COWEN GROUP, INC.
Form 10-Q
August 09, 2011

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to
Commission File Number: 001-34516

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**27-0423711** (I.R.S. Employer Identification No.)
599 Lexington Avenue **New York, New York** (Address of Principal Executive Offices)	**10022** (Zip Code)

(212) 845-7900
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of August 8, 2011 there were 116,291,426 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

Table of Contents

Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in "Management's Discussion and Analysis of Financial Condition and Results of Operations") that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as "may," "might," "will," "would," "could," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "possible," "potential," "intend," "seek" or "continue," the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three months and six months ended June 30, 2011 and 2010. The Condensed Consolidated Financial Statements as of December 31, 2010 were audited.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.

Condensed Consolidated Statements of Financial Condition

(in thousands, except share and per share data)

(unaudited)

	As of June 30, 2011	As of December 31, 2010
Assets		
Cash and cash equivalents	$ 110,175	$ 36,354
Cash collateral pledged	9,801	8,633
Securities owned, at fair value	986,424	474,095
Securities purchased under agreements to resell	77,332	97,755
Other investments	49,042	40,320
Receivable from brokers	124,987	95,937
Fees receivable	22,442	31,688
Due from related parties (see Note 18)	19,975	16,370
Fixed assets, net of accumulated depreciation and amortization of $20,357 and $17,764, respectively	47,064	36,591
Goodwill	27,179	27,179
Intangible assets, net of accumulated amortization of $9,623 and $8,146, respectively	16,598	12,754
Other assets	33,277	19,456
Consolidated Funds		
Cash and cash equivalents	789	7,210
Securities owned, at fair value	6,191	8,722
Other investments, at fair value	261,898	333,374
Other assets	283	732
Total Assets	**$ 1,793,457**	**$ 1,247,170**
Liabilities and Stockholders' Equity		
Securities sold, not yet purchased, at fair value	$ 442,261	$ 197,916
Securities sold under agreements to repurchase	169,439	192,165
Payable to brokers	321,226	85,655
Compensation payable	26,731	76,204
Short-term borrowings and other debt	6,618	31,733
Fees payable (see Note 18)	6,428	8,797
Due to related parties (see Note 18)	2,557	9,187
Accounts payable, accrued expenses and other liabilities	61,718	42,267
Consolidated Funds		
Capital withdrawals payable	3,510	7,817
Accounts payable, accrued expenses and other liabilities	662	1,827
Total Liabilities	**1,041,150**	**653,568**
Commitments and Contingencies (see Note 13)		
Redeemable non-controlling interests	**114,349**	**144,346**
Stockholders' equity		
Preferred stock, par value $0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding		
	1,130	726

Class A common stock, par value $0.01 per share: 250,000,000 shares authorized, 116,246,786 and 75,490,209 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively (including 1,110,836 and 1,554,124 restricted shares, respectively)		
Class B common stock, par value $0.01 per share: 250,000,000 authorized, no shares issued and outstanding		
Additional paid-in capital	674,205	504,480
(Accumulated deficit) retained earnings	(35,851)	(55,970)
Accumulated other comprehensive income	375	20
Less: Class A common stock held in treasury, at cost: 499,136 shares as of June 30, 2011	(1,901)	
Total Stockholders' Equity	**637,958**	**449,256**
Total Liabilities and Stockholders' Equity	**$ 1,793,457**	**$ 1,247,170**

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

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenues				
Investment banking	$ 14,343	$ 9,938	$ 29,025	$ 15,943
Brokerage	24,607	29,793	52,198	59,369
Management fees	11,857	8,881	23,021	18,151
Incentive income	675	(100)	5,056	1,994
Interest and dividends	5,840	1,380	10,399	2,183
Reimbursement from affiliates	981	1,741	1,990	3,484
Other revenues	232	398	922	1,020
Consolidated Funds				
Interest and dividends	136	2,965	305	8,746
Other	8	4	8	370
Total revenues	**58,679**	**55,000**	**122,924**	**111,260**
Expenses				
Employee compensation and benefits	43,575	38,547	88,662	81,980
Floor brokerage and trade execution	3,685	3,945	7,795	8,973
Interest and dividends	3,115	621	5,724	1,067
Professional, advisory and other fees	10,398	2,879	17,538	5,267
Service fees	4,366	4,034	7,978	7,853
Communications	4,342	3,153	7,235	6,454
Occupancy and equipment	4,991	5,845	10,113	11,474
Depreciation and amortization	2,011	2,390	4,069	4,884
Client services and business development	4,132	4,379	8,809	8,544
Other	(259)	4,710	4,034	12,092
Consolidated Funds				
Interest and dividends	40	(177)	87	1,390
Professional, advisory and other fees	613	831	1,073	1,509
Floor brokerage and trade execution		285		994
Other	219	243	341	447
Total expenses	**81,228**	**71,685**	**163,458**	**152,928**
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	76	249	17,358	1,774
Bargain purchase gain	22,244		22,244	
Consolidated Funds:				
Net realized and unrealized gains (losses) on investments and other transactions	4,971	(8,211)	7,314	11,006
Net realized and unrealized gains (losses) on derivatives	(84)	720	(525)	500
Net gains (losses) on foreign currency transactions	(117)	777	(273)	52
Total other income	**27,090**	**(6,465)**	**46,118**	**13,332**
Income (loss) before income taxes	**4,541**	**(23,150)**	**5,584**	**(28,336)**
Income tax expense (benefit)	(17,954)	599	(17,791)	333
Net income (loss)	**22,495**	**(23,749)**	**23,375**	**(28,669)**
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	2,458	(2,552)	3,256	5,504

Net income (loss) attributable to Cowen Group, Inc. stockholders	**$**	**20,037**	**$**	**(21,197)**	**$**	**20,119**	**$**	**(34,173)**
Weighted average common shares outstanding:								
Basic		76,330		72,693		75,600		72,601
Diluted		77,898		72,693		76,889		72,601
Earnings (loss) per share:								
Basic	$	0.26	$	(0.29)	$	0.27	$	(0.47)
Diluted	$	0.26	$	(0.29)	$	0.26	$	(0.47)

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

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Changes in Equity

(in thousands, except share data)

(unaudited)

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings/ (Accumulated deficit)	Total Stockholders' Equity	Redeemable Noncontrolling Interest	Total Comprehensive Income (Loss)
Balance, December 31, 2010	**75,490,209**	**$ 726**	**$**	**$ 504,480**	**$ 20**	**$ (55,970)**	**$ 449,256**	**$ 144,346**	
Comprehensive income (loss):									
Net income (loss)						20,119	20,119	3,256	$ 23,375
Defined Benefit Plans					195		195		195
Foreign currency translation					160		160		160
Total comprehensive income (loss)					355	20,119	20,474	3,256	$ 23,730
Capital contributions								4,038	
Capital withdrawals								(40,761)	
Consolidation of RCG Linkem II LLC								3,470	
Restricted stock awards issued	405,580								
Common stock issuance upon acquisition (see Note 2)	40,850,133	409		155,639			156,048		
Purchase of treasury stock	(499,136)	(5)	(1,901)				(1,906)		
Amortization of share based compensation				14,086			14,086		
Balance, June 30, 2011	**116,246,786**	**$ 1,130**	**$ (1,901)**	**$ 674,205**	**$ 375**	**$ (35,851)**	**$ 637,958**	**$ 114,349**	

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

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(dollars in thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 23,375	$ (28,669)
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Bargain purchase gain	(22,244)	
Depreciation and amortization	4,069	4,884
Share-based compensation	14,086	9,310
Net loss on disposal of fixed assets		266
Purchases of securities owned, at fair value	(5,053,676)	(666,553)
Proceeds from sales of securities owned, at fair value	4,834,296	409,108
Proceeds from the sale of securities sold, not yet purchased, at fair value	2,485,115	306,842
Payments to cover securities sold, not yet purchased, at fair value	(2,435,760)	(295,263)
Net (gains) losses on securities, derivatives and other investments	(13,509)	(1,975)
Consolidated Funds:		
Purchases of securities owned, at fair value	(245,778)	(212,811)
Proceeds from sales of securities owned, at fair value	248,297	202,007
Purchases of other investments	(11,101)	(18,634)
Proceeds from sales of other investments	87,963	117,873
Net realized and unrealized (gains) losses on investments and other transactions	(5,373)	(15,578)
(Increase) decrease in operating assets:		
Cash acquired upon acquisition (see Note 2)	117,496	
Cash collateral pledged	(41)	
Securities owned, at fair value, held at broker dealer	(73,150)	82,450
Receivable from brokers	64,704	(11,697)
Fees receivable	9,246	5,325
Due from related parties	(136)	259
Other assets	(8,765)	5,404
Consolidated Funds:		
Cash and cash equivalents	6,421	(6,089)
Other assets	449	99
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker dealer	28,189	11,727
Payable to brokers	154,035	101,469
Compensation payable	(52,799)	(51,711)
Fees payable	(3,338)	(3,840)
Due to related parties	(6,630)	(800)
Accounts payable, accrued expenses and other liabilites	3,339	(20,775)
Consolidated Funds:		
Accounts payable, accrued expenses and other liabilities	(1,165)	661
Net cash provided by / (used in) operating activities	**147,615**	**(76,711)**

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Cash Flows (Continued)

(in thousands)

(unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(dollars in thousands)	
Cash flows from investing activities:		
Securities purchased under agreements to resell	20,423	
Purchases of other investments	(40,650)	(3,164)
Proceeds from sales of other investments	39,567	5,686
Purchase of fixed assets	(4,263)	(172)
Net cash provided by / (used in) investing activities	**15,077**	**2,350**
Cash flows from financing activities:		
Securities sold under agreements to repurchase	(22,726)	28,640
Repayments on short-term borrowings and other debt	(25,608)	(25,000)
Borrowings on short-term borrowings and other debt	493	
Capital withdrawals to non-controlling interests	(2,009)	
Consolidated Funds:		
Capital contributions by non-controlling interests in Consolidated Funds	4,038	2,646
Capital withdrawals to non-controlling interests in Consolidated Funds	(43,059)	(63,942)
Net cash (used in) / provided by financing activities	**(88,871)**	**(57,656)**
Change in cash and cash equivalents	73,821	(132,017)
Cash and cash equivalents at beginning of year	36,354	147,367
Cash and cash equivalents at end of period	**$ 110,175**	**$ 15,350**
Supplemental non-cash information:		
Deconsolidation of CHRP GP (see Note 3b)	$	$ 1,712
Net assets of consolidated entity	$ 3,470	$
Net settlement of cash collateral pledged with repayments on the line of credit	$	$ 6,745
Purchase of treasury stock upon close of acquisition (see Note 15)	$ 1,901	$
Common stock issuance upon close of acquisition (see Note 2)	$ 156,048	$
Net assets acquired upon acquisition (net of cash)	$ 58,486	$
Non-compete agreements acquired	$ 2,310	$

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

8

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization and Business

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

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

2. Acquisition

The acquisition of LaBranche & Co Inc. ("LaBranche") by the Company was consummated pursuant to the terms of the Agreement and Plan of Merger ("Merger Agreement"), dated as of February 16, 2011, after the market close on June 28, 2011. LaBranche Capital, LLC (LCAP), which was renamed "Cowen Capital LLC" following consummation of the acquisition, was a wholly owned subsidiary of LaBranche and is now a wholly-owned subsidiary of the Company, is a registered broker-dealer and Financial Industry Regulatory Authority ("FINRA") member firm that operates as a market-maker in Exchange Traded Funds ("ETFs"), engages in hedging activities in options, ETFs, structured notes, foreign currency securities and futures related to its market-making operations and also conducts principal trading activities in these securities. Prior to the acquisition, LaBranche discontinued certain operations in its market-making segment, including upstairs options market-making on various exchanges and electronic market-making in the International Securities Exchange. As of the close of market on June 28, 2011, LaBranche stock was delisted and no longer trades on the New York Stock Exchange.

Under the terms of the Merger Agreement, each outstanding share of LaBranche was converted into 0.9980 shares of Cowen Class A common stock (the "Exchange Ratio"). The consideration received by LaBranche's shareholders was valued at approximately $156 million in the aggregate, based on the closing price of Cowen Class A common stock on the NASDAQ Global Select Market of $3.82 on June 28, 2011. This is based on 40,931,997 shares of LaBranche stock that were outstanding on the date of the completion of the acquisition.

The acquisition was accounted for under the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In this case, the acquisition was accounted for as an acquisition by Cowen of LaBranche. As such, results of operations for LaBranche are included in the accompanying condensed consolidated statements of operations since the date of acquisition, and the assets acquired and liabilities assumed were recorded at their estimated fair values. The fair value of Cowen shares issued to LaBranche shareholders was the

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Acquisition (Continued)

purchase consideration for the acquisition. Based on the June 28, 2011 preliminary purchase price allocation, the fair value of the net identifiable assets acquired and liabilities assumed amounted to $175.9 million, (excluding $2.3 million non-compete agreements acquired) exceeding the fair value of the preliminary purchase price of $156 million. As a result, the Company recognized a preliminary, nonrecurring bargain purchase gain of approximately $22.2 million in the second quarter of 2011, which is included in other income in the condensed consolidated statements of operations for the three and six month periods ended June 30, 2011. The Company's share price has traded below its book value for a substantial part of the last 52 weeks, and as the preliminary purchase consideration (the Exchange Ratio) was determined based on the stock price of Cowen on June 28, 2011, the purchase price allocation based on the fair value of LaBranche's net assets at acquisition date reflected in these condensed consolidated financial statements has resulted in a bargain purchase gain.

The Company is currently in the process of finalizing the valuation for certain acquired assets of LaBranche; therefore, the fair value measurements at June 28, 2011 and the gain on acquisition of business are preliminary and subject to further adjustment. The allocation of the purchase price to the net assets acquired will be finalized as necessary, up to one year after the acquisition closing date, as information becomes available. The following table summarizes the preliminary purchase price allocation of net tangible and intangible assets acquired as of June 28, 2011:

		(dollars in thousands)
Cash and cash equivalents	$	117,496
Cash collateral pledged		1,127
Securities owned, at fair value		221,855
Other investments		2,569
Receivable from brokers		93,754
Fixed assets, net		8,804
Intangibles		3,010
Other assets		4,897
Securities sold, not yet purchased, at fair value		(175,391)
Payable to brokers		(81,536)
Compensation payable		(3,521)
Fees payable		(969)
Unfavorable lease		(3,388)
Accounts payable, accrued expenses and other liabilities		(12,725)
Total net assets acquired	**$**	**175,982**
Non-compete agreements acquired		2,310
Goodwill/(Bargain purchase gain) on transaction		(22,244)(1)
Total purchase price	**$**	**156,048**

(1) Represents the preliminary bargain purchase gain on the acquisition.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Acquisition (Continued)

The Company believes that all of the acquired receivables and contractual amounts receivable as reflected above in the preliminary allocation of the purchase price are recorded at fair value and are expected to be collected in full.

The Company recognized approximately $0.6 million and $2.3 million of acquisition-related costs, including legal, accounting, and valuation services for the three months and six months ended June 30, 2011, respectively. These costs are included in professional, advisory and other fees and other expenses in the condensed consolidated statements of operations.

As of June 30, 2011, the estimated fair value of the Company's intangibles, as acquired through the acquisition, is $3 million. In addition, non-compete agreements for the amount of $2.3 million, were negotiated as part of the acquisition, which have been recognized separately from the acquisition of assets and liabilities assumed in accordance U.S. GAAP. The total non-compete agreements acquired of $2.5 million, have been included within Intangible assets, net in the condensed consolidation statements of financial condition. The allocation of the intangibles is as follows:

	Estimated Intangible Assets Acquired (in thousands)	Estimated average remaining useful lives (years)
Intangible asset class		
Exchange memberships	$ 240	indefinite
Covenants to not compete	1,950	1 or 2
Covenants with limiting conditions	580	10
Intellectual property	2,550	3
Total intangible assets	$ 5,320	

Amortization expense for the three and six months ended June 30, 2011, respectively, is immaterial. The estimated amortization expense related to these intangible assets in future years is as follows:

	(dollars in thousands)
2011	$ 997
2012	1,883
2013	1,341
2014	483
2015	58
Thereafter	318
	$ 5,080

Included in the accompanying condensed consolidated statements of operations for the three months and six months ended June 30, 2011 are revenues of $0.2 million and a net income of $0.2 million related to LaBranche's results of operations for the period from June 29, 2011 through June 30, 2011.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Acquisition (Continued)

The following unaudited supplemental pro forma information presents condensed consolidated financial results for the six month periods as if the acquisition was completed as of January 1, 2010. This supplemental pro forma information has been prepared for comparative purposes only and is not intended to be indicative of what the Company's results would have been had the acquisition been completed on January 1, 2010, nor does it purport to be indicative of any future results.

	For the six months ended June 30, 2011	For the six months ended June 30, 2010
	(in thousands)	
Revenues	$ 124,245	$ 111,986
Net Income	1,129	(56,929)
Net Income per common share		
Basic	0.01	(0.50)
Diluted	0.01	(0.50)

3. Significant Accounting Policies

a. Basis of presentation

These unaudited condensed consolidated financial statements and related notes have been prepared in accordance with US GAAP and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to interim financial statements. Results for interim periods should not be considered indicative of results for any other interim period or for the full year. These financial statements should be read in conjunction with the audited condensed consolidated financial statements as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009, and 2008, included in the Form 10-K of Cowen Group as filed with the SEC on March 14, 2011. The financial information contained herein is unaudited; however, management believes all adjustments have been made that are necessary for a fair presentation of the results for the interim periods. The year end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these condensed consolidated financial statements, as further discussed below, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

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

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

b. Principles of consolidation

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

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

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

As of June 30, 2011 the Company consolidates the following funds (the "Consolidated Funds"): Ramius Enterprise LP ("Enterprise LP"), Ramius Multi-Strategy FOF LP ("Multi-Strat FOF"), Ramius Vintage Multi-Strategy FOF LP ("Vintage LP"), Ramius Levered Multi-Strategy FOF LP ("Levered FOF"), and RTS Global 3x Fund LP ("RTS Global 3x").

In addition, RCG Linkem II LLC was consolidated when it first commenced operations during the second quarter of 2011. The Company determined that it exercises control over RCG Linkem II LLC as it acts as a managing member of this entity.

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

However, the FASB has deferred the application of the new consolidation model for VIEs that meet the following conditions; (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, *Investment Companies*, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, *Investment Companies*, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualifying special-purpose entity. The Company's involvement with its funds is such that all three of the above conditions

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

are met. Where the VIEs have qualified for the deferral, the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Company holds a variable interest is a variable interest entity and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIEs expected residual returns, or both. If this condition is met, the Company is considered to have a controlling financial interest in the VIE and thus is required to consolidate it. Under both guidelines, the Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion continuously.

The Company determines whether it is the primary beneficiary of a VIE by performing a qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, terms of any contracts between the Company and the VIE, which interests create or absorb variability, related party relationships and the design of the VIE. As of June 30, 2011, the Company does not consolidate any VIEs.

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

As at June 30, 2011, the Company holds a variable interest in Ramius Enterprise Master Fund Ltd ("Enterprise Master"), Ramius Multi-Strategy Master FOF LP and Ramius Vintage Multi-Strategy Master FOF LP (the "Unconsolidated Master Funds") through three of its Consolidated Funds: Enterprise LP, Multi-Strat FOF and Vintage FOF (the "Consolidated Feeder Funds"), respectively. Investment companies like the Consolidated Feeder Funds, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under FASB accounting standards, are not subject to the consolidation provisions for their investments. Therefore, the Company has not consolidated the Unconsolidated Master Funds.

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

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $296 million and $1.9 million as of June 30, 2011 and $383.3 million and $26.7 million as of December 31, 2010, respectively. In addition, the maximum exposure relating to these variable interest entities as of June 30, 2011 was $236.7 million, all of which is in other investments, at fair value and as of December 31, 2010 was $307.8 million, of which $307.2 million is included in other investments, at fair value and $0.6 million is included in due from related parties in the Company's condensed consolidated statements of financial condition, respectively. The Consolidated Feeder Funds' maximum exposure to loss related to their respective Unconsolidated Master Funds at June 30, 2011 and December 31, 2010 was limited to their investments in their respective Unconsolidated Master Funds. See Note 5 for further information regarding the Company's investments.

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

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

Cost Method Investments When the Company does not have a controlling financial interest and does not exert significant influence over an entity's operating and financial policies, but has an investment in private equity for which market quotations are not readily available and is not otherwise accounted for at fair value, the Company accounts for its investment in accordance with the cost method of accounting.

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

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

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

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

c. Use of estimates

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

d. Valuation of investments and derivative contracts

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

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

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

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

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

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

The Company primarily uses the "market approach" valuation technique to value its financial instruments measured at fair value. In determining an instrument's placement within the hierarchy, the Company separates the Company's financial instruments into three categories: securities, derivative contracts and other investments. To the extent applicable, each of these categories can further be divided between those held long or sold short.

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

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

Derivative contracts Derivative contracts can be exchange-traded or privately negotiated over-the-counter ("OTC"). Exchange-traded derivatives, such as futures contracts and exchange traded option contracts, are typically classified within level 1 or level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded. OTC derivatives, such as generic forwards,

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

swaps and options, have inputs which can generally be corroborated by market data and are therefore classified within level 2. Futures and equity swap derivative contracts are included within other assets on the condensed consolidated statements of financial condition and all other derivatives are included within securities owned, at fair value on the condensed consolidated statements of financial condition.

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

i.

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

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on the ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a Level 2 fair value measurement. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a Level 3 fair value measurement. See Note 5 and Note 6 for further details of the Company's investments in Portfolio Funds.

ii.

Real estate investments Real estate investments are valued at estimated fair value. The fair value of real estate investments are estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Real estate investments without a public market are valued based on assumptions and valuation techniques used by the Company. Such valuation techniques may include discounted cash flow analysis, prevailing market capitalization rates or earning multiples applied to earnings from the investment, analysis of recent comparable sales transactions, actual sale negotiations and bona fide purchase offers received from third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a quarterly basis by the Company for significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.
The Company also reflects its real estate equity investments net of investment level financing. Valuation adjustments attributable to underlying financing arrangements are considered in the

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

real estate equity valuation based on amounts at which the financing liabilities could be transferred to market participants at the measurement date.

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

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

See Note 5 and 6 for further information regarding the Company's investments, including equity method investments, and fair value measurements.

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

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase ("Repurchase Agreements") as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of June 30, 2011, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government-issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with multiple counterparties as of June 30, 2011 and December 31, 2010.

Transactions involving purchases of securities under agreements to resell are carried at their contract value which approximates fair value. As of June 30, 2011 and December 31, 2010, the fair value of the collateral received by the Company was $76 million and $95.5 million, respectively.

Transactions involving the sale of securities under agreements to repurchase are carried at their contract value and are accounted for as collateralized financings. In connection with these financings, as of June 30, 2011 and December 31, 2010, the Company had pledged collateral in the amount of $163.1 million and $207.4 million, respectively, which is included in securities owned, at fair value in the condensed consolidated statements of financial condition.

Collateral is valued daily and the Company and its counterparties may adjust the collateral or require additional collateral to be deposited when appropriate. Collateral held by counterparties may be sold or re-hypothecated by such counterparties, subject to certain limitations sometimes imposed by the Company. Collateralized Repurchase Agreements may result in credit exposure in the event the counterparties to the transactions are unable to fill their contractual obligations. The Company minimizes the credit risk associated with this activity by monitoring credit exposure and collateral

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

values, and by requiring additional collateral to be promptly deposited with or returned to the Company when deemed necessary.

f. Deferred rent

Deferred rent primarily consists of step rent, allowances from landlords and fair valuing our leases property in accordance with GAAP in relation to business combinations related to our leases properties. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received and/or promised to us by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. We record a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing our leases acquired through business combinations are quantified by comparing the current fair value of the leases space to current rental payments. Deferred rent, included in a accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition, for the years ended June 30, 2011 and December 31, 2010 is $18.9 million and $15.1 million, respectively.

g. Expenses

Included within expenses for the three and six month ended June 30, 2011 is $0.7 million and $3.5 million, respectively, in acquisition-related expenses such as legal, consulting and banking fees, associated with the acquisition of LaBranche and other reorganization charges within the alternative investment management business.

h. Recently adopted accounting pronouncements

In June 2011, the FASB issued guidance which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance requires consecutive presentation of the statement of operation and other comprehensive income and present reclassification adjustments on the face of the financial statement from other comprehensive income to net income. This guidance helps financial statement users better understand the causes of an entity's change in financial position and results of operations. The guidance is effective retrospectively for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements of GAAP for measuring the fair value and for disclosing information about fair value measurements. The guidance is effective prospectively for interim and annual periods beginning after December 15, 2011. Certain of the amendments could change how the fair value measurement guidance is applied including provisions related to highest and best use and valuation premise for

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

nonfinancial assets, application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, premiums or discounts in fair value measurement, fair value of an instrument classified in a reporting entity's shareholders' equity, and additional disclosure requirements about fair value measurements. The Company is currently assessing the impact of this guidance on its condensed consolidated financial statements.

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

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels 1 and 2 fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level 3), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level 3. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level 2 or Level 3. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The Company adopted the guidance, excluding the reconciliation of Level 3 activity, with the issuance of its March 31, 2010 financial statements. In addition, the Company first adopted the guidance related to the reconciliation of Level 3 activity in its March 31, 2011 condensed consolidation financial statements. As the guidance is limited to enhanced disclosures, adoption did not have a material impact on the Company's condensed consolidated financial statements.

In April 2010, the FASB issued guidance on the accounting for stock awards to employees of a foreign operation or employees whose pay is denominated in a currency other than the one in which the equity security trades. The guidance clarifies that share-based payment awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a condition that is not a market, performance, or service condition. Such an award shall not be classified as a liability if it otherwise qualifies for equity classification. The guidance is effective for fiscal years and interim periods ending after December 15, 2010. The Company makes share-based payment awards to employees in foreign operations. The

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Significant Accounting Policies (Continued)

guidance did not have a material impact on the Company's condensed consolidated financial statements.

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

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

i. Future adoption of accounting pronouncements

As of June 30, 2011, none of the changes to the Codification issued by the FASB that are not yet effective are expected to have a material impact on the Company's financial position or results of operations.

4. Cash collateral pledged

As of June 30, 2011 and December 31, 2010, cash collateral pledged in the amount of $9.8 million and $8.6 million, respectively, primarily relates to a) a bond held as collateral on a letter of credit and b) a letter of credit issued to the landlord of the Company's premises in New York City (see Note 14). Also included in cash collateral pledged as of June 30, 2011 and December 31, 2010 is $0.5 million, relating to an agreement that the Company has with Société Générale to cover the costs of litigation matters included in the agreement.

5. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

As of June 30, 2011 and December 31, 2010, securities owned consisted of the following, at fair value:

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
US Government securities(a)	$ 162,410	$ 143,247
Common stocks	207,841	116,215
Restricted common stock	5,000	5,000
Convertible bonds(b)	27,222	
Corporate bonds(c)	316,126	191,702
Exchange traded funds	218,135	
Options	45,409	14,349
Warrants and rights	3,411	2,334
Mutual funds	870	1,248
	$ 986,424	$ 474,095

(a) As of June 30, 2011, maturities ranged from June 2013 to February 2041 and interest rates ranged between 0.38% and 8%. As of December 31, 2010, maturities ranged from November 2019 to February 2026 and interest rates ranged between 3.38% and 8%.

(b) As of June 30, 2011, the maturity was April 2015 with interest rate of 5.50%.

(c) As of June 30, 2011, maturities ranged from December 2011 to February 2041 and interest rates ranged between 0.38% and 13.50%. At December 31, 2010, maturities ranged from May 2011 to August 2039 and interest rates ranged between 1.4% and 13%.

The Company's direct involvement with derivative financial instruments includes credit default swaps, futures, equity swaps, options and warrants and rights. Open equity in futures transactions are recorded as receivables from and payables to broker-dealers or clearing brokers as applicable. The Company's derivatives trading activities exposes us to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, foreign currency movements and changes in the liquidity of markets. The Company's long exposure to futures, equity swap and credit default swap derivative contracts, at fair value, as of June 30, 2011 and December 31, 2010 of $0.5 million and $0.4 million, respectively, is included in other assets in the accompanying condensed consolidated statements of financial condition. The Company's short exposure to futures and equity swap derivative contracts, at fair value, as of June 30, 2011 and December 31, 2010 of $0.8 million and $0.6 million, respectively, is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. The gains/(losses) related to derivatives trading activities for the three months and six months ended June 30, 2011 were not material. The gains/(losses) on derivative contracts are included in other income in the condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, the Company is required to post collateral for its obligations or potential obligations. As of June 30, 2011 and December 31, 2010, collateral consisting of $15.8 and $3.2 million, respectively, is included in receivable from brokers on

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

the condensed consolidated statements of financial condition. As of June 30, 2011 and December 31, 2010 all derivative contracts were with multiple major financial institutions.

Other investments

As of June 30, 2011 and December 31, 2010, other investments consisted of the following:

Other investments

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
(1) Portfolio Funds, at fair value	$ 32,645	$ 29,391
(2) Real estate investments, at fair value	2,289	1,882
(3) Equity method investments	13,607	8,734
(4) Lehman claims, at fair value	501	313
	$ 49,042	$ 40,320

(1) Portfolio Funds, at fair value

The Portfolio Funds, at fair value as of June 30, 2011 and December 31, 2010, included the following:

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
Tapestry Investment Co PCC Ltd(a)	$ 284	$ 565
Cowen Healthcare Royalty Partners(b)(*)	14,618	14,769
Cowen Healthcare Royalty Partners II(b)(*)	279	143
Ramius Global Credit Fund LP(c)(*)	13,739	11,733
Ramius Alternative Replication Ltd(d)(*)	864	866
Ramius Enhanced Replication Fund LLC(e)(*)	553	
Starboard Value and Opportunity Fund LP(f)(*)	323	
Other private investment(g)	1,313	
Other affiliated funds(h)(*)	672	1,315
	$ 32,645	$ 29,391

* These portfolio funds are affiliates of the Company

The Company has no unfunded commitments regarding the portfolio funds, at fair value held by the Company except as noted for Cowen Healthcare Royalty Partners, Cowen Healthcare Royalty Partners II and Starboard Value and Opportunity Fund LP in Note 13.

(a)

Tapestry Investment Co PCC Ltd is in the process of liquidating and redemptions will be made periodically by the investment managers' decision based on cash available.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

(b) Cowen Healthcare Royalty Partners and Cowen Healthcare Royalty Partners II are private equity funds and therefore redemptions will be paid out at the investment manager's discretion.

(c) Ramius Global Credit Fund LP has a quarterly redemption policy with 60 day notice period and a one year soft lock (4% penalty).

(d) Ramius Alternative Replication Ltd has monthly redemption policies with a seven day notice period.

(e) Ramius Enhanced Replication Fund LLC has monthly redemption policies with a seven day notice period.

(f) Starboard Value and Opportunity Fund LP has quarterly redemption policies, after a one-year anniversary of the contribution, with thirty days notice period.

(g) Other private investment represents the Company's closed end investment in an Italian Wi-Fi company.

(h) The majority of these funds are real estate fund affiliates of the Company or are managed by the Company and the investors can redeem from these funds when cash is available.

(2) Real estate investments, at fair value

Real estate investments as of June 30, 2011 and December 31, 2010 are carried at fair value and include real estate equity investments held by RCG RE Manager, LLC ("RE Manager"), a real estate operating subsidiary of the Company, of $1.5 million and $1.1 million, respectively, and real estate debt investments held by the Company of $0.8 million, respectively.

(3) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose responsibilities primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 30% to 55%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in three of these entities: RCG Longview Debt Fund IV Management, LLC, RCG Longview Debt Fund IV Partners, LLC and RCG Longview Partners II, LLC. The operating agreements that govern the management of day-to-day operations and affairs of each of these three entities stipulate that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these three entities require the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company that is not protective in nature. As the Company does not possess unilateral control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments is the investment in a) CHRP GP (see Note 3), b) an investment in the Chicago Board Options Exchange CBOE (Chicago Board Options

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

Exchange) Stock Exchange LLC representing a 9.7% stake in the exchange service provider and c)Starboard Value LP (and certain related parties) which serves as an operating company whose responsibilities primarily include the day to day management (including portfolio management) of a deep value small cap hedge fund and related managed accounts. The following table summarizes equity method investments held by the Company:

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
RCG Longview Debt Fund IV Management, LLC	$ 1,172	$ 2,009
Cowen Healthcare Royalty GP, LLC	1,206	1,176
Cowen Healthcare Royalty GP II, LLC	21	8
Chicago Board Options Exchange	2,545	
Starboard Value LP	2,266	
RCG Longview Partners, LLC	1,560	2,203
RCG Longview Louisiana Manager, LLC	650	186
RCG Urban American, LLC	1,100	889
RCG Urban American Management, LLC	798	359
RCG Longview Equity Management, LLC	349	499
Urban American Real Estate Fund II, L.P.	1,279	833
RCG Kennedy House, LLC	315	259
Other	346	313
	$ 13,607	$ 8,734

As of June 30, 2011, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million. All such amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition.

The Company's income (loss) from equity method investments was $1.2 million and $0.5 million for the three months ended June 30, 2011 and 2010, respectively, and was $2.4 million and $1 million for the six months ended June 30, 2011 and 2010, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations. In addition, the Company recorded no impairment charges in relation to its equity method investments for the three months and six months ended June 30, 2011 and 2010.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

(4) Lehman Claims, at fair value

Lehman Brothers International (Europe) ("LBIE"), through certain affiliates, was a prime broker to the Company, and the Company held cash and cash equivalent balances with LBIE. On September 15, 2008, LBIE was placed into administration (the "Administration") in the United Kingdom and, as a result, the assets held by the Company in its LBIE accounts were frozen at LBIE. The status and ultimate resolution of the assets under LBIE's Administration proceedings is uncertain. The assets of the Company at LBIE at the time of Administration (the "Total Net Equity Claim") consist of $1 million, which the Company believes will represent an unsecured claim against LBIE. This does not include claims held by the Company against LBIE through its investment in Enterprise Master discussed in Note 4b. There can be no assurance that the Total Net Equity Claim value, as determined by the Company, will be accepted by the Administrators, nor does the Company know the manner and timing in which such claim will be satisfied and the ultimate value that will be received.

Given the great degree of uncertainty as to the status of the assets held at LBIE and the process and prospects of the return of those assets, the Company has decided to record the estimated fair value of the Total Net Equity Claim at an approximately 52% discount at June 30, 2011 and a 70% discount at December 31, 2010, which represents management's best estimate at the respective dates of the value that ultimately may be recovered with respect to the Total Net Equity Claim (the "Estimated Recoverable Lehman Claim"). The Estimated Recoverable Lehman Claim was recorded at estimated fair value considering a number of factors including the status of the assets under U.K. insolvency laws and the trading levels of LBIE unsecured debt. In determining the estimated value of the Total Net Equity Claim, the Company was required to use considerable judgment and is based on the facts currently available. As additional information on the LBIE proceeding becomes available, the Company may need to adjust the valuation of the Estimated Recoverable Lehman Claim. The actual loss that may ultimately be incurred by the Company with respect to the pending LBIE claim is not known and could be materially different from the estimated value assigned by the Company.

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, 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 condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected in the condensed 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

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

limitations. As of June 30, 2011 and December 31, 2010, securities sold, not yet purchased, consisted of the following, at fair value:

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
U.S. Government securities(a)	$ 119,127	$ 100,559
Common stocks	140,459	88,580
Corporate bonds(b)	69,562	2,615
Exchange traded funds	97,769	
Options	15,344	6,162
	$ 442,261	$ 197,916

(a) As of June 30, 2011, maturities ranged from May 2014 to January 2040 and interest rates ranged between 0.75% and 7.415%. As of December 31, 2010, maturities ranged from December 2015 to August 2026 and interest rates ranged between 2.13% and 6.75%.

(b) As of June 30, 2011, maturities ranged from September 2011 to June 2031 and interest rates ranged between 0.50% and 10%. As of December 31, 2010, maturities ranged from June 2013 to December 2025 and interest rates ranged between 2.25% and 3.75%.

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

The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of June 30, 2011and December 31, 2010:

	As of June 30, 2011
	(dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Barclays Inc bearing interest of (0.3)% - 0.08% due on July 1, 2011*	$ 77,333
Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 1.52625% - 1.58125% due on January 31, 2012 to June 25, 2012	49,450
Agreements with Barclays Inc bearing interest of (0.02)% - 0.12% due on July 1, 2011*	119,989
	$ 169,439

*

The repurchase date is open and the agreement can be terminated by either party at any time. The agreement continues on a day-to-day basis.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

	As of December 31, 2010	
	(dollars in thousands)	
Securities purchased under agreements to resell		
Agreements with Barclays Capital Inc bearing interest of 0.07% - 0.14% due on January 3, 2011	$	97,755
Securities sold under agreements to repurchase		
Agreements with Royal Bank of Canada bearing interest of 1.415% due on February 22, 2011 to September 1, 2011		48,532
Agreements with Barclays Capital Inc bearing interest of 0.18%-1.50% due on January 7, 2011 to June 6, 2011		143,633
	$	192,165

Other

During the second quarter of 2011, the Company acquired a Luxembourg reinsurance company from a third party through a wholly-owned local subsidiary, which, upon acquisition, recorded deferred assets and subsequently deferred tax benefits. The purchase price of the reinsurance company totaled EUR 208.3 million (USD $294.4 million). The acquisition was not accounted for as a business combination as after separation from the transferor, the reinsurance company does not contain all of the inputs and processes necessary for it to continue to conduct normal operations including the ability to sustain a revenue stream by providing as outputs to customers. This is discussed in more detail in the Income Taxes footnote.

b. Consolidated Funds

Securities owned, at fair value

As of June 30, 2011 and December 31, 2010 securities owned, at fair value, held by the Consolidated Funds are comprised of:

	As of June 30, 2011		As of December 31, 2010	
	(dollars in thousands)			
Government sponsored securities*	$	4,064	$	7,682
Commercial paper**		1,726		
Corporate bond***		401		1,040
	$	6,191	$	8,722

* As of June 30, 2011, maturities ranged from March 2012 to May 2013 and interest rates ranged between 0.35% and 1.74%. As of December 31, 2010, maturities ranged from January 2011 to December 2012 and interest rates ranged between 0.35% and 4.88%.

**

Commercial paper was purchased at a discount and matures on July 1, 2011.

***

As of June 30, 2011, the maturity was April 2012 with interest rate of 0.60%. As of December 31, 2010, the maturity was January 2011 with interest rate of 0.42%.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

Other investments, at fair value

As of June 30, 2011 and December 31, 2010 other investments, at fair value, held by the Consolidated Funds are comprised of:

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
(1) Portfolio Funds	$ 254,578	$ 327,131
(2) Lehman claims	7,320	6,243
	$ 261,898	$ 333,374

(1) Investments in Portfolio Funds, at fair value

As of June 30, 2011 and December 31, 2010, investments in Portfolio Funds, at fair value, included the following:

Description	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
Investments of Enterprise LP	$ 215,457	$ 257,246
Investments of consolidated fund of funds investment companies	39,121	69,885
	$ 254,578	$ 327,131

Consolidated investments of Enterprise LP

Enterprise LP operates under a "master-feeder" structure with Enterprise Master, whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate Fund, L.P. The consolidated investments in Portfolio Funds recorded in other investments on the condensed consolidated statements of financial condition include Enterprise LP's investment of $215 million and $257 million in Enterprise Master as of June 30, 2011 and December 31, 2010, respectively. On May 12, 2010, the Company announced its intention to close Enterprise Master. Prior to this announcement, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. Enterprise Master has been selling, and will continue to sell, its positions and return capital to its investors. There are no unfunded commitments at Enterprise LP. See Note 13 for unfunded commitments of Enterprise Master.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

Investments of consolidated fund of funds investment companies

The investments of consolidated fund of funds investment companies of $39.1 million and $70 million at June 30, 2011 and December 31, 2010, respectively, include the investments of Levered FOF, Multi-Strat FOF and Vintage FOF, all of which are investment companies managed by Ramius Alternative Solutions LLC, as well as RTS Global 3x, which is managed by Ramius Trading Strategies LLC. Multi-Strat FOF's investment objectives is to invest discrete pools of their capital among portfolio managers that invest through Portfolio Funds, forming a multi-strategy, diversified investment portfolio designed to achieve returns with low to moderate volatility. Levered FOF had a similar strategy, but on a levered basis, prior to the fund winding down. Levered FOF is no longer levered. Vintage FOF's investment objective is to allocate its capital among portfolio managers that invest through investment pools or managed accounts thereby forming concentrated investments in high conviction managers designed to achieve attractive risk adjusted returns with moderate relative volatility. RTS Global 3x's investment objective is to achieve attractive investment returns on a risk-adjusted basis that are non-correlated with the traditional equity and bond markets by investing substantially all of its capital in managed futures and global macro-based investment strategies. RTS Global 3x seeks to achieve its objective through a multi-advisor investment approach by allocating its capital among third-party trading advisors that are unaffiliated with RTS Global 3x. However, unlike a traditional "fund of funds" that invests with advisors through entities controlled by third-parties, RTS Global 3x will allocate its capital among a number of different trading accounts organized and managed by the general partner.

The following is a summary of the investments held by the four consolidated fund of funds, at fair value, as of June 30, 2011 and December 31, 2010:

		As of June 30, 2011				
		Ramius Levered Multi-Strategy FOF LP	Ramius Multi-Strategy FOF LP	Ramius Vintage Multi-Strategy FOF LP	RTS Global 3x Fund LP	Total Fair Value
Description	Strategy	Fair Value	Fair Value	Fair Value	Fair Value	
		(dollars in thousands)				
Ramius Multi-Strategy Master FOF LP*	Multi-Strategy	$	$ 9,576	$	$	$ 9,576(a)
Ramius Vintage Multi-Strategy Master FOF LP*	Multi-Strategy			10,724		10,724(a)
Tapestry Pooled Account V LLC*	Credit-Based	635				635(b)
Independently Advised Portfolio Funds*	Futures & Global Macro				14,990	14,990(c)
Externally Managed Portfolio Funds	Credit-Based	427				427(b)
Externally Managed Portfolio Funds	Event Driven	2,129				2,129(d)
Externally Managed Portfolio Funds	Hedged Equity	35				35(e)
Externally Managed Portfolio Funds	Multi-Strategy	547				547(f)
Externally Managed Portfolio Funds	Fixed Income Arbitrage	58				58(g)
		$ 3,831	$ 9,576	$ 10,724	$ 14,990	$ 39,121

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

		As of December 31, 2010				
		Ramius Levered Multi-Strategy FOF LP	Ramius Multi-Strategy FOF LP	Ramius Vintage Multi-Strategy FOF LP	RTS Global 3x Fund LP	Total Fair Value
Description	**Strategy**	**Fair Value**	**Fair Value**	**Fair Value**	**Fair Value**	**Value**
		(dollars in thousands)				
Ramius Multi-Strategy Master FOF LP*	Multi-Strategy	$	$ 28,633	$	$	$ 28,633(a)
Ramius Vintage Multi-Strategy Master FOF LP*	Multi-Strategy			20,722		20,722(a)
Tapestry Pooled Account V LLC*	Credit-Based	687				687(b)
Independently Advised Portfolio Funds*	Futures & Global Macro				15,889	15,889(c)
Externally Managed Portfolio Funds	Credit-Based	522				522(b)
Externally Managed Portfolio Funds	Event Driven	2,800				2,800(d)
Externally Managed Portfolio Funds	Hedged Equity	39				39(e)
Externally Managed Portfolio Funds	Multi-Strategy	535				535(f)
Externally Managed Portfolio Funds	Fixed Income Arbitrage	58				58(g)
		$ 4,641	$ 28,633	$ 20,722	$ 15,889	$ 69,885

---

* These Portfolio Funds are affiliates of the Company.

(a) The Company has no unfunded commitments regarding investments held by the four consolidated funds.

Investments held in affiliated master funds can be redeemed on a monthly basis with no advance notice.

(b) The Credit-Based strategy aims to generate returns via positions in the credit sensitive sphere of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of the interest exposure. The investments held in Tapestry Pooled Account V LLC, a related fund, are held solely in a credit based fund which the fund's manager has placed in a side-pocket. The remaining amount of the investments within this category represents an investment in a fund that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated.

(c) The futures and global macro strategy is made up of several portfolio accounts, each of which will be advised independently by a professional commodity trading advisor implementing primarily managed futures or global macro-based investment strategies. The trading advisors (through their respective portfolio accounts) will trade independently of each other and, as a group, will employ a wide variety of systematic, relative value and discretionary trading programs in the global currency, fixed income, commodities and equity futures markets. In implementing their trading programs, the trading advisors will trade primarily in the futures and forward markets (as well as in related options). Although certain trading advisors may be permitted to use total return swaps and trade other financial instruments from time to time on an interim basis, the primary focus will be on the futures and forward markets. Redemption frequency of these portfolio accounts are monthly (and intra-monthly for a $10,000 fee) and the notification period for redemptions is 5 business days (or 3 business days for intra-month).

(d) The Event Driven strategy is generally implemented through various combinations and permutations of merger arbitrage, restructuring and distressed instruments. Approximately 1.3% as of June 30, 2011 and 3% as of December 31, 2010 of the investments in this category represent investments in a fund that is in the process of liquidating. Distributions from this

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

fund will be received as underlying investments are liquidated. The remaining amount of the investments in this category is in a side pocket or suspended with undetermined payout dates.

(e) The Hedged Equity strategy focuses on equity strategies with some directional market exposure. The strategy attempts to profit from market efficiencies and direction. The investee fund manager has side-pocketed investments.

(f) The Multi-Strategy investment objective is to invest discrete pools of its capital among portfolio managers that invest through investment funds, forming multi-strategy, diversified investment portfolios designed to achieve non-market directional returns with low relative volatility. The investments in this category represent investments in a fund that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated.

(g) The Fixed Income Arbitrage strategy seeks to achieve long term capital appreciation by employing a variety of strategies to generate returns without significant exposure to credit spread, interest rate changes or duration. As of June 30, 2011, the investment manager has gated investments.

(2) Lehman Claims, at fair value

With respect to the aforementioned Lehman claims, the Total Net Equity Claim of Enterprise Master consists of $24.3 million. Included in this claim were assets with a value of $9.5 million, at the time LBIE entered administration, that were returned to Enterprise Master and its affiliated funds in June 2010. Enterprise Master and its affiliated funds sold the returned assets, for an aggregate $10.7 million, and distributed this amount to Enterprise Master's investors in July 2010. As a result, the remaining Net Equity Claim for Enterprise Master is $14.8 million. Enterprise Master is valuing this claim at $9.2 million as of June 30, 2011. Of this amount, $7.3 million was attributable to Enterprise LP based on its ownership percentage in Enterprise Master at the time of the Administration. As discussed in Note 4a, the Company has an additional $1 million claim against LBIE as a result of certain cash and cash equivalent balances held at LBIE. LBI claim was valued at 56% which represented the present value of the mid-point between what the Company believed were reasonable estimates of the low-side and high-side potential recovery rates with respect to its LBI exposure. LBIE claims were valued as follows: (a) the trust assets that the Company was informed were within the control of LBIE and were expected to be returned in the relatively near term were valued at market less a 1% discount that corresponds to the fee to be charged under the Claim Resolution Agreement ("CRA"), (b) the trust assets that are not within the control of LBIE and are not believed to be held through LBI were valued at 56% with respect to US denominated Assets and 48% with respect to foreign denominated Assets, which represented the Company's estimate of potential recovery rates (c) the remaining unsecured claims against LBIE were valued at 48%, which represented the Company's estimate of potential recovery rates with respect to this exposure using available market quotes. The estimated final recoverable amount by Enterprise Master may differ from the actual recoverable amount of the pending LBIE and LBI claims, and the differences may be material.

As a result of Enterprise Master and certain of the funds managed by the Company having assets they held at LBIE frozen in their LBIE prime brokerage account and the degree of uncertainty as to the status of those assets and the process and prospects of the return of those assets, Enterprise Master and the funds managed by the Company decided that only the investors who were invested at the time of the Administration should participate in any profit or loss relating to the Estimated Recoverable Lehman Claim. As a result, Enterprise Master and certain of the funds managed by the Company with assets held at LBIE granted a 100% participation in the Estimated Recoverable Lehman Claims to Special Purpose Vehicles (the "SPVs" or "Lehman Segregated Funds") incorporated under the laws of

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

the Cayman Islands on September 29, 2008, whose shares were distributed to each of their investor funds. Fully redeeming investors of Enterprise LP will not be paid out on the balance invested in the SPV until the claim with LBIE is settled and assets are returned by LBIE.

In addition to Enterprise Master's claims against LBIE, Lehman Brothers, Inc. ("LBI") was a prime broker to Enterprise Master and Enterprise Master holds cash balances of $5.3 million at LBI. On September 19, 2008, LBI was placed in a Securities Investor Protection Corporation ("SIPC") liquidation proceeding after the filing for bankruptcy of its parent Lehman Brothers Holdings, Inc. The status of the assets under LBI's bankruptcy proceedings has not been determined. The amount that will ultimately be recovered from LBI will depend on the amount of assets available in the fund of customer property to be established by the trustee appointed under the Securities Investor Protection Act (the "SIPA Trustee") as approved by the bankruptcy court as well as the total amount of customer claims that seek recovery from the fund of customer property. Based on court filings by the SIPA Trustee, the total amount of customer claims exceeds the assets that are likely to be in the fund of customer property. In addition, while there has been an initial ruling with respect to the claims asserted by Barclays plc against LBI relating to an asset purchase agreement entered into by Barclays plc with LBIE near the time of the SIPC liquidation proceeding, there is still uncertainty regarding the ultimate resolution of these claims that could affect the amount of assets that are included in the fund of customer property. As a result of these uncertainties and the timing of any distributions from LBI in respect of the Company's customer claims, management has estimated recovery with respect to the Company's LBI exposure at 56% or $3 million as of June 30, 2011, which represents the present value of the mid point between what management believes are reasonable estimates of the low side and high side potential recovery rates with respect to the Company's LBI exposure. The estimated recoverable amount by the Company may differ from the actual recoverable amount of the pending LBI claim, and the differences may be material.

Indirect Concentration of the Underlying Investments Held by Consolidated Funds

From time to time, through its investments in the Consolidated Funds, the Company may indirectly maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Consolidated Funds' net assets (on an aggregated basis). Based on information that is available to the Company as of June 30, 2011 and December 31, 2010, the Company identified Consolidated Funds that had interests in an issuer for which the Company's pro-rata share exceeds 5% of the Consolidated Funds' net assets (on an aggregated basis). There were no indirect concentrations that exceed 5% of the Consolidated Funds' net assets held by the Company as of June 30, 2011 or December 31, 2010.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

Enterprise Master

Enterprise LP's investment in Enterprise Master is equal to Enterprise LP's proportional share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master as of June 30, 2011 and December 31, 2010:

Securities owned and securities sold, but not yet purchased by Enterprise Master, at fair value

	June 30, 2011		December 31, 2010	
Description	**Securities owned**	**Securities sold, but not yet purchased**	**Securities owned**	**Securities sold, but not yet purchased**
	(dollars in thousands)			
Common stock	$ 2,172	$	$ 10,123	$
Corporate bonds	2,161		1,997	
Over-the-counter foreign currency call option				(63)
Preferred stock	1,160		410	
Private debt	66		59	
Private equity	200		173	
Restricted stock	309		3,148	
Rights	2,311		2,115	
Trade claims	128		128	
Warrants	36		55	
	$ 8,543	$	$ 18,208	$ (63)

Derivative contracts, at fair value, owned by Enterprise Master, net

Description	**As of June 30, 2011**	**As of December 31, 2010**
	(dollars in thousands)	
Asset swaps	$ 2	$ 5
Currency forwards	(212)	(36)
	$ (210)	$ (31)

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

Portfolio Funds, owned by Enterprise Master, at fair value

Description	Strategy	As of June 30, 2011	As of December 31, 2010
		Fair Value	
		(dollars in thousands)	
624 Art Holdings, LLC*	Artwork	$ 43	$ 98
Q Capital Strategies, LLC*	Life Settlements		111
RCG Longview Equity Fund, LP*	Real Estate	15,002	10,120
RCG Longview II, LP*	Real Estate	1,476	1,835
RCG Longview Debt Fund IV, LP*	Real Estate	16,765	12,628
RCG Longview, LP*	Real Estate	269	383
RCG Soundview, LLC*	Real Estate	2,574	2,542
RCG Urban American Real Estate Fund, L.P.*	Real Estate	3,176	3,207
RCG International Sarl*	Multi-Strategy	9,442	9,463
Ramius Navigation Fund Ltd*	Multi-Strategy	9,800	24,972
RCG Special Opportunities Fund, Ltd*	Multi-Strategy	97,585	97,845
Ramius Credit Opportunities Fund Ltd*	Distressed	260	300
RCG Endeavour, LLC*	Multi-Strategy	92	87
RCG Energy, LLC *	Energy	20,538	18,850
RCG Renergys, LLC*	Energy	2	2
Other Private Investments	Various	17,624	15,189
Real Estate Investments	Real Estate	16,965	25,662
		$ 211,613	$ 223,294

* These Portfolio Funds are affiliates of the Company.

Ramius Multi-Strategy Master FOF LP and Ramius Vintage Multi-Strategy Master FOF LP

Multi-Strat FOF's and Vintage FOF's investments in their respective master funds are equal to their proportional share of their master fund's net assets; as a result, the investments in Portfolio Funds of the master funds reflected below may exceed the net investment which Multi-Strat FOF and Vintage FOF have recorded. The following table presents summarized investment information for the

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

underlying Portfolio Funds held by Ramius Multi-Strategy Master FOF LP and Ramius Vintage Multi-Strategy Master FOF LP, at estimated fair value, as of June 30, 2011 and December 31, 2010:

Description	Strategy	June 30, 2011 Ramius Multi-Strategy Master FOF LP	June 30, 2011 Ramius Vintage Multi-Strategy Master FOF LP	December 31, 2010 Ramius Multi-Strategy Master FOF LP	December 31, 2010 Ramius Vintage Multi-Strategy Master FOF LP
		(dollars in thousands)			
Ramius Vintage Multi-Strategy Master FOF LP*	Multi Strategy	$ 667	$	$ 1,354	$
Tapestry Pooled Account II, LLC*	Hedged Equity		885		3,544
Tapestry Pooled Account V, LLC*	Credit-Based	1,308	1,397	1,416	1,512
Externally Managed Funds	Credit-Based	47	657	6,653	803
Externally Managed Funds	Event Driven	4,359	5,497	6,491	6,802
Externally Managed Funds	Fixed Income Arbitrage	83		83	
Externally Managed Funds	Hedged Equity	1,255	878	4,386	3,055
Externally Managed Funds	Multi Strategy	1,541	1,533	7,785	4,292
Externally Managed Funds	Global Macro	567		2,053	679
Externally Managed Funds	Opportunistic Equity				1,677
Externally Managed Funds	Managed Futures			2,430	
		$ 9,827	$ 10,847	$ 32,651	$ 22,364

* These Portfolio Funds are affiliates of the Company.

RTS Global 3x Fund LP's Portfolio Fund investments

RTS Global 3x, which commenced operations in March 2010, invests over half of its equity in six externally managed portfolio funds which primarily concentrate on futures and global macro strategies. The following table presents the summarized investment information, which is primarily receivable/

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

5. Investments of Operating Entities and Consolidated Funds (Continued)

(payable) on derivatives, for the underlying Portfolio Funds held by RTS Global 3X, at fair value, as of June 30, 2011 and December 31, 2010:

	As of June 30, 2011	As of December 31, 2010
	(dollars in thousands)	
Bond future	$ 11	$ (2)
Commodity call option	337	(5)
Cash		17,139
Currency option	1,211	191
Commodity forward	(262)	32
Commodity future	(297)	935
Currency forward	(27)	(63)
Currency future	79	1,230
Index future	79	130
Interest rate future	57	(5)
	$ 1,188	$ 19,582

6. Fair Value Measurements for Operating Entities and Consolidated Funds

The following table presents the financial instruments recorded at fair value on the condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of June 30, 2011 and December 31, 2010:

Operating Entities

	Assets at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Securities owned and derivatives				
US Government securities	$ 162,410	$	$	$ 162,410
Common stocks	205,419	1,469	953	207,841
Restricted common stock			5,000	5,000
Convertible bonds		27,222		27,222
Corporate bonds	1,588	314,538		316,126
Exchange-traded Funds	218,135			218,135
Futures	551			551
Equity swaps		2		2
Options	32,267	13,019	123	45,409
Warrants and rights			3,411	3,411
Mutual funds	870			870
Other investments				
Portfolio Funds	286	14,615	17,744	32,645
Real estate investments			2,289	2,289
Lehman claim			501	501
	$ 621,526	$ 370,865	$ 30,021	$ 1,022,412