

COWEN GROUP, INC.  
Form 10-Q  
August 07, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission File Number: 001-34516

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-0423711

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

599 Lexington Avenue

10022

New York, New York

(Zip Code)

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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  No

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 6, 2012 there were 114,313,439 shares of the registrant's common stock outstanding.

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### Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in “Management's Discussion and Analysis of Financial Condition and Results of Operations”) that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as “may,” “might,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “believe,” “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 contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations.

Unaudited Condensed Consolidated Financial Statements are presented for the three and six months ended June 30, 2012 and 2011. The Consolidated Financial Statements as of December 31, 2011 were audited.

## PART I. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.

Condensed Consolidated Statements of Financial Condition

(dollars in thousands, except share and per share data)

(unaudited)

	As of June 30, 2012	As of December 31, 2011
Assets		
Cash and cash equivalents	\$80,069	\$128,875
Cash collateral pledged	9,257	9,785
Securities owned, at fair value	807,266	744,914
Securities purchased under agreement to resell	224,573	166,260
Other investments	68,336	59,943
Receivable from brokers	15,238	62,046
Fees receivable	18,789	22,297
Due from related parties	16,107	16,554
Fixed assets, net of accumulated depreciation and amortization of \$27,127 and \$23,852, respectively	34,807	37,042
Goodwill	26,211	20,028
Intangible assets, net of accumulated amortization of \$21,419 and \$20,220, respectively	12,399	5,760
Other assets	23,495	26,620
Consolidated Funds		
Cash and cash equivalents	307	297
Securities owned, at fair value	2,234	6,334
Other investments, at fair value	227,918	228,820
Other assets	625	263
Total Assets	\$1,567,631	\$1,535,838
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$400,945	\$334,251
Securities sold under agreement to repurchase	234,958	228,783
Payable to brokers	226,794	213,360
Compensation payable	22,365	71,223
Short-term borrowings and other debt	4,856	5,650
Fees payable	6,049	5,503
Due to related parties	771	1,914
Accounts payable, accrued expenses and other liabilities	59,850	61,462
Consolidated Funds		
Capital withdrawals payable	69	394
Accounts payable, accrued expenses and other liabilities	589	246
Total Liabilities	957,246	922,786
Commitments and Contingencies (Note 13)		
Redeemable non-controlling interests	98,460	104,587
Stockholders' equity		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
	1,135	1,135

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Class A common stock, par value \$0.01 per share: 250,000,000 shares authorized, 122,094,954 shares issued and 114,208,268 outstanding as of June 30, 2012 and 119,393,640 shares issued and 114,047,637 outstanding as of December 31, 2011, respectively (including 420,276 and 576,892 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	701,953	688,427
(Accumulated deficit) retained earnings	(167,931	) (163,980 )
Accumulated other comprehensive income (loss)	27	(215 )
Less: Class A common stock held in treasury, at cost, 7,886,686 and 5,346,003 shares as of June 30, 2012 and December 31, 2011, respectively.	(23,259	) (16,902 )
Total Stockholders' Equity	511,925	508,465
Total Liabilities and Stockholders' Equity	\$1,567,631	\$1,535,838

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



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Net income (loss) attributable to Cowen Group, Inc. stockholders	\$(7,946 )	\$20,037	\$(3,951 )	\$20,119
Weighted average common shares outstanding:				
Basic	114,561	76,330	114,420	75,600
Diluted	114,561	77,898	114,420	76,889
Earnings (loss) per share:				
Basic	\$(0.07 )	\$0.26	\$(0.03 )	\$0.27
Diluted	\$(0.07 )	\$0.26	\$(0.03 )	\$0.26

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

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Cowen Group, Inc.  
 Condensed Consolidated Statements of Comprehensive Income (Loss)  
 (dollars in thousands)  
 (unaudited)

	Six Months Ended June 30, 2012		Six Months Ended June 30, 2011	
Net income (loss)			\$(4,144 )	
Other comprehensive income, net of tax:				
Foreign currency translation	72		160	
Defined benefit pension plans:				
Prior service cost arising during period	—		—	
Net gain/(loss) arising during period	160		185	
Add: amortization of prior service cost included in net periodic pension cost	10    170		10    195	
Total other comprehensive income, net of tax	242		355	
Comprehensive income (loss)	\$(3,902 )		\$23,730	

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

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Cowen Group, Inc.  
Condensed Consolidated Statements of Changes in Equity  
(dollars in thousands, except share data)  
(unaudited)

	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
Balance, December 31, 2011	114,047,637	\$ 1,135	\$(16,902)	\$688,427	\$ (215 )	\$ (163,980 )	\$ 508,465	\$ 104,587
Net income (loss)	—	—	—	—	—	(3,951 )	(3,951 )	(193 )
Defined benefit plans	—	—	—	—	170	—	170	—
Foreign currency translation	—	—	—	—	72	—	72	—
Deconsolidation of funds	—	—	—	—	—	—	—	(17,104 )
Consolidation of funds	—	—	—	—	—	—	—	18,521
Capital withdrawals	—	—	—	—	—	—	—	(7,351 )
Restricted stock awards issued	2,701,314	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(2,540,683 )	—	(6,357 )	—	—	—	(6,357 )	—
Amortization of share based compensation	—	—	—	13,526	—	—	13,526	—
Balance, June 30, 2012	114,208,268	\$ 1,135	\$(23,259)	\$701,953	\$ 27	\$ (167,931 )	\$ 511,925	\$ 98,460

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



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

(continued)	Six Months Ended June 30,	
	2012	2011
Cash flows from investing activities:		
Securities purchased under agreement to resell	\$(58,313	) \$20,423
Purchases of other investments	(3,889	) (40,650
Purchase of business, net of cash acquired (See Note 2)	(10,062	) —
Proceeds from sales of other investments	7,429	39,567
Purchase of fixed assets	(1,084	) (4,263
Net cash provided by / (used in) investing activities	(65,919	) 15,077
Cash flows from financing activities:		
Securities sold under agreement to repurchase	6,175	(22,726
Borrowings on short-term borrowings and other debt	—	493
Repayments on short-term borrowings and other debt	(794	) (25,608
Purchase of treasury stock	(4,516	) —
Capital withdrawals to non-controlling interests in operating entities	(2,267	) (2,009
Consolidated Funds		
Capital contributions by non-controlling interests in Consolidated Funds	—	4,038
Capital withdrawals to non-controlling interests in Consolidated Funds	(5,409	) (43,059
Net cash provided by / (used in) financing activities	(6,811	) (88,871
Change in cash and cash equivalents	(48,806	) 73,821
Cash and cash equivalents at beginning of year	128,875	36,354
Cash and cash equivalents at end of year	\$80,069	\$110,175
Supplemental non-cash information		
Purchase of treasury stock, at cost, upon close of acquisition (see Note 2)	\$—	\$1,906
Net assets acquired upon acquisition (net of cash) (See Note 2)	\$—	\$58,486
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
Purchase of treasury stock, at cost, through net settlement (See Note 15)	\$1,841	\$—
Net assets of consolidated entities	\$18,521	\$3,470
Net assets of deconsolidated entities	\$17,104	\$—

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



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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements  
(unaudited)

1. Organization and Business

Cowen Group, Inc., a Delaware corporation formed on June 1, 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, market-making and sales and trading services through its two business segments: alternative investment and broker-dealer. The Company's alternative investment segment includes hedge funds, replication products, mutual funds, managed futures funds, funds 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. Acquisitions

Algorithmic Trading Management, LLC

On April 5, 2012, the Company completed its acquisition of all of the outstanding interests in ATM USA, LLC ("ATM USA"), Algorithmic Trading Management, LLC ("ATM LLC") and Algo Trading Management Inc. ("ATM INC") (collectively the "ATM Group"), a provider of global, multi-asset class algorithmic execution trading models. The acquisition was completed in accordance with the definitive sale and purchase agreement, entered into on January 13, 2012, as announced during the first quarter of 2012, for cash. In the aggregate, the purchase price, assets acquired and liabilities assumed were not significant and the near term impact to the Company and its consolidated results of operations and cash flows is not expected to be significant. Post acquisition, the ATM Group will be included in the broker-dealer segment.

The acquisition was accounted for under the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). As such, results of operations for the ATM Group are included in the accompanying condensed consolidated statements of operations since the date of acquisition, and the assets acquired, liabilities assumed and the resulting goodwill were recorded at their fair values within their respective line item on the condensed consolidated statement of financial condition.

LaBranche & Co Inc.

The acquisition of LaBranche & Co Inc. ("LaBranche") by the Company was consummated after the market close on June 28, 2011. LaBranche's wholly owned subsidiary, Cowen Capital LLC (formerly LaBranche Capital LLC), is a registered broker-dealer and FINRA member firm that prior to the operations being discontinued in the fourth quarter of 2011 operated as a market-maker in exchange traded funds ("ETFs"), engaged in hedging activities in options, ETFs, structured notes, foreign currency securities and futures related to its market-making operations and also conducted principal trading activities in these securities.

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 \$156.0 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 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 condensed 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 \$176.0 million (excluding \$2.3 million non-compete agreements and covenants with limiting conditions acquired), exceeding the fair value of the purchase price of \$156.0 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 accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2011. As the purchase consideration (the Exchange Ratio)



transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these condensed consolidated financial statements, as further discussed below, are not subject to these 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

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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



value of the equity method investment and its estimated fair value is recognized as an impairment charge 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 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 condensed consolidated statements of operations.

Retention of Specialized Accounting—The Consolidated Funds are investment companies and apply specialized industry



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 condensed 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



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 earnings 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



liabilities in the accompanying condensed consolidated statements of financial condition, as of June 30, 2012 and December 31, 2011 is \$14.3 million and \$15.3 million, respectively.

g. New accounting pronouncements

Recently issued 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

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(4) Lehman claims, at fair value	731	553
	\$68,336	\$59,943



Equity method investments include investments held by the Company in several operating companies whose operations

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Options	24,964	43,648
Warrants and rights	3	—
	\$400,945	\$334,251

As of June 30, 2012, maturities ranged from May 2013 to January 2040 and interest rates ranged between 0.19% (a) and 7.41%. As of December 31, 2011, maturities ranged from September 2013 to January 2040 and interest rates ranged between 0.13% and 7.41%.

(b) As of June 30, 2012, the maturities ranged from October 2012 to January 2026 with an interest rate between 5.55%



Securities owned, at fair value

As of June 30, 2012 and December 31, 2011 securities owned, at fair value, held by the Consolidated Funds are comprised of:

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The investments of consolidated fund of funds investment companies are \$26.1 million and \$28.5 million as of June 30, 2012 and December 31, 2011, respectively. These investments include the investments of Levered FOF, Multi Strat Master FOF and Vintage Master FOF as of June 30, 2012 and Levered FOF, Multi Strat FOF and Vintage FOF as of December 31, 2011 (see Note 3b), all of which are investment companies managed by Ramius Alternative Solutions LLC. RTS Global 3X is



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		(dollars in thousands)					
Ramius Multi-Strategy Master FOF LP*	Multi-Strategy	\$—	\$ 8,269	\$—	\$—	\$8,269	(a)
Ramius Vintage Multi-Strategy Master FOF LP*	Multi-Strategy	—	—	8,883	—	8,883	(a)
Tapestry Pooled Account V LLC*	Credit-Based	438	—	—	—	438	(b)
Independently Advised Portfolio Funds*	Futures & Global Macro	—	—	—	8,078	8,078	(c)
Externally Managed Portfolio Funds	Credit-Based	260	—	—	—	260	(b)
Externally Managed Portfolio Funds	Event Driven	1,992	—	—	—	1,992	(d)
Externally Managed Portfolio Funds	Hedged Equity	35	—	—	—	35	(e)
Externally Managed Portfolio Funds	Multi-Strategy	459	—	—	—	459	(f)
Externally Managed Portfolio Funds	Fixed Income Arbitrage	54	—	—	—	54	(g)
		\$3,238	\$ 8,269	\$8,883	\$8,078	\$28,468	

\* These Portfolio Funds are affiliates of the Company.















































































































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

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million performance-

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Company's alternative investment 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 clients in Ramius managed funds such as the RCG Longview platform, as well as in direct investments in commercial real estate projects.

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As of June 30, 2012, the Company's invested capital amounted to a net value \$430.8 million (supporting a long market value of \$797.9 million), representing approximately 84% 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 June 30, 2012. The net values presented in the table below do not tie to Cowen Group's condensed consolidated statement of financial condition as of June 30, 2012 because they are included in various line items of the condensed 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 (dollars in millions)	% of Stockholders' Equity
Trading	\$279.5	55%
Merchant Banking	102.0	20%
Real Estate	49.3	10%
Total	430.8	84%
Stockholders' Equity	\$511.9	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 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 condensed 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 17 to the Company's condensed consolidated financial statements, appearing elsewhere in this Form 10-Q, for a reconciliation of Economic Income (Loss) to total Company US GAAP net income (loss).



Bloomberg) decreased 14% in the three months ended June 30, 2012 compared to the prior year quarter.

Management Fees

Management fees decreased \$2.0 million to \$9.9 million for the three months ended June 30, 2012 compared with \$11.9 million in the prior year quarter. This was primarily attributable to our healthcare royalty funds, for which fees decreased in the





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Consolidated Funds Expenses

Consolidated Funds expenses decreased \$0.3 million to \$0.6 million for the three months ended June 30, 2012 compared with \$0.9 million in the prior year quarter.

Other Income (Loss)

Other income (loss) decreased \$19.3 million to \$7.8 million for the three months ended June 30, 2012 compared with \$27.1 million in the prior year quarter. The decrease primarily relates to a \$22.2 million bargain purchase gain, recorded during the three months ended June 30, 2011, in relation to the acquisition of LaBranche in June 2011. This decrease was partially offset by an increase in the Company's own invested capital driven by increases in performance in certain investment strategies including our activist, credit and event driven strategies. A decrease in the Consolidated Funds' performance was mainly related to the performance of Enterprise Master driven by a decrease in performance of its private investments. 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 redeemable non-controlling interests.

Income Taxes

Income tax expense increased \$18.2 million to \$0.2 million for the three months ended June 30, 2012 compared with an income tax benefit of \$18.0 million in the prior year quarter. The Company's tax expense increased primarily because a consolidated subsidiary of the Company that, as part of a reinsurance service program, acquired Luxembourg reinsurance companies with deferred tax liabilities recorded, pursuant to an Advance Tax Agreement, a deferred tax benefit upon the acquisition of these reinsurance companies during the prior year quarter.

Income (Loss) Attributable to Redeemable Non-controlling Interests

Income (loss) attributable to redeemable non-controlling interests decreased by \$4.9 million to a loss of \$2.4 million for the three months ended June 30, 2012 compared with income of \$2.5 million in the prior year quarter. The period over period change was the result of an overall decrease in performance of the Consolidated Funds and therefore more allocations of losses to non-controlling interest holders.



related to the Company's acquisition of ATM. Customer trading volumes across the industry (according to Bloomberg) decreased 17% in the six months ended June 30, 2012 compared to the prior year period.

Management Fees

Management fees decreased \$3.4 million to \$19.6 million for the six months ended June 30, 2012 compared with \$23.0 million for the first six months of 2011. This was primarily attributable to a) our healthcare royalty funds, for which fees



funds lead

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presented and additional information regarding the reconciling adjustments discussed above, see Note 17 to the Company's condensed consolidated financial statements included in this 10-Q.

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decrease was partially offset by an increase in management fees relating to our hedge fund products, specifically our Value and Opportunity funds (even after giving effect to the spin off of the Value and Opportunity business in the second quarter of 2011) and our Ramius Trading Strategies fund.

**Incentive Income (Loss).** Incentive income for the segment decreased \$3.1 million to \$2.6 million for the three months ended June 30, 2012 compared with \$5.7 million in the prior year quarter. This was primarily a result of a decrease in performance fees earned on our real estate funds and a decrease of performance fees earned on our Global Credit fund. These decreases were partially offset by an increase in performance fees relating to our hedge fund products, specifically our Value and Opportunity funds (even after giving effect to the spin off of the Value and Opportunity business in the second quarter of 2011).

**Investment Income (Loss).** Investment income for the segment decreased \$16.1 million to \$6.7 million for the three months ended June 30, 2012, compared with an income of \$22.8 million in the prior year quarter. The decrease was primarily a result of a recognition of a deferred tax benefit in the second quarter of 2011 of \$18.3 million and a decrease in performance on



2012 compared with \$17.7 million in the prior year quarter.

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The following table shows the components of the non-compensation expenses—fixed, for the three months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Period-to-Period		
	2012	2011	\$ Change	% Change	
	(dollars in thousands)				
Non-compensation expenses—fixed:					
Interest expense	\$59	\$218	\$(159)	(73)	)%
Professional, advisory and other fees	3,119	3,530	(411)	(12)	)%
Occupancy and equipment	5,220	5,587	(367)	(7)	)%
Depreciation and amortization	2,361	2,013	348	17	%
Service fees	3,154	4,364	(1,210)	(28)	)%
Other	10,635	10,782	(147)	(1)	)%
Total	\$24,548	\$26,494	\$(1,946)	(7)	)%

**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, decreased \$5.4 million to \$7.1 million for the three months ended June 30, 2012 compared with \$12.5 million in the prior year quarter. The decrease was primarily due to syndication costs related to a capital raise by an alternative investment asset fund in the first quarter of 2011 and professional fees that were incurred relating to the closing of the Luxembourg reinsurance deals in the prior year quarter.

The following table shows the components of the non-compensation expenses—variable, for the three months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Period-to-Period		
	2012	2011	\$ Change	% Change	
	(dollars in thousands)				
Non-compensation expenses—Variable:					
Floor brokerage and trade execution	\$2,906	\$2,675	\$231	9	%
Healthcare Royalty Partners syndication costs	—	1,626	(1,626)	(100)	)%
Expenses related to Luxembourg reinsurance companies	735	4,317	(3,582)	(83)	)%
Marketing and business development	3,497	3,888	(391)	(10)	)%
Total	\$7,138	\$12,506	\$(5,368)	(43)	)%

**Reimbursement from Affiliates.** Reimbursements from affiliates, which relate to the alternative investment segment, increased \$0.4 million to \$1.4 million for the three months ended June 30, 2012 compared with \$1.0 million in the prior year quarter.

**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.







relating to the real estate business and the Value and Opportunity business (subsequent to the spin off in the second quarter of 2011).

Fixed non-compensation expenses for the alternative investment segment decreased \$0.2 million to \$15.6 million for the six months ended June 30, 2012 compared with \$15.8 million in for the first six months of 2011. Fixed non-compensation

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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

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generally readily marketable. As of June 30, 2012, we had cash and cash equivalents of \$80.1 million, which includes \$13.3 million held in foreign subsidiaries, and net liquid investment assets of \$314.6 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 June 30, 2012, the Company had unfunded commitments of \$6.0 million pertaining to capital commitments in two 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, as a limited partner of the Healthcare Royalty Partners funds and also as a member of Healthcare Royalty Partners General Partner, has committed to invest \$42.2 million in the Healthcare Royalty Partners funds which are managed by Healthcare Royalty Management. This commitment is expected to be called over a two to five year period. The Company will make its pro-rata investment in the Healthcare Royalty Partners funds along with the other limited partners. Through June 30, 2012, the Company has funded \$25.9 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 June 30, 2012, 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, Cowen Capital LLC (formerly known as LaBranche Capital, LLC) and ATM USA 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. Under the basic method permitted by the Rule, Cowen Capital LLC is required to maintain minimum net capital, as defined, equivalent to the greater of \$1.0 million or 6.667% of aggregate indebtedness. ATM USA is required to maintain minimum net capital, as defined, equivalent to the greater of \$5,000 or 6.6670% of aggregate indebtedness. The broker-dealers are not permitted to withdraw equity if certain minimum net capital requirements are not met. As of June 30, 2012, Cowen and Company had total net capital of approximately \$31.8 million, which was approximately \$30.8 million in excess of its minimum net capital requirement of \$1 million. As of June 30, 2012, Cowen Capital, LLC had total net capital of approximately \$3.1 million, which was approximately \$2.1 million in excess of its minimum net capital requirement of \$1.0 million. As of June 30, 2012, ATM USA had total net capital of approximately \$0.2 million which was approximately \$0.1 million in excess of its minimum net capital requirement of \$0.1 million.

Cowen and Company, Cowen Capital LLC and ATM USA are exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 as its 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, Cowen Capital LLC and ATM USA 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, Cowen Capital LLC and ATM USA, 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 requirement of the FSA. As of June 30, 2012, Ramius UK's Financial Resources of \$0.6 million exceeded its minimum requirement of

\$0.2 million by \$0.4 million. As of June 30, 2012, CIL's Financial Resources of \$4.0 million exceeded its minimum requirement of \$2.2 million by \$1.8 million.

During the first quarter of 2012, due to the discontinuation of the LaBranche business, the firm decided to close the operations of Cowen International Trading Limited ("CITL"), (formerly known as LaBranche Structured Products Europe Limited), a registered broker-dealer. On March 8, 2012, CITL was de-registered from the FSA. As of March 31, 2012, CITL was no longer subject to the regulatory capital requirements of the FSA in the United Kingdom.

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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 June 30, 2012, CCAL's Financial Resources of \$0.6 million exceeded the minimum requirement of \$0.4 million by \$0.2 million. In connection with the Company's decision to discontinue the LaBranche business, the Company decided to liquidate CSPH (formerly known as LaBranche Structured Products Hong Kong Limited), a registered broker-dealer. On June 11, 2012, CSPH was de-registered with the Hong Kong Securities and Futures (Financial Resources) Rules ("FRR"). As of June 30, 2012, CSPH was no longer subject to the regulatory requirements of the FRR in Hong Kong. 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 June 30, 2012, 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 June 30, 2012 and December 31, 2011.

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 June 30, 2012 and December 31, 2011:

	As of June 30, 2012 (dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Barclays Capital Inc bearing interest of 0.09% - 0.16% due on July 2, 2012	\$224,573
Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 2.12% - 2.20% due on July 10, 2012 to June 25, 2013	29,039
Agreements with Barclays Capital Inc bearing interest of 0.21% - 0.22% due July 2, 2012	205,919
	\$234,958
	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

For all of the Company's holdings of Repurchase Agreements as of June 30, 2012, 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 and general and administrative expenses.

Operating Activities. Net cash provided by operating activities of \$23.9 million for the six months ended June 30, 2012 was predominately related to cash received from a decrease in cash held at other brokers partially offset by cash used to pay for year end bonuses. Net cash provided by operating activities of \$147.6 million for the six months ended June 30, 2011 was predominately related to cash received from a decrease in cash held at other brokers and cash acquired upon the acquisition of LaBranche, partially offset by cash used to pay for year end bonuses included in compensation payable and payments for purchases of securities related to proprietary capital

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**Investing Activities.** Net cash used in investing activities of \$65.9 million for the six months ended June 30, 2012 was primarily related to increase repurchase agreement activity and cash used for an acquisition. Net cash provided by investing activities of \$15.1 million for the six months ended June 30, 2011 was primarily from increased repurchase agreement activity.

**Financing Activities.** Net cash used in financing activities for the six months ended June 30, 2012 was \$6.8 million primarily related to the purchase of treasury stock and payment by the consolidated funds to investors for capital withdrawals. Net cash used in financing activities for the six months ended June 30, 2011 was \$88.9 million primarily related to increased repurchase agreement activity, repayments on the line of credit and payments by the consolidated funds to investors for capital withdrawals.

### Short-Term Borrowings and other debt

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 condensed 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 June 30, 2012, the remaining balance on these capital leases was \$4.6 million. Interest expense for the three months ended June 30, 2012 and 2011 was \$0.1 million and \$0.1 million, respectively, and was \$0.1 million and \$0.1 million for the six months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, 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 October 31, 2012, supporting Healthcare Royalty Management, LLC's Stamford office lease, (iii) \$82,000, which expires on May 12, 2013, 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 and (vi) \$1 million which expires February 22, 2013, 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 June 30, 2012 and December 31, 2011, there were no amounts due related to these letters of credit.

### Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as of June 30, 2012. 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 security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

Cowen and Company, Cowen Capital LLC (formerly known as Labranche Capital, LLC), Labranche & Co. LLC, Cowen Structured Holdings LLC (formerly known as Labranche and Co Inc.) are members 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 condensed 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

These condensed consolidated financial statements include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest, including the Consolidated Funds, in which the Company has a controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation.

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The Company's funds are not subject to these consolidation provisions with respect to their investments pursuant to their specialized accounting.

The Company's condensed consolidated financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the Consolidated Funds on a gross basis. The management fees and incentive income earned by the Company from the Consolidated Funds were eliminated in consolidation; however, the Company's allocated share of net income from these funds was increased by the amount of this eliminated income. Hence, the consolidation of these funds had no net effect on the Company's net earnings.

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 condensed 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” to value its financial instruments measured at fair value. In determining an instrument's level 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,

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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 condensed consolidated statements of financial condition and all other derivatives are included within securities owned, at fair value on the condensed 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:

**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 5 and 6 for further details of the Company's investments in Portfolio Funds.

**Real estate investments**—Real estate investments are valued at 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 earnings 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.

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See Notes 5 and 6 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 segment and a broker-dealer segment, as more fully described below.

Our alternative investment 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 condensed consolidated statements of operations.

**Healthcare Royalty Partners (formerly Cowen Healthcare Royalty Partners) Funds.** During the investment period (as defined in the management agreement of the Healthcare Royalty Partners funds), management fees for the Healthcare Royalty Partners 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 Healthcare Royalty Partners 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 Healthcare Royalty Partners 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 condensed 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.

### 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 or at an interim period if events or changed circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under US GAAP, the Company first assesses the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amounts as a basis for determining if it is necessary to perform 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 condensed 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 condensed consolidated statements of operations. The condensed consolidated statements of operations do not include litigation expenses incurred by the Company in connection with indemnified litigation matters. See Note 13 for further discussion. As the successor of the named party in these litigation matters, the Company recognizes the related legal reserve in the condensed consolidated statements of financial condition.

### Recently adopted and future adoption of accounting pronouncements

For a detailed discussion, see Note 3g. "New accounting pronouncements" in our condensed consolidated financial statements for the quarter ended June 30, 2012 and "Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2011 which was filed with the SEC on March 9, 2012.



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Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the three and six months ended June 30, 2012, there were no material changes in our quantitative and qualitative disclosures about market risks from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. For a more detailed discussion concerning our market risk, see Item 7A “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K.

Item 4. Controls and Procedures

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer (the principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of June 30, 2012.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of June 30, 2012, our disclosure controls and procedures are effective to provide a reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 accordance with the US GAAP, the Company establishes reserves for contingencies when the Company believes that it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. The Company discloses a contingency if there is at least a reasonable possibility that a loss may have been incurred and there is no reserve for the loss because the conditions above are not met. The Company's disclosure includes an estimate of the reasonably possible loss or range of loss for those matters, for which an estimate can be made. Neither reserve nor disclosure is required for losses that are deemed remote.

The Company appropriately reserves for certain matters where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Such amounts are included within

accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not

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limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters.

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, the total amount reserved in relation to the Indemnification Agreement was \$0.5 million, respectively, and is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statement of financial condition. In April 2012, in accordance with the terms of an agreement, the full escrowed amount, other than a de minimis amount, was released to SG and used by SG in connection with the settlement of the litigation matter to which the escrow related.

There have been no new developments with respect to the Company's legal proceedings that occurred in the first quarter of 2012. The Company's discussion should be read together with in the accompanying Note 13 "Commitments and Contingencies—Litigation," in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 and the Company's discussion set forth under Legal Proceedings in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 1A. Risk Factors

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There are no material changes from the risk factors previously disclosed in our 2011 Form 10-K filed with the SEC on March 9, 2012.

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

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 \$20.0 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 three months ended June 30, 2012, through the share repurchase program, the Company repurchased 1,462,680 shares of Cowen Class A common stock at an average price of \$2.47 per share.

The table below sets forth the information with respect to purchases made by or on the behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended June 30, 2012.

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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 (April 1, 2012 – April 30, 2012)				
Common stock repurchases(1)	—	\$—	—	(3 )
Employee transactions(2)	—	\$—	—	—
Total				
Month 2 (May 1, 2012 – May 31, 2012)				
Common stock repurchases(1)	830,870	\$2.43	—	(3 )
Employee transactions(2)	206,007	\$2.42	—	—
Total				
Month 3 (June 1, 2012 – June 30, 2012)				
Common stock repurchases(1)	631,810	\$2.51	—	(3 )
Employee transactions(2)	521,527	\$2.49	—	—
Total				
Total (April 1, 2012 – June 30, 2012)				
Common stock repurchases(1)	1,462,680	\$2.47	—	(3)
Employee transactions(2)	727,534	\$2.47	—	—
Total				

(1) As announced in July 2011, the Company's Board of Directors authorized the repurchase, subject to market conditions, of up to \$20.0 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.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not Applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COWEN GROUP, INC.

By: /s/ PETER A. COHEN  
Name: Peter A. Cohen  
Title: Chief Executive Officer and President (principal executive officer)

By: /s/ STEPHEN A. LASOTA  
Name: Stephen A. Lasota  
Title: Chief Financial Officer (principal financial officer and principal accounting officer)

Date: August 7, 2012

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Exhibit Index

Exhibit No.	Description
10.1	Employment Agreement, dated as of May 31, 2012, by and between Cowen Group, Inc. and Jeffrey Solomon (previously filed as Exhibit 10.1 to the Form 8-K filed June 1, 2012). (a)
31.1	Certification of CEO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of CFO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of CEO and CFO Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL INSTANCE DOCUMENT *
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT *
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT *
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT *
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT *
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT *

(a) Signifies management contract or compensatory plan or arrangement.

\* Pursuant to Rule 406T of Regulation S-T, this information shall not be deemed filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under those sections