

Cowen Group, Inc.  
Form 10-K  
March 06, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2008**

Commission file number: **000-52048**

**Cowen Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**84-1702964**  
(I.R.S. Employer  
Identification No.)  
**1221 Avenue of the Americas**  
**New York, New York 10020**  
**(646) 562-1000**

(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:

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
Common Stock, par value \$0.01 per share	The Nasdaq Global Market
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

## Edgar Filing: Cowen Group, Inc. - Form 10-K

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.

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was: \$110,914,637.

As of March 4, 2009 there were 15,171,432 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 2009 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," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "intend" or "continue," the negative of these terms and other comparable terminology. 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," "our" 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**

We are 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 & defense and alternative energy sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade equity and equity-linked securities, principally in our target sectors. We focus our investment banking efforts, principally equity and equity-linked capital raising and strategic advisory services, on small to mid-capitalization public companies as well as private companies. We also offer traditional and alternative asset management services to institutional and other accredited investors. Our traditional asset management business includes teams based in the United States and the United Kingdom. Our alternative asset management business consists of Cowen Healthcare Royalty Partners ("CHRP"), which invests principally in commercial-stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments, and Cowen Capital Partners, LLC, which manages a portfolio of middle market private equity investments for third party investors. We operate through a single reportable segment.

On August 22, 2008, the Company acquired Latitude Holdings Limited ("Latitude"), a boutique investment bank headquartered in Hong Kong with offices in Beijing and Shanghai. Latitude has been renamed Cowen Latitude Asia.

In July 2008, the Company announced the final closing of Cowen Healthcare Royalty Partners, L.P. (the "CHRP Fund") with capital commitments in excess of \$500 million. Cowen Healthcare Royalty Management, LLC ("CHRP Management") manages the CHRP Fund. The CHRP Fund was significantly oversubscribed, and substantially exceeded its initial target size of \$350 million, representing one of the largest inaugural healthcare-focused private equity funds ever raised.

The Company, through predecessor entities, was founded in 1918. In 1998, we were acquired by Société Générale ("SG"). On July 12, 2006, following the transfer by SG's primary U.S. broker-dealer subsidiary, SG Americas Securities Holdings ("SGASH"), of all of its interest in Cowen and Company, LLC, our principal U.S. broker-dealer, and Cowen International Limited ("CIL"), a United Kingdom entity, to the Company in exchange for 12,899,900 shares of our stock, we completed an initial public offering ("IPO"). All of the shares sold in our IPO were previously held by SGASH. Cowen Group, Inc. was incorporated in Delaware in February 2006 in anticipation of the IPO.

Our principal executive offices are located at 1221 Avenue of the Americas, New York, New York 10020. Our telephone number is (646) 562-1000. We also have offices in Boston, Chicago, Cleveland, Dallas, San Francisco, Stamford, Atlanta, London, Geneva, Hong Kong, Beijing and Shanghai.

**Principal Business Lines**

***Investment Banking***

Our investment banking professionals are focused on providing strategic advisory and capital raising services to public and private companies in the healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy sectors. By focusing on our 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

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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. Historically, a significant majority of our investment banking revenue has been earned from high-growth small and mid-capitalization companies. We believe the high level of expertise and client trust we have developed allow us to generate significant repeat business. In 2008, over 27% of our investment banking business was executed for clients that had utilized our services in the past.

***Brokerage***

Our team of brokerage professionals serves institutional investor clients in the U.S. and internationally. We primarily trade common stocks and listed options on behalf of our clients. We have relationships with over 1,000 institutional investor clients. Our brokerage team is comprised of experienced professionals dedicated to our target sectors, which allows us to develop a level of knowledge and focus that differentiates our brokerage capabilities from those of many of our competitors. We tailor our account coverage to the unique needs of our clients. In January 2009, we expanded our electronic trading and program business with the hiring of a new team of professionals. We also have a group of brokerage professionals focused on providing listed option strategies and execution for our institutional investor clients.

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 with 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 arranged 362 days of non-deal road show meetings for 185 companies in 2008. We believe our deep relationships with company management teams and our sector-focused approach provides us with broad access to management.

Our sector traders are able to provide superior execution because of their extensive knowledge of the interests of our institutional investor clients in specific companies in our target sectors. Our brokerage professionals are primarily located in New York City, Boston, San Francisco and London. We also have brokerage offices in Atlanta, Chicago, Cleveland, Dallas and Geneva.

***Research***

We currently have a research team of 23 senior analysts covering more than 335 companies. Within our coverage universe, approximately 34% are healthcare companies, 39% are technology companies, 15% are consumer companies, 9% are aerospace & defense companies and 3% are alternative energy companies. Our research analysts are located in New York City, Boston and San Francisco.

We highlight our investment research and provide significant investor access to corporate management teams through a number of annual conferences focused on our sectors and sub-sectors. We believe our conferences are differentiated by the integrity of our research presented, the quality of our survey results presented and the reputations of our expert panelist participants. Expert panelists who appear at our conferences are drawn from our extensive network of industry thought leaders that we have developed over the past thirty years. Our investor clients recognize that our networks, particularly in healthcare, are comprised of many of the leading professionals in their respective fields.

***Asset Management***

We conduct our asset management business in the United States through Cowen Asset Management, LLC ("CAM US") and in the United Kingdom through Cowen Asset Management Limited ("CAM UK"). CAM US utilizes a growth-oriented investment style focused on small and mid-sized companies based primarily in North America. CAM UK provides traditional asset

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management products such as six fund products listed on the Irish Stock Exchange that present a range of portfolios focused on different geographical regions around the world.

***Alternative Asset Management***

CHRP manages an investment program that invests principally in commercial-stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments. CHRP seeks these royalty interests in end-user sales of commercial-stage or near commercial-stage medical products such as pharmaceuticals, biotechnology products and medical devices. Cowen Capital Partners, LLC manages a portfolio of middle market private equity investments for third party investors.

**Financial Information About Geographic Areas**

We are principally engaged in providing investment banking, brokerage, research, asset management and alternative asset management services to corporations and institutional investor clients in the United States. We also provide investment banking, brokerage and asset management services to companies and institutional investor clients in Europe through CIL and CAM UK. We provide investment banking services in China through Cowen Latitude Advisors Limited ("CLAL"). See Note 23 to the Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K for more information on revenues by geographic area.

**Competition**

All aspects of our businesses are intensely competitive, and we expect them to remain so. Our competitors are commercial banks, bank holding companies, other investment banks, brokerage firms, merchant banks, investment management firms, and financial advisory firms. We compete with some of our competitors nationally and with others on a regional, product or business line basis. Many of our competitors have substantially greater capital and resources than we do and offer a broader range of financial products. We believe that the principal factors affecting competition in our business include client relationships, reputation, the quality and price of our products and services, market focus and the ability of our professionals.

There has been substantial disruption, consolidation and convergence among some of our competitors in the financial services industry. This trend accelerated over the course of the past year as general economic conditions and the credit crisis resulted in numerous mergers, acquisitions and dislocations among industry participants. Despite these recent market forces, many of our competitors have the ability to offer a wider range of products than we offer, including loans and deposit taking. Many of these firms also have more extensive investment banking services, which may enhance their competitive position. They also have the ability to support investment banking and securities products with commercial banking and other financial services revenue in an effort to gain market share, which could result in pricing pressure in our business.

We have experienced intense price competition in our brokerage 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. The trend toward direct access to automated, electronic markets will likely continue. We may experience competitive pressures in these and other areas in the future as some of our competitors may seek to obtain market share by reducing prices.

Competition for the recruitment and retention of qualified professionals has abated somewhat over the past year. However, competition for talented professionals is, and will continue to be, an important part of our business. Our ability to continue to compete effectively in our business will depend upon our continued ability to retain and motivate our existing professionals and to attract new professionals while managing compensation and other costs.

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**Regulation**

Our business, as well as the financial services industry generally, remains subject to extensive regulation in the United States and elsewhere. As a matter of public policy, 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 current conditions in the financial markets, regulators have increased their focus on the regulation of the financial services industry.

In the United States, the Securities and Exchange Commission ("SEC") is the federal agency responsible for the administration of the federal securities laws. Cowen and Company, LLC ("Cowen"), our U.S. based wholly-owned subsidiary, is registered as a broker-dealer with the SEC and in all 50 states, the District of Columbia and Puerto Rico. Self-regulatory organizations, such as the Financial Industry Regulatory Authority ("FINRA") and the New York Stock Exchange, Inc. ("NYSE"), adopt and enforce rules governing the conduct and activities of its member firms, including Cowen. Accordingly, Cowen is subject to regulation and oversight by the SEC, FINRA and the NYSE. FINRA and the NYSE are themselves subject to oversight by the SEC. State securities regulators also have regulatory or oversight authority over Cowen. Cowen is also a member of, and subject to regulation by, 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.

CIL, our U.K. broker-dealer subsidiary, and CAM UK, our U.K. asset management subsidiary, are subject to regulation by the Financial Services Authority ("FSA") in the U.K. CAM UK is also subject to regulation by the Irish Financial Regulator ("IFR").

CLAL, our Hong Kong based wholly-owned subsidiary, is regulated by the Securities and Futures Commission in Hong Kong ("SFC"). Our businesses may also be subject to regulation by non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where we operate.

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 and securities, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of various self-regulatory organizations, Cowen is subject to the SEC's uniform net capital rule, Rule 15c3-1 under the Securities Exchange Act of 1934 ("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 subsidiary may be limited.

The research functions of investment banks have been, and continue to be, the subject of increased 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 NASD 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



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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 which 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.

On October 14, 2008, the SEC published final rules, effective as of October 17, 2008, under the Exchange Act adopting, among other changes, a temporary rule, set to expire on July 31, 2009, which contains a firm delivery requirement for long and short equity sales and the "naked" short selling anti-fraud rule. The Company has implemented procedures and conducted employee training to ensure compliance with the new regulations.

Certain of our businesses are subject to compliance with laws and regulations of United States federal and state governments, non-United States 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.

**Employees**

As of February 28, 2009, we had 449 employees.

**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

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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**

**Risks Related to Our Industry**

*Our businesses have been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.*

Our businesses, by their nature, do not produce predictable earnings, and all of our businesses may be materially affected by conditions in the global financial markets and economic conditions generally. In the past twelve months, these conditions have significantly deteriorated.

Particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in the values of subprime mortgages, but spread to nearly all asset classes, including equities. Industry-wide declines in the size and number of underwritings and mergers and acquisitions has had an adverse effect on our revenues due to the decrease in equity underwritings and the decline in both announced and completed mergers and acquisitions. Continued weakness in equity markets and diminished trading volume of securities could further adversely impact our brokerage business, from which we have historically generated a significant portion of our revenues. In addition, reductions in the trading prices for equity securities also tend to reduce the dollar value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn would likely reduce the fees we earn from these transactions. As we may be unable to reduce expenses correspondingly, our profits and profit margins may decline. During 2008, the adverse market conditions impacted our investment banking and capital market businesses, and there can be no assurance that these conditions will improve in the near term. Until they do, we expect our results of operations to be negatively impacted.

*Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions.*

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. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. We 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, we could be fined, prohibited from engaging in some of our business activities or subjected to limitations or conditions on our business activities. In addition, we 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 us could have material adverse financial effects or cause significant reputational harm to us, which could seriously affect our business prospects.

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In addition, financial services firms are subject to numerous perceived or actual conflicts of interest, which have drawn 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. While we have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures, appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail to do so. Our 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.

***Our exposure to legal liability is significant, and damages that we may be required to pay and the reputational harm that could result from legal action against us could materially affect our businesses.***

As an investment banking firm, we depend to a large extent on our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging in our business than in other businesses. Moreover, our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering "fairness opinions" in connection with mergers and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including stockholders of our clients who could commence litigation against us. Although our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, these provisions may not protect us or may not be enforceable in all cases. As a result, we 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 us could have a material adverse effect on our results of operations or cause significant reputational harm to us, which could seriously harm our business and prospects.

In connection with our IPO, we entered into an Indemnification Agreement with SG, wherein, among other things, SG agreed to indemnify us 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 our IPO. SG, however, will not indemnify us, and we will instead indemnify SG, for most litigation, arbitration and regulatory matters that may occur in the future but were unknown at the time of our IPO and certain known regulatory matters. See Item 3 "Legal Proceedings" for a discussion of the matters covered by these indemnification provisions.

***Employee misconduct could harm us and is difficult to detect and deter.***

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

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**Risks Related to Our Business**

*We focus 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 business.*

We focus principally on the healthcare, technology, media and telecommunications, consumer, aerospace & defense, 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 our financial results and the market value of our common stock. The business environment for companies in these sectors has been subject to substantial volatility, and our financial results have consequently been subject to significant variations from year to year. The market for securities in each of our 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 focused principally on specific growth sectors of the economy, we also depend 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 our target sectors or other factors, our business and results of operations may be adversely affected.

*Our financial results may fluctuate substantially from period to period, which may impair our stock price.*

We have experienced, and expect to experience in the future, significant periodic variations in our revenues and results of operations. These variations may be attributed in part to the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our 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 we are advising or an offering in which we are 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 our focus on growth companies in the healthcare, technology, media and telecommunications, consumer, aerospace & defense, 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 merger and acquisition exit opportunities. Our investment banking revenues would be adversely affected in the event that an IPO for which we are acting as an underwriter is preempted by the company's sale if we are not also engaged as a strategic advisor in such sale. As a result, we are unlikely to achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price.

*Our ability to retain our senior professionals is critical to the success of our business, and our failure to do so may materially affect our reputation, business and results of operations.*

Our people are our most valuable resource. Our ability to obtain and successfully execute the business mandates that generate a significant portion of our revenues depends upon the reputation,

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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. We encounter intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking industry, such as hedge funds and private equity funds. From time to time, we have experienced departures of investment banking, brokerage, research and other 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 our services.

***Pricing and other competitive pressures may impair the revenues of our brokerage business.***

We derive a significant portion of our revenues from our brokerage business, which accounted for approximately 69% of our revenues in 2008. Along with other firms, we have experienced intense 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 pricing pressures in the business to continue. Decimalization in securities trading has also reduced revenues and lowered margins within the equity brokerage divisions of many firms, including ours. We expect to continue to experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price or use their own capital to facilitate client trading activities. In addition, we face pressure from our 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. As we are committed to maintaining and improving our comprehensive research coverage in our target sectors to support our brokerage business, we may be required to make substantial investments in our research capabilities. If we are unable to compete effectively in these areas, the revenues of our brokerage business may decline, and our business and results of operations may be adversely affected.

***We face strong competition from larger firms.***

The research, brokerage and investment banking industries are intensely competitive, and we expect them to remain so. We compete on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition in some of our businesses, including trading commissions and spreads in our brokerage business. In addition, pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and financial advisors, could adversely affect our revenues.

We are a relatively small investment bank. Many of our 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 we have. 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 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 we do which may enhance their competitive position. They also have the ability to support their investment banking

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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 our businesses. If we are unable to compete effectively with our competitors, our business and results of operations will be adversely affected.

***We have incurred losses in recent periods and may incur losses in the future.***

We have incurred losses in several recent periods and also recorded net losses in certain quarters within other fiscal years. We may incur losses in any of our future periods. Future losses may have a significant effect on our liquidity as well as our ability to operate.

In addition, we may incur significant expenses in connection with any expansion, strategic acquisition or investment. Accordingly, we will need to increase our revenues at a rate greater than our expenses to achieve and maintain profitability. If our revenues do not increase sufficiently, or even if our revenues increase but we are unable to manage our expenses, we will not achieve and maintain profitability in future periods.

In the event we require additional capital for our business or to fund losses, we will need to seek such capital through the sale of additional common stock, the issuance of debt securities or through other forms of financing. Particularly in light of current market conditions, we can not be certain that we would have access to such financing on acceptable terms.

***Our capital markets and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.***

Our investment banking clients generally retain us 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 our engagements with these clients may not recur, we must seek out new engagements when our 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 we are unable to generate a substantial number of new engagements that generate fees from new or existing clients, our business and results of operations would likely be adversely affected.

***Larger and more frequent capital commitments in our 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. We anticipate participating in this trend and, as a result, we will be subject to increased risk as we commit capital to facilitate business. Furthermore, we 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.

We may enter into large transactions in which we commit our own capital as part of our trading business to facilitate client trading activities. The number and size of these large transactions may materially affect our results of operations in a given period. Market fluctuations may also cause us to incur significant losses from our trading activities. To the extent that we own assets, *i.e.*, have 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 we have sold assets we do not own, *i.e.*, have short

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positions, in any of those markets, an upturn in those markets could expose us to potentially large losses as we attempt to cover our short positions by acquiring assets in a rising market.

***Limitations on our access to capital could impair our liquidity and our ability to conduct our businesses.***

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

We are a holding company and primarily depend on dividends from Cowen, our U.S. broker-dealer subsidiary, to fund our obligations. Cowen is subject to the net capital requirements of the SEC and various self-regulatory organizations of which it is a member. 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, our U.K. registered broker-dealer subsidiary, and CAM UK are subject to the capital requirements of the FSA. CAM UK also is subject to the capital requirements of the IFR. CLAL is subject to the financial resources requirements of the SFC of Hong Kong. Any failure to comply with these capital requirements could impair our ability to conduct our business.

***Our operations and infrastructure may malfunction or fail.***

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

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

We also face the risk of operational failure of or termination of relations with any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and to manage our exposure to risk.

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may affect, among other things, our 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 we conduct business, whether due to fire, other natural disaster, power or communications failure, act of terrorism or war or otherwise. Nearly all of our employees in our primary locations in New York, Boston, San Francisco and London work in close proximity to each other. Although we have a formal disaster recovery plan in place, if a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our

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ability to service and interact with our clients may suffer, and we may not be able to implement successfully contingency plans that depend on communication or travel.

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our 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 clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

***Strategic investments or acquisitions and joint ventures, or our entry into new business areas, may result in additional risks and uncertainties in our business.***

We have grown and intend to continue to grow our core businesses both through internal expansion and through strategic investments, acquisitions or joint ventures. When we make strategic investments or acquisitions or enter into joint ventures, we expect to face numerous risks and uncertainties in combining or integrating the relevant businesses and systems, including the need 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 our common stock, which may dilute our stockholders' ownership of our firm. Furthermore, any future acquisitions of businesses or facilities 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.

In 2008, we acquired Latitude. Our expansion in China may require significant resources and/or may result in significant unanticipated losses, costs or liabilities. In addition, geographic and other expansion, acquisitions or joint ventures may require significant managerial attention, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our businesses.

**Risks Related to Our Shares**

***Provisions of our organizational documents may discourage an acquisition of us.***

Our organizational documents contain provisions that impede the removal of directors and may discourage a third party from making a proposal to acquire us. Our board is classified, and directors may only be able to be removed for cause and by the affirmative vote of at least 80% of our then-outstanding capital stock entitled to vote. Our board has the ability to take defensive measures that could impede or thwart a takeover such as, under certain circumstances, adopting a poison pill, or causing us to issue preferred stock that has greater voting rights than our common stock. If a change of control or change in management that stockholders might otherwise consider to be favorable is prevented or delayed, the market price of our common stock could decline.





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***Our directors, executive officers and other employees have significant influence over matters requiring stockholder approval, which could delay or prevent a change of control.***

Our directors, executive officers and other employees beneficially own approximately 29% (33% on a fully diluted basis) of our common stock as of March 4, 2009. In addition, we will continue to use equity as a component of our compensation program, which will result in our employees owning a greater percentage of our outstanding common stock. Consequently, our directors, executive officers and other employees, to the extent their interests are aligned, collectively may be able to significantly influence matters submitted for stockholder action, including the election of our board of directors and approval of significant corporate transactions, including business combinations, consolidations and mergers and the determination of our day-to-day corporate and management policies. This concentration of ownership of our common stock could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our common stock that might otherwise provide the opportunity to realize a premium over the then-prevailing market price of our common stock. In addition, these stockholders could exercise their influence in a manner that is not in the best interest of our other stockholders.

***Future sales of our common stock could cause our stock price to decline.***

Sales of substantial amounts of common stock by our employees and other stockholders, or the possibility of such sales, may adversely affect the price of our common stock and impede our ability to raise capital through the issuance of equity securities. In 2007 we filed a registration statement on behalf of SG, which remains in effect, whereby SG may sell all or a portion of the 1,382,608 shares that they hold at any time. A significant sale by SG may adversely affect the price of our common stock.

***We do not expect to pay any cash dividends in the foreseeable future.***

We intend to retain any future earnings to fund the development and growth of our business. We, therefore, do not anticipate paying cash dividends in the foreseeable future. Accordingly, you must rely on sales of your shares of common stock after price appreciation, which may never occur, as the only way to realize any future gains on your investment.

**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 headquarters are located at 1221 Avenue of the Americas, New York, New York, and comprise approximately 109,619 square feet of leased space, pursuant to a sublease agreement expiring in 2013. We also lease approximately 38,217 square feet of space at Two International Place in Boston pursuant to a lease agreement expiring in 2014. In San Francisco, we lease approximately 29,072 square feet of space at 555 California Street, pursuant to a lease agreement expiring in 2015. Our London office is located at Broadgate West Phase II, 1 Snowden Street, and is subject to a lease agreement expiring in 2017. We believe that all of our properties and facilities are well maintained. We do not anticipate a need for additional office space in the near term.

**Item 3. Legal Proceedings**

We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. These risks include potential liability under federal securities and other laws in connection with securities offerings and other transactions, as well as advice and opinions we provide

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concerning strategic transactions. In addition, like most financial institutions, we are often the subject of claims made by current and former employees arising out of their employment or termination of employment with us. We are involved in a number of judicial, regulatory and arbitration matters arising in connection with our business including those described below.

Pursuant to Statement of Financial Accounting Standard ("SFAS") No. 5, *Accounting for Contingencies*, we review the need for any loss contingency reserves, and we have established reserves for certain of these matters that we believe are adequate where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. In addition, in connection with our IPO, we entered into an indemnification agreement with SG (the "Indemnification Agreement"), wherein SG agreed to indemnify us for all liability arising out of all known, pending or threatened litigation and arbitrations and certain specified regulatory matters that existed at the time of our IPO. The Indemnification Agreement provides that SG will indemnify us for all known or unknown liabilities, including litigation and related matters, arising from any business conducted by SG or previously conducted by us to the extent that such business is not part of the businesses currently conducted by us. The liabilities for which SG will indemnify us include the costs of legal fees and related expenses incurred in connection with the indemnified matters as well as any settlements or awards. Under the Indemnification Agreement, we have agreed to indemnify SG for all claims made after our IPO to the extent they relate to the businesses currently conducted by us and were not known or threatened at the time of our IPO. All of our material pending legal proceedings are described below. Certain of these material proceedings, along with certain other immaterial known, pending or threatened litigations and arbitrations, are subject to indemnification by SG under the Indemnification Agreement.

***Lernout & Hauspie Litigation***

In *Rocker Management, L.L.C., et al. v. Lernout & Hauspie Speech Products, N.V., et al.*, Civil Action No. 00-CV-5965 (D.N.J.) filed in the United States District Court for the District of New Jersey ("DNJ"), on December 8, 2000, short-sellers of Lernout & Hauspie Speech Products, N.V. ("L&H") stock allege that we violated federal securities laws and state common law by participating in a scheme to artificially inflate L&H's stock price through our role as underwriter and adviser for L&H on several acquisitions and through our published research on L&H. On April 3, 2001, we filed a motion to dismiss which was denied by the Court and we subsequently filed an answer denying liability. On November 10, 2006, we filed a motion for summary judgment seeking dismissal of all claims. That same day the plaintiffs filed a motion for spoliation sanctions against us in which they sought, alternatively, the striking of our answer or an adverse jury instruction. On July 12, 2007, the Court denied plaintiffs' motion for spoliation sanctions. On September 24, 2007, the Court denied our summary judgment motion but granted an interlocutory appeal on certain issues. The parties filed petitions with the United States Court of Appeals for the Third Circuit seeking permission to appeal different aspects of the Court's prior rulings, both of which were denied. On March 18, 2008, we moved for summary judgment for the second time, seeking dismissal of all claims. On April 18, 2008, before the motion was fully briefed, the DNJ denied our motion without prejudice, subject to renewal of the motion at the completion of discovery. On October 14, 2008, pursuant to the terms of a settlement between the parties, plaintiffs filed with the DNJ a motion to dismiss the litigation against us. On November 6, 2008, the Court granted plaintiffs' motion and entered an order dismissing the litigation against us with prejudice. To the extent that we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

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***In re: Initial Public Offering Securities Litigation***

We are one of many financial institutions named as defendants in a number of putative securities class actions entitled *In re: Initial Public Offering Securities Litigation*, filed in the United States District Court for the Southern District of New York ("SDNY") relating to numerous initial and other public offerings of common stock from approximately 1998 through 2000. The various complaints allege that the underwriters of certain IPOs, including us, made material misrepresentations and omissions to purchasers of the stock sold in the IPOs, thereby inflating the value of the stock. Specifically, the plaintiffs allege that the defendants failed to disclose, among other things, the purported existence of improper tie-in and compensation arrangements they had with certain purchasers of the stock and alleged conflicts of interest relating to research published by the underwriters, all in violation of federal securities laws. The district court granted plaintiffs' motion to certify six "focus" cases as class actions. We are a named defendant in four of these "focus" cases. We appealed the class certification decision to the Second Circuit Court of Appeals (the "Second Circuit") and on December 4, 2006, the Second Circuit reversed the SDNY's decision and remanded the matter for reconsideration in light of the Second Circuit's opinion. Plaintiffs petitioned for rehearing and rehearing en banc by the Second Circuit. On December 14, 2006, the SDNY stayed discovery in the consolidated banc. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing en banc. Plaintiffs amended their complaints and revised their class definitions in an attempt to comply with the Second Circuit's December 4, 2006 decision. Defendants in the six focus cases, including us, moved to dismiss the amended complaints in each case and opposed plaintiffs' motion for class certification. On March 26, 2008, the SDNY denied defendants' motion to dismiss the amended complaints. On October 3, 2008, plaintiffs withdrew their motion for class certification without prejudice. To the extent we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

***Adelphia Communications Corp. Litigation***

We are a named defendant in several litigations relating to Adelphia Communications, a cable company that filed for bankruptcy in June 2002. The complaints generally allege that the Rigas family, who controlled Adelphia, took advantage of Adelphia's assets, including through the use of certain loans, or "co-borrowing facilities," that allowed the family to take more than \$3 billion for their private use. We have been named as a defendant in four actions arising out of certain offerings of Adelphia securities in which we participated as a member of the underwriting syndicate. All four actions are pending before the SDNY. The complaints in each of these actions raise a variety of claims arising out of the sale of Adelphia securities, including claims under the federal securities laws.

These actions are generally referred to as the "Adelphia Securities Class Action," "W.R. Huff Asset Management" (or "Huff"), "Appaloosa" and "Stocke." The SDNY granted our motion to dismiss all federal securities claims brought against us in the Adelphia Securities Class Action. Thereafter, the financial institution defendants reached a settlement with the plaintiffs. On June 15, 2006, the SDNY preliminarily approved the settlement. A fairness hearing was held on November 10, 2006, and the settlement was approved on November 20, 2006. Our share of the settlement is approximately \$1.7 million plus interest at 4.37% beginning December 1, 2006 (all of which is covered by the Indemnification Agreement). In November 2006, this amount was placed in an attorneys' escrow account bearing the required rate of interest. On December 8, 2006, a group of class members appealed the order approving the settlement agreement with the class plaintiffs to the Second Circuit. The SDNY also has granted in part, and denied in part, certain motions to dismiss filed by various defendants, including us, in Huff, Appaloosa and Stocke. On April 7, 2008, the Stocke action was dismissed by stipulation and order following a ruling by the Second Circuit that affirmed in all respects Judge McKenna's approval of the class settlement, which ruling is now final. Accordingly, the claims made by all class members who did not opt out, including the Stocke plaintiffs, have been dismissed and released.

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In addition, in August 2005, the SDNY denied our motion to dismiss based on Huff's lack of standing, and subsequently granted leave to file an interlocutory appeal to the Second Circuit of that ruling. The Second Circuit granted our petition to appeal under 28 U.S.C. § 1292. In December 2008, the Second Circuit held that Huff lacks standing to pursue the claims it had asserted, and remanded the case to Judge McKenna. In January 2009, Judge McKenna issued an order dismissing the Huff case. Huff subsequently moved to vacate the dismissal order, which was denied, and for reconsideration, which also was denied. Thereafter, Huff moved to (among other things) amend the complaint in an effort to overcome the effect of the Second Circuit's ruling. That motion is not yet fully briefed. In addition to the cases in which we have been named as a defendant, we may also face potential liability pursuant to the applicable master agreements among underwriters for any judgments or settlements in other cases involving the Adelphia securities offerings in which we participated. To the extent that we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

We were also one of many defendants in two related adversary proceedings that originally were filed in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). These adversary proceedings were filed by the Official Committee of Unsecured Creditors (the "Creditors' Committee") and the Official Committee of Equity Security Holders (collectively, the "Committees"). Both of these cases raised a variety of common law and federal claims, which were generally similar to the claims asserted in the Adelphia cases described above. With respect to us and other investment banks, the complaints taken together originally set forth claims for violation of the Bank Holding Company Act, equitable disallowance or equitable subordination, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, aiding and abetting fraud, gross negligence and breach of contract, among others. We filed motions to dismiss the claims asserted by the Committees, which were granted in part and denied in part, by the Bankruptcy Court in two decisions issued on June 11, 2007 and August 17, 2007, respectively. We appealed to the SDNY those portions of the Bankruptcy Court's June 11, 2007 decision that denied our motion to dismiss the claims asserted against us by the Creditors' Committee. On January 17, 2008, the SDNY denied our appeal and affirmed, in part, the June 11, 2007 decision, with the exception of the Bank Holding Company Act claim which was dismissed against us and the other investment banks.

As part of the bankruptcy plan confirmation process, claims by both Committees were assigned to a litigation trust. In October 2007, the trust filed an amended complaint in the SDNY against multiple defendants, including us, in which it pleaded the following claims: aiding and abetting fraud; fraudulent concealment; fraud; equitable disallowance; equitable subordination; and violation of the Bank Holding Company Act (which was dismissed on appeal to the SDNY). On January 4, 2008, we filed an Answer to the Amended Complaint and a joinder to a motion filed by certain investment banks seeking a dismissal of several counts in the Amended Complaint. On June 17, 2008, the SDNY issued an Opinion and Order dismissing certain claims contained in the Amended Complaint, including, without limitation, the equitable disallowance and equitable subordination claims. The SDNY is still considering motions to dismiss additional counts contained in the Amended Complaint that were not disposed of in the June 17, 2008 Opinion and Order. To the extent that we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

***In re: HealthSouth Corporation Bondholder Litigation***

We have been named as a defendant in a purported class action filed in the United States District Court for the Northern District of Alabama on January 8, 2004 as a result of our predecessor's involvement as one of the initial purchasers in a March 1998 private placement of debt securities issued by HealthSouth Corporation, which were subsequently exchanged for materially identical registered securities. The complaint alleges that the offering materials for the private placement and the registration statement in the associated offering violated federal securities laws by failing to disclose

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HealthSouth's subsequently revealed accounting irregularities. On June 8, 2006, the District Court, among other things, dismissed the claims arising out of the March 1998 private placement (the only claims against us). On August 21, 2006, following plaintiffs' subsequent submission of amendments to the complaint, the District Court so-ordered a stipulation and order dismissing all amended counts against us. The dismissal is not yet a "final" judgment from which an appeal may be taken by plaintiffs. To the extent that we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

***Madden Litigation***

On June 28, 2006, a group of approximately 60 medical doctors filed a lawsuit against us in San Francisco Superior Court. Plaintiffs allege that we negligently rendered a fairness opinion in 1998 in connection with the acquisition of Orange Coast Managed Care Services and St. Joseph Medical Corporation by FPA Medical Management, Inc. ("FPA"). According to the complaint, plaintiffs received restricted FPA stock as consideration in the sale and, shortly after the acquisition, FPA went bankrupt, rendering the stock worthless. On August 14, 2006, we removed the case to the United States District Court for the Northern District of California (the "NDCA"). On August 17, 2006 we filed a motion to dismiss the complaint. Plaintiffs sought a remand to state court. On March 18, 2007, the Court granted our motion to dismiss, with leave to replead, and denied plaintiffs' move to remand. By stipulation and order dated April 20, 2007, the Court directed entry of a final judgment dismissing the complaint with prejudice. On May 17, 2007, plaintiffs filed with the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"), a Notice of Appeal of the District Court's dismissal. On November 21, 2008, the Ninth Circuit heard oral argument on Plaintiffs' appeal, and on February 11, 2009, it issued an opinion vacating the NDCA's judgment and remanding the matter back to state court. To the extent that we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

***WorldSpace Litigation***

We are named as an underwriter defendant in several putative securities class actions brought in the SDNY in 2007. In all of the cases brought to date, plaintiffs seek to recover for losses allegedly caused by misrepresentations and omissions in connection with the August 4, 2005 IPO of WorldSpace, Inc., a satellite-radio provider. The complaints allege that the WorldSpace prospectus referenced a subscriber count that improperly included subscribers who had stopped paying for the service and failed to disclose that WorldSpace lacked the internal systems necessary to accurately determine the number of subscribers to its service. On June 21, 2007, the SDNY issued an order consolidating the actions and appointing a lead plaintiff. The consolidated amended complaint was filed on August 9, 2007. On October 9, 2007, we filed a motion to dismiss the consolidated amended complaint which was denied by the SDNY on July 21, 2008. On August 25, 2008, we filed an answer to the consolidated amended complaint. On October 17, 2008, WorldSpace filed for Chapter 11 bankruptcy protection with the United States Bankruptcy Court for the District of Delaware.

***China Sunergy Litigation***

We are named as one of several underwriter defendants in two cases filed in the SDNY in 2007. Plaintiffs in both cases seek to recover for losses allegedly caused by misrepresentations and omissions in the May 17, 2007 IPO of China Sunergy Co. Ltd ("China Sunergy"). Principally, the complaints allege that China Sunergy's prospectus failed to disclose that China Sunergy was having difficulty obtaining sufficient raw materials to achieve its revenue objectives, and also failed to disclose that China Sunergy would likely face a loss in the second quarter of 2007. On September 29, 2008, the SDNY appointed a lead plaintiff. On December 5, 2008, the lead plaintiff filed a consolidated amended complaint, and on January 26, 2009, defendants filed a motion to dismiss that complaint.

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***BigBand Litigation***

We are one of five underwriter defendants named in putative securities class actions filed during 2007 in the NDCA (collectively, the "Federal Securities Actions") and the Superior Court for the State of California, County of San Francisco (the "State Securities Action") relating to the March 15, 2007 IPO of BigBand Networks, Inc ("BigBand"). The complaints in each of these actions set forth claims under the federal securities laws and allege generally, among other things, that BigBand's Registration Statement and Prospectus contained material misrepresentations or omissions with respect to BigBand's growth plan, projections and internal controls. Defendants removed the State Securities Action to the NDCA, pursuant to a notice of removal filed on January 2, 2008. Plaintiffs moved to remand that action back to the Superior Court for the State of California and on June 16, 2008, the NDCA granted that motion. Thereafter, all defendants moved to stay the State Securities Action pending resolution of the Federal Securities Actions, and on August 11, 2008, the Superior Court for the State of California granted defendants' motion.

On May 30, 2008, after the Federal Securities Actions were consolidated and lead plaintiff was appointed, plaintiffs in the Federal Securities Actions filed a Consolidated Amended Complaint. On August 8, 2008, we filed a motion to dismiss the consolidated amended complaint and that motion is currently fully briefed before the NDCA. The court's hearing on the motion to dismiss is scheduled for May 5, 2009.

***Opnext Litigation***

We are one of five underwriters named as defendants in two cases filed in March 2008 in the DNJ, relating to the February 14, 2007 IPO of Opnext, Inc. ("Opnext"). Both complaints assert claims against the underwriters under federal securities laws and allege generally that the financial statements in the registration statement and prospectus contained materially false and misleading statements and omissions, which resulted in the financial statements being restated by Opnext due to an error in the valuation of inventory consigned to one of its contract manufacturers. On June 30, 2008, the DNJ appointed a lead plaintiff, and on July 30, 2008, the lead plaintiff filed a consolidated class action complaint. The underwriter defendants filed an answer and affirmative defenses to the consolidated complaint on October 21, 2008. On January 30, 2009, the DNJ entered an order referring the matter to non-binding mediation and staying any further discovery in the litigation until April 30, 2009.

***Global Cash Litigation***

On August 18, 2008, we were named as a defendant, along with several other underwriters, in a consolidated complaint filed in the SDNY relating to the September 22, 2005 initial public offering and subsequent secondary offering of Global Cash Access Holdings, Inc. ("GCA") common stock. The consolidated complaint alleges generally that the registration statements and prospectuses for the GCA IPO and secondary offering were false and misleading and failed to disclose, among other things, that GCA incorrectly calculated the amount of commissions payable to GCA's customers and that GCA's financial statements understated the company's expenses and overstated net income for 2005 and 2006. On September 18, 2008, the SDNY granted a motion made by certain defendants to transfer venue of the case to the United States District Court for the District of Nevada ("DNV"). On October 14, 2008, GCA moved to consolidate the recently transferred case with a derivative lawsuit already pending in the DNV arising from the same set of facts as set forth in the consolidated complaint. On December 11, 2008, the DNV granted that motion for pre-trial purposes. On November 14, 2008, the underwriter defendants moved to dismiss the consolidated amended complaint and that motion is now fully briefed. The DNV has not yet scheduled a date for oral argument.

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***Regulatory Inquiries and Investigations***

In addition to the civil litigation matters described above, we are also involved in a number of regulatory inquiries and investigations, which, except as noted below, are not covered by the Indemnification Agreement. The most significant regulatory matters are as follows:

The SEC commenced an investigation arising out of the proprietary trading activities of Guillaume Pollet, a former Managing Director and proprietary trader in the former equity derivatives division of SGCSC (which is now part of SGAS, a former affiliate), who was terminated by us in 2001 for violating firm policy and misleading the firm's management about certain of his trading activity. The trading activity at issue involved private placements in public equity ("PIPEs"). We received a Wells Notice in July 2004, and submitted a response in August 2004. In July 2007, SGAS informed us that it agreed to be the named corporate respondent under the terms of a potential settlement it was discussing with the staff of the SEC. On February 13, 2009, the SEC announced that it had entered into a definitive settlement with SGAS and one of its employees with respect to the proprietary trading activities of Mr. Pollet. To the extent that we incur legal fees, costs or expenses related to this settlement, we will be indemnified by SG.

We have provided various data and information to the NASD (now known as FINRA) in response to its request for information as part of an industry-wide "sweep" relating to gifts, gratuities and entertainment policies, practices and procedures. In addition, we have also received a subpoena for documents and information from the SEC, and additional requests for information from FINRA, seeking information concerning, among other things, gifts, gratuities and entertainment and the use of one of our error accounts primarily involving an unaffiliated mutual fund company. In the fourth quarter of 2007, FINRA requested additional documentation, including emails, from us, took sworn testimony from certain of our current and former employees, and engaged us in discussions regarding the scope and conduct of the investigation relating to the use of error accounts. On July 31, 2008, we received a Cautionary Action letter from FINRA indicating that it found certain deficiencies during its review but did not intend to take any disciplinary action against us. FINRA continues to review our use of certain error accounts. We are cooperating fully with the continuing investigations.

In January 2006, we received the first of several requests for documents and information from the SEC's Office of Compliance Inspections and Examinations seeking documents and certain financial and other information concerning, among other things, our various trading desks, institutional sales team and internal accounts, including error accounts, and related compliance procedures. We are cooperating fully with this inquiry.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.



Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Stock Price Information and Stockholders**

The principal market on which the Company's common stock is traded is the Nasdaq Global Market under the symbol "COWN." The following table sets forth the quarterly high and low sales price of our common stock for 2008 and 2007. As of March 4, 2009 there were 25 registered holders of our common stock. This number does not include stockholders for whom shares were held in "nominee" or "street" name.

	Sales Price	
	High	Low
<i>Fiscal 2008</i>		
Fourth Quarter	\$ 8.44	\$ 4.91
Third Quarter	\$ 9.20	\$ 6.55
Second Quarter	\$ 8.38	\$ 6.65
First Quarter	\$10.81	\$ 6.48
<i>Fiscal 2007</i>		
Fourth Quarter	\$14.90	\$ 8.81
Third Quarter	\$18.82	\$11.29
Second Quarter	\$19.91	\$15.90
First Quarter	\$21.48	\$16.54

**Dividends**

The Company has not declared or paid any cash dividends on its common stock. Our board of directors does not anticipate authorizing the payment of cash dividends in the foreseeable future and intends to retain all available funds and any future earnings to fund the development and growth of our business. Any determination to pay dividends to holders of our common stock in the future will be at the discretion of our board of directors and will depend on many factors, including our financial condition, results of operations, general business conditions and any other factors our board of directors deems relevant.

**Recent Sales of Unregistered Securities**

None.

**Issuer Purchases of Equity Securities**

In November 2007, the Company's Board of Directors authorized the repurchase, subject to market conditions, of up to 2.0 million shares of the Company's outstanding common stock. There were no purchases made by or on the behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act), of its common stock during the quarter ended December 31, 2008. As of December 31, 2008, there were 115,929 shares that may yet be purchased under the plan.

**Item 6. Selected Financial Data**

The following table sets forth our selected consolidated financial and other data for the years ended December 31, 2008, 2007, 2006, 2005 and 2004. The selected Consolidated Statements of Financial Condition data and Consolidated Statements of Operations data as of and for the years

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ended December 31, 2008, 2007, 2006, 2005 and 2004 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.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
(in thousands)					
<b>Consolidated Statements of Operations</b>					
<b>Data:</b>					
<i>Revenues</i>					
Investment banking	\$ 50,937	\$ 90,520	\$ 164,342	\$ 126,253	\$ 113,795
Brokerage	149,901	158,720	159,879	145,700	164,188
Interest and dividend income	3,362	8,284	17,766	16,990	9,504
Other	13,124	4,045	2,980	5,348	5,574
<b>Total revenues</b>	<b>217,324</b>	<b>261,569</b>	<b>344,967</b>	<b>294,291</b>	<b>293,061</b>
<i>Expenses</i>					
Employee compensation and benefits	133,891	177,948	215,707	172,128	170,546
Non-compensation expense (excluding goodwill impairment) <sup>(1)</sup>	98,257	103,226	112,644	109,848	63,533 <sup>(2)</sup>
Goodwill impairment	50,000				
<b>Total expenses</b>	<b>282,148</b>	<b>281,174</b>	<b>328,351</b>	<b>281,976</b>	<b>234,079</b>
<b>Operating (loss) income</b>	<b>(64,824)</b>	<b>(19,605)</b>	<b>16,616</b>	<b>12,315</b>	<b>58,982</b>
Gain (loss) on exchange memberships	751	1,775	25,843	918	(1,993)
<b>(Loss) income before income taxes</b>	<b>(64,073)</b>	<b>(17,830)</b>	<b>42,459</b>	<b>13,233</b>	<b>56,989</b>
(Benefit) provision for income taxes	8,081	(6,509)	4,548	1,152	1,877
<b>Net (loss) income</b>	<b>\$ (72,154)</b>	<b>\$ (11,321)</b>	<b>\$ 37,911</b>	<b>\$ 12,081</b>	<b>\$ 55,112</b>
<b>Earnings (loss) per share:</b>					
Weighted average common shares outstanding:					
Basic	11,254	12,805	12,903	12,900	12,900
Diluted	11,254	12,805	12,966	12,900	12,900
Earnings (loss) per share:					
Basic	\$ (6.41)	\$ (0.88)	\$ 2.94	\$ 0.94	\$ 4.27
Diluted	\$ (6.41)	\$ (0.88)	\$ 2.92	\$ 0.94	\$ 4.27

(1) Includes floor brokerage and trade execution, service fees, communications, occupancy and equipment, marketing and business development, depreciation and amortization and other expenses.

(2) Includes a net benefit of \$46.9 million related to accruals for insurance recoveries and the net reversal of previously accrued reserves in 2004.

	As of December 31,				
	2008	2007	2006	2005	2004

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(in thousands)

**Consolidated Statements of Financial**

**Condition Data:**

Total assets	\$207,498	\$349,038	\$684,438	\$785,339	\$820,350
Total liabilities and minority interest	65,383	140,383	466,310	411,388	466,872
Total stockholders' equity (2008-2006) and group equity (2005 and 2004)	\$142,115	\$208,655	\$218,128	\$373,951	\$353,478

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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**

We are 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 & defense and alternative energy sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade equity and equity-linked securities, principally in our target sectors. We focus our investment banking efforts, principally equity and equity-linked capital raising and strategic advisory services, on small to mid-capitalization public companies as well as private companies. We also offer traditional and alternative asset management services to institutional investors and other accredited investors. Our traditional asset management business includes teams based in the United States and the United Kingdom. Our alternative asset management business consists of CHRP, which invests principally in commercial-stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments, and Cowen Capital Partners, LLC, which manages a portfolio of middle market private equity investments for third party investors. We operate through a single reportable segment.

The securities business is a human capital business; accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to provide the highest quality of service and guidance to our clients.

On August 22, 2008, the Company acquired Latitude, a boutique investment bank headquartered in Hong Kong with offices in Beijing and Shanghai. Latitude has been renamed Cowen Latitude Asia.

In July 2008, the Company announced the final closing of the CHRP Fund with capital commitments in excess of \$500 million. The CHRP Fund was significantly oversubscribed, and substantially exceeded its initial target size of \$350 million, representing one of the largest inaugural healthcare-focused private equity funds ever raised.

**External Factors Impacting Our Business**

Our financial performance is highly dependent on the environment in which our businesses operate. Overall, during 2008, and continuing into 2009, the macro business environment for many of our businesses was extremely challenging, and there can be no assurance that these conditions will improve in the near term.

A favorable business environment is characterized by many factors, including a stable geopolitical climate, transparent financial markets, low inflation, low interest rates, availability of credit, low unemployment, strong business profitability and high business and investor confidence. Unfavorable or uncertain economic and 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, interest rates, exchange rate volatility, 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. These factors influence levels of equity security issuance and merger and acquisition activity generally and in our target sectors, which affect

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our investment banking business. The same factors also affect trading volumes and valuations in secondary financial markets, which affect our brokerage business. Commission rates, market volatility and other factors also affect our brokerage revenues and may cause these revenues to vary from period to period.

The challenges in the market increased profoundly in the second half of 2008. The U.S. and international capital markets declined precipitously, particularly in September, with the bankruptcy filing of Lehman Brothers, Inc., the sale of Merrill Lynch and Co., Inc. to Bank of America Corp., the U.S. government's intervention in the government-sponsored enterprises, the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae") and the U.S. government loan to American International Group, Inc. These factors all contributed to the well-documented freezing of the global credit markets in the fall of 2008, which led the U.S. government to implement a massive capital infusion plan focused on the nation's largest financial institutions. Although the Company has no debt, no material derivative or structured product exposure, the historic decline in market conditions and investor sentiment are negatively impacting all financial services firms, including us, in the form of fewer and smaller investment banking, strategic advisory and capital-raising transactions.

Our business, by its nature, does not produce predictable earnings. Our results in any period can be materially affected by conditions in global financial markets and economic conditions generally. We also are subject to various legal and regulatory actions that impact our business and financial results. In addition, our business focuses primarily on small to mid-capitalization and private companies in specific industry sectors. These sectors may experience growth or downturns independently 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. Therefore, our business could be affected differently than overall market trends.

**Basis of Presentation**

Our consolidated financial statements for periods prior to July 13, 2006 include the carve-out accounts of Cowen and the carve-out accounts of SG London Branch, the predecessor of CIL, in each case using the historical basis of accounting for the results of operations, assets and liabilities of the businesses that currently constitute Cowen and CIL. The consolidated financial information included herein, for periods prior to July 13, 2006, may not necessarily be indicative of our results of operations, financial condition and cash flows in the future or what our results of operations, financial condition and cash flows would have been had we been a stand-alone company during the entire periods presented.

The Consolidated Statements of Operations do not include litigation expenses incurred by us in connection with certain litigation and other legal matters that are indemnified by SG through the Indemnification Agreement. The legal reserves related to these indemnified matters are included in legal reserves and legal expenses payable in the Consolidated Statements of Financial Condition. Before becoming a public company, payments related to these matters were included in the Consolidated Statements of Cash Flows as financing activities because we were a wholly-owned subsidiary of SG. Since our IPO, these payments have been included as operating activities. The effect of this indemnification on our consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost and the indemnification recovery will be reflected as an increase in litigation and related expense and the indemnification recovery will be recorded as a reduction to our litigation and related expense. See Note 13 of the Notes to the Consolidated Financial Statements, "Commitments, Contingencies and Guarantees" and Note 15 of the Notes to the Consolidated Financial Statements, "Separation from Société Générale and Other Related Matters" for further discussion.

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The Consolidated Financial Statements include the accounts of the Company, its subsidiaries and entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated upon consolidation. Certain reclassifications have been made to conform prior-period amounts to the current-period presentation, including the reclassification of interest expense of \$0.5 million and \$1.0 million to other expenses for the years ended December 31, 2007, and 2006, respectively.

**Revenues**

We operate our business as a single segment. We derive the vast majority of our revenues from two primary sources, investment banking and brokerage.

*Investment Banking*

We earn investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Our investment banking revenues are derived primarily from small and mid-capitalization companies within our target sectors of healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy.

**Underwriting fees.** We earn underwriting revenues in securities offerings in which we act as an underwriter, such as IPOs, follow-on equity offerings and convertible security offerings. Our 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 cycle 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 shares from the issuer; and (iii) the Company has been informed of the number of shares that it has been allotted.

When the Company is not the lead manager for a registered equity 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.** Our strategic advisory revenues include success fees earned in connection with advising companies, both buyers and sellers, principally in mergers and acquisitions. We also earn fees for related advisory work such as providing fairness opinions. We record 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.** We earn agency placement fees, including warrants in certain transactions, in non-underwritten transactions such as private placements, PIPEs and Registered Direct transactions ("RDs"). We record 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.

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Since our investment banking revenues are generally recognized at the time of completion of each transaction or the services to be performed, these revenues typically vary between periods and may be considerably affected by the timing of the closing of significant transactions.

***Brokerage***

Our brokerage revenues consist of commissions, principal transactions and fees paid to us 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. We derive our brokerage revenue primarily from trading equity and equity-linked securities on behalf of institutional investors. The majority of our 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.

**Commissions.** Our brokerage business generates commission revenues from securities trading commissions paid by institutional investor clients. Commissions are recognized on a trade date basis. We permit 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.

**Principal transactions.** Our brokerage revenues also include net trading gains and losses from principal transactions, which primarily include acting as a market-maker in over-the-counter equity securities, listed options trading, trading of convertible securities, and from trading gains and losses on inventory and other firm positions, which include warrants previously received as part of investment banking transactions. In certain cases, we commit our own capital to provide 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 us to market risk. These positions are typically held for a very short duration.

**Equity research fees.** Our brokerage revenues also include fees paid to us for providing equity research. These fees are recognized as revenue when they are earned.

***Interest and Dividend Income***

Interest and dividend income primarily consists of interest earned on our interest bearing assets and interest and dividends on securities maintained in trading accounts related to our brokerage business.

***Other***

Other revenues include fees for managing assets and investments in private equity, traditional asset management and alternative asset management funds, as well as fees for managing a portfolio of merchant banking investments on behalf of SG and other third party investors, and miscellaneous income such as fees for managing venture capital investments. Management fees are recognized in the periods during which the related services are performed and the amounts have been contractually earned.

**Expenses**

A significant portion of our expense base is variable, including employee compensation and benefits, brokerage and clearance, communications, and marketing and business development expenses. Certain of our expenses are largely fixed in nature, the most significant of which include expenses associated with rent and occupancy, outsourced services such as information technology infrastructure, presentation center, copy center and library services.

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***Compensation Expense***

Our ongoing compensation expense includes salaries, employee benefits, amortization of equity compensation, amortization of deferred cash and forgivable loan awards, and cash bonuses. The annual base salary for each individual employee is based on their experience and position, however at this time base salaries generally do not exceed \$250,000. Amortization expense of equity awards relates to both the compensation expense associated with the initial grant of equity to our senior employees in connection with our IPO and the expense associated with awards under our ongoing equity and incentive plans. A significant portion of our equity awards is granted as a component of annual employee compensation. Employees who earn total compensation above a designated level may have a specified percentage of their compensation paid in the form of deferred compensation. Deferred compensation can be awarded as either restricted equity awards or deferred cash awards. When restricted equity awards and deferred cash awards are utilized the amount of such awards paid to an employee is calculated using a pre-determined formula such that higher levels of compensation dictate an increased percentage of total compensation to be paid in deferred equity and deferred cash. As is typical in our industry, variable bonuses represent the most significant component of compensation expense.

Historically, we have sought to maintain a ratio of compensation and benefits expense to revenue of between 58% and 60%, excluding the compensation expense associated with the initial grant of equity to our senior employees in connection with our IPO. As market conditions deteriorated during the second half of 2007 our revenue also suffered and we elected to increase our compensation ratio to 65%, excluding expense associated with the initial grant of restricted equity in connection with our IPO. Market conditions continued to decline throughout 2008, and our revenues likewise suffered as the capital raising portion of our revenue base was effectively eliminated. Based on our performance in 2008 we elected to accrue compensation at 62% of revenues, excluding expense associated with the initial grant of equity in connection with our IPO. The success of our business 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. We will continue to attempt to maintain compensation levels within our target range; however, we believe it is in our stockholders' best interest to attempt to do what we can to minimize employee turnover. As a result, we have in the past and will continue to review our compensation to revenue ratio on a quarterly basis, and there can be no assurance that we will be able to achieve our target levels under difficult market conditions.

The annual expense associated with the initial grant of equity to our senior employees in connection with our IPO was a benefit of \$0.9 million in 2008. The Company recorded an adjustment of \$5.1 million in 2008 to reverse amounts previously expensed in 2006 and 2007 associated with the shares forfeited by Kim Fennebresque, our former Chairman and Chief Executive Officer, upon his resignation. This adjustment was partially offset by the reversal of associated income tax benefits of \$2.2 million. The annual expense associated with the initial grant of equity to our senior employees in connection with our IPO is estimated to be approximately \$2.2 million, \$1.1 million, and \$0.3 million in the years 2009, 2010, and 2011, respectively.

The annual expense may be adjusted in the future based on actual forfeiture rates. We have accounted for our equity awards in accordance with SFAS 123(R), *Share-Based Payment* ("SFAS 123R").

***Non-compensation Expense***

**Floor brokerage and trade execution.** These expenses include floor brokerage and trade execution costs that fluctuate depending on the volume of trades we complete.

**Service fees.** These expenses include fees for outsourcing services such as information technology infrastructure, management and support, and our trading and order management system.



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**Communications.** These expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data.

**Occupancy and equipment.** These expenses include rent and utilities associated with our various offices, occupancy and premises taxes, support for software applications and other fixed asset service fees.

**Marketing and business development.** These expenses include costs such as business travel and entertainment, expenses related to holding conferences and advertising costs.

**Depreciation and amortization.** We incur depreciation and amortization expense related to capital assets, such as investments in technology and leasehold improvements, and amortization expense related to our intangible assets.

**Goodwill impairment.** This expense represents a non-cash charge for the impairment of the Company's legacy goodwill.

**Other.** Other expenses include consulting fees, professional fees, legal and related costs, implementation costs related to outsourcing and other projects, insurance premiums, placement fees, exchange membership fees, interest, research delivery costs and other related expenses.

**Gain on Exchange Memberships**

These realized gains or losses are recognized upon the sale, exchange or other disposition of the membership interests.

**Provision for Income Taxes**

The taxable results of the Company's U.S. operations are included in the consolidated income tax returns of Cowen Group, Inc. as well as in stand-alone state and local tax returns. For the year ended December 31, 2008, the tax results of the Company's U.K. operations are reported by CIL and CAM UK separately in their respective U.K. tax filings. If applicable, CIL and CAM UK share tax losses to the extent permitted by local law. CLAL files a stand-alone Hong Kong tax return while the tax results of Cowen Latitude Investment Consulting (Beijing) Co., Ltd. ("CLICB") are reported in its People's Republic of China tax filings.

The income tax provision reflected in this Annual Report on Form 10-K is presented as if we operated on a stand-alone basis, consistent with the liability method prescribed by SFAS No. 109, *Accounting for Income Taxes*. 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 any benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

Our effective tax rates for the years ended December 31, 2008, 2007, and 2006 were (12.6)%, 36.5%, and 10.7%, respectively.

The 2008 effective tax rate differs from the statutory rate of 35% primarily due to a change in the valuation allowance and state and local taxes. Among the other components impacting the 2008 effective tax rate are non-recurring, non-deductible placement fees associated with CHRP Management, one of the Company's alternative asset management businesses.

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For the period ended December 31, 2007, the effective tax rate differed from the statutory rate of 35% primarily due to the establishment of a valuation allowance against certain stock compensation deferred tax assets offset by a state and local tax benefit. The 2006 low effective tax rate was due to a net reversal in the valuation allowance primarily due to payments of deferred compensation arrangements related to the IPO and pre-IPO amortization of goodwill.

The Company's effective tax rate depends on the results of its business. If the Company does not have sufficient income, it will not realize tax benefits, such as compensation and legal reserve deductions and foreign tax credits. Moreover, if the Company decides for business reasons to incur additional non-deductible placement fees, such expenses will increase the effective tax rate. Furthermore, a high proportion of the Company's deferred tax assets are attributable to share-based compensation. To the extent that share-based awards vest at a share price less than the grant price, such a shortfall will result in an unfavorable permanent book-tax difference.

**Results of Operations**

*Year Ended December 31, 2008 Compared with the Year Ended December 31, 2007*

**Overview**

Total revenues decreased \$44.3 million, or 17%, to \$217.3 million for the year ended December 31, 2008 compared with \$261.6 million in 2007. This decrease was primarily due to a decrease in investment banking revenues of \$39.6 million, a decrease in brokerage income of \$8.8 million, and a decrease in interest and dividend income of \$4.9 million, partially offset by an increase in other revenue of \$9.0 million.

Total expenses increased \$1.0 million to \$282.2 million for the year ended December 31, 2008 compared with \$281.2 million in 2007. Total expenses for the year ended December 31, 2008 include a \$50.0 million non-cash goodwill impairment charge. Excluding this goodwill impairment charge, total expenses decreased \$49.0 million, or 17%, to \$232.2 million for the year ended December 31, 2008 compared with \$281.2 million in 2007. This decrease was primarily due to the decrease in compensation expense. Compensation expense decreased as a result of applying a lower compensation to revenue ratio to lower total revenues and the reversal of share-based compensation expense related to the resignation of our former Chief Executive Officer. Total non-compensation expenses, excluding the \$50.0 million goodwill impairment charge, decreased \$5.0 million, or 5%, for the year ended December 31, 2008 compared with 2007, primarily due to a reduction in floor brokerage and trade execution related expenses, communications related expenses, maintenance costs related to our information technology infrastructure, employment fees and consulting costs. These decreases were partially offset by an increase in service fees related to a change in our new trading and order management system and \$3.7 million in placement fees related to closings associated with an alternative asset management fund managed by CHRP Management. Excluding both the goodwill impairment charge and the \$3.7 million of placement fees, total non-compensation expenses decreased \$8.7 million, or 8%, for the year ended December 31, 2008 compared with 2007.

We recorded a net loss of \$72.2 million for the year ended December 31, 2008 compared with a net loss of \$11.3 million in 2007. Our operating loss, excluding the \$50.0 million non-cash goodwill impairment charge, was \$14.8 million for the year ended December 31, 2008 compared with \$19.6 million in 2007. The net loss for the year ended December 31, 2008 includes a \$0.8 million gain resulting primarily from the sale of the Boston Stock Exchange to NASDAQ OMX and MX US 2, a wholly owned subsidiary of the Montreal Exchange Inc. The net loss for 2007 includes a \$1.8 million gain resulting from the sale of our seat on the Chicago Board Options Exchange.

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The following table provides a comparison of our revenues and expenses for the periods presented:

	Year Ended December 31,		Period-to-Period %	
	2008	2007	\$ Change	Change
(in thousands)				
<b>Revenues</b>				
Investment banking	\$ 50,937	\$ 90,520	\$(39,583)	(43.7)%
Brokerage	149,901	158,720	(8,819)	(5.6)
Interest and dividend income	3,362	8,284	(4,922)	(59.4)
Other	13,124	4,045	9,079	224.4
Total revenues	217,324	261,569	(44,245)	(16.9)
<b>Expenses</b>				
Employee compensation and benefits	133,891	177,948	(44,057)	(24.8)
Floor brokerage and trade execution	10,864	11,879	(1,015)	(8.5)
Service fees, net	16,649	15,337	1,312	8.6
Communications	14,797	16,292	(1,495)	(9.2)
Occupancy and equipment	16,514	17,237	(723)	(4.2)
Marketing and business development	12,709	12,792	(83)	(0.6)
Depreciation and amortization	2,882	3,168	(286)	(9.0)
Goodwill impairment	50,000		50,000	NM
Other	23,842	26,521	(2,679)	(10.1)
Total expenses	282,148	281,174	974	0.3
Operating loss	(64,824)	(19,605)	(45,219)	230.7
Gain on exchange memberships	751	1,775	(1,024)	(57.7)
Loss before income taxes	(64,073)	(17,830)	(46,243)	259.4
Provision (benefit) for income taxes	8,081	(6,509)	14,590	NM
Net loss	\$ (72,154)	\$ (11,321)	\$(60,833)	537.3%

*NM* indicates not meaningful.

**Revenues**

***Investment Banking***

Investment banking revenues decreased \$39.6 million, or 44%, to \$50.9 million for the year ended December 31, 2008 compared with \$90.5 million in 2007. Our underwriting revenues decreased \$38.3 million, or 85%, to \$6.7 million for the year ended December 31, 2008 compared with \$45.0 million the prior year. The decrease in underwriting revenues was the result of a decrease in both the number of transactions completed and average revenue per transaction, due primarily to the continued depressed capital markets environment. Our private placement revenues decreased \$11.9 million, or 71%, to \$4.9 million for the year ended December 31, 2008 compared with \$16.8 million in 2007. The decrease was primarily attributable to decreased transaction volume which is consistent with the overall slowdown in private capital raising activity. The decrease in capital raising revenues was partially offset by an increase of \$10.6 million, or 37%, in strategic advisory fees to \$39.3 million for the year ended December 31, 2008 compared with \$28.7 million in 2007. The increase in strategic advisory fees was primarily due to an increase in the number of transactions completed during 2008 compared to 2007.

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***Brokerage***

Brokerage revenue decreased \$8.8 million, or 6%, to \$149.9 million for the year ended December 31, 2008 compared with \$158.7 million in 2007. This decrease was primarily associated with losses on warrants previously received as part of our investment banking transactions and losses related to investments associated with our asset management businesses.

***Interest and Dividend Income***

Interest and dividend income decreased \$4.9 million, or 59%, to \$3.4 million for the year ended December 31, 2008 compared with \$8.3 million in 2007. This decrease was primarily due to a combination of lower average interest bearing assets and lower average interest rates in 2008 compared to 2007.

***Other***

Other revenues increased \$9.1 million, or 224%, to \$13.1 million for the year ended December 31, 2008 compared with \$4.0 million in 2007. This increase was attributable to an increase in fees for managing the assets and investments of certain private equity and alternative asset management funds.

**Expenses**

***Employee Compensation and Benefits***

Employee compensation and benefits expense decreased \$44.0 million, or 25%, to \$133.9 million for the year ended December 31, 2008 compared with \$177.9 million in 2007. The decrease was primarily attributable to the application of the Company's compensation to revenue ratio to lower revenue in 2008 and the decrease in the Company's compensation to revenue ratio, excluding the expense associated with the initial grant of equity to employees in connection with our IPO, to 62% in 2008 compared to 65% in 2007. Employee compensation and benefits expense for the year ended December 31, 2008 included a net reversal of \$0.9 million of expense associated with the initial grant of equity to the Company's employees in connection with our IPO which compares to \$7.9 million of expense in 2007. The reversal in 2008 primarily relates to amounts previously expensed in 2006 and 2007 associated with the IPO awards that were forfeited by our former Chief Executive Officer in connection with his resignation.

***Floor Brokerage and Trade Execution***

Floor brokerage and trade execution fees decreased \$1.0 million, or 9%, to \$10.9 million for the year ended December 31, 2008 compared with \$11.9 million in 2007. This decrease was primarily attributable to more favorable pricing under our current clearing agreement with a non-affiliate.

***Service Fees***

Service fees increased \$1.3 million, or 9%, to \$16.6 million for the year ended December 31, 2008 compared with \$15.3 million in 2007. This increase was primarily attributable to additional services related to the outsourcing of our information technology infrastructure and our trading and order management system.

***Communications***

Communications expense decreased \$1.5 million, or 9%, to \$14.8 million for the year ended December 31, 2008 compared with \$16.3 million in 2007. This decrease was primarily attributable to a reduction in costs associated with certain third-party market data services.

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***Occupancy and Equipment***

Occupancy and equipment expense decreased \$0.7 million, or 4%, to \$16.5 million for the year ended December 31, 2008 compared with \$17.2 million in 2007. These results are primarily attributable to a decrease in maintenance costs related to our information technology infrastructure.

***Depreciation and Amortization***

Depreciation and amortization expense decreased \$0.3 million, or 9%, to \$2.9 million for the year ended December 31, 2008 compared with \$3.2 million in 2007. This decrease was primarily due to a reduction in capitalized project costs due to an accelerated amortization on retired software taken in 2007, partially offset by the amortization of intangible assets related to the 2008 Latitude acquisition.

***Goodwill Impairment***

Goodwill impairment was \$50.0 million for the year ended December 31, 2008. This non-cash charge related to the impairment of the legacy goodwill resulting from the 1998 acquisition of the Company's predecessor by Société Générale. This goodwill was retained by the Company at the time of our initial public offering and was recorded at the U.S. broker-dealer subsidiary of the Company. The Company follows the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), and tests goodwill annually, or between annual tests if events or circumstances dictate. Over the past year the Company's stock, like others in our industry, has traded at historically low levels relative to book value. These depressed valuations have placed significant pressure on goodwill impairment tests as market capitalization is a key determinant of possible goodwill impairment. As a result, we performed an impairment test as prescribed by SFAS 142 and determined that our legacy goodwill from Société Générale's acquisition of our predecessor had been fully impaired.

***Other***

Other expenses decreased \$2.7 million, or 10%, to \$23.8 million for the year ended December 31, 2008 compared with \$26.5 million in 2007. This decrease was primarily attributable to a reduction in legal fees, employment fees and reduced consulting costs. These decreases were partially offset by \$3.7 million in placement fees in 2008 related to the closings associated with an alternative asset management fund managed by CHRP Management.

***Gain on Exchange Memberships***

Gain on exchange memberships decreased \$1.0 million to \$0.8 million for the year ended December 31, 2008 compared to \$1.8 million in 2007. During 2007, we sold our seat on the Chicago Board Options Exchange for a one-time gain of \$1.8 million. During 2008, we realized one time gains related primarily to the sale of the Boston Stock Exchange to NASDAQ OMX and MX US 2, a wholly owned subsidiary of the Montreal Exchange Inc.

***Provision for Income Taxes***

We reported a tax provision of \$8.1 million for the year ended December 31, 2008, which reflects an effective tax rate of (12.6)%, compared to a tax benefit of \$6.5 million in 2007, which reflects an effective tax rate of 36.5%. The 2008 effective tax rate differs from the statutory tax rate of 35% primarily due to a change in the valuation allowance and state and local taxes. The 2007 effective tax rate differed from the statutory rate of 35% primarily due to the establishment of a valuation allowance against certain stock compensation deferred tax assets offset by a state and local tax benefit.

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*Year Ended December 31, 2007 Compared with the Year Ended December 31, 2006*

**Overview**

Total revenues decreased \$83.4 million, or 24%, to \$261.6 million for the year ended December 31, 2007 compared with \$345.0 million in 2006. This decrease was primarily due to a decrease in investment banking revenues of \$73.8 million and a decrease in interest and dividend income of \$9.5 million.

Total expenses decreased \$47.2 million, or 14%, to \$281.2 million for the year ended December 31, 2007 compared with \$328.4 million in 2006, primarily due to a decrease in compensation expense. Compensation expense decreased primarily as a result of the decrease in total revenues, partially offset by an increase of 7% in the accrual ratio of compensation and benefits expense from 58% in 2006 to 65% in 2007. The results in 2007 include \$7.9 million of expense associated with the initial grant of equity to our employees in connection with the IPO compared to \$5.2 million during 2006. In addition, compensation expense for the year ended December 31, 2006 included \$10.6 million associated with the vesting of deferred compensation plans that were terminated as a result of our separation from SG.

Total non-compensation expenses decreased \$9.4 million, or 8%, during the year ended December 31, 2007 compared with 2006, primarily due to a decrease in service fees as a result of our separation from SG and a decrease in floor brokerage and trade execution related expenses. These decreases were partially offset by an increase in marketing and development expenses, and depreciation and amortization expense related to leasehold improvements made during 2006 in certain of our offices.

We recorded a net loss of \$11.3 million for the year ended December 31, 2007 compared with net income of \$37.9 million for the year ended December 31, 2006. Net income for the year ended December 31, 2006 included one-time gains on exchange memberships of \$25.8 million resulting primarily from the consummation of the merger of the NYSE and Archipelago Holdings, Inc. which occurred on March 7, 2006.

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The following table provides a comparison of our revenues and expenses for the periods presented:

	Year Ended December 31,		Period-to-Period %	
	2007	2006	\$ Change	Change
(in thousands)				
<b>Revenues</b>				
Investment banking	\$ 90,520	\$ 164,342	\$(73,822)	(44.9)%
Brokerage	158,720	159,879	(1,159)	(0.7)
Interest and dividend income	8,284	17,766	(9,482)	(53.4)
Other	4,045	2,980	1,065	35.7
Total revenues	261,569	344,967	(83,398)	(24.2)
<b>Expenses</b>				
Employee compensation and benefits	177,948	215,707	(37,759)	(17.5)
Floor brokerage and trade execution	11,879	18,811	(6,932)	(36.9)
Service fees, net	15,337	16,961	(1,624)	(9.6)
Communications	16,292	17,316	(1,024)	(5.9)
Occupancy and equipment	17,237	17,772	(535)	(3.0)
Marketing and business development	12,792	12,581	211	1.7
Depreciation and amortization	3,168	2,369	799	33.7
Other	26,521	26,834	(313)	(1.2)
Total expenses	281,174	328,351	(47,177)	(14.4)
Operating (loss) income	(19,605)	16,616	(36,221)	NM
Gain on exchange memberships	1,775	25,843	(24,068)	(93.1)
(Loss) income before income taxes	(17,830)	42,459	(60,289)	NM
(Benefit) provision for income taxes	(6,509)	4,548	(11,057)	NM
Net (loss) income	\$ (11,321)	\$ 37,911	\$(49,232)	NM%

*NM* indicates not meaningful.

### **Revenues**

#### ***Investment Banking***

Investment banking revenues decreased \$73.8 million, or 45%, to \$90.5 million for the year ended December 31, 2007 compared with \$164.3 million in 2006. Our underwriting revenues decreased \$35.2 million, or 44%, to \$45.0 million for the year ended December 31, 2007 compared with \$80.2 million the prior year. The decrease in underwriting revenues was the result of a decrease in both the number of transactions completed and average revenue per transaction, due in part to the depressed capital markets environment in the second half of 2007, and, we believe, employee dislocation within our investment banking department in 2007. We lead managed 30% and 39% of our underwritten transactions during 2007 and 2006, respectively. Our private placement revenues decreased \$49.1 million, or 74%, to \$16.8 million for the year ended December 31, 2007 compared with \$65.9 million in 2006. The decrease in private placement revenues was primarily attributable to a decrease in both the number of transactions completed and the average revenues per transaction during 2007 compared to 2006. The decrease in capital raising revenues was partially offset by an increase of \$10.5 million, or 58%, in strategic advisory fees to \$28.7 million for the year ended December 31, 2007 compared with \$18.2 million during the prior year. The increase in strategic advisory fees was primarily due to an increase in the size of transactions completed during 2007 compared to 2006, which more than offset the slight decrease in transaction volume during 2007 compared to 2006.

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***Brokerage***

Brokerage revenue decreased \$1.2 million, or 1%, to \$158.7 million for the year ended December 31, 2007 compared with \$159.9 million in 2006. The decrease in revenues is associated with a reduction of our convertible inventory which was partially offset by increases in revenues related to our options activities and gains on warrants previously received as part of our investment banking transactions.

***Interest and Dividend Income***

Interest and dividend income decreased \$9.5 million, or 53%, to \$8.3 million for the year ended December 31, 2007 compared with \$17.8 million in 2006. This decrease was primarily the result of lower average interest bearing assets during 2007 compared to 2006. In conjunction with our IPO, we made a payment of \$180.3 million, representing a return of capital, to SGASH. The level of our interest bearing assets was significantly reduced as a result of this capital distribution which resulted in a meaningful reduction in our interest income in 2007.

***Other***

Other revenues increased \$1.0 million, or 36%, to \$4.0 million for the year ended December 31, 2007 compared with \$3.0 million in 2006. This increase was attributable to an increase in fees for managing the assets and investments of certain private equity and alternative asset management funds.

***Expenses***

***Employee Compensation and Benefits***

Employee compensation and benefits expense decreased \$37.8 million, or 17%, to \$177.9 million for the year ended December 31, 2007 compared with \$215.7 million in 2006. This decrease was primarily attributable to our compensation and benefits expense to revenue ratio being applied to lower total revenues, partially offset by an increase of 7% in the accrual ratio of compensation and benefits expense from 58% in 2006 to 65% in 2007. In addition, 2007 includes \$7.9 million of expense associated with the initial grant of equity to our employees in connection with the IPO compared with \$5.2 million during 2006. The \$7.9 million expense in 2007 includes a reversal of \$1.9 million for a cumulative adjustment related to a change in estimated forfeitures. Lastly, 2006 included a vesting expense of \$10.6 million related to deferred compensation plans that were terminated as a result of our separation from SG. Excluding the compensation expense associated with the initial grant of equity and the terminated deferred compensation plans, employee compensation and benefits expense as a percentage of total revenues was 65% and 58% for the years ended December 31, 2007 and 2006, respectively.

***Floor Brokerage and Trade Execution***

Floor brokerage and trade execution fees decreased \$6.9 million, or 37%, to \$11.9 million for the year ended December 31, 2007 compared with \$18.8 million in 2006. This decrease was primarily attributable to more favorable pricing under our current clearing agreement.

***Service Fees***

Service fees decreased \$1.6 million, or 10%, to \$15.3 million for the year ended December 31, 2007 compared with \$16.9 million in 2006. This decrease was primarily attributable to the termination of various service level agreements with SG for certain support functions as a result of the IPO, partially offset by additional services related to the outsourcing of our information technology infrastructure.



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***Communications***

Communications expense decreased \$1.0 million, or 6%, to \$16.3 million for the year ended December 31, 2007 compared with \$17.3 million in 2006. This decrease was primarily attributable to a reduction in costs associated with certain third-party market data services.

***Occupancy and Equipment***

Occupancy and equipment expense decreased \$0.5 million, or 3%, to \$17.2 million for the year ended December 31, 2007 compared with \$17.7 million in 2006. This decrease was primarily attributable to moving expenses associated with relocating certain employees within our New York office and relocating our San Francisco office during 2006.

***Marketing and Business Development***

Marketing and business development expense increased \$0.2 million, or 2%, to \$12.8 million for the year ended December 31, 2007 compared with \$12.6 million in 2006. This increase was primarily due to an increase in conference related costs, partially offset by a decrease in travel and entertainment related expenses.

***Depreciation and Amortization***

Depreciation and amortization expense increased \$0.8 million, or 34%, to \$3.2 million for the year ended December 31, 2007 compared with \$2.4 million in 2006. This increase was primarily attributable to the amortization of additional network hardware and additional leasehold improvements placed into service during 2006. In addition, there was accelerated amortization expense on certain retired software.

***Other***

Other expenses decreased \$0.3 million, or 1%, to \$26.5 million for the year ended December 31, 2007 compared with \$26.8 million in 2006. Decreases in insurance premiums, exchange dues and interest expense were partially offset by an increase in legal related expenses due to broken transactions and new business initiatives.

***Gain on Exchange Memberships***

Gain on exchange memberships decreased \$24.0 million to \$1.8 million for the year ended December 31, 2007 compared to \$25.8 million in 2006. This decrease was primarily attributable to a \$24.8 million one-time gain realized upon the consummation of the merger of the NYSE and Archipelago Holdings, Inc. which occurred on March 7, 2006. NYSE members were entitled to receive cash and shares of NYSE Group common stock for each NYSE membership seat. We held seven NYSE membership seats at the date of the merger. The Company directed its interests from the merger to SGASH. The remaining gain occurred on November 16, 2006, as a result of the demutualization of the New York Mercantile Exchange ("NYMEX"). The Company exchanged its seats at the Commodity Exchange ("COMEX") for 16,800 shares of restricted NYMEX common stock and two trading rights in the restructured COMEX. The NYMEX shares and the trading rights were recognized at fair value at the date of exchange, and the Company recognized a gain of approximately \$1.0 million representing the difference between the previous carrying value of the seats and the fair value of the shares that were received from the exchange at the time of demutualization. During the first quarter of 2007, we sold our seat on the Chicago Board Options Exchange for a one-time gain of \$1.8 million.

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**Provision for Income Taxes**

We reported a tax benefit of \$6.5 million for the year ended December 31, 2007, which reflects an effective tax rate of 36.5%, compared to a tax provision of \$4.5 million in 2006, which reflects an effective tax rate of 10.7%. The 2007 effective tax rate differs from the statutory tax rate of 35% primarily due to the establishment of a valuation allowance against certain stock compensation deferred tax assets offset by a state and local tax benefit. The low effective tax rate in 2006 is primarily the result of a net reversal of valuation allowance due to payments of deferred compensation arrangements related to the IPO and pre-IPO amortization of goodwill.

**Liquidity and Capital Resources**

We continually monitor our liquidity position. We believe that our current level of equity capital, current cash and cash equivalents, and anticipated cash flows from operating activities will be adequate to meet our liquidity and regulatory capital requirements for the next twelve months.

Most of our assets consist of 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, 2008, we had cash and cash equivalents of \$108.6 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 bi-weekly 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 part of our separation from SG, we made a payment to SGASH of \$180.3 million in 2006. This distribution was the amount necessary to cause our stockholders' equity to be \$207.0 million immediately after the IPO as agreed upon with SG. Under the terms of the separation agreement with SG (the "Separation Agreement"), the amount of this distribution was subject to adjustment based on a final review of the Company's separation from SG. See Note 15 "Separation from Société Générale and Other Related Matters," of the Notes to the Consolidated Financial Statements for further discussion of the Separation Agreement. We accrued \$2.1 million as a capital distribution payable to SG related to this final review, and on July 1, 2008, we paid \$2.1 million to SG.

During 2007, the Company concluded that a receivable recorded on its Consolidated Statement of Financial Condition in the amount of \$1.9 million owed to it from SG is in dispute. The receivable had been previously established on the Consolidated Statement of Financial Condition of the Company prior to the time of the IPO as a "Receivable from brokers, dealers and clearing brokers" and reported as such, and has since been reclassified to "Other assets." The Company has been informed that SG disputes its obligation to pay the receivable. The Company believes, based on current facts and circumstances and in consultation with counsel, that it holds a valid legal claim to the receivable. Based upon the validity of its legal claim, the Company believes the receivable is realizable. Therefore, no reserve has been established. The Company has taken steps to pursue its legal claim.

The Company has committed to invest \$27.0 million to the CHRP Fund as a limited partner of the CHRP Fund and also as a member of Cowen Healthcare Royalty GP, LLC, the general partner of the CHRP Fund. This commitment is expected to be called over a two to three year period. The Company will make its pro-rata investment in the CHRP Fund along with the other limited partners. Through December 31, 2008, the Company has funded \$13.6 million towards these commitments.

As a registered broker-dealer and member firm of the NYSE, Cowen is subject to the Uniform Net Capital Rule of the SEC. We have elected to use the alternative method permitted by the Uniform Net Capital Rule, which generally requires that we maintain minimum net capital of \$1.0 million. The NYSE may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be below the regulatory limit. We expect these limits will not impact our ability to meet current and future obligations.

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At December 31, 2008, Cowen's net capital under the SEC's Uniform Net Capital Rule was \$69.5 million, or \$68.5 million in excess of the minimum required net capital.

CIL is subject to the capital requirements of the FSA of the U.K. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the FSA. At December 31, 2008, CIL's Financial Resources of \$7.4 million exceeded the minimum requirement of \$3.3 million by \$4.1 million.

CAM UK is subject to the capital requirements of the FSA of the U.K. and the IFR in Ireland. As per U.K. FSA regulation, Financial Resources, as defined, must exceed the Total Capital requirement, as defined. At December 31, 2008, CAM UK's Financial Resources of \$1.4 million exceeded the FSA's minimum requirement of \$0.7 million by \$0.7 million, and IFR's minimum requirement of \$0.9 million net shareholder's funds was exceeded by \$0.5 million.

CLAL is subject to the financial resources requirements of the SFC of Hong Kong. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the SFC. At December 31, 2008, CLAL's Financial Resources of \$0.2 million exceeded the minimum requirement of \$0.1 million by \$0.1 million.

*Cash Flows*

**Year Ended December 31, 2008.** Cash decreased by \$31.3 million for the year ended December 31, 2008, as a result of cash used in operating activities, cash used in investing activities and cash used in financing activities.

Our operating activities used \$8.5 million of cash due to a net loss of \$72.2 million and a decrease in cash from changes in operating liabilities of \$76.8 million, partially offset by cash from changes in operating assets of \$70.8 million and non-cash charges of \$69.6 million.

The change in operating liabilities of \$76.8 million was primarily due to a decrease in securities sold, not yet purchased, at fair value, of \$21.5 million, a decrease in employee compensation and benefits payable of \$38.6 million, and a decrease in legal reserves and legal expenses payable of \$17.7 million. The 2008 change in securities sold, not yet purchased, at fair value, associated with our convertible trading inventory, caused cash to decrease by that amount. The decrease in employee compensation and benefits payable was due to the payment of 2007 bonus accruals in the first quarter of 2008, partially offset by lower 2008 bonus accruals at December 31, 2008. Legal reserves and expenses payable decreased due to settlement payments and a return of excess funds to SGASH.

The change in operating assets of \$70.8 million was primarily due to a decrease in securities owned, at fair value, of \$17.0 million, a decrease in receivable from brokers, dealers and clearing brokers of \$30.9 million, a decrease in corporate finance and syndicate receivables, net, of \$10.3 million and a decrease in restricted cash pursuant to escrow agreement of \$10.5 million. The decrease in securities owned, at fair value, caused cash to increase by that amount. The decrease in receivable from brokers, dealers and clearing brokers was primarily due to a reduction in net inventory and collections from clearing brokers. The decrease in corporate finance and syndicate receivables, net, was due to collection on outstanding balances. The decrease in cash pursuant to escrow agreement was the result of settlement payments and a return of excess funds to SGASH. The non-cash charges primarily represent a goodwill impairment charge, share-based compensation, deferred income taxes, and depreciation and amortization charges.

Our investing activities used \$19.9 million of cash in 2008 due to cash paid for our acquisition of Latitude, net of cash acquired, of \$3.2 million, investment purchases of \$18.1 million and purchases of fixed assets of \$1.6 million. These amounts were partially offset by distributions from investments of \$3.0 million.

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Our financing activities used \$2.8 million of cash in 2008, primarily due to the use of \$4.4 million for the purchase of shares under our stock repurchase program. For the year ended December 31, 2008, the Company repurchased 0.5 million of its own shares in the open market, at an average price of \$9.29. These shares have been permanently retired. The repurchase program is funded through the return of capital to the Company from Cowen. For more information about the repurchase program, see Note 21 to the Consolidated Financial Statements in Part IV, Item 15, in this Annual Report on Form 10-K.

**Year Ended December 31, 2007.** Cash decreased by \$45.2 million for the year ended December 31, 2007, primarily as a result of cash used in operating activities and cash used in financing activities.

Our operating activities used \$28.4 million of cash due to a decrease in cash from changes in operating liabilities of \$325.7 million and a net loss of \$11.3 million, partially offset by an increase in cash from changes in operating assets of \$295.8 million and non-cash charges of \$12.8 million.

The change in operating liabilities of \$325.7 million was primarily due to a decrease in securities sold, not yet purchased, at fair value, of \$225.9 million, a decrease in employee compensation and benefits payable of \$42.9 million, a decrease in payable to brokers, dealers and clearing brokers of \$29.5 million and a decrease in legal reserves and legal expenses payable of \$27.7 million. The 2007 change in securities sold, not yet purchased, at fair value associated with our convertible trading inventory, caused cash to decrease by that amount. The decrease in employee compensation and benefits payable was due to the payment of 2006 bonus accruals in the first quarter of 2007, partially offset by lower 2007 bonus accruals at December 31, 2007. Legal reserves and expenses payable decreased due to settlement payments and a return of excess funds to SGASH. The decrease in payable to brokers, dealers and clearing brokers was primarily attributable to the reduction of our net convertible bond inventory.

The change in operating assets of \$295.8 million was primarily due to a decrease in securities owned, at fair value of \$234.3 million, a decrease in receivable from brokers, dealers and clearing brokers of \$34.8 million and a decrease in restricted cash pursuant to the Escrow Agreement of \$28.6 million. The decrease in securities owned, at fair value was due to a reduction of our convertible bond inventory. The decrease in receivable from brokers, dealers and clearing brokers was primarily due to collection on balances held at our previous clearing firm. The decrease in cash pursuant to escrow agreement was the result of settlement payments and a return of excess funds to SGASH. The non-cash charges primarily represent share-based compensation, deferred income taxes, and depreciation and amortization charges.

Our investing activities used \$1.9 million of cash in 2007 due to purchases of fixed assets.

Our financing activities used \$14.8 million of cash in 2007 which was primarily used to purchase shares under our stock repurchase program. For the period ended December 31, 2007, the Company repurchased 1.4 million of its own shares in the open market, at an average price of \$10.28, which have been permanently retired. The repurchase program is funded through the return of capital to the Company from Cowen.

**Year ended December 31, 2006.** Cash increased by \$182.9 million for the year ended December 31, 2006 from the prior year, primarily as a result of cash provided by operating activities, partially offset by cash used in financing activities. In conjunction with our separation from SG and our becoming a public company, we made a payment representing a return of capital to SGASH in the amount of \$180.3 million. This distribution was the amount necessary to cause our stockholders' equity to be \$207.0 million immediately after the IPO as agreed upon with SG. The increase in cash for the year ended December 31, 2006 and the cash used to distribute this \$180.3 million payment to SGASH

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was primarily funded by the decrease in securities purchased under agreements to resell with related parties of \$411.0 million.

Our operating activities provided \$388.6 million of cash due to net income of \$37.9 million and cash provided by changes in operating assets of \$286.9 million, including an increase in cash from changes in operating liabilities of \$81.6 million and a decrease in non-cash revenue and expense items of \$17.9 million. The change in operating liabilities of \$81.6 million was primarily due to an increase in securities sold, not yet purchased, at fair value, of \$108.4 million partially offset by a decrease in employee compensation and benefits payable of \$40.9 million. The change in operating assets of \$286.9 million primarily resulted from a decrease in securities purchased under agreements to resell with related parties of \$411.0 million, which caused cash to increase by that amount, offset by an increase in restricted cash pursuant to an escrow agreement of \$52.1 million and an increase of \$57.7 million in receivable from brokers, dealers and clearing brokers. Net non-cash revenue and expense items consisted primarily of a million \$24.8 million gain on exchange memberships.

Our investing activities consumed \$11.8 million due to purchases of fixed assets. Net cash used in financing activities of \$193.9 million was primarily attributable to a net capital distribution of \$180.3 million to SG.

**Credit Facilities**

We have an irrevocable letter of credit for \$5.0 million, expiring on December 1, 2009, which supports obligations under Cowen's Boston office lease. The Company also has two additional irrevocable letters of credit, the first of which is for \$100,000, expiring on July 26, 2009, supporting Cowen's workers' compensation insurance with Safety National Casualty Corporation, and the second of which is for \$57,000, expiring on November 14, 2009, supporting CHRP Management's Stamford office lease. To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. Each of these letters of credit provide for automatic annual renewals, at the Company's option, on their expiration dates. As of December 31, 2008, there were no amounts due related to these letters of credit.

**Contractual Obligations**

The following table provides a summary of our contractual obligations as of December 31, 2008:

	Payments due by Period				
	Total	2009	2010	2011-2012	2013 and thereafter
	(in thousands)				
Operating lease obligations	\$50,015	\$ 9,796	\$ 9,780	\$ 18,962	\$ 11,477
Other contractual obligations	16,052	11,306	4,746		
<b>Total</b>	<b>\$66,067</b>	<b>\$21,102</b>	<b>\$14,526</b>	<b>\$ 18,962</b>	<b>\$ 11,477</b>

Operating lease obligations represent leases on the Company's office locations. Other contractual obligations represent agreements related to the outsourcing of certain information technology services.

**Off-Balance Sheet Arrangements**

We had no material off-balance sheet arrangements as of December 31, 2008; 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. See Item 7A "Qualitative and Quantitative Disclosures About Market Risk Credit Risk."

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We are 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. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral. However, management believes that the potential for us 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**

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors such as those described in Item 1A-"Risk Factors" cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be materially adversely affected.

Our significant accounting policies are summarized in Note 2 of the Notes to Consolidated Financial Statements in Part IV, Item 15 of this Annual Report on Form 10-K. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

the impact of the estimate or assumption on our financial condition or operating performance is material.

Using these criteria, we believe the following to be our critical accounting policies:

***Revenue Recognition***

We earn investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Our investment banking revenues are derived primarily from small and mid-capitalization companies within our target sectors of healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy.

**Underwriting fees.** We earn underwriting revenues in securities offerings in which we act as an underwriter, such as IPOs, follow-on equity offerings and convertible security offerings. Our 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 cycle 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 shares from the issuer; and (iii) the Company has been informed of the number of shares that it has been allotted.

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When the Company is not the lead manager for a registered equity 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.** Our strategic advisory revenues include success fees earned in connection with advising companies, both buyers and sellers, principally in mergers and acquisitions. We also earn fees for related advisory work such as providing fairness opinions. We record 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.** We earn agency placement fees in non-underwritten transactions such as private placements, PIPEs and RDs. We record 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.

***Valuation of Financial Instruments***

Substantially all of our financial instruments are recorded at fair value or contract amounts that approximate fair value. Securities owned and securities sold, not yet purchased and derivative financial instruments including options and warrant positions are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in brokerage revenue in the Consolidated Statements of Operations. Financial instruments carried at contract amounts include amounts receivable from and payable to brokers, dealers and clearing brokers, and corporate finance and syndicate receivables, net.

On January 1, 2008, we adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157") as it relates to financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own unobservable inputs that are not corroborated by observable market data.

Fair value is generally based on independent sources such as quoted market prices or dealer price quotations. To the extent certain financial instruments trade infrequently or are non-marketable securities, they may not have readily determinable fair values. In these instances, primarily for warrants, we estimate the fair value of these instruments using various pricing models and available information that management deems most relevant. Among the factors considered by us in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of financial instruments.

***Goodwill***

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. In accordance with SFAS 142, goodwill is not amortized. We monitor goodwill annually or more frequently if events or circumstances indicate a possible impairment.

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A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of the Company with the fair value of the Company. If the carrying value of the Company exceeds the fair value of the Company, the second step is applied. The second step is to compare the carrying amount of the goodwill with the implied fair value of the goodwill as determined in accordance with SFAS 142. Goodwill impairment is recognized if its carrying value exceeds its implied fair value. The determination of fair value includes considerations of projected cash flows, relevant trading multiples of comparable exchange listed corporations, and the trading price of our common shares.

Goodwill impairment tests are subject to significant judgment in determining the estimation of future cash flows, discount rates and other assumptions. Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill.

***Legal and Regulatory Reserves***

We are involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of our businesses. To the extent that we are indemnified by SG under our Indemnification Agreement, indemnified legal expenses and liabilities will be paid out of escrow pursuant to our Escrow Agreement. See Note 5 of the Notes to the Consolidated Financial Statements, "Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale" and Note 15 of the Notes to the Consolidated Financial Statements, "Separation from Société Générale and Other Related Matters" in Part IV, Item 15, for further discussion of the Escrow and Indemnification Agreements. To the extent that we are not indemnified by SG, we estimate potential losses that may arise out of these matters and record a reserve and take a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS 5, *Accounting for Contingencies*. Such estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, our defenses and our experience in similar cases or proceedings as well as our assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. We may increase or decrease our legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters. Any future increases to our loss contingency reserves or releases from these reserves may affect our results of operations. Historically, legal costs have significantly impacted our financial results.

**Recently Issued Accounting Standards, Not Yet Adopted**

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, ("SFAS 160"). SFAS 160 will significantly change financial accounting and reporting for noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. The adoption of SFAS 160 is not expected to have a material impact on our consolidated financial statements, but is expected to effect the presentation of the Company's noncontrolling interests.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited.



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In February 2008, the FASB issued FASB Staff Position SFAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP SFAS 157-2"). FSP SFAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP SFAS 157-2 is not expected to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 requires enhanced disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS 133 and related interpretations, and how derivative instruments and related hedged items affect the entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted. We are currently evaluating the impact that SFAS 161 will have on our consolidated financial statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

***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 our role as a financial intermediary in customer trading and to our market making and investment activities. Market risk is inherent in financial instruments. 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.

***Interest Rate Risk***

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold interest-sensitive assets and liabilities from time to time, we are exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve. Interest rate risk is primarily managed through the use of U.S. Treasury futures, options and short positions in corporate debt securities.

***Credit Risk***

We engage in various securities underwriting, trading and brokerage activities servicing a diverse group of domestic and foreign corporations and institutional investor clients. A substantial portion of our transactions are collateralized and are executed with or on behalf of institutions including other brokers or dealers, commercial banks and other financial institutions. Our exposure to credit risk

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associated with the nonperformance of these counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the client's ability to satisfy its obligations to us. Our principal activities are also subject to the risk of counterparty nonperformance. Pursuant to our 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, as noted above, 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. We also seek to mitigate the risks associated with brokerage services through active customer screening and selection procedures and through requirements that clients maintain collateral in appropriate amounts where required or deemed necessary.

***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.

***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 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 Statement on Auditing Standards No. 70 report on the state of its internal controls. We have also recently completed an upgrade of our IT security policies and procedures, which are subject to regular audit. 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.

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. A forum for discussing operational risk matters and/or reports with senior management is regularly held.

***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

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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. "Supplemental Financial Information" is included after Note 24 Regulatory Requirements.

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

None.

**Item 9A. 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 the end of the fiscal year covered by this Report ending December 31, 2008.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this Report ending December 31, 2008, our disclosure controls and procedures are effective to provide 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.

Management's annual report on internal control over financial reporting and the attestation report of our independent registered public accounting firm are contained in Part IV, Item 15, of this Report and are incorporated herein by reference. There was no change in our internal control over financial reporting that occurred during the fourth quarter of 2008 that has materially affected, or is 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 2009 annual meeting of stockholders under the captions "Executive Officers," "Class I Directors Terms Ending in 2012," "Class II Directors Terms Ending in 2011," and "Class III Directors Nominees For Terms Ending in 2010," "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 2009 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 2009 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 2009 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 2009 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-43 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 Assessment of Internal Control over Financial Reporting**

The management of Cowen Group, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on our assessment we believe that, as of December 31, 2008, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of Cowen Group, Inc. included in this Annual Report on Form 10-K, has audited the effectiveness of internal control over financial reporting as of December 31, 2008. Their report, which expresses an unqualified opinion on the effectiveness of Cowen Group, Inc.'s internal control over financial reporting as of December 31, 2008, is included herein.



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Cowen Group, Inc.

We have audited the accompanying consolidated statements of financial condition of Cowen Group, Inc. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity / group equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cowen Group, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cowen Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY  
March 3, 2009

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Cowen Group, Inc.

We have audited Cowen Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, Cowen Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Cowen Group, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' / group equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2008, and our report dated March 3, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY  
March 3, 2009

Table of Contents**Cowen Group, Inc.****Consolidated Statements of Financial Condition****As of December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 108,595	\$ 139,879
Restricted cash pursuant to escrow agreement	13,034	23,515
Securities owned, at fair value	8,632	25,613
Receivable from brokers, dealers and clearing brokers	17,918	48,776
Corporate finance and syndicate receivables, net	3,391	12,956
Due from related parties	1,087	2,708
Exchange memberships, at cost (fair value of \$221 and \$961 at December 31, 2008 and 2007, respectively)	379	486
Investments	15,141	
Furniture, fixtures, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$11,863 and \$9,303 at December 31, 2008 and 2007, respectively)	10,472	11,414
Goodwill	2,551	50,000
Intangible assets, net	369	
Other assets	25,929	33,691
Total assets	\$ 207,498	\$ 349,038
<b>Liabilities, Minority Interest and Stockholders' Equity</b>		
<b>Liabilities</b>		
Bank overdrafts	\$ 242	\$ 1,719
Securities sold, not yet purchased, at fair value	4,141	25,639
Payable to brokers, dealers and clearing brokers	214	373
Employee compensation and benefits payable	34,453	73,077
Legal reserves and legal expenses payable (see Note 13, Commitments, Contingencies and Guarantees)	7,798	25,464
Accounts payable, accrued expenses and other liabilities	17,010	14,111
Total liabilities	63,858	140,383
Minority interest	1,525	
<b>Stockholders' equity</b>		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 14,201,448 and 14,641,776 shares issued, and 14,201,448 and 14,488,759 shares outstanding at December 31, 2008 and 2007, respectively (including 2,963,960 and 2,999,031 restricted shares, respectively)	110	115
Additional paid-in capital	223,567	217,102
Accumulated deficit	(80,716)	(8,562)
Accumulated other comprehensive loss	(846)	
Less: common stock held in treasury, at cost: 153,017 shares at December 31, 2007		
Total stockholders' equity	142,115	208,655
Total liabilities, minority interest and stockholders' equity	\$ 207,498	\$ 349,038

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



## Cowen Group, Inc.

## Consolidated Statements of Operations

For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
<b>Revenues</b>			
Investment banking	\$ 50,937	\$ 90,520	\$ 164,342
Brokerage	149,901	158,720	159,879
Interest and dividend income	3,362	8,284	17,766
Other	13,124	4,045	2,980
Total revenues	217,324	261,569	344,967
<b>Expenses</b>			
Employee compensation and benefits	133,891	177,948	215,707
Floor brokerage and trade execution	10,864	11,879	18,811
Service fees	16,649	15,337	16,961
Communications	14,797	16,292	17,316
Occupancy and equipment	16,514	17,237	17,772
Marketing and business development	12,709	12,792	12,581
Depreciation and amortization	2,882	3,168	2,369
Goodwill impairment	50,000		
Other	23,842	26,521	26,834
Total expenses	282,148	281,174	328,351
Operating (loss) income	(64,824)	(19,605)	16,616
Gain on exchange memberships	751	1,775	25,843
(Loss) income before income taxes	(64,073)	(17,830)	42,459
Provision (benefit) for income taxes	8,081	(6,509)	4,548
Net (loss) income	\$ (72,154)	\$ (11,321)	\$ 37,911
Weighted average common shares outstanding:			
Basic	11,254	12,805	12,903
Diluted	11,254	12,805	12,966
Earnings (loss) per share:			
Basic	\$ (6.41)	\$ (0.88)	\$ 2.94
Diluted	\$ (6.41)	\$ (0.88)	\$ 2.92

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

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## Cowen Group, Inc.

## Consolidated Statements of Changes in Stockholders' / Group Equity and Comprehensive Income (Loss)

## For the Years Ended December 31, 2008, 2007 and 2006

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Group Equity	Total Stockholders' / Group Equity	Total Comprehensive Income (Loss)
<b>Balance, December 31, 2005</b>		\$	\$	\$	\$	\$ 373,951	\$ 373,951	\$
Net income, pre IPO						35,152	35,152	35,152
Change in liability related to the retail brokerage business not conducted by the Company (see Note 1)						(1,817)	(1,817)	
Capital contributions						6,843	6,843	
Capital distributions (see Note 1)						(207,129)	(207,129)	
Underwriting discount received in connection with the IPO (see Note 1)			3,020				3,020	
Net income, post IPO					2,759		2,759	2,759
Stock issuance (see Note 1, includes 2,100,000 of restricted shares)	15,000,000	129	206,871			(207,000)		
Amortization of share-based compensation			5,349				5,349	
Forfeitures of restricted stock awards	(11,528)							
<b>Balance, December 31, 2006</b>	14,988,472	129	215,240		2,759		218,128	37,911
Net loss					(11,321)		(11,321)	(11,321)
Stock repurchases	(1,416,800)	(14)	(14,579)				(14,593)	
Capital distributions (see Note 1)			(184)				(184)	
Stock issuance (includes 1,337,553 of restricted shares)	1,344,081							
Amortization of share-based compensation			16,824				16,824	
Syndication costs			(199)				(199)	
Forfeitures of restricted stock awards	(426,994)							
<b>Balance, December 31, 2007</b>	14,488,759	115	217,102		(8,562)		208,655	(11,321)
Net loss					(72,154)		(72,154)	(72,154)
Stock repurchases	(467,271)	(5)	(4,346)				(4,351)	
Stock issuance (includes 1,591,314 of restricted shares)	1,595,739							
Amortization of share-based compensation			10,811				10,811	
Forfeitures of restricted stock awards	(1,415,779)							
Foreign currency translation adjustment (net of taxes)				(846)			(846)	(846)

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<b>Balance, December 31, 2008</b>	14,201,448	\$	110	\$	223,567	\$	(846)	\$	(80,716)	\$	142,115	\$	(73,000)
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The accompanying notes are an integral part of these consolidated financial statements.

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Table of Contents**Cowen Group, Inc.****Consolidated Statements of Cash Flows****For the Years Ended December 31, 2008, 2007 and 2006**

	2008	2007	2006
<b>Cash flows from operating activities</b>			
Net (loss) income	\$ (72,154)	\$ (11,321)	\$ 37,911
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Gain on exchange memberships			(24,827)
Share-based compensation	10,811	16,824	5,440
Depreciation and amortization	2,882	3,168	2,369
Deferred income taxes	5,935	(7,158)	(832)
Goodwill impairment	50,000		
(Increase) decrease in operating assets:			
Restricted cash pursuant to escrow agreement	10,481	28,584	(52,099)
Cash segregated under federal and other regulations			1,107
Securities owned, at fair value	16,981	234,308	(39,835)
Securities purchased under agreement to resell			410,981
Receivable from brokers, dealers and clearing brokers	30,858	34,788	(57,715)
Corporate finance and syndicate receivables, net	10,304	14,066	(10,902)
Insurance claims receivable			5,316
Exchange memberships	107	326	
Due from related parties	1,619	(1,341)	(799)
Other assets	496	(14,955)	30,811
Increase (decrease) in operating liabilities:			
Bank overdrafts	(1,477)	(139)	277
Securities sold, not yet purchased, at fair value	(21,498)	(225,941)	108,357
Payable to brokers, dealers and clearing brokers	(159)	(29,545)	14,542
Employee compensation and benefits payable	(38,624)	(42,944)	(40,903)
Legal reserves and legal expenses payable	(17,666)	(27,703)	2,206
Accounts payable, accrued expenses and other liabilities	2,561	565	(2,844)
Net cash (used in) provided by operating activities	(8,543)	(28,418)	388,561
<b>Cash flows from investing activities</b>			
Acquisition, net of cash acquired	(3,204)		
Purchases of investments	(18,103)		
Distributions from investments	2,962		
Purchases of fixed assets from Société Générale			(228)
Purchases of fixed assets	(1,570)	(1,953)	(11,547)
Net cash used in investing activities	(19,915)	(1,953)	(11,775)
<b>Cash flows from financing activities</b>			
Payments related to the Retail brokerage business not conducted by the Company (see Note 1)			(27,771)
Share repurchases	(4,351)	(14,593)	
Capital distributions		(199)	(180,332)
Capital contributions, net			14,209
Contributions from minority interest holders	1,525		
Net cash used in financing activities	(2,826)	(14,792)	(193,894)
Net (decrease) increase in cash and cash equivalents	(31,284)	(45,163)	182,892
<b>Cash and Cash Equivalents</b>			
Beginning of period	139,879	185,042	2,150
End of period	\$ 108,595	\$ 139,879	\$ 185,042



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### Supplemental disclosure of cash flow information

Cash paid during the period for:

Interest	\$ 210	\$ 675	\$ 801
Income taxes	\$ 2,066	\$ 9,674	\$ 3,351

### Supplemental disclosure of non-cash flow information

Transfer to SGASH of consideration of NYSE merger with Archipelago	\$	\$	\$ 32,182
Accrued capital withdrawal payable to Société Générale	\$	\$ 184	\$ 1,965

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 Basis of Presentation**

Cowen Group, Inc. (together with its subsidiaries, the "Company") was incorporated in Delaware on February 15, 2006 with the issuance of 100 shares of common stock with a par value of \$0.01 per share. The Company completed an initial public offering ("IPO") of its common stock on July 12, 2006. Prior to July 12, 2006, the Company was a wholly-owned subsidiary of SG Americas Securities Holdings, Inc. ("SGASH"). SGASH was a wholly-owned subsidiary of SG Americas, Inc. ("SGAI"), which in turn was a wholly-owned subsidiary of Société Générale ("SG"). The Company is operated and managed on an integrated basis as a single operating segment and primarily provides research, institutional brokerage and investment banking services to its clients. Certain material subsidiaries of the Company and other entities in which the Company has a controlling financial interest are discussed below.

Cowen and Company, LLC ("Cowen"), a Delaware single-member limited liability company, is the United States broker-dealer subsidiary of the Company. Cowen is a full-service investment banking and securities brokerage firm focused on the emerging growth sectors of healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy, operating primarily in the United States. Cowen clears its securities transactions on a fully disclosed basis through National Financial Services, LLC and does not carry customer funds or securities.

Cowen International Limited ("CIL"), a corporation formed under the laws of England and Wales, is the United Kingdom broker-dealer subsidiary of the Company. CIL is an investment banking and brokerage firm also focused on the emerging growth sectors of healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy, primarily in Europe.

Cowen Asset Management, LLC ("CAM US"), a Delaware single-member limited liability company, is a wholly-owned subsidiary of the Company. CAM US focuses on a growth-oriented investment style centered on small and mid-sized companies based in North America.

Cowen Asset Management Limited ("CAM UK"), a corporation formed under the laws of England and Wales, is a wholly-owned subsidiary of the Company. CAM UK provides traditional asset management services for investors outside the United States, focusing on a global equity strategy.

Cowen Funds p.l.c. ("Cowen Funds"), an open-ended investment company ("OEIC") with variable capital, is incorporated with limited liability in Ireland, regulated by the Irish Financial Services Regulatory Authority ("IFR"), and established as an undertaking for collective investment in transferable securities ("UCITS"). A UCITS is a public limited company that manages investment funds in the European Union. As such, Cowen Funds is structured as an umbrella fund with segregated liability between sub-funds which are listed on the Irish Stock Exchange. The Company, through Cowen, has a controlling financial interest in Cowen Funds.

Cowen Healthcare Royalty Management, LLC ("CHRP Management"), a Delaware single-member limited liability company, is an indirect wholly-owned subsidiary of the Company. CHRP Management manages Cowen Healthcare Royalty Partners, L.P. (the "CHRP Fund"), which invests principally in commercial-stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments.

Cowen Capital Partners, LLC ("Cowen Capital"), a Delaware single-member limited liability company, is an indirect wholly-owned subsidiary of the Company. Cowen Capital focuses on providing investment management services to management teams who acquire significant equity positions in growing businesses engaged in business services, healthcare services and specialty manufacturing.

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

On August 22, 2008, the Company acquired (through its purchase of Latitude Holdings Limited) Latitude Advisors Limited, a Hong Kong corporation which was re-named Cowen Latitude Advisors Limited ("CLAL"), and Latitude Investment Consulting (Beijing) Co., Ltd., a Chinese wholly-owned foreign enterprise, which was re-named Cowen Latitude Investment Consulting (Beijing) Co., Ltd. ("CLICB"). CLAL and CLICB are each indirect wholly-owned subsidiaries of the Company. CLAL serves as an investment banking firm focused on the emerging growth sectors of healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy, primarily in Hong Kong. CLICB, which is located in China, primarily provides consulting services to CLAL. See Note 4, "Acquisition," for further discussion.

Concurrent with the Company's IPO, the Board of Directors of the Company approved a return of capital distribution to SGASH which left the Company with initial stockholders' equity of \$207.0 million at July 12, 2006. In connection with the IPO, the Company distributed cash of \$180.3 million to SGASH pursuant to this authorization. Under the terms of the separation agreement between the Company and SG (the "Separation Agreement"), the amount of this distribution was subject to adjustment based on a final review of the Company's separation from SG. See Note 15, "Separation from Société Générale and Other Related Matters" for further discussion of the Separation Agreement. At December 31, 2007, the Company had accrued \$2.1 million as a capital distribution to SG related to this final review, which was included in accounts payable, accrued expenses and other liabilities on the accompanying Consolidated Statements of Financial Condition. On July 1, 2008, the Company made a payment of \$2.1 million to SG.

SGASH received all of the proceeds from the sale of 11,517,392 shares as a result of the IPO. In addition, 2,100,000 restricted shares were granted to employees of the Company. SGASH retained 1,382,608 shares of the Company out of the total 12,900,000 shares it held immediately prior to the IPO. On December 5, 2007, the Company filed a Registration Statement on Form S-3 on behalf of SG, which remains effective. As a result, SG may sell its remaining shares at any time.

**Basis of Presentation**

The consolidated financial statements for periods prior to July 13, 2006 include the carve-out accounts of Cowen and the carve-out accounts of SG London Branch, the predecessor of CIL, in each case using the historical basis of accounting for the results of operations, assets and liabilities of the businesses that currently constitute Cowen and CIL. The consolidated financial information included herein, for periods prior to July 13, 2006, may not necessarily be indicative of the Company's results of operations, financial condition and cash flows in the future or what its results of operations, financial condition and cash flows would have been had the Company been a stand-alone company during the entire periods presented.

The Consolidated Statements of Operations do not include litigation expenses incurred by the Company in connection with certain litigation and other legal matters that are indemnified by SG through an indemnification agreement (the "Indemnification Agreement"). The legal reserves related to these indemnified matters are included in legal reserves and legal expenses payable in the Consolidated Statements of Financial Condition. Since the Company's IPO, these payments have been included as operating activities. The effect of this indemnification on the Company's consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost and the indemnification recovery will be reflected as an increase in litigation and related expense and the indemnification recovery will be recorded as a reduction to the Company's litigation and related

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

expense. See Note 13, "Commitments, Contingencies and Guarantees" and Note 15, "Separation from Société Générale and Other Related Matters" for further discussion.

The Consolidated Financial Statements include the accounts of the Company, its subsidiaries and entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated upon consolidation. Certain reclassifications have been made to conform prior-period amounts to the current-period presentation, including the reclassification of interest expense of \$0.5 million and \$1.0 million to other expenses for the years ended December 31, 2007, and 2006, respectively.

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The Consolidated Financial Statements include the accounts of Cowen Group, Inc., its subsidiaries, and all other entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated in consolidation. The Company determines whether it has a controlling financial interest by first evaluating whether the entity is a voting interest entity, or a variable interest entity ("VIE").

Voting interest entities are those in which the total equity investment at risk is sufficient to enable the entity to finance its activities independently. Voting interest entities provide equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. Voting interest entities are consolidated in accordance with Accounting Research Bulletin No. 51, *Consolidated Financial Statements* ("ARB 51"). ARB 51 provides that ownership of a majority voting interest is a condition for a controlling financial interest in an entity.

According to Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46R, *Consolidation of Variable Interest Entities* ("FIN 46R"), VIEs lack one or more of the characteristics of a voting interest entity as described above. FIN 46R provides that a controlling financial interest in an entity is present when an entity has one or more variable interests that are expected to absorb a majority of the entity's expected losses, receive a majority of the entity's residual returns, or both. The entity that is determined to be the primary beneficiary holds the controlling financial interest and is required to consolidate the VIE. Accordingly, the Company consolidates VIEs in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over that entity's operating and financial policies, the Company accounts for its investment in accordance with the equity method of accounting prescribed by Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. This generally applies to cases in which the Company owns a voting or economic interest of between 20 and 50 percent. The equity method may also apply to non-controlling ownership interests in general partnerships, or ownership interests in limited partnerships of more than 3 to 5 percent.

In addition to the situations described above, the Company evaluates partnerships, limited liability companies and similar entities that are not VIEs according to the provisions of EITF 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). The Company consolidates any such entities over which the Company, as general partner or managing member, has the presumption of control according to EITF 04-5.

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Minority Interest**

The Company reports the proportionate share of equity interests held by minority interest holders in Cowen Healthcare Royalty GP, LLC ("CHRGP"), the general partner of the CHRP Fund, as minority interest in the Consolidated Financial Statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its Consolidated Financial Statements are reasonable and prudent; however, actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. At December 31, 2008 and 2007, cash and cash equivalents included \$98.4 million and \$125.5 million, respectively, of money market funds.

**Valuation of Financial Instruments**

Substantially all of the Company's financial instruments are recorded at fair value or contract amounts that approximate fair value. Securities owned and securities sold, not yet purchased and derivative financial instruments including options and warrant positions are stated at fair value, with any related changes in unrealized appreciation or depreciation reflected in brokerage revenue in the Consolidated Statements of Operations. Financial instruments carried at contract amounts include amounts receivable from and payable to brokers, dealers and clearing brokers, and corporate finance and syndicate receivables, net.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157") as it relates to financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own unobservable inputs that are not corroborated by observable market data.

For many financial instruments, fair value is based on independent sources such as quoted market prices or dealer price quotations. To the extent certain financial instruments trade infrequently or are not marketable, they may not have readily determinable fair values. In these instances, primarily for warrants, the Company estimates fair value using various pricing models and available information that management deems most relevant. Among the factors considered by the Company in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of financial instruments. See Note 12, "Fair Value Measurements" for further discussion.

Prior to January 1, 2008, the Company followed the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, *Brokers and Dealers in Securities*, when determining fair value for financial instruments, which permitted the recognition of a discount to the

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

quoted price when determining the fair value for a substantial block of a particular security, when the quoted price was not considered to be readily realizable (*i.e.*, a block discount).

**Securities Purchased Under Agreements to Resell**

Securities purchased under agreements to resell generally are collateralized by U.S. government and agency obligations, are treated as collateralized financing transactions and are carried at amounts at which the securities will be resold plus accrued interest. It is the Company's policy to take possession or control of securities purchased under agreements to resell. The Company requires the fair value of the collateral to be equal to or in excess of the principal amount loaned under the resale agreements. The Company minimized credit risk associated with these activities by monitoring credit exposure and collateral values on a daily basis and requiring additional collateral or principal to be deposited or returned when deemed appropriate.

**Receivable from and Payable to Brokers, Dealers and Clearing Brokers**

Amounts receivable from and payable to brokers, dealers and clearing brokers primarily include proceeds from securities sold short including commissions and fees related to securities transactions, net receivables and payables for unsettled transactions, and deposits with the clearing brokers. Proceeds related to securities sold, not yet purchased, may be restricted until the securities are purchased.

**Corporate Finance and Syndicate Receivables, net**

Corporate finance and syndicate receivables, net, include receivables relating to the Company's investment banking and advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis. The valuation allowance was \$0.3 million and \$0.0 million as of December 31, 2008 and 2007, respectively.

**Investments**

The Company's limited partnership investment in the CHRP Fund is accounted for under the equity method, with the Company's proportionate share of the income or loss of the CHRP Fund recorded in other revenue. See Note 9, "Investments" for further discussion.

**Furniture, Fixtures, Equipment, and Leasehold Improvements**

Furniture, fixtures, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of furniture, fixtures and equipment is provided on the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the term of the lease, which ranges from two to eight years.

**Goodwill**

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is not amortized. The Company monitors goodwill annually or more frequently if events or circumstances indicate a possible impairment.

A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of the Company with the fair value of the Company. If the carrying value of the Company exceeds the fair value of the Company, the second step is applied. The second step is to compare the carrying amount of the goodwill with the implied fair value of the goodwill as determined

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

in accordance with SFAS 142. Goodwill impairment is recognized if its carrying value exceeds its implied fair value. The determination of fair value includes consideration of projected cash flows, relevant trading multiples of comparable exchange-listed corporations, and the trading price of the Company's common shares.

Goodwill impairment tests are subject to significant judgment in determining the estimation of future cash flows, discount rates and other assumptions. Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill.

**Intangible Assets, net**

Intangible assets with finite lives are amortized over their estimated average useful lives in accordance with SFAS 142. Finite lived intangible assets are tested for impairment whenever events or circumstance suggest that the carrying amount of an asset is not recoverable and the carrying amount exceeds the fair value of the intangible asset. The Company does not have any intangible assets deemed to have indefinite lives. See Note 11, "Goodwill and Intangible Assets" for further discussion.

**Exchange Memberships**

Exchange memberships represent both an ownership interest and the right to conduct business on the exchange are carried at cost. The Company evaluates exchange memberships for other-than-temporary impairment annually or more frequently if events or circumstances indicate a possible impairment.

**Share-Based Compensation**

Share-based awards granted under the Company's equity and incentive compensation plans are accounted for according to the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). See Note 18, "Share-Based Compensation" for a description of these awards.

**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 SFAS No. 5, *Accounting for Contingencies* ("SFAS 5"). 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 13, "Commitments, Contingencies, and Guarantees" and Note 15, "Separation from Société Générale and Other Related Matters" for additional information. 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.

**Revenue Recognition**

***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 & defense, and alternative energy.

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

***Underwriting fees***

The Company earns underwriting revenues in securities offerings in which the Company can act as an underwriter, such as initial public offerings, follow-on equity 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 cycle 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 shares from the issuer; and (iii) the Company has been informed of the number of shares that it has been allotted.

When the Company is not the lead manager for a registered equity 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, both buyers and sellers, principally in mergers and acquisitions. 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, including warrants in certain transactions, in non-underwritten transactions such as private placements, private investment in public equity transactions ("PIPEs") and registered direct transactions ("RDs"). 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 and equity research fees.

***Commissions***

Commission revenue includes fees from executing client transactions in listed securities. 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.



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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

***Principal Transactions***

Principal transaction revenue includes net trading gains and losses from the Company's market-making activities in 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. 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.

***Equity Research Fees***

Equity research fees are paid to the Company for providing equity research. These fees are recognized as revenue when they are earned.

***Other***

Other revenue includes fees for managing assets and investments in private equity, traditional asset management and alternative asset management funds, as well as fees for managing a portfolio of merchant banking investments on behalf of SG and other third party investors, and miscellaneous income such as fees for managing venture capital investments. Management fees are recognized in the periods during which the related services are performed and the amounts have been contractually earned.

**Revenue Recognition on Incentive Income**

The Company recognizes incentive income when certain financial returns are achieved over the life of funds managed by the Company, and has elected to account for incentive income that is subject to contingencies in accordance with Method 1 of Emerging Issues Task Force Topic D-96, *Accounting for Management Fees Based on a Formula* ("D-96"). Under Method 1 of D-96, incentive income is recognized at the end of the contract period when all of the contingencies have been resolved. The Company may be required to repay a portion of the incentive income to the limited partners of the fund in the event minimum performance levels are not achieved by the fund as a whole (these potential repayments are referred to as "clawbacks"). The Company would be required to establish a reserve for potential clawbacks if it determined that the likelihood of a clawback is probable and the amount of the clawback can be reasonably estimated. As of December 31, 2008, the Company has not recorded any incentive income related to this arrangement.

**Derivative Financial Instruments**

The Company uses futures contracts for proprietary trading activities and has, in the past, utilized credit default swaps to buy credit protection. The Company uses listed options for proprietary trading activities and to economically hedge trading positions. The Company also holds warrant positions. Warrants provide the holder the right to purchase securities from the issuer, and may be received in connection with certain private placement transactions.

The fair values of the credit default swaps and options are based on current market quotes. The fair value of warrants is based on a valuation model that considers contractual term, market price and volatility. Initially, the fair value of warrants received in connection with private placement transactions is included in investment banking revenues in the Consolidated Statement of Operations. Subsequent realized and unrealized gains and losses related to changes in the fair value of warrants are included in

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

brokerage revenue in the Consolidated Statement of Operations. The fair value of listed options, warrants, and credit default swaps is included in securities owned and securities sold, not yet purchased in the Consolidated Statements of Financial Condition. There were no futures contracts or required margin deposits at December 31, 2008 or December 31, 2007. There were no credit default swaps at December 31, 2008.

Realized and unrealized gains and losses from changes in the fair value of derivatives are included in brokerage revenue in the Consolidated Statements of Operations. The Company does not use hedge accounting as described in SFAS No. 133, *Accounting for Derivatives and Hedging Activities*.

**Earnings Per Share**

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net income by the weighted average outstanding shares assuming conversion of all potentially dilutive restricted stock and stock options, in accordance with the treasury stock method.

**Leases**

Leases are accounted for under SFAS No. 13, *Accounting for Leases*. All of the Company's leases are classified as operating leases.

**Foreign Currency**

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 rates prevailing at 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 other comprehensive income (loss), a separate component of stockholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

**Income Taxes**

The income tax provision reflected in the Consolidated Statements of Operations is consistent with the liability method described in SFAS No. 109, *Accounting for Income Taxes*. 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 any benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

The Company follows the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 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.

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**3. Accounting Developments**

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, ("SFAS 160"). SFAS 160 will significantly change financial accounting and reporting for noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited. The adoption of SFAS 160 is not expected to have a material impact on the Company's consolidated financial statements, but is expected to effect the presentation of the Company's noncontrolling interests.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141R"), which replaces SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited.

In February 2008, the FASB issued FASB Staff Position SFAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP SFAS 157-2"). FSP SFAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of FSP SFAS 157-2 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 requires enhanced disclosure requirements for derivative instruments and hedging activities, including a description of how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS 133 and related interpretations, and how derivative instruments and related hedged items affect the entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early adoption is permitted. The adoption of SFAS 161 is not expected to have a material impact on the Company's consolidated financial statements.

**4. Acquisition**

On August 22, 2008, the Company acquired 100% of the outstanding shares of Latitude Holdings Limited ("Latitude") for \$2.7 million in cash, plus direct acquisition costs. Latitude, through its subsidiary Latitude Capital Group, is a boutique investment bank headquartered in Hong Kong with offices in Beijing and Shanghai. The Company acquired Latitude in order to expand its activities in China and provide a platform for future growth of its sector-focused investment banking strategy across the region.

The Company accounted for the acquisition in accordance with the purchase method as required by SFAS No. 141, *Business Combinations* ("SFAS 141"). The results of operations for Latitude are included in the accompanying Consolidated Statements of Operations since the date of acquisition, and the assets and liabilities acquired were recorded at fair value as of the acquisition date.

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The table below summarizes the preliminary allocation of the purchase price consideration. The allocation is preliminary, and estimates and assumptions are subject to change. The primary areas of the purchase price allocation not yet finalized relate to the valuation of assets and liabilities acquired, including goodwill, and direct acquisition costs.

	(in thousands)
Net tangible assets acquired	\$ 26
Goodwill	2,551
Identifiable intangible assets	640
 Total consideration	 \$ 3,217

See Note 11, "Goodwill and Intangible Assets," for a description of the intangible assets acquired, and amortization periods.

Latitude's results of operations included within the Company's Consolidated Statements of Operations for the period August 22, 2008 (acquisition date) through December 31, 2008 were not material. In addition, Latitude's results of operations prior to the acquisition date would not have been material to the Company's results of operations on a pro-forma basis for the years ended December 31, 2008, 2007 and 2006.

The purchase agreement provides for additional contingent consideration of up to \$2.0 million to be paid to certain of the sellers, based upon their continued service as employees. The contingent consideration vests one-third on each of the first, second, and third anniversaries of the acquisition date, and will be charged to employee compensation over the service period.

##### **5. Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale**

In connection with the IPO, the Company entered into an Indemnification Agreement with SG under which (1) SG will indemnify, and will defend and hold harmless the Company and each of the Company's subsidiaries from and against certain liabilities assumed or retained by SG; and (2) SG will indemnify the Company 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 IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters. See Note 15, "Separation from Société Générale and Other Related Matters," for further discussion of the Indemnification Agreement.

On July 12, 2006, the Company entered into an escrow agreement with SGASH and a third-party escrow agent (the "Escrow Agreement") and deposited with the escrow agent \$72.3 million for the payment of liabilities arising out of the matters for which SG has agreed to indemnify the Company. Subsequent to making this deposit, certain matters covered by the Escrow Agreement have been settled and excess reserves related to these settled matters were returned to SGASH. The escrow agent will, when and as directed by SGASH, distribute funds from the escrow account to satisfy specified contingent liabilities for which SG has assumed responsibility should such liabilities become due. Any amounts remaining in the escrow account after final conclusion of the related litigation will be paid to SGASH. SGASH is also entitled to any interest earned on such deposits held in escrow. The balance in the escrow account was \$13.0 million as of December 31, 2008 and \$23.5 million as of December 31, 2007.

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

The effect of this indemnification on the Company's consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost and the indemnification recovery will be reflected as an increase in legal expenses and the indemnification recovery will be recorded as a reduction to the Company's legal expenses. Legal expenses are included within other expenses in the Consolidated Statements of Operations.

**6. Securities Owned and Securities Sold, Not Yet Purchased**

Securities owned and securities sold, not yet purchased, both at fair value, consist of the following at December 31, 2008 and 2007:

	2008		2007	
	Owned	Sold, Not Yet Purchased	Owned	Sold, Not Yet Purchased
	(in thousands)			
Equity securities	\$6,556	\$ 3,530	\$16,715	\$ 23,705
Options	353	611	3,247	1,363
Mutual funds	1,430		2,660	
Warrants	293		2,420	
Corporate debt securities			571	571
Total	\$8,632	\$ 4,141	\$25,613	\$ 25,639

Securities sold, not yet purchased, represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the 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, 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.

**7. Receivable from and Payable to Brokers, Dealers and Clearing Brokers**

Amounts receivable from and payable to brokers, dealers and clearing brokers at December 31, 2008 and 2007 consist of the following:

	2008		2007	
	Receivable	Payable	Receivable	Payable
	(in thousands)			
Clearing brokers	\$12,814	\$ 69	\$42,941	\$ 34
Fees and commissions	5,104	145	5,835	339
Total	\$17,918	\$ 214	\$48,776	\$ 373

**8. Exchange Memberships**

Exchange memberships provide the Company with the right to do business on the exchanges of which it is a member. No impairment occurred in 2008, 2007 or 2006. The fair value of the exchange



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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

memberships was approximately \$0.2 million and \$1.0 million at December 31, 2008 and 2007, respectively.

For the year ended December 31, 2008, The Company recorded a gain on exchange memberships of \$0.8 million resulting primarily from the sale of the Boston Stock Exchange to NASDAQ OMX and MX US 2, a wholly owned subsidiary of the Montreal Exchange Inc.

On March 16, 2007, the Company sold a Chicago Board of Options Exchange seat for \$2.1 million and recorded a gain of \$1.8 million in gain on exchange memberships in the Consolidated Statements of Income.

On November 16, 2006, as a result of the demutualization of the New York Mercantile Exchange ("NYMEX"), the Company exchanged its seats at the Commodity Exchange ("COMEX") for 16,800 shares of restricted NYMEX common stock and two trading rights in the restructured COMEX. The NYMEX shares and the trading rights were recognized at fair value on the date of exchange, and the Company recognized a gain of approximately \$1.0 million representing the difference between the previous carrying value of the seats and the fair value of the shares that were received from the exchange at the time of demutualization. The initial gain was recorded in gain on exchange memberships in the Consolidated Statements of Operations. The shares and the trading rights are included in securities owned and exchange memberships, respectively, in the Consolidated Statements of Financial Condition.

As of January 1, 2006, the Company owned seven New York Stock Exchange ("NYSE") memberships with a carrying value on that date of \$7.3 million. On March 7, 2006 the NYSE merger with Archipelago Holdings, Inc. (the "Merger") was consummated and each member received cash and shares of NYSE Group, Inc. common stock. The Company recorded a gain of \$24.8 million as a result of the merger, which is included in gain on exchange memberships in the Consolidated Statements of Operations. In connection with these events, the Company directed its interests from the Merger to SGASH. After the Merger, the right to trade on the Exchange ceased to be tied to membership. Trading privileges are now exercised through trading licenses obtained by Dutch auction. The Company purchased seven licenses.

**9. Investments**

The Company invests in the CHRP Fund through direct limited partnership investments from CGI, as well as through its ownership interest in CHRGP, the general partner of the CHRP Fund. The direct investment in the Fund through CGI is accounted for under the equity method. The Company consolidates CHRGP and records the noncontrolling equity interest in CHRGP as minority interest in the Consolidated Statements of Financial Condition. The carrying value of the investment at December 31, 2008 was \$15.1 million, which included \$1.5 million of minority interest in CHRGP.

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)****10. Furniture, Fixtures, Equipment, and Leasehold Improvements**

Furniture, fixtures, equipment, and leasehold improvements consist of the following at December 31, 2008 and 2007:

	2008	2007
	(in thousands)	
Leasehold improvements	\$ 9,788	\$ 9,996
Equipment	2,837	2,486
Furniture and fixtures	2,913	2,832
Computer software	6,797	5,403
<b>Total</b>	<b>22,335</b>	<b>20,717</b>
Less accumulated depreciation and amortization	11,863	9,303
<b>Total</b>	<b>\$10,472</b>	<b>\$11,414</b>

Depreciation and amortization expense related to furniture, equipment and leasehold improvements totaled approximately \$2.2 million, \$2.2 million and \$1.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortization expense related to computer software costs totaled approximately \$0.4 million, \$1.0 million and \$1.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Unamortized capitalized computer software costs were de minimis as of December 31, 2008 and 2007.

**11. Goodwill and Intangible assets***Goodwill*

All of the Company's December 31, 2007 goodwill balance resulted from the 1998 acquisition of the former Cowen private partnership by SG. This goodwill balance is recorded at the Cowen entity, the U.S. broker-dealer subsidiary of the Company. In accordance with the provisions of FAS 142, the Company tests goodwill for impairment on an annual basis, or at an interim period if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The Company last performed its annual test of goodwill for impairment for the period ended December 31, 2007. The financial market turmoil and the resulting negative impact on valuations for most financial institutions during the third quarter of 2008 caused the Company to perform an interim test of goodwill during that period. The test encompasses a two-step process. The first step requires the Company to identify potential impairment by comparing the fair value of its reporting unit (the Cowen entity) to its book value. The fair value of Cowen was based on (i) consideration of the trading price of the Company's common shares, (ii) trading multiples in comparable exchange listed corporations, and (iii) projected cash flows. The results of the Company's Step 1 test indicated that the second step was required. In the second step, the implied fair value of goodwill is calculated as the excess of the fair value of the reporting unit over the fair values assigned to its assets and liabilities. Based on this interim test, the Company concluded that goodwill was fully impaired. As such, the Company recorded a \$50.0 million charge to fully impair the goodwill of the U.S. broker-dealer subsidiary of the Company during the year ended December 31, 2008.



Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

The following table presents the changes in the Company's goodwill balance for the years ended December 31, 2008 and 2007:

	2008	2007
	(in thousands)	
Beginning balance	\$ 50,000	\$ 50,000
Goodwill acquired	2,551	
Impairment losses	(50,000)	
Ending balance	\$ 2,551	\$ 50,000

The goodwill acquired relates to the Company's acquisition of Latitude Holdings Limited. See Note 4, "Acquisition," for further discussion.

***Intangible assets***

Information for the Company's intangible assets that are subject to amortization is presented below as of December 31, 2008. The intangible assets were acquired as part of the purchase of Latitude. See Note 4, "Acquisition," for further discussion. The Company did not have intangible assets at December 31, 2007.

	Amortization Period (in years)	December 31, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)		
Customer contracts	0.5	\$ 390	\$ (260)	\$ 130
Trademarks	10.0	170	(6)	164
Database	5.0	80	(5)	75
		\$ 640	\$ (271)	\$ 369

Amortization expense related to intangible assets was \$0.3 million for the year ended December 31, 2008. There was no amortization expense related to intangible assets recorded in years ended December 31, 2007 and 2006. All of the Company's intangible assets have finite lives. There were no impairment charges related to intangible assets during 2008, 2007 and 2006.

The estimated future amortization expense for the Company's intangible assets as of December 31, 2008 is as follows:

	(in thousands)
2009	163
2010	33
2011	33
2012	33
2013	28
Thereafter	79
	\$ 369

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**12. Fair Value Measurements**

The Company adopted the provisions of SFAS 157 on January 1, 2008. SFAS 157 defines 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. SFAS 157 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. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels:

Level 1 Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the asset or liability being measured.

Level 3 Valuation inputs are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies the Company uses to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified.

**Equity securities.** Equity securities are valued based on quoted market prices. Equity securities that trade in active markets are classified within Level 1, and equity securities that trade in inactive markets are classified within Level 2. Equity securities in privately held companies are valued using inputs that are unobservable and significant to the fair value measurement, such as third party transactions in that security, and are classified within Level 3.

**Options.** Listed options are valued based on quoted market prices. All options trade in active markets and are classified within Level 1.

**Mutual funds.** Mutual funds are valued based on quoted net asset values. All mutual funds trade in active markets and are classified within Level 1.

**Warrants.** Warrants in public companies are valued using a Black-Scholes valuation model, based on observable inputs directly related to the warrants. These warrants are classified within Level 2. Warrants in private companies are valued using inputs that are unobservable and significant to the fair value measurement, such as third party transactions in that security, and are classified within Level 3.

The Company maintains policies and procedures to value its financial instruments using the highest level and most relevant data available. In addition, management reviews valuations, including independent price validation, for certain instruments. In some instances, the Company retains an independent pricing vendor to assist in valuing certain instruments.

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

The following table summarizes the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Assets:</b>				
Equity securities	\$6,162	\$ 60	\$ 334	\$6,556
Options	353			353
Mutual funds	1,430			1,430
Warrants		293		293
	\$7,945	\$ 353	\$ 334	\$8,632
<b>Liabilities:</b>				
Equity securities	\$3,530	\$	\$	\$3,530
Options	611			611
	\$4,141	\$	\$	\$4,141

The following is a summary of the change in balance sheet carrying values associated with Level 3 financial instruments for the year ended December 31, 2008.

	Equity Securities	Warrants	Total
	(in thousands)		
<b>Balance at December 31, 2007</b>	\$	\$ 434	\$ 434
Realized gains or losses, net			
Unrealized gains, net		(100)	(100)
Purchases and sales, net			
Net transfers in (out)	334	(334)	
<b>Balance at December 31, 2008</b>	\$ 334	\$	\$ 334

Realized and unrealized gains and losses on warrants are reported in brokerage revenues in the Consolidated Statement of Operations. There were no transfers out of Level 3 for the year ended December 31, 2008.

The Company has elected to defer the provisions of SFAS 157 related to disclosures surrounding nonfinancial assets, including goodwill and intangible assets, and nonfinancial liabilities in accordance with FSP SFAS 157-2, which deferred the required implementation of these disclosures until 2009.

**13. Commitments, Contingencies and Guarantees***Litigation*

The Company is involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of its businesses. The Company estimates potential losses that may arise out of these matters 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 SFAS 5. To the extent that the Company is indemnified by SG, indemnified legal expenses and liabilities will be paid out of escrow pursuant to the Escrow Agreement with SG. See Note 5, "Restricted Cash Pursuant to



Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

Escrow Agreement and Related Indemnification Agreement with Société Générale" and Note 15, "Separation from Société Générale and Other Related Matters," for further discussion of the Escrow Agreement and the Indemnification Agreement. Although there can be no assurances as to the ultimate outcome, Cowen has established reserves for litigation and regulatory matters that it believes are adequate as of December 31, 2008. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not 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.

Based on information currently available, the Company believes that the amount, or range, of reasonably possible losses will not have a material adverse effect on the Company's consolidated financial condition or cash flows. However, losses may be material to the Company's operating results in a future period, depending in part, on the operating results for such period and the extent to which the Company is indemnified by SG.

***Lease commitments***

The Company's headquarters are located in New York City and other office locations include Boston, San Francisco, Cleveland, Dallas, Stamford, Atlanta, Chicago, London, Geneva, Hong Kong, Beijing, and Shanghai. Certain office space is leased under operating leases that extend up to 2015. In addition, certain lease agreements are subject to escalation clauses. Under the terms of the Boston office lease, which expires on November 30, 2014, there is a five-year extension option which would allow the Company to extend the lease through November 30, 2019.

As of December 31, 2008, the Company had the following lease commitments related to these agreements:

	<b>Minimum Lease Payments (in thousands)</b>
2009	\$ 9,796
2010	9,780
2011	9,730
2012	9,232
2013	7,473
Thereafter	4,004
	<b>\$ 50,015</b>

Rent expense for the years ended December 31, 2008, 2007 and 2006 was approximately \$11.5 million, \$11.1 million and \$10.7 million, respectively. Rent expenses above include building operating expenses which are charged to the Company.

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)*****Guarantees***

The Company has outsourced certain information technology services under agreements which are in place until 2010. As of December 31, 2008, the Company's annual minimum guaranteed payments under these agreements are as follows:

	<b>Minimum Guaranteed Payments (in thousands)</b>
2009	11,306
2010	4,746
	<b>\$ 16,052</b>

The Company applies the provisions of the FIN No. 45, *Guarantor's Accounting and Disclosure Required for Guarantees, Including Indirect Indebtedness of Others*, which provides accounting and disclosure requirements for certain guarantees. In this regard, the Company has agreed to indemnify its clearing broker for losses that it may sustain from the customer accounts introduced by the Company. Pursuant to the clearing agreement, the Company is required to reimburse the clearing broker, without limit, for any losses incurred due to the counterparty's failure to satisfy its contractual obligations.

The Company is a member of various securities exchanges. Under the standard membership agreements, 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. The 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 the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the Consolidated Statements of Financial Condition for these arrangements.

***Capital Commitment***

The Company has committed to invest \$27.0 million to the CHRP Fund as a limited partner of the CHRP Fund and also as a member of Cowen Healthcare Royalty GP, LLC, the general partner of the CHRP Fund. This commitment is expected to be called over a two to three year period. The Company will make its pro-rata investment in the CHRP Fund along with the other limited partners. Through December 31, 2008, the Company has funded \$13.6 million towards these commitments.

**14. Variable Interest Entities**

The Company currently holds an interest in CHRGP, which has been deemed to be a VIE. CHRGP is an entity set up for the purpose of collecting incentive fees related to the CHRP Fund, if certain performance thresholds are exceeded. As of December 31, 2008, the Company owns 40.24% of CHRGP, and the remainder is owned by related party entities, the owners of which are Cowen employees. CHRGP is deemed to be a VIE because the related party ownership interests are subject to a vesting period, contingent on the continued employment of the owners with the Company. The Company has been deemed to be the primary beneficiary as the other owners are subject to a vest condition in their interest. CHRGP is committed to provide 1% of the total investment in the CHRP Fund, and each owner is responsible for their pro-rata portion of the 1% commitment. As of

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

December 31, 2008, CHRGP's investment in the CHRP Fund was \$2.6 million, of which Cowen's pro-rata share was \$1.1 million.

**15. Separation from Société Générale and Other Related Matters**

In connection with the IPO, the Company entered into the Separation Agreement, the Indemnification Agreement and a number of other agreements for the purpose of accomplishing the separation from SG, the transfer of the Cowen and CIL businesses to the Company, the return of capital to SGASH, and various other matters regarding the separation and the IPO. These agreements provide, among other things, for the allocation of employee benefits, tax and other liabilities and obligations attributable or related to periods or events prior to, in connection with and after the IPO.

Under the Separation Agreement, both the Company and SG have assumed and/or retained certain actual or contingent liabilities. Specifically, the Company retained or assumed, among others, certain liabilities reflected in the Company's Consolidated Statements of Financial Condition, all liabilities associated with the Company's stock ownership and incentive compensation plans, liabilities associated with certain contracts and accounts that the Company shares with SG, liabilities associated with the breach of or failure to perform any of the Company's obligations under certain agreements, certain specified liabilities and all other liabilities expressly allocated to the Company in connection with the separation, and all other known and unknown liabilities (to the extent not specifically assumed by SG) relating to, arising out of or resulting from the Company's business, assets, liabilities or any business or operations conducted by the Company at any time prior to, on or after the date of separation. Liabilities retained or assumed by SG include, among others, liabilities associated with the sale and transfer of its interests in the SG Merchant Banking Fund L.P. to a third party, its portion of liabilities associated with certain contracts and accounts that it shares with the Company, liabilities associated with the breach of or failure to perform any of its obligations under certain agreements, liabilities arising from the operation of its business, liabilities associated with certain businesses previously conducted by the Company, certain liabilities associated with any known or unknown employee-related claims made by any current or former employees of SG or any of its subsidiaries (other than the Company), certain specific contingent liabilities to the extent that such liabilities exceed the aggregate dollar amount held in escrow pursuant to the Escrow Agreement, certain specified liabilities and all other liabilities expressly allocated to it under the Separation Agreement and the other agreements entered into in connection with the separation, and all other known and unknown liabilities relating to, arising out of or resulting from its business, assets, liabilities or any business or operations conducted by SG.

Under the Indemnification Agreement, the Company will indemnify, and will defend and hold harmless SG and its subsidiaries from and against all liabilities specifically retained or assumed by the Company following the IPO. SG will indemnify, and will defend and hold harmless the Company and each of the Company's subsidiaries from and against certain liabilities assumed or retained by them, and SG will indemnify the Company 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 IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters.

During 2007, the Company concluded that a receivable recorded on its Consolidated Statement of Financial Condition in the amount of \$1.9 million owed to it from SG is in dispute. The receivable had been previously established on the Consolidated Statement of Financial Condition of the Company prior to the time of the IPO as a "Receivable from brokers, dealers and clearing brokers" and reported as such, and has since been reclassified to "Other assets." The Company has been informed that SG

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

disputes its obligation to pay the receivable. The Company believes, based on current facts and circumstances and in consultation with counsel, that it holds a valid legal claim to the receivable. Based upon the validity of its legal claim, the Company believes the receivable is realizable. Therefore, no reserve has been established. The Company has taken steps to pursue its legal claim.

**16. Related Party Transactions**

Effective July 21, 2006 (the date on which SG's ownership level was reduced to below 10%), the Company is no longer an affiliate or related party of SG. As such, the Consolidated Statements of Operations only include related party items for SG through July 21, 2006. After July 21, 2006, all related party transactions are with Cowen Investments Holdings, an unconsolidated investment fund holding company and, beginning in the third quarter of 2007, the CHRP Fund.

Amounts receivable from related parties were \$1.1 million and \$2.7 million as of December 31, 2008 and 2007, respectively. There were no amounts payable to related parties as of December 31, 2008 and 2007. The receivable balances primarily relate to management fees earned by the Company, and amounts receivable from the CHRP Fund.

Revenues earned from and expenses incurred with related parties for the years ended December 31, 2008, 2007 and 2006 (including transactions with SG through July 21, 2006, the date on which their ownership level was reduced to below 10%), are summarized as follows:

	2008	2007	2006
	(in thousands)		
<b>Revenues</b>			
Interest and dividend income			9,662
Other	11,668	3,441	1,141
Total revenues	11,668	3,441	10,803
<b>Expenses</b>			
Floor brokerage and trade execution			5,006
Service fees, net			3,675
Occupancy and equipment			7,297
Interest expense			159
Other			(69)
Total expenses			16,068
Total, net	\$ 11,668	\$ 3,441	\$ (5,265)

Until the date of the IPO, the Company's excess cash was invested in securities purchased under agreements to resell ("reverse repos") with the New York branch of SG ("SGNY"). These reverse repos were collateralized by U.S. government and agency obligations, were monitored daily for credit exposure and were payable on demand.

Other than interest earned on reverse repos with SGNY, revenues earned from and expenses incurred with affiliated companies primarily resulted from securities transactions and administrative services.

Pursuant to service agreements with certain affiliates, the Company received fees related to portfolio, investment and administration services that were provided in connection with the





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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

management of certain assets. These fees are included in other revenue in the Consolidated Statements of Operations.

The Company previously cleared its securities and futures transactions on a fully disclosed basis through clearing brokers that are affiliates of SG. Clearing expenses are reported in floor brokerage and trade execution in the Consolidated Statements of Operations. The Company had entered into a commercial clearing agreement with SGAS as a result of the Company's separation from SG, which had replaced the Company's pre-existing clearing agreement with SGAS. The initial terms of that clearing agreement terminated on December 31, 2006 and were extended until January 25, 2007, at which time the Company entered into a long term relationship with an unaffiliated clearing firm.

Pursuant to a service agreement with SGAI and other affiliates through the date of the IPO, the Company incurred expenses for costs and services that included facilities administration and security, risk management, financial management and reporting, information systems management and support, insurance, legal and compliance. Total expenses pursuant to the service plan were approximately \$3.2 million during the year ended December 31, 2006. In addition, the Company incurred expenses of approximately \$0.7 million with an affiliated company for certain presentation center services during the year ended December 31, 2006. These expenses are included in service fees in the Consolidated Statements of Operations, net of approximately \$0.2 million of fees earned related to presentation center and library services provided by the Company to SGAI during the year ended December 31, 2006. The Company entered into a Transition Services Agreement with SG in connection with the IPO pursuant to which the companies agreed to provide each other certain administrative and support services and other assistance consistent with a limited number of the services provided before the separation. Pursuant to the Transition Services Agreement, the Company has also agreed to provide SG various services that have previously been provided by the Company to SG, including merchant banking oversight services. SG will provide services to the Company, including, facilities management, business continuity management, certain legal services and litigation management services and access to SG data rooms and e-mail archives.

Certain costs and services, which include real estate, project management and premises and securities maintenance through the date of the IPO were allocated to the Company by SG. The total amount allocated was approximately \$7.3 million during the year ended December 31, 2006, and is reported in occupancy and equipment in the Consolidated Statements of Operations. In connection with the IPO, the Company entered into a sub-lease agreement with SG, related to the Company's New York office, which is in place until September 30, 2013.

As a member of the NYSE, the Company incurs a monthly membership fee based on transaction volume. NYSE membership fees were \$1.1 million during the year ended December 31, 2006. Pursuant to the Company's prior clearing agreement with SGAS, portions of these fees were recoverable. The recoverable portion of these fees totaled approximately \$0.4 million during the year ended December 31, 2006. The Company reports these exchange membership fees in other expenses in the Consolidated Statements of Operations, net of recoveries.

Prior to the IPO, SG provided letters of credit and performance guarantees on the Company's behalf and the Company provided performance guarantees to SG for certain clients of the Company's underwriting business which were also clients of SG's corporate banking business. Expenses under these performance guarantees amounted to approximately \$0.3 million during the year ended December 31, 2006, and are included in other expense in the Consolidated Statements of Operations.

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**17. Employee Benefits**

**Defined Contribution Plans**

The Company sponsors a 401(k) Savings Plan (the "401(k) Plan"), which is a defined contribution plan. Employees are entitled to participate, based upon certain eligibility requirements as defined by the 401(k) Plan. The Company provides matching contributions for certain employees that are equal to a specified percentage of the eligible participant's contribution as defined by the 401(k) Plan. The expenses relating to this plan totaled approximately \$0.1 million, \$0.6 million, and \$0.6 million for the years ended December 31, 2008, 2007, and 2006, respectively, and are included in employee compensation and benefits in the Consolidated Statements of Operations.

The Company also sponsors a defined contribution plan for its Geneva and London employees. Contributions made for these plans were approximately \$0.6 million, \$0.6 million, and \$0.4 million for the years ended December 31, 2008, 2007, and 2006, respectively, and are included in employee compensation and benefits in the Consolidated Statements of Operations.

**Deferred and Other Compensation Plans**

A portion of compensation paid to certain employees is made in the form of forgivable loans. These forgivable loans provide for a cash payment up-front to employees, with the amount due back to the Company forgiven over a vesting period. An employee that voluntarily ceases employment, or is terminated with cause, is generally required to pay back to the Company any unvested forgivable loans granted to them. The forgivable loans are recorded as an asset to the Company on the date of grant and payment, and then amortized to compensation expense on a straight-line basis over the vesting period. The vesting period for forgivable loans is generally one to three years.

During the years ended December 31, 2008, 2007 and 2006, the Company recorded compensation expense of \$3.7 million, \$1.5 million, and \$3.4 million, respectively, related to the amortization of forgivable loans. As of December 31, 2008 and 2007, the unamortized balance of forgivable loans was \$11.4 million and \$0.5 million, respectively, and is included in other assets in the Consolidated Statements of Financial Condition.

Prior to the IPO, the Company required selected employees to defer a portion of their performance related compensation in the form of a Fidelity Bonus (the "Fidelity Bonus"). The Fidelity Bonus was announced at the time all other bonuses were announced and vested ratably over a three-year period. Participants were entitled to a rate of return on their Fidelity Bonus amount based on a hypothetical investment in various alternative investment vehicles. As a result of the IPO, all of the Company's employees under the plan became fully vested and certain employees were paid out in full. Participants who deferred the distribution of their vested amounts will be paid out in accordance with the plan's original distribution schedule. Expenses related to this plan are comprised of both the vesting of the deferred amounts and any change in value based on the performance of the investment alternatives selected by the participants. The Company recognized a benefit of \$0.8 million in the year ended December 31, 2008, and compensation expense of \$0.3 million and \$10.3 million for the years ended December 31, 2007 and 2006, respectively. All of these amounts are included in employee compensation and benefits in the Consolidated Statements of Operations. The Company has recorded liabilities of approximately \$1.4 million and \$2.7 million as of December 31, 2006 and 2007, respectively, which are included in employee compensation and benefits payable in the Consolidated Statements of Financial Condition.

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

Prior to the IPO, SG had sponsored a voluntary deferred compensation plan for certain of the Company's key executives (the "Deferred Compensation Plan"). The Company's employees ceased contributing to the Deferred Compensation Plan in 2003, and no further contributions were made thereafter. Participants were allowed to make hypothetical investments in various alternative investment funds and the corresponding liability fluctuated based on the performance of those hypothetical investments. The Company recognized compensation expense of approximately \$1.5 million for the year ended December 31, 2006. This expense is included in employee compensation and benefits in the Consolidated Statements of Operations. As a result of the IPO and pursuant to the Separation Agreement, SG assumed the remaining obligations under the plan and retains all liability for future payments thereunder. The Company invested in corporate owned life insurance to economically hedge certain aspects of the Deferred Compensation Plan. Changes in the cash surrender value of corporate owned life insurance are included in employee compensation and benefits in the Consolidated Statements of Operations. For the year ended December 31, 2006 the Company recognized increases in the cash surrender value of approximately \$1.2 million. As a result of the IPO and pursuant to the Separation Agreement, the Company transferred the cash surrender value of corporate owned life insurance to SG.

Also prior to the IPO, SG sponsored a plan enabling eligible employees of the Company to defer a portion of their annual performance related compensation to make a hypothetical investment in an alternative investment vehicle indexed to the performance of investments made in the SG Merchant Banking Fund L.P. The Company had not made an equity investment in the SG Merchant Banking Fund L.P., but its liability to its employees was based upon the performance of their hypothetical investments. The change in the Company's liability to employees was a decrease of approximately \$0.9 million for the year ended December 31, 2006, and is included as a reduction in employee compensation and benefits in the Consolidated Statements of Operations. As a result of the IPO and pursuant to the Separation Agreement, SG assumed the remaining obligations under the plan and retains all liability for future payments thereunder.

Prior to the IPO, certain of the Company's employees participated in and received awards from the SG Corporate and Investment Banking Partnership (the "Partnership"). The participants in the Partnership were selected every year and entitled to receive an amount determined based on the net income of SG's Corporate and Investment Banking division. Participants were eligible to receive the award only if certain return on equity goals were met in the Partnership year. To the extent awards were earned, they were subject to a four year cliff vest. The Company's allocation of these compensation charges totaled approximately \$1.0 million for the year ended December 31, 2006. This charge is included in employee compensation and benefits in the Consolidated Statements of Operations. As a result of the IPO, the Company's employee participants under the Partnership became fully vested and were paid out in full.

**18. Share-Based Compensation**

*Share-based awards issued by Cowen Group, Inc.*

Upon becoming a public company, the Company established the 2006 Equity and Incentive Plan (the "2006 Plan"). The 2006 Plan permits the grant of options, restricted shares, restricted stock units and other equity based awards to its employees, consultants and directors for up to 4,725,000 shares of common stock. On June 7, 2007, the Company's shareholders approved the 2007 Equity and Incentive Plan (the "2007 Plan"), which permits the grant of options, restricted shares, restricted stock units and other equity and cash based awards to its employees, consultants and directors for up to an additional 1,500,000 shares of common stock. Stock options granted generally vest over two to five year periods

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

and expire seven years from the date of grant. Restricted shares issued generally vest over three to five year periods. Restricted stock units may be immediately vested or may generally vest over a three to five year period. As of December 31, 2008, there were approximately 2.1 million shares available for future issuance under the 2006 and 2007 Plans.

The Company measures compensation cost for these awards according to the fair value method proscribed by SFAS 123R. In accordance with the expense recognition provisions of SFAS 123R, unearned compensation associated with share-based awards with graded vesting periods is amortized using the accelerated method over the vesting period of the option or award.

In relation to these awards, the Company recognized expense of \$10.8 million, \$16.8 million and \$5.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. The income tax effect recognized for these awards was a benefit of \$4.6 million, \$6.2 million and \$2.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Effective March 4, 2008, Kim S. Fennebresque, formerly Chairman, President and Chief Executive Officer of the Company, resigned as President and Chief Executive Officer. Mr. Fennebresque resigned as Chairman effective July 15, 2008. In connection with Mr. Fennebresque's resignation, he forfeited, in its entirety, the equity award of 975,000 restricted shares he received in connection with the Company's IPO (the "IPO Award"). As a result, compensation expense for the year ended December 31, 2008 includes a reversal of \$5.1 million of expense previously recognized for Mr. Fennebresque's IPO Award. This adjustment is partially offset by the reversal of associated income tax benefits of \$2.2 million.

In addition, as part of his resignation agreement with the Company, Mr. Fennebresque will continue to vest in the equity awards he received as part of his 2006 and 2007 annual compensation. The fair value of the related shares were remeasured as a result of this vesting modification, and any remaining expense associated with these awards was expensed in the first quarter of 2008, as there is no longer a service period requirement relating to these awards. The net result of the remeasurement and acceleration of these awards was an expense of \$0.1 million in the year ended December 31, 2008.

The compensation cost for the year ended December 31, 2007 includes a reversal of \$2.6 million as well as the reversal of associated income tax benefit of \$1.1 million, representing the cumulative catch-up adjustment for a change in estimated forfeitures. The earnings per share impact of the after-tax cumulative catch-up adjustment was to increase basic and diluted earnings per share by \$0.12 for the year ended December 31, 2007.

***Stock Options***

The fair value of each option award is estimated on the date of grant utilizing a Black-Scholes option valuation model that uses the following assumptions:

*Expected term* Expected term represents the period of time that options granted are expected to be outstanding. The Company elected to use the "simplified" calculation method according to the provisions of SEC Staff Accounting Bulletin No. 107 ("SAB 107"): industry, market capitalization, stage of life cycle and capital structure, as applicable to companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

*Expected volatility* Based on the lack of sufficient historical data for the Company's own shares, the Company based its expected volatility on a representative peer group that took into account the criteria outlined in SAB 107.

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*Risk free rate* The risk-free rate for periods within the expected term of the option is based on the interest rate of a traded zero-coupon U.S. Treasury bond with a term equal to the options' expected term on the date of grant.

*Dividend yield* The Company has not paid and does not expect to pay dividends in the foreseeable future. Accordingly, the assumed dividend yield is zero.

The weighted-average assumptions used in the valuation of stock option grants during the years ended December 31, 2008, 2007 and 2006 were as follows:

	Year Ended December 31,		
	2008	2007	2006
Weighted average expected option term (in years)	5.00	5.00	5.25
Expected volatility	31.4%	30.9%	31.8%
Weighted average risk-free interest rate	3.27%	4.61%	4.97%
Expected dividend yield	0%	0%	0%
Weighted average fair value at grant date	\$2.52	\$5.67	\$6.11

The following table summarizes the Company's stock option activity for the year ended December 31, 2008:

	Shares Subject to Option	Weighted Average Exercise Price/Share <sup>(1)</sup>	Weighted Average Remaining Term  (in years)	Aggregate Intrinsic Value <sup>(2)</sup>  (in thousands)
<b>Balance outstanding at December 31, 2007</b>	977,861	\$ 16.01		
Options granted	100,002	7.49		
Options exercised				
Options forfeited	(152,099)	16.00		
Options expired	(14,309)	16.00		
<b>Balance outstanding at December 31, 2008</b>	911,455	\$ 15.08	4.81	\$
<b>Options exercisable at December 31, 2008</b>	192,760	\$ 16.00	4.53	\$

(1) No options were exercised through December 31, 2008.

(2) Based on the Company's closing stock price of \$6.36 on December 31, 2008.

As of December 31, 2008, there was \$1.0 million of unrecognized compensation expense related to the Company's grant of stock options. Unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 1.9 years. During the year ended December 31, 2008, 207,069 stock options with a total fair value at grant date of \$1.3 million vested. No stock options vested during the years ended December 31, 2007 and 2006.

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)*****Restricted Shares***

The following table summarizes the Company's nonvested restricted shares activity for the year ended December 31, 2008:

	<b>Nonvested Restricted Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
<b>Balance outstanding at December 31, 2007</b>	2,999,031	\$ 17.39
Granted	1,591,314	9.56
Vested	(210,606)	19.18
Forfeited	(1,415,779)	15.67
<b>Balance outstanding at December 31, 2008</b>	2,963,960	\$ 13.56

The fair value of restricted stock is determined based on the number of shares granted and the quoted price of the Company's common stock on the date of grant.

As of December 31, 2008, there was \$12.1 million of unrecognized compensation expense related to the Company's grant of nonvested restricted shares. Unrecognized compensation expense related to nonvested restricted shares is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of shares vested during the year ended December 31, 2008 was \$1.9 million. No shares vested during the years ended December 31, 2007 and 2006.

***Restricted Stock Units***

As of December 31, 2008, there were 23,783 restricted stock units outstanding for awards to non-employee members of the Company's Board of Directors, which were immediately vested and expensed upon grant. During the year ended December 31, 2008, the Company awarded 17,077 restricted stock units to its non-employee Board members. As of December 31, 2008, there were 18,766 restricted stock units outstanding for awards to employees, which generally vest over a three to five year period. During the year ended December 31, 2008, the Company awarded 4,117 restricted stock units to employees.

***Share-based awards issued by SG***

Prior to the IPO, SG granted certain employees of the Company options to purchase shares of SG stock. Such options were granted to employees of the Company with exercise prices equal to the average of the opening trading price of SG shares on the Euronext Paris SA exchange during the 20 trading days prior to the date of grant. Generally, the options become exercisable upon the completion of a three-year vesting period and expire seven years from the date of grant.

All of the options under this plan became fully vested prior to the IPO. The Company recognized compensation expense for these awards of \$0.1 million in the year ended December 31, 2006, which is included in employee compensation and benefits in the Consolidated Statements of Operations.

**19. Income Taxes**

The taxable results of the Company's U.S. operations are included in the consolidated income tax returns of the Company as well as stand alone state and local returns. The U.K. operations tax results are reported by CIL and CAM UK separately in their respective U.K. tax filings. If applicable, CIL and

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

CAM UK share tax losses to the extent permitted by local law. CLAL files a stand alone Hong Kong tax return while CLICB tax results are reported in its People's Republic of China tax filings.

The components of the Company's income tax (benefit) expense for the years ended December 31, 2008, 2007 and 2006 are as follows:

	Federal	State and local	Foreign	Total
	(in thousands)			
Current	\$ 1,550	\$ 286	\$ 367	\$ 2,203
Deferred	3,976	2,157	(255)	5,878
<b>Total at December 31, 2008</b>	<b>\$ 5,526</b>	<b>\$ 2,443</b>	<b>\$ 112</b>	<b>\$ 8,081</b>
Current	\$ (380)	\$ (461)	\$ 1,489	\$ 648
Deferred	(5,650)	(1,385)	(122)	(7,157)
<b>Total at December 31, 2007</b>	<b>\$(6,030)</b>	<b>\$ (1,846)</b>	<b>\$ 1,367</b>	<b>\$(6,509)</b>
Current	\$ 3,469	\$ 2,351	656	\$ 6,476
Deferred	(1,374)	(671)	117	(1,928)
<b>Total at December 31, 2006</b>	<b>\$ 2,095</b>	<b>\$ 1,680</b>	<b>\$ 773</b>	<b>\$ 4,548</b>

As of December 31, 2008, the Company has income taxes receivable of approximately \$3.0 million which is included in other assets in the Consolidated Statement of Financial Condition.

The reconciliation of the Company's federal statutory tax rate to the effective income tax rate for the years ended December 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State and local taxes	(7.5)	5.5	3.0
Change in valuation allowance	(33.1)	(3.4)	(30.2)
Excess book goodwill deduction	(2.0)		
Other, net	(5.0)	(0.6)	2.9
<b>Effective tax rate</b>	<b>(12.6)%</b>	<b>36.5%</b>	<b>10.7%</b>

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes.



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The components of the Company's deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
<b>Deferred Tax Assets:</b>		
Net operating loss carryforwards	\$ 1,300	\$ 1,489
Employee compensation and benefits	13,411	9,657
Goodwill	16,517	
Legal reserves	452	427
Foreign tax credits	856	1,519
Other	3,086	694
Gross deferred tax assets	35,622	13,786
Valuation allowance	(31,465)	(928)
Deferred tax assets, net of valuation allowance	\$ 4,157	\$ 12,858
<b>Deferred Tax Liabilities:</b>		
Employee compensation and benefits	\$ (24)	\$ (25)
Goodwill		(1,983)
Foreign income	(932)	(1,595)
Other	(54)	(170)
Deferred tax liabilities	(1,010)	(3,773)
Net deferred tax assets	\$ 3,147	\$ 9,085

The preceding tables do not reflect the tax effect of certain items that are recorded each period directly in Stockholders equity as prescribed by SFAS 52, *Foreign Currency Translation* ("SFAS 52"). There is no net tax effect of SFAS 52, as the deferred tax benefit of \$0.4 million is fully offset by the establishment of a valuation allowance.

Federal deferred tax assets and deferred tax liabilities, state and local deferred tax assets, foreign deferred tax assets and foreign deferred tax liabilities are included in other assets. State and local deferred tax liabilities are reported in accounts payable, accrued expenses and other liabilities in the Consolidated Statements of Financial Condition.

The 2008 effective tax rate differs from the statutory rate of 35% primarily due to a change in the valuation allowance and state and local taxes. The components included in other, net are non-deductible placement fees and share-based compensation. The non-deductible placement agent fees are associated with CHRP Management, one of the Company's alternative asset management businesses.

For 2008, a valuation allowance was recorded against a significant component of the Company's deferred tax assets as the Company had a cumulative loss for the period 2006 through 2008. At December 31, 2008 the net deferred tax asset of \$4.2 million consists of a deferred tax asset of \$35.6 million offset by a valuation allowance of \$31.4 million. A valuation allowance was not recorded against the remaining net deferred tax asset as the Company has the ability to realize such assets. Separately, the Company has deferred tax liabilities of \$1.0 million at December 31, 2008.

In 2007, a tax benefit of \$6.5 million was recorded. The effective tax rate of 36.5% differs from the statutory rate of 35% primarily due to the establishment of a valuation allowance against certain stock

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

compensation that vested in January 2008 offset by a state and local tax benefit as well as the release of the 2006 valuation allowance associated with restricted stock units and organizational costs. The 2007 valuation allowance is required since the book expense and associated deferred tax asset are based on a grant price of \$20.67, however, the 2008 tax deduction for such stock compensation is based on a stock price of \$9.25. A valuation allowance is required to account for such decrease in stock price and tax deduction.

In 2006, a tax provision of \$4.5 million was recorded. The low effective tax rate in 2006 was due to a net reversal in the valuation allowance primarily due to payments of deferred compensation arrangements related to the IPO and pre-IPO amortization of goodwill.

The Company is subject to examination by the United States Internal Revenue Service, the United Kingdom Inland Revenue Service and state and local and foreign tax authorities in jurisdictions where the Company has significant business operations, such as New York. The Company and its former parent SGAI are currently under examination by the Internal Revenue Service and New York state and city for the period 2004 through 2006. The Company and its former parent SGAI are awaiting final disposition by the Internal Revenue Service Appeals Officer for the period 2001 through 2003 with an anticipated result of no increase in tax expense. The Company and SGAI settled the New York state audit for the period 2001 through 2003 with no changes to the tax returns as filed during the second quarter of 2008.

At December 31, 2008, the Company's U.S. operations had net operating losses of approximately \$2.9 million which will expire starting in 2027. Additionally, the Company had foreign tax credits of approximately \$0.9 million which will start expiring in 2017.

**20. Financial Instruments with Off-Balance Sheet Risk, Credit Risk, or Market Risk**

The Company has an irrevocable Letter of Credit for \$5.0 million, expiring on December 1, 2009, which supports obligations under Cowen's Boston office lease. The Company also has two additional irrevocable Letters of Credit, the first of which is for \$100,000, expiring on July 26, 2009, supporting Cowen's workers' compensation insurance with Safety National Casualty Corporation, and the second of which is for \$57,000, expiring on November 14, 2009, supporting CHRP Management's Stamford office lease. To the extent any Letter of Credit is drawn upon, interest will be assessed at the prime commercial lending rate. Each of these Letters of Credit provide for automatic annual renewals, at the Company's option, on their expiration dates. As of December 31, 2008, there were no amounts due related to these Letters of Credit.

The Company is engaged in various securities underwriting, trading and brokerage activities servicing a diverse group of domestic and foreign corporations, and institutional investor clients. A substantial portion of the Company's transactions are collateralized and are executed with or on behalf of institutions including other brokers or dealers, commercial banks, and other financial institutions. The Company's exposure to credit risk associated with the nonperformance of these counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the counterparty's ability to satisfy its obligations to the Company. The Company's principal activities are also subject to the risk of counterparty nonperformance.

Securities sold, not yet purchased are recorded as liabilities in the Consolidated Statements of Financial Condition and have market risk to the extent that the Company, in satisfying its obligations, may have to purchase securities at a higher value than what is recorded in securities sold, not yet purchased as of December 31, 2008.

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Derivatives are financial instruments such as futures contracts, credit default swaps, listed options and certain warrants, all of which derive their value from underlying assets, reference rates, or indices. The Company has used futures contracts for proprietary trading activities. Credit default swaps represent agreements in which one party pays a fixed fee in return for a payment by the other party which is contingent upon the occurrence of a specified default event relating to an underlying reference asset or pool of assets. The Company previously utilized a credit default swap to buy credit protection. The Company uses listed options for trading activities and to economically hedge trading positions. Warrants provide the holder the right to purchase securities from the issuer, and may be received in connection with certain private placement transactions.

The fair value of listed options, warrants, and credit default swap is included in securities owned and securities sold, not yet purchased in the Consolidated Statements of Financial Condition. The fair value of futures contracts and required margin deposits are included in receivable from brokers, dealers and clearing brokers in the Consolidated Statements of Financial Condition, and were de minimis at December 31, 2008 and 2007.

Realized and unrealized gains and losses from changes in the fair value of derivatives are included in brokerage revenue in the Consolidated Statements of Operations. The Company does not use hedge accounting as described in SFAS 133, *Accounting for Derivatives and Hedging Activities*.

Futures contracts were executed on an exchange, and cash settlement was made on a daily basis for market movements. The fair values of the credit default swap and options are based on current market quotes. The fair value of warrants is based on a valuation model that considers contractual term, market price, and volatility. Initially, the fair value of warrants is included in investment banking revenues in the Consolidated Statement of Operations. Subsequent realized and unrealized gains and losses related to changes in the fair value of warrants are included in brokerage revenue in the Consolidated Statement of Operations.

As of December 31, 2008 and 2007, the fair value of the Company's derivative financial instruments was as follows:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
	(in thousands)			
Options	\$ 353	\$ 611	\$ 3,247	\$ 1,363
Warrants	293		2,420	
<b>Total</b>	<b>\$ 646</b>	<b>\$ 611</b>	<b>\$ 5,667</b>	<b>\$ 1,363</b>

**21. Stockholders' Equity**

The certificate of incorporation of the Company provides for the issuance of up to 100,000,000 shares of common stock with a par value of \$0.01 per share and up to 10,000,000 shares of preferred stock with a par value of \$0.01 per share.

***Common stock***

The holders of the Company's common stock are entitled to one vote per share on all matters to be voted upon by the stockholders and do not have cumulative voting rights. Subject to preferences that may be applicable to any outstanding preferred stock of the Company, the holders of its common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

Company's board of directors out of funds legally available for that purpose. In the event that the Company is liquidated or dissolved, the holders of its common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to any prior distribution rights of the Company's preferred stock, if any, then outstanding. The holders of the common stock have no preemptive rights, conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Company's common stock.

On November 7, 2007, the Company's Board of Directors authorized a share buyback program to repurchase up to 2.0 million shares that meet certain pricing criteria. The Board approved the Company's decision to permanently retire the repurchased shares effective November 8, 2007. For the period ended December 31, 2008 and 2007, the Company repurchased 467,271 and 1,416,800 of its own shares, respectively, in the open market, which have been permanently retired. The repurchase program is funded through returns of capital distributed by Cowen to the Company.

As of December 31, 2007 the Company held 153,017 shares in treasury that were received as a result of forfeitures related to the Company's Equity and Incentive Plans. Beginning in 2008, the Company returns any forfeited shares back to the Equity and Incentive Plans. As such, there were no shares in treasury at December 31, 2008.

***Preferred stock***

The Company's Board of Directors has the authority, without action by its stockholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences, and privileges of each series, which may be greater than the rights associated with the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of common stock until the Company's Board of Directors determines the specific rights of the holders of preferred stock. However, the effects may include the following: restricting dividends on its common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock and delaying or preventing a change in control of the Company without further action by its stockholders.

**22. Earnings Per Share**

The Company calculates its basic and diluted earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. As of December 31, 2008, there were 14,201,448 shares outstanding, of which 2,963,960 are restricted. To the extent that outstanding restricted shares are unvested, they are excluded from the calculation of basic earnings per share. The Company has included 23,783 fully vested, unissued restricted stock units in its calculation of basic earnings per share.

Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive nonvested restricted stock and stock options. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares and unexercised stock options. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares are assumed to have been delivered, and options are assumed to have been exercised, on the grant date. The assumed proceeds from the assumed vesting, delivery and exercising were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized and (b) the amount of tax benefit that was credited to additional paid-in capital assuming vesting and delivery of the

Table of Contents**Cowen Group, Inc.****Notes to Consolidated Financial Statements (Continued)**

restricted shares. The tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense recognized for financial statement reporting purposes. Stock options and restricted shares outstanding as of December 31, 2008 and 2007 were not included in the computation of diluted net loss per common share for the years ended December 31, 2008 and 2007 as their inclusion would have been anti-dilutive. Stock options outstanding as of December 31, 2006 were not included in the computation of diluted net loss per common share for the year ended December 31, 2006 as their inclusion would have been anti-dilutive.

The computation of earnings per share is as follows:

	<b>For the Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(in thousands, except per share data)</b>		
Net (loss) income	\$(72,154)	\$(11,321)	\$37,911
Shares for basic and diluted calculations:			
Average shares used in basic computation	11,254	12,805	12,903
Stock options			
Restricted shares			63
Average shares used in diluted computation	11,254	12,805	12,966
Earnings (loss) per share:			
Basic	\$ (6.41)	\$ (0.88)	\$ 2.94
Diluted	\$ (6.41)	\$ (0.88)	\$ 2.92

**23. Geographic Data**

The Company manages and operates its products and services in a single business segment. The following table presents revenues, and furniture, fixtures, equipment and leasehold improvements, net by geographic area for 2008, 2007 and 2006. Revenues are classified based upon the location in which the revenues are recorded. Furniture, fixtures, equipment and leasehold improvements information is based on the physical location of the assets.

	<b>Revenues</b>	<b>Furniture, Fixtures, Equipment and Leasehold Improvements, net</b>
	<b>(in thousands)</b>	
<b>2008:</b>		
United States	\$206,191	\$ 9,139
All other countries	11,133	1,333
Total	\$217,324	\$ 10,472
<b>2007:</b>		
United States	\$240,356	\$ 9,836
All other countries	21,213	1,578
Total	\$261,569	\$ 11,414
<b>2006:</b>		
United States	\$329,177	\$ 10,594

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All other countries	15,790	2,035
Total	\$ 344,967	\$ 12,629

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**Cowen Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

No single customer accounted for 10.0% or more of the Company's revenues in 2008, 2007 and 2006.

**24. Regulatory Requirements**

As a registered broker-dealer, Cowen is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934. Under the alternative method permitted by this Rule, Cowen's minimum net capital requirement, as defined, is \$1.0 million. Cowen is not permitted to withdraw equity if certain minimum net capital requirements are not met. As of December 31, 2008, Cowen had net capital of approximately \$69.5 million, which was approximately \$68.5 million in excess of its minimum net capital requirement of \$1.0 million.

Pursuant to an exemption under Rule 15c3-3(k)(2)(ii), Cowen is not required to calculate a reserve requirement and segregate funds for the benefit of customers since it clears its securities transactions on a fully disclosed basis and promptly transmits all customer funds and securities to the clearing broker-dealer which carries the accounts, maintains and preserves such books and records pertaining to them pursuant to Rules 17a-3 and 17a-4.

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 the clearing broker, which require, among other things, that the clearing broker performs computations for PAIB and segregates certain balances on behalf of Cowen, if applicable.

CIL is subject to the capital requirements of the Financial Services Authority ("FSA") of the U.K. Financial Resources, as defined, must exceed the total Financial Resources requirement of the FSA. At December 31, 2008, CIL's Financial Resources of \$7.4 million exceeded the minimum requirement of \$3.3 million by \$4.1 million.

CAM UK is subject to the capital requirements of the FSA of the U.K. and the IFR in Ireland. As per U.K. FSA regulation, Financial Resources, as defined, must exceed the Total Capital requirement, as defined. At December 31, 2008, CAM UK's Financial Resources of \$1.4 million exceeded the FSA's minimum requirement of \$0.7 million by \$0.7 million and IFR's minimum requirement of \$0.9 million net shareholder's funds was exceeded by \$0.5 million.

CLAL 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. At December 31, 2008, CLAL's Financial Resources of \$0.2 million exceeded the minimum requirement of \$0.1 million by \$0.1 million.

Table of Contents**Supplemental Financial Information**

The following table presents unaudited quarterly results of operations for 2008 and 2007. These quarterly results reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results. Revenues and net income (loss) can vary significantly from quarter to quarter due to the nature of the Company's business activities.

**Cowen Group, Inc.**  
**Quarterly Financial Information (Unaudited)**

	March 31, 2008	Three Months Ended		
		June 30, 2008	Sept. 30, 2008	Dec. 31, 2008
(in thousands)				
Total revenues	\$54,990	\$62,670	\$ 58,037	\$ 41,627
Expenses:				
Compensation and benefits	28,809	38,905	39,121	27,056
Other expenses	23,916	26,132	74,744	23,465
<b>Total expenses</b>	<b>52,725</b>	<b>65,037</b>	<b>113,865</b>	<b>50,521</b>
Operating income (loss)	2,265	(2,367)	(55,828)	(8,894)
Gain on exchange memberships			609	142
Income (loss) before income taxes	2,265	(2,367)	(55,219)	(8,752)
Provision (benefit) for taxes	1,611	(1,656)	6,486	1,640
Net income (loss)	\$ 654	\$ (711)	\$ (61,705)	\$ (10,392)
Earnings (loss) per share:				
Basic	\$ 0.06	\$ (0.06)	\$ (5.48)	\$ (0.92)
Diluted	\$ 0.05	\$ (0.06)	\$ (5.48)	\$ (0.92)
Weighted average number of common shares:				
Basic	11,253	11,238	11,261	11,261
Diluted	11,895	11,238	11,261	11,261
(in thousands)				
	March 31, 2007	Three Months Ended		Dec. 31, 2007
		June 30, 2007	Sept. 30, 2007	
Total revenues	\$73,541	\$71,223	\$57,505	\$ 59,300
Expenses:				
Compensation and benefits	45,167	43,823	37,850	51,108
Other expenses	25,750	27,021	25,473	24,982
<b>Total expenses</b>	<b>70,917</b>	<b>70,844</b>	<b>63,323</b>	<b>76,090</b>
Operating income (loss)	2,624	379	(5,818)	(16,790)
Gain on exchange memberships	1,775			
Income (loss) before income taxes	4,399	379	(5,818)	(16,790)
Provision (benefit) for taxes	1,928	155	(2,499)	(6,093)
Net income (loss)	\$ 2,471	\$ 224	\$ (3,319)	\$ (10,697)



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Earnings (loss) per share:				
Basic	\$ 0.19	\$ 0.02	\$ (0.26)	\$ (0.86)
Diluted	\$ 0.18	\$ 0.02	\$ (0.26)	\$ (0.86)
Weighted average number of common shares:				
Basic	12,910	12,912	12,918	12,485
Diluted	13,417	13,530	12,918	12,485

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Table of Contents**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/ DAVID M. MALCOLM

Name: David M. Malcolm

Title: Chief Executive Officer and President

Dated: March 5, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and as of the dates indicated.

Name	Title	Date
<u>/s/ DAVID M. MALCOLM</u> David M. Malcolm	Chief Executive Officer, President and Director (principal executive officer)	March 5, 2009
<u>/s/ THOMAS K. CONNER</u> Thomas K. Conner	Chief Financial Officer and Treasurer (principal financial officer and principal accounting officer)	March 5, 2009
<u>/s/ JOHN E. TOFFOLON, JR.</u> John E. Toffolon, Jr.	Chairman and Director	March 5, 2009
<u>/s/ JEFFREY KURZWEIL</u> Jeffrey Kurzweil	Director	March 5, 2009
<u>/s/ PHILIP B. POOL, JR.</u> Philip B. Pool, Jr.	Director	March 5, 2009
<u>/s/ L. THOMAS RICHARDS</u> L. Thomas Richards	Director	March 5, 2009
<u>/s/ CHARLES W.B. WARDELL, III</u> Charles W.B. Wardell, III	Director	March 5, 2009

Table of Contents**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference from Exhibit 3.1 on Form 10-Q for the quarter ended June 30, 2006)
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.2 on Form 8-K dated November 13, 2007)
4.1	Specimen Common Stock Certificate (incorporated by reference from Exhibit 4.1 on Form S-1/A filed on June 12, 2006)
4.2	Stockholders Agreement between SG Americas Securities Holdings, Inc. and Cowen Group, Inc. (incorporated by reference from Exhibit 4.1 on Form 10-Q for the quarter ended June 30, 2006)
10.1	Separation Agreement among Société Générale, SG Americas, Inc., SG Americas Securities Holdings, Inc., Cowen and Company, LLC and Cowen Group, Inc. (incorporated by reference from Exhibit 10.1 on Form 10-Q for the quarter ended June 30, 2006)
10.2	Tax Matters Agreement among SG Americas, Inc., SG Americas Securities Holdings, Inc., Cowen and Company, LLC and Cowen Group, Inc. (incorporated by reference from Exhibit 10.2 on Form 10-Q for the quarter ended June 30, 2006)
10.3	Employment Agreement of Kim S. Fennebresque (incorporated by reference from Exhibit 10.3 on Form S-1/A filed on June 12, 2006)*
10.4	2006 Equity and Incentive Plan (incorporated by reference from Exhibit 10.4 on Form S-1/A filed on June 12, 2006)*
10.5	Sublease, dated as of December 19, 2005, between Société Générale and SG Cowen & Co., LLC (incorporated by reference from Exhibit 10.5 on Form S-1 filed on March 21, 2006)
10.6	Lease, dated as of October 29, 1993, between Rock-McGraw, Inc. and Société Générale (incorporated by reference from Exhibit 10.5(a) on Form S-1/A filed on May 17, 2006)
10.7	Supplemental Indenture, dated as of May 5, 1998, between Rock-McGraw, Inc. and Société Générale (incorporated by reference from Exhibit 10.5(a)(i) on Form S-1/A filed on May 17, 2006)
10.8	Master Services Agreement, dated as of January 21, 2005, between SG Cowen & Co., LLC and Savvis Communications Corp. (incorporated by reference from Exhibit 10.6 on Form S-1/A filed on May 17, 2006)
10.9	Services Agreement, dated as of December 6, 2004, between SG Cowen & Co., LLC and Hewlett-Packard Company (incorporated by reference from Exhibit 10.7 on Form S-1/A filed on May 17, 2006)
10.10	Indemnification Agreement among Société Générale, SG Americas Securities Holdings, Cowen and Company, LLC and Cowen Group, Inc. (incorporated by reference from Exhibit 10.4 on Form 10-Q for the quarter ended June 30, 2006)
10.11	Employee Matters Agreement among Société Générale, SG Americas, Inc., SG Americas Securities Holdings, Inc., Cowen and Company, LLC and Cowen Group, Inc. (incorporated by reference from Exhibit 10.5 on Form 10-Q for the quarter ended June 30, 2006)

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<b>Exhibit No.</b>	<b>Description</b>
10.12	Transition Services Agreement among Société Générale, SG Americas, Inc., SG Americas Securities Holdings, Inc., Cowen and Company, LLC and Cowen Group, Inc. (incorporated by reference from Exhibit 10.6 on Form 10-Q for the quarter ended June 30, 2006)
10.13	Escrow Agreement among SG Americas Securities Holdings, Inc., Cowen and Company, LLC, Cowen Group, Inc. and the escrow agent (incorporated by reference from Exhibit 10.7 on Form 10-Q for the quarter ended June 30, 2006)
10.14	Form of Director Award Agreement (incorporated by reference from Exhibit 99.1 on Form 8-K filed on September 14, 2006)*
10.15	Form of 2006 Equity Award Agreement for Executive Officers (incorporated by reference from Exhibit 10.15 on Form 10-K for the year ended December 31, 2006)*
10.16	Employment Agreement of J. Kevin McCarthy (incorporated by reference from Exhibit 10.16 on Form 10-K for the year ended December 31, 2006)*
10.17	Form of 2006 Executive Incentive Award Agreement (incorporated by reference from Exhibit 10.17 on Form 10-K for the year ended December 31, 2006)*
10.18	Form of 2006 Incentive Award Agreement with Kim S. Fennebresque (incorporated by reference from Exhibit 10.18 on Form 10-K for the year ended December 31, 2006)*
10.19	Amended and Restated Employment Agreement of Kim S. Fennebresque (incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K dated November 13, 2007)*
10.20	Resignation Agreement of Kim S. Fennebresque (incorporated by reference from Exhibit 10.1 on Form 8-K dated March 4, 2008)*
10.21	Employment Agreement of Kim S. Fennebresque (incorporated by reference from Exhibit 10.2 on Form 8-K dated March 4, 2008)*
10.22	Employment Agreement of David M. Malcolm (incorporated by reference from Exhibit 10.3 on Form 8-K dated March 4, 2008)*
10.23	2007 Equity and Incentive Plan (incorporated by reference from Exhibit 10-1 on Form 8-K dated June 7, 2007)*
10.24	Form of 2007 Equity Award Agreement for Executive Officers (incorporated by reference from Exhibit 10.24 on Form 10-K for the year ended December 31, 2007)*
10.25	Form of 2008 Equity Award Agreement for Executive Officers (filed herewith)*
10.26	Form of 2008 Deferred Cash Award for Executive Officers (filed herewith)*
21.1	List of Subsidiaries of Cowen Group, Inc. (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm (filed herewith)
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)

\*

Signifies management contract or compensatory plan or arrangement.