoming an indirect wholly owned subsidiary of the Company. In accordance with US GAAP the acquisition of the additional interest in the Company's alternative solution business was treated as an equity transaction and the difference between the fair value of the consideration paid and the carrying value of the derecognized non-controlling interest was recognized in equity.

3. Significant Accounting Policies

a. Basis of presentation

These consolidated financial statements are prepared in accordance with US GAAP as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification as the source of authoritative accounting principles in the preparation of financial statements, and include the accounts of the Company, its operating and other subsidiaries, and entities in which the Company has a controlling financial interest or a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these consolidated financial statements, as further discussed below, are not subject to the consolidation provisions with respect to their own controlled investments pursuant to their specialized accounting.

The November 2009 business combination between Ramius and Cowen Holdings was accounted for as an acquisition by Ramius of Cowen Holdings. As a result, the historical financial statements of Ramius have become the historical financial statements of the Company.

The assets and liabilities of Cowen Holdings were recorded at their respective fair values, as of November 2, 2009, and combined with those of Ramius. The financial statements of the Company that include periods after November 2, 2009 reflect such fair values and were not restated to reflect the historical financial position or results of operations of Cowen Holdings. For periods after November 2, 2009, the results of operations of Cowen Holdings are included in the results of operations of the Company. Stockholders' equity has been restated to include the 37,536,826 shares of Class A common stock issued to RCG at the consummation of the Transactions (as defined in Note 2) as the issued capital for all periods prior to the Transactions.

The Company serves as the managing member/general partner and/or investment manager to affiliated fund entities which it sponsors and manages. Funds in which the Company has controlling financial interest are consolidated with the Company pursuant to US GAAP as described below. Consequently, the Company's consolidated financial statements reflect the assets, liabilities, income and expenses of these funds on a gross basis. The ownership interests in these funds which are not owned by the Company are reflected as redeemable non-controlling interests in consolidated subsidiaries in the accompanying consolidated financial statements. The management fees and incentive income earned by the Company from these funds are eliminated in consolidation.

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Cowen Group, Inc.
Notes to Consolidated Financial Statements (Continued)

b. Principles of consolidation
The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting operating entity ("VOE") or a variable interest entity ("VIE") under US GAAP.
Voting Operating Entities—VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders at risk have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entity that most significantly impact the entity's economic performance. VOEs are consolidated in accordance with US GAAP.
Under US GAAP, the usual condition for a controlling financial interest in a VOE is ownership of a majority voting interest. Accordingly, the Company consolidates VOEs in which it owns a majority of the entity's voting shares or units. US GAAP also provides that a general partner of a limited partnership (or a managing member, in the case of a limited liability company) is presumed to control the partnership, and thus should consolidate it, unless a simple majority of the limited partners has the right to remove the general partner without cause or to terminate the partnership. In accordance with these standards, the Company presently consolidates five funds deemed to be VOEs for which it acts as the general partner and investment manager.
As of December 31, 2011 and 2010 the Company consolidates the following funds (the “Consolidated Funds”): Ramius Enterprise LP (“Enterprise LP”), Ramius Multi Strategy FOF LP (“Multi Strat FOF”), Ramius Vintage Multi Strategy FOF LP (“Vintage FOF”), Ramius Levered Multi Strategy FOF LP (“Levered FOF”), and RTS Global 3X Fund LP (“RTS Global 3X”).
In addition, RCG Linkem II LLC, an investment company that was formed to make an investment in a wireless broadband communication provider in Italy, was consolidated when it first commenced operations during the second quarter of 2011. The Company determined that RCG Linkem II LLC is a VOE due to equity interests held by the managing member and its affiliate, and is consolidated due to control held by the managing member who is not subject to substantive removal rights.
Variable Interest Entities—VIEs are entities that lack one or more of the characteristics of a VOE. In accordance with US GAAP, an enterprise must consolidate all VIEs of which it is the primary beneficiary. Under the US GAAP consolidation model for VIEs, an enterprise that (1) has the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance, and (2) has an obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE, is considered to be the primary beneficiary of the VIE and thus is required to consolidate it.
However, the FASB has deferred the application of the revised consolidation model for VIEs that meet the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with investment companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset backed financing entity or an entity that was formerly considered a qualifying special purpose entity. The Company's involvement with its funds is such that all three of the above conditions are met. Where the VIEs have qualified for the deferral, the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Company holds a variable interest is a variable interest entity and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIEs expected residual returns, or both. If these conditions are met, the Company is considered to be the primary beneficiary of the VIE and thus is required to consolidate it. Under both guidelines, the Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion on a periodic basis.

The Company determines whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of December 31, 2011, and 2010 the Company does not consolidate any VIEs.

The Company has determined that it no longer exercises control over Cowen Healthcare Royalty GP, LLC (the "CHRP GP") as it no longer acts as managing member of this entity, and beginning with the first quarter of 2010, no longer consolidates this entity. The Company now accounts for its investment in the CHRP GP under the equity method of accounting.

Ramius Alternative Replication Fund Ltd ("Replication Ltd") was consolidated as of April 1, 2010, when the Company first invested in the fund. This fund was deconsolidated on October 1, 2010 when the investment in the fund ceased providing the Company with a controlling interest and is included within Portfolio Funds, at fair value as of December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the Company holds a variable interest in Ramius Enterprise Master Fund Ltd ("Enterprise Master"), Ramius Multi Strategy Master FOF LP and Ramius Vintage Multi Strategy Master FOF LP (the "Unconsolidated Master Funds") through three of its Consolidated Funds: Enterprise LP, Multi Strat FOF and Vintage FOF (the "Consolidated Feeder Funds"), respectively. Investment companies like the Consolidated Feeder Funds, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under US GAAP, are not subject to the consolidation provisions for their investments. Therefore, the Company has not consolidated the Unconsolidated Master Funds.

In the ordinary course of business, the Company also sponsors various other entities that it has determined to be VIEs. These VIEs are primarily funds and real estate entities for which the Company serves as the general partner, managing member and/or investment manager with decision-making rights.

The Company does not consolidate any of these funds or real estate entities that are VIEs as it has concluded that it is not the primary beneficiary in each instance. Fund investors are entitled to all of the economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company's involvement with funds and real estate entities that are unconsolidated VIEs is limited to providing investment management services in exchange for management fees and incentive income. Although the Company may advance amounts and pay certain expenses on behalf of the funds and real estate entities that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services.

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $259.2 million and $2 million as of December 31, 2011 and $383.3 million and $26.7 million as of December 31, 2010, respectively. In addition, the maximum exposure relating to these variable interest entities as of December 31, 2011 was $211 million, all of which is in other investments, at fair value and as of December 31, 2010 was $307.8 million, of which $307.2 million is included in other investments, at fair value and $0.6 million is included in due from related parties in the Company's consolidated statements of financial condition, respectively. The exposure to loss primarily relates to the Consolidated Feeder Funds' investment in their respective Unconsolidated Master Funds as of December 31, 2011 and December 31, 2010. See Note 6 for further information regarding the Company's investments.

Equity Method Investments—For operating entities over which the Company exercises significant influence but which do not meet the requirements for consolidation as outlined above, the Company uses the equity method of accounting. The Company's investments in equity method investees are recorded in other investments in the consolidated statements of financial condition. The Company's share of earnings or losses from equity method investees is included in net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.

The Company evaluates for impairment its equity method investments whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment when the loss in value is deemed other than temporary.

Other—If the Company does not consolidate an entity, apply the equity method of accounting or account for an investment under the cost method, the Company accounts for all other debt and marketable equity securities which are bought and held principally for the purpose of selling them in the near term as trading securities in accordance with US GAAP, at fair value with unrealized gains (losses) resulting from changes in fair value reflected within net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.

Retention of Specialized Accounting—The Consolidated Funds are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these funds pursuant to US GAAP. The Consolidated Funds report their investments on the consolidated statements of financial condition at their estimated fair value, with unrealized gains (losses) resulting from changes in fair value reflected as a component of operations. Accordingly, the accompanying consolidated financial statements reflect different accounting policies for investments depending on whether or not they are held through a consolidated investment company. In addition, the Company's broker dealer subsidiaries, Cowen and Company, LLC ("Cowen and Company"), Cowen Capital LLC, Cowen International

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Cowen Group, Inc.
Notes to Consolidated Financial Statements (Continued)

Trading Limited ("CITL"), Cowen and Company (Asia) Limited ("CCAL"), and Cowen Structured Products Hong Kong Limited ("CSPH"), apply the specialized industry accounting for brokers and dealers in securities also prescribed under US GAAP. The Company also has retained this specialized accounting in consolidation.

c. Use of estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires the management of the Company to make estimates and assumptions that affect the fair value of securities and other investments, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, the accounting for goodwill and identifiable intangible assets and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

d. Cash and cash equivalents

The Company considers investments in money market funds and other highly liquid investments with original maturities of three months or less which are deposited with a bank or prime broker to be cash equivalents. Cash and cash equivalents held at Consolidated Funds, although not legally restricted, are not available to fund the general liquidity needs of the Company. The Company is also exposed to credit risk as a result of cash being held at several banks.

e. Valuation of investments and derivative contracts

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.

The Company and its operating company subsidiaries act as the manager for the Consolidated Funds. Both the Company and the Consolidated Funds hold certain investments which are valued by the Company, acting as the investment manager. The fair value of these investments is generally estimated based on proprietary models developed by the Company, which include discounted cash flow analysis, public market comparables, and other techniques and may be based, at least in part, on independently sourced market information. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions used in these models, and the timing and actual values realized with respect to investments could be materially different from values derived based on the use of those estimates. The valuation methodologies applied impact the reported value of the Company's investments and the investments held by the Consolidated Funds in the consolidated financial statements. Certain of the Company's investments are relatively illiquid or thinly traded and may not be immediately liquidated on demand if needed. Fair values assigned to these investments may differ significantly

from the fair values that would have been used had a ready market for the investments existed and such differences could be material.

The Company primarily uses the "market approach" valuation technique to value its financial instruments measured at fair value. In determining an instrument's placement within the hierarchy, the Company separates the Company's financial instruments into three categories: securities, derivative contracts and other investments. To the extent applicable, each of these categories can further be divided between those held long or sold short.
Securities—Securities whose values are based on quoted market prices in active markets for identical assets, and are therefore classified in level 1 of the fair value hierarchy, include active listed equities, certain U.S. government and sovereign obligations, ETF's and certain money market securities. The Company does not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.
Certain positions for which there is a limited market, consisting primarily of convertible debt, corporate debt and loans, are stated at fair value. The estimated fair values assigned by management are determined in good faith and are based on available information considering, among other things, quotations provided by published pricing services, counterparties and other market participants, and pricing models using quoted inputs, and do not necessarily represent the amounts which might ultimately be realized. Such positions that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources which are supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability.
Derivative contracts—Derivative contracts can be exchange traded or privately negotiated over-the-counter ("OTC"). Exchange traded derivatives, such as futures contracts and exchange traded option contracts, are typically classified within level 1 or level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded. OTC derivatives, such as generic forwards, swaps and options, have inputs which can generally be corroborated by market data and are therefore classified within level 2. Futures, equity swaps and credit default swaps are included within other assets on the consolidated statements of financial condition and all other derivatives are included within securities owned, at fair value on the consolidated statements of financial condition.
Other investments—Other investments consist primarily of portfolio funds, real estate investments and equity method investments, which are valued as follows:

i. Portfolio funds—Portfolio funds ("Portfolio Funds") include interests in funds and investment companies managed by the Company or its affiliates. The Company follows US GAAP regarding fair value measurements and disclosures relating to investments in certain entities that calculate net asset value ("NAV") per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that either are investment companies as defined by the AICPA Audit and Accounting Guide, Investment Companies, or have attributes similar to an investment company, and calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment.

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on its ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a level 2 investment within the fair value hierarchy. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a level 3 investment within the fair value hierarchy. See Notes 6 and 7 for further details of the Company's investments in Portfolio Funds.

ii. Real estate investments—Real estate investments are valued at estimated fair value. The fair value of real estate investments are estimated based on the price that would be received to sell an asset in an orderly transaction

between marketplace participants at the measurement date. Real estate investments without a public market are valued based on assumptions and valuation techniques used by the Company. Such valuation techniques may include discounted cash flow analysis, prevailing market capitalization rates or earning multiples applied to earnings from the investment, analysis of recent comparable sales transactions, actual sale negotiations and bona fide purchase offers received from third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a quarterly basis by the Company for

significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.
The Company also reflects its real estate equity investments net of investment level financing. Valuation adjustments attributable to underlying financing arrangements are considered in the real estate equity valuation based on amounts at which the financing liabilities could be transferred to market participants at the measurement date.
Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the Company invests in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. Amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.

The Company's real estate investments are typically categorized as a level 3 investment within the fair value hierarchy as management uses significant unobservable inputs in determining their estimated fair value.

See Notes 6 and 7 for further information regarding the Company's investments, including equity method investments, and fair value measurements.
f. Due from/due to related parties
The Company may advance amounts and pay certain expenses on behalf of employees of the Company or other affiliates of the Company. These amounts settle in the ordinary course of business. Such amounts are included in due from and due to related parties, respectively, on the consolidated statements of financial condition.
g. Receivable from and payable to brokers
Receivable from and payable to brokers, includes cash held at clearing brokers, amounts receivable or payable for unsettled transactions, monies borrowed and proceeds from short sales equal to the fair value of securities sold, but not yet purchased. Pursuant to the Company's prime broker agreements, these balances are presented net (assets less liabilities) across balances with the same broker.
Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. The Company receives cash or collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis and may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.
h. Securities purchased under agreements to resell and securities sold under agreements to repurchase

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase (“Repurchase Agreements”) as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of December 31, 2011, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with multiple counterparties as of December 31, 2011 and December 31, 2010.
Collateral is valued daily and the Company and its counterparties may adjust the collateral or require additional collateral to be deposited when appropriate. Collateral held by counterparties may be sold or re-hypothecated by such counterparties, subject to certain limitations sometimes imposed by the Company. Collateralized Repurchase Agreements may result in credit exposure in the event the counterparties to the transactions are unable to fulfill their contractual obligations. The Company minimizes the credit risk associated with this activity by monitoring credit exposure and collateral values, and by requiring additional collateral to be promptly deposited with or returned to the Company when deemed necessary.

i. Fixed assets

Fixed assets are stated at cost less accumulated depreciation or amortization. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful life or lease term. Other fixed assets are depreciated on a straight-line basis over their estimated useful lives.

Cowen Group, Inc.
Notes to Consolidated Financial Statements (Continued)

Asset	Depreciable Lives	Principal Method
Telephone and computer equipment	3-5 years	Straight-line
Computer software	3-5 years	Straight-line
Furniture and fixtures	3-8 years	Straight-line
Leasehold improvements	1-11 years	Straight-line
Capitalized lease asset	5 years	Straight-line

j. Goodwill and intangible assets

Goodwill represents the excess of the purchase price consideration of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. Goodwill is allocated to the Company's reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its identification with a particular acquisition, but instead becomes identifiable with the reporting unit. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit.

In accordance with US GAAP, the Company tests goodwill for impairment on an annual basis, at December 31st each year, or at an interim period if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under US GAAP, the Company tests goodwill for impairment in accordance with the two-step approach. The first step requires a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the related goodwill is not considered impaired and no further analysis is required. If the carrying value of the reporting unit exceeds the fair value, there is an indication that the related goodwill might be impaired and the step two is performed to measure the amount of impairment, if any.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess. Goodwill impairment tests involve significant judgment in determining the estimates of future cash flows, discount rates, economic forecast and other assumptions which are then used in acceptable valuation techniques, such as the market approach (earning and or transactions multiples) and / or income approach (discounted cash flow method). Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill. See Note 10 for further discussion.

Intangible assets with finite lives are amortized over their estimated average useful lives. The Company does not have any intangible assets deemed to have indefinite lives. Intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized in the consolidated statements of operations if the sum of the estimated discounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

k. Deferred Rent

Deferred rent primarily consists of step rent, allowances from landlords and valuing the Company's lease properties in accordance with US GAAP in relation to business combinations. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received

and/or promised to the Company by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. The Company recorded a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued

expenses and other liabilities in the accompanying consolidated statements of financial condition, as of December 31, 2011 and December 31, 2010 is $15.3 million and $16.0 million, respectively.

l. Legal reserves

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with US GAAP. These amounts are reported in other expenses, net of recoveries, in the consolidated statements of operations. The consolidated statements of operations do not include litigation expenses incurred by the Company in connection with indemnified litigation matters. See Note 19 for further discussion. As the successor of the named party in these litigation matters, the Company recognizes the related legal reserve in the consolidated statements of financial condition.

m. Capital withdrawals payable

Capital withdrawals from the Consolidated Funds are recognized as liabilities, net of any incentive income, when the amount requested in the withdrawal notice represents an unconditional obligation at a specified or determined date (or dates) or upon an event certain to occur. This generally may occur either at the time of the receipt of the notice, or on the last day of a reporting period, depending on the nature of the request. As a result, withdrawals paid after the end of the year, but based upon year-end capital balances are reflected as liabilities at the balance sheet date.

n. Redeemable non-controlling interests in consolidated subsidiaries

Redeemable non-controlling interests represent the pro rata share of the book value of the financial positions and results of operations attributable to the other owners of the consolidated subsidiaries. Redeemable non-controlling interests related to Consolidated Funds are generally subject to annual, semi-annual or quarterly withdrawals or redemptions by investors in these funds, sometimes following the expiration of a specified period of time (generally one year), or may only be withdrawn subject to a redemption fee (generally ranging from 1% to 5%). Likewise, non-controlling interests related to certain other consolidated entities are generally subject to withdrawal, redemption, transfer or put/call rights that permit such non-controlling investors to withdraw from the entities on varying terms and conditions. Because these non-controlling interests are redeemable at the option of the non-controlling interests, they have been classified as temporary equity in the consolidated statements of financial condition. When redeemed amounts become legally payable to investors on a current basis, they are reclassified as a liability.

o. Treasury stock

In accordance with the US GAAP relating to repurchases of an entity's own outstanding common stock, the Company records the purchases of stock held in treasury at cost and reports them separately as a deduction from total stockholders' equity on the consolidated statements of financial condition and changes in equity.

p. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). The Company's other comprehensive income (loss) is comprised of valuation adjustments to the Company's defined benefit plans and foreign currency cumulative translation adjustments.

q. Revenue recognition

The Company's principal sources of revenue are derived from two segments: an alternative investment management segment and a broker-dealer segment, as more fully described below.

Our alternative investment management segment generates revenue through three principal sources: management fees, incentive income and investment income from the Company's own capital.

Our broker-dealer segment generates revenue through two principal sources: investment banking and brokerage.

Management fees

The Company earns management fees from affiliated funds and certain managed accounts that it serves as the investment manager based on assets under management. The actual management fees received vary depending on distribution fees or fee splits paid to third parties either in connection with raising the assets or structuring the investment.

Management fees are generally paid on a quarterly basis at the beginning of each quarter in arrears and are prorated for capital inflows and redemptions. While some investors may have separately negotiated fees, in general the management fees

are as follows:

- Hedge Funds. Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income.

- Alternative Solutions. Management fees for the Alternative Solutions business are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income or based on assets under management at the beginning of the month. Management fees earned from the Alternative Solutions business are based and initially calculated on estimated net asset values and actual fees ultimately earned could be impacted to the extent of any changes in these estimates.
- Real Estate Funds. Management fees from the Company's real estate funds are generally charged by their general partners at an annual rate between 1% to 1.5% of total capital commitments during the investment period and of invested capital or net asset value of the applicable fund after the investment period has ended. Management fees are typically paid to the general partners on a quarterly basis, at the beginning of the quarter in arrears, and are prorated for changes in capital commitments throughout the investment period and invested capital after the investment period. The general partners of the Company's real estate funds are owned jointly by the Company and third parties. Accordingly, the management fees (in addition to incentive income and investment income) generated by these real estate funds are split between the Company and the other general partners. Pursuant to US GAAP, these fees and other income received by the general partners that are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the consolidated statements of operations.
- CHRP Funds. During the investment period (as defined in the management agreement of the CHRP Funds), management fees for the CHRP Funds are generally charged at an annual rate of up to 2% of committed capital. After the investment period, management fees are generally charged at an annual rate of up to 2% of assets under management. Management fees for the CHRP Funds are calculated on a quarterly basis.
- Ramius Trading Strategies. Management fees and platform fees for the Company's private commodity trading advisory business are generally charged at an annual rate of up to 3% and 1.50%, respectively, for the levered vehicle and 1% and 0.50%, respectively, for the unlevered vehicle. In addition, management fees for Ramius Trading Strategies Managed Futures Fund, a mutual fund launched in September 2011, are 1.60% per annum (subject to an overall expense cap of 1.85%). Management and platform fees are generally calculated monthly based on assets under management at the end of each month.
- Other. The Company also provides other investment advisory services. Other management fees are primarily earned from the Company's cash management business and range from annual rates of 0.04% to 0.20% of assets, based on the average daily balances of the assets under management.

Incentive income

The Company earns incentive income based on net profits (as defined in the respective investment management agreements) with respect to certain of the Company's funds and managed accounts, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have carried forward from prior years. For the products we offer, incentive income earned is typically 20% for hedge funds and 10% for fund of funds and alternative solutions products (in certain cases on performance in excess of a benchmark), generally, of the net profits earned for the full year that are attributable to each fee-paying investor. Generally, incentive income on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However in certain real estate funds, the Company is entitled to receive incentive fees earlier provided that the investors have received their preferred return on a current basis. These funds are subject to a potential clawback of that incentive income upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income in the CHRP Funds is earned only after investors receive a full return of their capital plus a

preferred return.

In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to that investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a “high-water mark.” The Company has elected to record incentive income revenue in accordance with “Method 2” of the US GAAP. Under Method 2, the incentive income from the Company's funds and managed

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Notes to Consolidated Financial Statements (Continued)

accounts for any period is based upon the net profits of those funds and managed accounts at the reporting date. Any incentive income recognized in the consolidated statement of operations may be subject to reversal based on subsequent negative performance of the funds prior to the conclusion of the fiscal year, when all contingencies have been resolved.

Carried interest in the real estate funds is subject to clawback to the extent that the carried interest actually distributed to date exceeds the amount due to the Company based on cumulative results. As such, the accrual for potential repayment of previously received carried interest, which is a component of accounts payable, accrued expenses and other liabilities, represents all amounts previously distributed to the Company, less an assumed tax liability, that would need to be repaid to certain real estate funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability does not become realized until the end of a fund's life.

Investment Banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small and mid-capitalization companies within the Company's target sectors of healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, REITs and alternative energy.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees and private placement fees.

- Underwriting fees. The Company earns underwriting revenues in securities offerings in which the Company acts as an underwriter, such as initial public offerings, follow-on equity offerings, debt offerings, and convertible security offerings. Underwriting revenues include management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting process have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of securities from the issuer; and (iii) the Company has been informed of the number of securities that it has been allotted.

When the Company is not the lead manager for an underwriting transaction, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.

- Strategic/financial advisory fees. The Company's strategic advisory revenues include success fees earned in connection with advising companies, principally in mergers and acquisitions and liability management transactions. The Company also earns fees for related advisory work such as providing fairness opinions. The Company records strategic advisory revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

- Private placement fees. The Company earns agency placement fees in non-underwritten transactions such as private placements of debt and equity securities, including, private investment in public equity transactions (“PIPEs”) and registered direct offerings. The Company records private placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

Brokerage

Brokerage revenue consists of commissions, principal transactions, net and equity research fees.

- Commissions. Commission revenue includes fees from executing client transactions. These fees are recognized on a trade date basis. The Company permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Commissions on soft dollar brokerage are recorded net of the related expenditures on an accrual basis. During the years ended December 31, 2011, 2010 and 2009, the Company earned $66.0 million, $69.3 million and $9.3 million of revenues from commissions, respectively.

- Principal transactions, net. Principal transaction, net revenue includes net trading gains and losses from the Company's market-making activities in fixed income and over-the-counter equity securities, listed options trading, trading of convertible securities, and trading gains and losses on inventory and other firm positions, which include warrants previously received as part of investment banking transactions. Commissions associated with these transactions are also included herein. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a very short duration. During the years ended December 31, 2011, 2010 and 2009, the Company earned $27.1 million, $36.1 million and $7.0 million of revenues from principal transactions, net, respectively.

- Equity research fees. Equity research fees are paid to the Company for providing equity research. Revenue is recognized once an arrangement exists, access to research has been provided, the fee amount is fixed or determinable, and collection is reasonably assured. During the years ended December 31, 2011, 2010 and 2009, the Company earned $6.5 million, $6.8 million and $1.5 million of revenues from equity research fees, respectively.

Interest and dividends

Interest and dividends are earned by the Company from various sources. The Company receives interest and dividends primarily from investments held by its Consolidated Funds and its brokerage balances from invested capital. Interest is recognized on an accrual basis and interest income is recognized on the debt of those issuers that is deemed collectible. Interest income and expense includes premiums and discounts amortized and accreted on debt investments based on criteria determined by the Company using the effective yield method, which assumes the reinvestment of all interest payments. Dividends are recognized on the ex-dividend date.

Reimbursement from affiliates

The Company allocates, at its discretion, certain expenses incurred on behalf of its hedge fund, fund of funds and real estate businesses. These expenses relate to the administration of such subsidiaries and assets that the Company manages for its funds. In addition, pursuant to the funds' offering documents, the Company charges certain allowable expenses to the funds, including charges and personnel costs for legal, compliance, accounting, tax compliance, risk and technology expenses that directly relate to administering the assets of the funds. Such expenses that have been reimbursed at their actual costs are included in the consolidated statements of operations as employee compensation and benefits, professional, advisory and other fees, communications, occupancy and equipment, client services and business development and other.

r. Investments transactions and related income/expenses

Purchases and sales of securities, net of commissions, and derivative contracts, and the related revenues and expenses are recorded on a trade date basis with net trading gains and losses included as a component of net gains (losses) on securities, derivatives and other investments, and with respect to the Consolidated Funds and other real estate entities as a component of net realized and unrealized gains (losses) on investments and other transactions and net realized and unrealized gains (losses) on derivatives, in the consolidated statements of operations.

s. Share-based compensation

The Company accounts for its share-based awards granted to individuals as payment for employee services in accordance with US GAAP and values such awards based on fair value methods at the grant date. In accordance with these standards, unearned compensation associated with share-based awards is amortized over the vesting period of the option or award. The Company estimates forfeiture for equity-based awards that are not expected to vest. See Note 15 for further information regarding the Company's share-based compensation plans.

t. Employee benefit plans

The Company recognizes, in its consolidated statements of financial condition, the funded status of its defined benefit plans, measured as the difference between the fair value of the plan assets and the benefit obligation The Company recognizes changes in the funded status of a defined benefit plan within accumulated other comprehensive income (loss), net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost.

See Note 16 for further information regarding the Company's defined benefit plans.

u. Leases

The Company leases certain facilities and equipment used in its operations. The Company evaluates and classifies its

leases as operating or capital leases for financial reporting purposes. Assets held under capital leases are included in fixed assets. Operating lease expense is recorded on a straight-line basis over the lease term. Landlord incentives are recorded as deferred rent and amortized, as reductions to lease expense, on a straight-line basis over the life of the applicable lease.

v. Income taxes

The income tax provision reflected in the consolidated statements of operations is consistent with the liability method prescribed by US GAAP. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under applicable tax laws and rates. A valuation allowance is provided for deferred tax assets when it is considered more likely than not that the benefits of net deductible temporary differences and tax loss or credit carryforwards will not be realized.

The Company adopted the accounting guidance for uncertainty in income taxes as of April 1, 2007. It requires recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes accrued interest and penalties related to its uncertain tax positions as a component of income tax expense.

In accordance with federal and state tax laws, the Company files income tax returns as well as stand alone state and local tax returns. The Company has subsidiaries that are resident in foreign countries where tax filings have to be submitted on a stand alone basis. These subsidiaries are subject to tax in their respective countries and the Company is responsible for and, thus, reports all taxes incurred by these subsidiaries. The countries where the Company owns subsidiaries are the United Kingdom, Germany, Luxembourg, Japan, Hong Kong, and China. Income tax expense/(benefit) for the year ended December 31, 2011, 2010 and 2009 includes tax benefits from Luxembourg reinsurance transactions.

w. Foreign currency transactions

The Company consolidates certain foreign subsidiaries that have designated a foreign currency as their functional currency. For entities that have designated a foreign currency as their functional currency, assets and liabilities are translated into U.S. dollars based on current rates, which are the spot rates prevailing at the end of each statement of financial condition date, and revenues and expenses are translated at historical rates, which are the average rates for the relevant periods. The resulting translation gains and losses, and the tax effects of such gains and losses, are recorded in accumulated other comprehensive income (loss), a separate component of stockholders' equity.

For subsidiaries that have designated the U.S. Dollar as their functional currency, securities and other assets and liabilities denominated in foreign currencies are translated into U.S. Dollar amounts at the date of valuation. Purchases and sales of securities and other assets and liabilities and the related income and expenses denominated in foreign currencies are translated into U.S. Dollar amounts on the respective dates of the transactions. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on these balances from fluctuations arising from changes in market prices of securities and other assets/liabilities held or sold. Such fluctuations are included in the consolidated statements of operations as a component of net gains (losses) on securities, derivatives and other investments. Gains and losses primarily relating to foreign currency broker balances are included in net gains (losses) on foreign currency transactions in the consolidated statements of operations.

x. Recently adopted accounting pronouncements

In December 2011, the FASB issued amended guidance which will enhance disclosures required by US GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity

should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company already discloses the derivative transactions and repurchase / resale agreements on a gross basis on the consolidated statements of financial condition and is currently evaluating the impact of the other disclosure requirements required under the guidance.

In September 2011, the FASB amended the guidance for impairment testing of goodwill presented on the statement of financial condition. These amendments permit 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 if it is necessary to perform the two-step goodwill impairment test required under the current guidance. The amendment is effective prospectively

for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company is currently assessing the impact of this amendment on its consolidated financial statements.

In June 2011, the FASB issued guidance which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance requires consecutive presentation of the consolidated statements of operations and consolidated statement of other comprehensive income and present reclassification adjustments on the face of these financial statements. This guidance helps financial statement users better understand the causes of an entity's change in financial position and results of operations. The guidance was originally effective retrospectively for interim and annual periods beginning after December 15, 2011. In December 2011, the FASB deferred the effective date of the guidance relating to the presentation of reclassification adjustments for transfers out of the other comprehensive income. As the guidance is limited to presentation, adoption will not have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements of US GAAP for measuring the fair value and for disclosing information about fair value measurements. The guidance is effective prospectively for interim and annual periods beginning after December 15, 2011. Certain of the amendments could change how the fair value measurement guidance is applied including provisions related to highest and best use and valuation premise for nonfinancial assets, application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, premiums or discounts in fair value measurement, fair value of an instrument classified in a reporting entity's shareholders' equity, and additional disclosure requirements about fair value measurements. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In April 2011, the FASB issued guidance to improve the accounting for Repurchase Agreements and other agreements by modifying the criteria for determining when the transactions would be accounted for as financings (secured borrowings/lending agreements) as opposed to sales (purchases) with commitments to repurchase (resell). Specifically, the guidance removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in default by the transferee. In accordance with the new guidance, the contractual rights and obligations determine effective control and there does not need to be a requirement to assess the ability to exercise those rights. The guidance is effective prospectively for new transfers and existing transactions that are modified in the first interim or annual period beginning on or after December 15, 2011. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In December 2010, the FASB issued enhanced guidance on when to perform step two of the goodwill impairment test for reporting units with zero or negative carrying amounts. The updated guidance modifies existing requirements under step one of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires step two to be performed if it is more likely than not that a goodwill impairment exists. The guidance is effective for interim and annual reporting periods beginning after December 15, 2010. As the Company's reporting units do not currently have zero or negative carrying values, adoption did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued guidance on disclosures around business combinations for public entities that present comparative financial statements. The guidance specifies that an entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. As the guidance is limited to disclosures, adoption did not have a material impact on the Company's consolidated financial statements.

4. Discontinued Operations

The subsidiaries acquired through the LaBranche acquisition (see Note 2) meet the criteria of discontinued operations under US GAAP because the operations and cash flows of these subsidiaries can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. As a result of the subsidiaries not meeting the Company's expectations as to their results of operations and not generating positive cash flows, the Company decided, during the fourth quarter, to exit the business operated by these subsidiaries. The subsidiaries comprised of market making operations for exchange traded funds in the US, Europe and Asia which were included in the broker-dealer segment. The results of operations and cash flows will be eliminated from the Company's ongoing operations and the Company will have no continuing involvement in these operations. Therefore, the Company reported the results of operations related to these subsidiaries in discontinued operations.

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The results of operations, which include certain direct nonrecurring costs, such as intangible asset impairments (see Note 10), leasehold improvement write offs (see Note 9) and severance payments, related to the Company's discontinued operations are summarized below:

	For the Period June 28, 2011 through December 31, 2011 (dollars in thousands)
Total revenues, net of interest expense	$2,899
Loss from discontinued operations	(24,075)
Income tax expense/(benefit)	(429)
Loss from discontinued operations, net of taxes	(23,646)

5. Cash collateral pledged

As of December 31, 2011 and 2010, cash collateral pledged in the amount of $9.8 million and $8.6 million, respectively, primarily relates to (a) a bond held as collateral on a letter of credit and (b) letters of credit issued to the landlord of the Company's premises in New York City (see Note 20). Also included in cash collateral pledged as of December 31, 2011 and 2010 is $0.5 million, respectively, relating to an agreement that the Company has with Société Générale to cover the costs of litigation matters included in the agreement.

6. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

Securities owned are held by the Company and considered held for trading and carried at fair value. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations.

As of December 31, 2011 and December 31, 2010, securities owned, at fair value consisted of the following:

	As of December 31,	
	2011	2010
	(dollars in thousands)	
U.S. Government securities(a)	$182,868	$143,247
Common stocks	250,380	116,215
Restricted common stock	—	5,000
Convertible bonds (b)	18,130	—
Corporate bonds (c)	231,864	191,702
Options	55,768	14,349
Warrants and rights	2,690	2,334
Mutual funds	3,214	1,248
	$744,914	$474,095

(a) As of December 31, 2011, maturities ranged from November 2013 to November 2021 and interest rates ranged between 0.25% and 8%. As of December 31, 2010, maturities ranged from November 2019 to February 2026 and interest rates ranged between 3.38% and 8%.

(b) As of December 31, 2011, the maturity was August 2027 with an interest rate of 2.75%.

(c) As of December 31, 2011, maturities ranged from January 2012 to February 2041 and interest rates ranged between 3.13% and 13.50%. As of December 31, 2010, maturities ranged from May 2011 to August 2039 and interest rates ranged between 1.4% and 13%.

The Company's direct involvement with derivative financial instruments includes credit default swaps, futures, equity swaps, options and warrants and rights. Open equity positions in futures transactions are recorded as receivables from and payables to broker dealers or clearing brokers as applicable. The Company's derivatives trading activities exposes the Company to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, counterparty risk,

foreign

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currency movements and changes in the liquidity of markets. The Company's long exposure to futures, equity swap and credit default swap derivative contracts, at fair value, as of December 31, 2011 and 2010 of $0.8 million and $0.4 million, respectively, is included in other assets in the accompanying consolidated statements of financial condition. The Company's short exposure to futures and equity swap derivative contracts, at fair value, as of December 31, 2011 and 2010 of $0.8 million and $0.6 million, respectively, is included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated statements of financial condition. The realized and unrealized gains/(losses) related to derivatives trading activities for the twelve months ended December 31, 2011, 2010 and 2009 were not significant and are included in other income in the consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, the Company is required to post collateral for its obligations or potential obligations. As of December 31, 2011 and 2010, collateral consisting of $8.1 million and $3.2 million of cash, respectively, is included in receivable from brokers on the consolidated statements of financial condition. As of December 31, 2011 and 2010 all derivative contracts were with multiple major financial institutions.

Other investments

As of December 31, 2011 and 2010, other investments consisted of the following:

Other investments

	As of December 31,	
	2011	2010
	(dollars in thousands)	
(1) Portfolio Funds, at fair value	$42,336	$29,391
(2) Real estate investments, at fair value	2,353	1,882
(3) Equity method investments	16,687	8,734
(4) Lehman claims, at fair value	553	313
	$61,929	$40,320

(1) Portfolio Funds, at fair value

The Portfolio Funds, at fair value as of December 31, 2011 and 2010, included the following:

Portfolio Funds, at fair value

	As of December 31,	
	2011	2010
	(dollars in thousands)	
Cowen Healthcare Royalty Partners (a)(*)	$6,297	$14,769
Cowen Healthcare Royalty Partners II (a)(*)	1,521	143
Ramius Global Credit Fund LP (b)(*)	11,790	11,733
Ramius Alternative Replication Ltd (c)(*)	837	866
Tapestry Investment Co PCC Ltd (d)	185	565
Ramius Enhanced Replication Fund LLC (e)(*)	337	—
Starboard Value and Opportunity Fund LP (f)(*)	11,123	—
Other private investment (g)	7,415	—
Vreeland Partners II, L.P. (h)	1,986	—
Other affiliated funds (i)(*)	845	1,315
	$42,336	$29,391

* These portfolio funds are affiliates of the Company

The Company has no unfunded commitments regarding the portfolio funds held by the Company except as noted for Cowen Healthcare Royalty Partners, Cowen Healthcare Royalty Partners II and Starboard Value and Opportunity Fund LP in Note 19.

(a)

Cowen Healthcare Royalty Partners and Cowen Healthcare Royalty Partners II are private equity funds and therefore redemptions will be made when the underlying investments are liquidated.

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(b) Ramius Global Credit Fund LP has a quarterly redemption policy with 60 day notice period and a 4% penalty on redemptions of investments of less than a year in duration.
(c) Ramius Alternative Replication Ltd has monthly redemption policy with a seven day notice period.
(d) Tapestry Investment Company PCC Ltd is in the process of liquidation and redemptions will be made periodically by the investment managers' decision as the underlying investments are liquidated.
(e) Ramius Enhanced Replication Fund LLC has monthly redemption policy with a seven day notice period.
(f) Starboard Value and Opportunity Fund LP permits quarterly withdrawals upon ninety days notice.
(g) Other private investment represents the Company's closed end investment in an investment company, which was formed to make an investment in a wireless broadband communication provider in Italy.
(h) Vreeland Partners II, L.P. is a wholly owned externally managed fund that seeks to provide financing to public companies for short term duration. The Company can redeem from this fund as positions are sold on an average of 30 days or less notice.
(i) The majority of these funds are real estate fund affiliates of the Company or are managed by the Company and the investors can redeem from these funds as investments are liquidated.

(2) Real estate investments, at fair value

Real estate investments as of December 31, 2011 and December 31, 2010 are carried at fair value and include real estate equity investments held by RCG RE Manager, LLC (“RE Manager”), a real estate operating subsidiary of the Company, of $1.6 million and $1.1 million, respectively, and real estate debt investments held by the Company of $0.8 million and $0.8 million, respectively.

(3) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 30% to 55%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in three of these entities: RCG Longview Debt Fund IV Management, LLC, RCG Longview Debt Fund IV Partners, LLC and RCG Longview Partners II, LLC. The operating agreements that govern the management of day-to-day operations and affairs of each of these three entities stipulate that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these three entities require the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company that is not protective in nature. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments is the investment in (a) CHRP GP (see Note 3), (b) an investment in the CBOE (Chicago Board Options Exchange) Stock Exchange LLC representing a 9.7% stake in the exchange service provider for which the Company exercises significant influence over through representation on the Board of Directors, and (c) Starboard Value LP (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of a deep value small cap hedge fund and related managed accounts. The following table summarizes equity method investments held by the Company:

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	As of December 31,	
	2011	2010
	(dollars in thousands)	
RCG Longview Debt Fund IV Management, LLC	$1,980	$2,009
Cowen Healthcare Royalty GP, LLC	513	1,176
Cowen Healthcare Royalty GP II, LLC	258	8
Chicago Board Options Exchange	2,423	0
Starboard Value LP	3,693	0
RCG Longview Partners, LLC	1,569	2,203
RCG Longview Louisiana Manager, LLC	1,140	186
RCG Urban American, LLC	1,258	889
RCG Urban American Management, LLC	1,096	359
RCG Longview Equity Management, LLC	557	499
Urban American Real Estate Fund II, L.P.	1,541	833
RCG Kennedy House, LLC	323	259
Other	336	313
	$16,687	$8,734

As of December 31, 2011 and 2010, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million. All such amounts are included in accounts payable, accrued expenses and other liabilities in the consolidated statements of financial condition.
The Company's income (loss) from equity method investments was $5.4 million, $3.4 million, and ($3.3) million, for the years ended December 31, 2011, 2010 and 2009, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying consolidated statements of operations. In addition, the Company recorded no impairment charges in relation to its equity method investments for the years ended December 31, 2011, 2010 and 2009, respectively.
(4) Lehman Claims, at fair value

Lehman Brothers International (Europe) (“LBIE”), through certain affiliates, was a prime broker to the Company, and the Company held cash and cash equivalent balances with LBIE. On September 15, 2008, LBIE was placed into administration (the “Administration”) in the United Kingdom and, as a result, the assets held by the Company in its LBIE accounts were frozen at LBIE. The status and ultimate resolution of the assets under LBIE's Administration proceedings is uncertain. The assets of the Company at LBIE at the time of Administration (the “Total Net Equity Claim”) consist of $1.0 million, which the Company believes will represent an unsecured claim against LBIE. This does not include claims held by the Company against LBIE through its investment in Enterprise Master discussed in Note 6b. There can be no assurance that the Total Net Equity Claim value, as determined by the Company, will be accepted by the Administrators, nor does the Company know the manner and timing in which such claim will be satisfied and the ultimate value that will be received.

Given the great degree of uncertainty as to the status of the assets held at LBIE and the process and prospects of the return of those assets, the Company has decided to record the estimated fair value of the Total Net Equity Claim at an approximately 47% discount as of December 31, 2011 and a 70% discount as of December 31, 2010, which represents management's best estimate at the respective dates of the value that ultimately may be recovered with respect to the Total Net Equity Claim (the "Estimated Recoverable Lehman Claim"). The Estimated Recoverable Lehman Claim was recorded at estimated fair value considering a number of factors including the status of the assets under U.K. insolvency laws and the trading levels of LBIE unsecured debt. In determining the estimated value of the Total Net Equity Claim, the Company was required to use considerable judgment and is based on the facts currently available. As additional information on the LBIE proceeding

becomes available, the Company may need to adjust the valuation of the Estimated Recoverable Lehman Claim. The actual loss that may ultimately be incurred by the Company with respect to the pending LBIE claim is not known and could be materially different from the estimated value assigned by the Company.

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of December 31, 2011 and December 31, 2010 securities sold, not yet purchased, at fair value consisted of the following:

	As of December 31,	
	2011	2010
	(dollars in thousands)	
U.S. Government securities(a)	$165,197	$100,559
Common stocks	123,877	88,580
Corporate bonds(b)	1,529	2,615
Options	43,648	6,162
	$334,251	$197,916

(a) As of December 31, 2011, maturities ranged from September 2013 to January 2040 and interest rates ranged between 0.13% and 7.41%. As of December 31, 2010, maturities ranged from December 2015 to August 2026 and interest rates ranged between 2.13% and 6.75%.

(b) As of December 31, 2011, maturities ranged from December 2016 to January 2026 and interest rates ranged between 5.55% and 9.50%. As of December 31, 2010, maturities ranged from June 2013 to December 2025 and interest rates ranged between 2.25% and 3.75%.

Securities purchased under agreements to resell and securities sold under agreements to repurchase

The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of December 31, 2011 and December 31, 2010:

	As of December 31, 2011 (dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Barclays Capital Inc bearing interest of (0.38%) - 0.25% due on January 3, 2012	$166,260
Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 1.53% - 1.58% due on January 3, 2012 to June 25, 2012	49,450
Agreements with Barclays Capital Inc bearing interest of 0.03% - 0.08% due on January 3, 2012	179,333
	$228,783

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	As of December 31, 2010 (dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Barclays Capital Inc bearing interest of 0.07% - 0.14% due on January 3, 2011	$97,755
Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 1.42% due on February 22, 2011 to September 1, 2011	48,532
Agreements with Barclays Capital Inc bearing interest of 0.18% - 1.50% due on January 7, 2011 to June 6, 2011	143,633
	$192,165

For all of the Company's holdings of Repurchase Agreements as of December 31, 2011, the repurchase dates are open and the agreement can be terminated by either party at any time. The agreements continue on a day-to-day basis. Transactions involving purchases of securities under agreements to resell are carried at their contract value which approximates fair value. As of December 31, 2011 and December 31, 2010, the fair value of the collateral received by the Company, consisting of government and corporate bonds, was $166.7 million and $95.5 million, respectively. Transactions involving the sale of securities under Repurchase Agreements are carried at their contract value and are accounted for as collateralized financings. In connection with these financings, as of December 31, 2011 and December 31, 2010, the Company had pledged collateral, consisting of government and corporate bonds, in the amount of $243.1 million and $207.4 million, respectively, which is included in securities owned, at fair value in the consolidated statements of financial condition.

Other

During the second and fourth quarters of 2011, the Company acquired two Luxembourg reinsurance companies from third parties through a wholly-owned local subsidiary, which, upon acquisition, recorded deferred assets and subsequently deferred tax benefits. The purchase price of the reinsurance companies totaled EUR 234.8 million (USD $331.8 million). The acquisitions were not accounted for as business combinations as after separation from the transferor, the reinsurance companies do not meet the definition of a business and did not continue any normal revenue producing or core generating activities. This is discussed in more detail in the Income Taxes footnote.

b. Consolidated Funds

Securities owned, at fair value

As of December 31, 2011 and December 31, 2010 securities owned, at fair value, held by the Consolidated Funds are comprised of:

	As of December 31, 2011