

COWEN GROUP, INC.  
Form 10-Q  
November 07, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number: 001-34516

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-0423711

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

599 Lexington Avenue

10022

New York, New York

(Zip Code)

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of November 6, 2013 there were 117,849,034 shares of the registrant's common stock outstanding.

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### Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in “Management's Discussion and Analysis of Financial Condition and Results of Operations”) that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as “may,” “might,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “believe,” “predict,” “project,” “possible,” “potential,” “intend,” “seek” or “continue,” the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three and nine months ended September 30, 2013 and 2012. The Consolidated Financial Statements as of December 31, 2012 were audited.

## PART I. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.

Condensed Consolidated Statements of Financial Condition

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

(unaudited)

|   | As of<br>September 30,<br>2013 | As of<br>December 31,<br>2012 |
|---|--------------------------------|-------------------------------|
| Assets  |                                |                               |
| Cash and cash equivalents   | \$39,217                       | \$83,538                      |
| Cash collateral pledged   | 10,899                         | 9,160                         |
| Securities owned, at fair value   | 380,599                        | 624,127                       |
| Securities borrowed   | 902,572                        | 408,096                       |
| Other investments   | 98,162                         | 84,930                        |
| Receivable from brokers   | 67,966                         | 71,306                        |
| Fees receivable, net of allowance   | 39,174                         | 34,707                        |
| Due from related parties  | 26,658                         | 21,022                        |
| Fixed assets, net of accumulated depreciation and amortization of \$34,556 and \$30,003, respectively       | 28,580                         | 32,202                        |
| Goodwill  | 36,207                         | 28,545                        |
| Intangible assets, net of accumulated amortization of \$25,784 and \$22,945, respectively                   | 12,920                         | 12,984                        |
| Other assets  | 29,158                         | 16,278                        |
| Consolidated Funds  |                                |                               |
| Cash and cash equivalents   | 1,488                          | 3,559                         |
| Securities owned, at fair value   | —                              | 3,525                         |
| Other investments, at fair value  | 200,210                        | 204,205                       |
| Other assets  | 458                            | 292                           |
| Total Assets  | \$1,874,268                    | \$1,638,476                   |
| Liabilities and Stockholders' Equity  |                                |                               |
| Liabilities   |                                |                               |
| Securities sold, not yet purchased, at fair value   | \$131,129                      | \$177,937                     |
| Securities sold under agreement to repurchase   | 6,311                          | 165,945                       |
| Securities loaned   | 894,790                        | 410,441                       |
| Payable to brokers  | 149,276                        | 188,788                       |
| Compensation payable  | 30,061                         | 45,752                        |
| Short-term borrowings and other debt  | 3,369                          | 4,132                         |
| Fees payable  | 8,210                          | 5,277                         |
| Due to related parties  | 466                            | 662                           |
| Accounts payable, accrued expenses and other liabilities  | 49,017                         | 55,425                        |
| Consolidated Funds  |                                |                               |
| Capital withdrawals payable   | —                              | 2,891                         |
| Accounts payable, accrued expenses and other liabilities  | 154                            | 414                           |
| Total Liabilities   | 1,272,783                      | 1,057,664                     |
| Commitments and Contingencies (Note 13)   |                                |                               |
| Redeemable non-controlling interests  | 90,179                         | 85,703                        |
| Stockholders' equity  |                                |                               |
| Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding | —                              | —                             |

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|   |             |              |
|---|-------------|--------------|
| Class A common stock, par value \$0.01 per share: 250,000,000 shares authorized, 130,567,432 shares issued and 117,411,528 outstanding as of September 30, 2013 and 123,740,112 shares issued and 112,447,892 outstanding as of December 31, 2012, respectively (including 482,522 and 336,895 restricted shares, respectively) | 1,160       | 1,135        |
| Class B common stock, par value \$0.01 per share: 250,000,000 authorized, no shares issued and outstanding  | —           | —            |
| Additional paid-in capital  | 733,286     | 713,211      |
| (Accumulated deficit) retained earnings   | (185,762    | ) (187,865 ) |
| Accumulated other comprehensive income (loss)   | 139         | 356          |
| Less: Class A common stock held in treasury, at cost, 13,131,160 and 11,292,220 shares as of September 30, 2013 and December 31, 2012, respectively.  | (37,517     | ) (31,728 )  |
| Total Stockholders' Equity  | 511,306     | 495,109      |
| Total Liabilities and Stockholders' Equity  | \$1,874,268 | \$1,638,476  |

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

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

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2013                                | 2012     | 2013                               | 2012     |
| Revenues   |                                     |          |                                    |          |
| Investment banking   | \$27,694                            | \$18,666 | \$70,431                           | \$50,550 |
| Brokerage  | 28,462                              | 22,701   | 86,583                             | 71,282   |
| Management fees  | 9,327                               | 8,866    | 28,518                             | 28,515   |
| Incentive income   | 2,521                               | 1,416    | 7,086                              | 2,687    |
| Interest and dividends   | 10,969                              | 3,605    | 30,905                             | 14,845   |
| Reimbursement from affiliates  | 1,386                               | 1,370    | 4,085                              | 3,796    |
| Other revenues   | 556                                 | 701      | 1,519                              | 2,398    |
| Consolidated Funds   |                                     |          |                                    |          |
| Interest and dividends   | 255                                 | 24       | 414                                | 115      |
| Other revenues   | 190                                 | 249      | 267                                | 359      |
| Total revenues   | 81,360                              | 57,598   | 229,808                            | 174,547  |
| Expenses   |                                     |          |                                    |          |
| Employee compensation and benefits   | 53,614                              | 47,322   | 145,344                            | 137,102  |
| Floor brokerage and trade execution  | 4,033                               | 3,058    | 13,479                             | 10,992   |
| Interest and dividends   | 6,133                               | 2,056    | 20,287                             | 7,107    |
| Professional, advisory and other fees  | 4,022                               | 3,534    | 10,878                             | 11,158   |
| Service fees   | 2,351                               | 2,807    | 7,615                              | 8,198    |
| Communications   | 4,670                               | 4,522    | 13,423                             | 11,775   |
| Occupancy and equipment  | 6,752                               | 5,808    | 19,019                             | 16,594   |
| Depreciation and amortization  | 2,624                               | 2,427    | 7,786                              | 6,945    |
| Client services and business development   | 3,493                               | 3,510    | 12,251                             | 11,089   |
| Other expenses   | 3,595                               | 3,680    | 10,142                             | 10,919   |
| Consolidated Funds   |                                     |          |                                    |          |
| Interest and dividends   | 96                                  | 2        | 157                                | 22       |
| Professional, advisory and other fees  | 230                                 | 263      | 717                                | 1,112    |
| Floor brokerage and trade execution  | 91                                  | —        | 196                                | —        |
| Other expenses   | 33                                  | 65       | 167                                | 205      |
| Total expenses   | 91,737                              | 79,054   | 261,461                            | 233,218  |
| Other income (loss)  |                                     |          |                                    |          |
| Net gains (losses) on securities, derivatives and other investments              | 15,469                              | 12,510   | 32,873                             | 41,969   |
| Consolidated Funds   |                                     |          |                                    |          |
| Net realized and unrealized gains (losses) on investments and other transactions | 3,096                               | (2,730)  | ) 11,274                           | 817      |
| Net realized and unrealized gains (losses) on derivatives                        | (32)                                | ) 212    | 430                                | 626      |
| Net gains (losses) on foreign currency transactions                              | 168                                 | 9        | 1                                  | (6)      |
| Total other income (loss)  | 18,701                              | 10,001   | 44,578                             | 43,406   |
| Income (loss) before income taxes  | 8,324                               | (11,455) | ) 12,925                           | (15,265) |
| Income tax expense (benefit)   | (46)                                | ) 163    | 288                                | 496      |
| Net income (loss)  | 8,370                               | (11,618) | ) 12,637                           | (15,761) |
|  | 4,759                               | (1,033)  | ) 10,509                           | (1,225)  |

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Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries

|  |         |             |         |             |
|--|---------|-------------|---------|-------------|
| Net income (loss) attributable to Cowen Group, Inc. stockholders | \$3,611 | \$(10,585 ) | \$2,128 | \$(14,536 ) |
|--|---------|-------------|---------|-------------|

Weighted average common shares outstanding:

|       |         |         |         |         |
|-------|---------|---------|---------|---------|
| Basic | 118,359 | 114,989 | 116,012 | 114,587 |
|-------|---------|---------|---------|---------|

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Diluted | 122,708 | 114,989 | 119,891 | 114,587 |
|---------|---------|---------|---------|---------|

Earnings (loss) per share:

|       |        |           |        |           |
|-------|--------|-----------|--------|-----------|
| Basic | \$0.03 | \$(0.09 ) | \$0.02 | \$(0.13 ) |
|-------|--------|-----------|--------|-----------|

|         |        |           |        |           |
|---------|--------|-----------|--------|-----------|
| Diluted | \$0.03 | \$(0.09 ) | \$0.02 | \$(0.13 ) |
|---------|--------|-----------|--------|-----------|

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

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

|  | Nine Months Ended<br>September 30, 2013 |          | Nine Months Ended<br>September 30, 2012 |             |
|--|---|----------|---|-------------|
| Net income (loss)  |   | \$12,637 |   | \$(15,761 ) |
| Other comprehensive income (loss), net of tax:                                   |   |          |   |             |
| Foreign currency translation   |   | (10 )    |   | 126         |
| Defined benefit pension plans:   |   |          |   |             |
| Net gain/(loss) arising during the period  |   | (223 )   |   | 235         |
| Add: amortization of prior service cost included in<br>net periodic pension cost | 16                                      | (207 )   | 15                                      | 250         |
| Total other comprehensive income, net of tax                                     |   | (217 )   |   | 376         |
| Comprehensive income (loss)  |   | \$12,420 |   | \$(15,385 ) |

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



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

|  | Common<br>Shares<br>Outstanding | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings/<br>(Accumulated<br>deficit) | Total<br>Stockholders<br>Equity | Redeemable<br>Non-controlling<br>Interest |
|--|---------------------------------|-----------------|-------------------|----------------------------------|---|---|---------------------------------|---|
| Balance,<br>December 31, 2012                              | 112,447,892                     | \$ 1,135        | \$(31,728)        | \$713,211                        | \$ 356  | \$(187,865 )                                      | \$ 495,109                      | \$ 85,703                                 |
| Net income (loss)  | —                               | —               | —                 | —                                | —   | 2,128   | 2,128                           | 10,509                                    |
| Defined benefit<br>plans                                   | —                               | —               | —                 | —                                | (207 )  | —   | (207 )                          | —   |
| Foreign currency<br>translation                            | —                               | —               | —                 | —                                | (10 )   | —   | (10 )                           | —   |
| Capital contributions                                      | —                               | —               | —                 | —                                | —   | —   | —                               | 11,656                                    |
| Capital withdrawals  | —                               | —               | —                 | —                                | —   | —   | —                               | (17,689 )                                 |
| Restricted stock<br>awards issued                          | 4,288,108                       | —               | —                 | —                                | —   | —   | —                               | —   |
| Common stock<br>issued upon<br>acquisition (See<br>Note 2) | 2,514,468                       | 25              | —                 | 6,272                            | —   | —   | 6,297                           | —   |
| Purchase of treasury<br>stock, at cost                     | (1,863,684 )                    | —               | (5,879 )          | —                                | —   | —   | (5,879 )                        | —   |
| Treasury stock<br>re-issuance                              | 24,744                          | —               | 90                | —                                | —   | (25 )   | 65                              | —   |
| Amortization of<br>share based<br>compensation             | —                               | —               | —                 | 13,803                           | —   | —   | 13,803                          | —   |
| Balance, September<br>30, 2013                             | 117,411,528                     | \$ 1,160        | \$(37,517)        | \$733,286                        | \$ 139  | \$(185,762 )                                      | \$ 511,306                      | \$ 90,179                                 |

|                                 | Common<br>Shares<br>Outstanding | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings/<br>(Accumulated<br>deficit) | Total<br>Stockholders<br>Equity | Redeemable<br>Non-controlling<br>Interest |
|---------------------------------|---------------------------------|-----------------|-------------------|----------------------------------|---|---|---------------------------------|---|
| Balance,<br>December 31, 2011   | 114,047,637                     | \$ 1,135        | \$(16,902)        | \$688,427                        | \$(215 )  | \$(163,980 )                                      | \$ 508,465                      | \$ 104,587                                |
| Net income (loss)               | —                               | —               | —                 | —                                | —   | (14,536 )   | (14,536 )                       | (1,225 )                                  |
| Defined benefit<br>plans        | —                               | —               | —                 | —                                | 250   | —   | 250                             | —   |
| Foreign currency<br>translation | —                               | —               | —                 | —                                | 126   | —   | 126                             | —   |
| Deconsolidation of<br>funds     | —                               | —               | —                 | —                                | —   | —   | —                               | (17,104 )                                 |

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|  |              |          |            |            |        |              |            |           |
|--|--------------|----------|------------|------------|--------|--------------|------------|-----------|
| Consolidation of funds                   | —            | —        | —          | —          | —      | —            | —          | 18,521    |
| Capital withdrawals                      | —            | —        | —          | —          | —      | —            | —          | (17,268 ) |
| Capital contributions                    | —            | —        | —          | —          | —      | —            | —          | 500       |
| Restricted stock awards issued           | 4,189,400    | —        | —          | —          | —      | —            | —          | —         |
| Purchase of treasury stock, at cost      | (4,274,148 ) | —        | (10,904 )  | —          | —      | —            | (10,904 )  | —         |
| Amortization of share based compensation | —            | —        | —          | 20,578     | —      | —            | 20,578     | —         |
| Balance, September 30, 2012              | 113,962,889  | \$ 1,135 | \$(27,806) | \$ 709,005 | \$ 161 | \$(178,516 ) | \$ 503,979 | \$ 88,011 |

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

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Cowen Group, Inc.  
Condensed Consolidated Statements of Cash Flows  
(dollars in thousands)  
(unaudited)

|  | Nine Months Ended<br>September 30, |              |
|--|------------------------------------|--------------|
|  | 2013                               | 2012         |
| Cash flows from operating activities:  |                                    |              |
| Net income (loss)  | \$12,637                           | \$(15,761 )  |
| Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities: |                                    |              |
| Depreciation and amortization  | 7,786                              | 6,945        |
| Share-based compensation   | 13,803                             | 20,578       |
| Deferred rent obligations  | (2,195 )                           | (1,316 )     |
| Net loss on disposal of fixed assets   | 350                                | —            |
| Purchases of securities owned, at fair value   | (6,000,365 )                       | (4,776,378 ) |
| Proceeds from sales of securities owned, at fair value   | 6,224,311                          | 4,818,865    |
| Proceeds from sales of securities sold, not yet purchased, at fair value                             | 2,442,760                          | 3,487,601    |
| Payments to cover securities sold, not yet purchased, at fair value                                  | (2,472,108 )                       | (3,582,578 ) |
| Net (gains) losses on securities, derivatives and other investments                                  | (30,003 )                          | (33,576 )    |
| Consolidated Funds   |                                    |              |
| Purchases of securities owned, at fair value   | (298,220 )                         | (249,731 )   |
| Proceeds from sales of securities owned, at fair value   | 287,412                            | 252,966      |
| Proceeds from sales of securities sold, not yet purchased, at fair value                             | 42,701                             | —            |
| Payments to cover securities sold, not yet purchased, at fair value                                  | (42,387 )                          | —            |
| Purchases of other investments   | (973 )                             | (8,273 )     |
| Proceeds from sales of other investments   | 39,195                             | 33,795       |
| Net realized and unrealized (gains) losses on investments and other transactions                     | (12,729 )                          | (2,718 )     |
| (Increase) decrease in operating assets:   |                                    |              |
| Cash acquired upon transaction   | 10,747                             | —            |
| Cash collateral pledged  | 143                                | 516          |
| Securities owned, at fair value, held at broker dealer   | 13,144                             | 56,796       |
| Securities borrowed  | (494,476 )                         | —            |
| Receivable from brokers  | 4,628                              | (41,779 )    |
| Fees receivable, net of allowance  | (4,237 )                           | 934          |
| Due from related parties   | (5,636 )                           | 188          |
| Other assets   | (11,207 )                          | 4,158        |
| Consolidated Funds   |                                    |              |
| Cash and cash equivalents  | 2,071                              | (659 )       |
| Other assets   | (362 )                             | 1,290        |
| Increase (decrease) in operating liabilities:  |                                    |              |
| Securities sold, not yet purchased, at fair value, held at broker dealer                             | (8,480 )                           | (13,086 )    |
| Securities loaned  | 484,349                            | —            |
| Payable to brokers   | (39,512 )                          | (10,110 )    |
| Compensation payable   | (34,020 )                          | (46,323 )    |
| Fees payable   | 2,933                              | (587 )       |
| Due to related parties   | (196 )                             | (1,268 )     |
| Accounts payable, accrued expenses and other liabilities   | (10,392 )                          | (4,487 )     |

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|  |           |              |
|--|-----------|--------------|
| Consolidated Funds                                       |           |              |
| Payable to brokers                                       | 1,030     | —            |
| Due to related parties                                   | —         | 25           |
| Accounts payable, accrued expenses and other liabilities | (249      | ) 777        |
| Net cash provided by / (used in) operating activities    | \$122,253 | \$(103,196 ) |

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

|   | Nine Months Ended<br>September 30, |              |
|---|------------------------------------|--------------|
| (continued)   | 2013                               | 2012         |
| Cash flows from investing activities:   |                                    |              |
| Securities purchased under agreement to resell                                      | \$—                                | \$166,260    |
| Purchases of other investments  | (19,406                            | ) (4,291 )   |
| Proceeds from sales of other investments  | 25,668                             | 9,036        |
| Purchase of business, net of cash acquired (Note 2)                                 | —                                  | (10,063 )    |
| Cash paid to acquire net assets (contingent payable)                                | (73                                | ) —          |
| Purchase of fixed assets  | (784                               | ) (1,695 )   |
| Net cash provided by / (used in) investing activities                               | 5,405                              | 159,247      |
| Cash flows from financing activities:   |                                    |              |
| Securities sold under agreement to repurchase                                       | (159,634                           | ) (104,944 ) |
| Borrowings on short-term borrowings and other debt                                  | 2,044                              | —            |
| Repayments on short-term borrowings and other debt                                  | (2,807                             | ) (1,134 )   |
| Purchase of treasury stock  | (2,658                             | ) (8,252 )   |
| Capital contributions by non-controlling interests in operating entities            | 501                                | —            |
| Capital withdrawals to non-controlling interests in operating entities              | (2,282                             | ) (2,717 )   |
| Consolidated Funds  |                                    |              |
| Capital contributions by non-controlling interests in Consolidated Funds            | 11,155                             | —            |
| Capital withdrawals to non-controlling interests in Consolidated Funds              | (18,298                            | ) (12,103 )  |
| Net cash provided by / (used in) financing activities                               | (171,979                           | ) (129,150 ) |
| Change in cash and cash equivalents   | (44,321                            | ) (73,099 )  |
| Cash and cash equivalents at beginning of period                                    | 83,538                             | 128,875      |
| Cash and cash equivalents at end of period  | \$39,217                           | \$55,776     |
| Supplemental non-cash information   |                                    |              |
| Non compete agreements and covenants with limiting conditions acquired (see Note 2) | \$460                              | \$—          |
| Common stock issuance upon close of acquisition (see Note 2)                        | \$6,297                            | \$—          |
| Purchase of treasury stock, at cost, through net settlement (see Note 15)           | \$3,156                            | \$2,652      |
| Re-issuance of treasury stock for services provided                                 | \$65                               | \$—          |
| Net assets transferred to Merger Master (see Note 5)                                | \$22,152                           | \$—          |
| Net assets of consolidated entities   | \$—                                | \$18,521     |
| Net assets of deconsolidated entities   | \$—                                | \$17,104     |

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



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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization and Business

Cowen Group, Inc., a Delaware corporation formed in 2009, is a diversified financial services firm and, together with its consolidated subsidiaries (collectively, "Cowen," "Cowen Group" or the "Company"), provides alternative investment management, investment banking, research, market-making and sales and trading services through its two business segments: alternative investment and broker-dealer. The Company's alternative investment segment includes hedge funds, replication products, mutual funds, managed futures funds, funds of funds, real estate and healthcare royalty funds, offered primarily under the Ramius name. The broker-dealer segment offers research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs"), clean technology, energy, metals and mining, transportation, chemicals and agriculture sectors, primarily under the Cowen name.

2. Acquisitions

On March 11, 2013, the Company completed its acquisition of Dahlman Rose & Company, LLC, a privately-held investment bank specializing in the energy, metals and mining, transportation, chemicals and agriculture sectors. This acquisition was an all-stock transaction. In the aggregate, the purchase price, assets acquired and liabilities assumed were not significant and the near term impact to the Company and its consolidated results of operations and cash flows is not expected to be significant. Dahlman Rose & Company, LLC was subsequently renamed to Cowen Securities LLC ("Cowen Securities"). Post acquisition, Cowen Securities is included in the broker-dealer segment (See Note 17). The Company is in discussions with the sellers regarding certain closing date balance sheet adjustments, resolution of which will potentially impact the purchase price, assets and liabilities recognized and the resulting goodwill. The Company does not believe the impact of these adjustments will be material. The preliminary purchase price allocation of Cowen Securities is based upon all information available to us at the present time, and is based upon management's preliminary estimates of the fair values using valuation techniques including income, cost and market approaches. As of September 30, 2013, the purchase price allocation is preliminary pending the final resolution of the closing date balance sheet adjustments, which the Company expects will occur within twelve months following the acquisition. Upon the completion of the final purchase price allocation, any reallocation of fair values to the assets acquired and liabilities assumed in the acquisitions could have an impact on the amounts recognized on the condensed consolidated statements of financial condition.

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

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 consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010, included in the Form 10-K of Cowen Group as filed with the SEC on March 7, 2013. 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 US GAAP. 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 controlling financial 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 that are not owned by the Company are reflected as redeemable non-controlling interests in consolidated subsidiaries in the accompanying

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

condensed consolidated financial statements. The management fees and incentive income earned by the Company from these funds are eliminated in consolidation.

b. Principles of consolidation

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

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

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

As of September 30, 2013 and December 31, 2012, the Company consolidates the following funds: Ramius Enterprise LP ("Enterprise LP"), Ramius Multi Strategy Master FOF LP ("Multi Strat Master FOF"), Ramius Vintage Multi Strategy Master FOF LP ("Vintage Master FOF"), Ramius Levered Multi Strategy FOF LP ("Levered FOF"), and (effective May 1, 2013) Ramius Merger Fund LLC (the "Merger Fund") (collectively the "Consolidated Funds"). RTS Global 3X was consolidated as of December 31, 2012 but was liquidated on March 31, 2013.

The Company also consolidates three investment companies; RCG Linkem II LLC, formed to make an investment in a wireless broadband communication provider in Italy, Ramius Co-Investment I LLC (formerly known as Cowen Bluebird LLC) and Ramius Co-Investment II LLC (formerly known as RCG Ultragenex Holdings LLC), which were both formed to make investments in biomedical companies that develop innovative gene therapies for severe genetic disorders. The Company determined that RCG Linkem II, LLC, Ramius Co-Investment I LLC and Ramius Co-Investment II LLC are VOE's due to its controlling equity interests held through the managing member and/or affiliates and control exercised by the managing member who is not subject to substantive removal rights.

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

However, the FASB has deferred the application of the revised consolidation model for VIEs that meet the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with investment companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset backed financing entity or an entity that was formerly considered a qualifying special purpose entity. The Company's involvement with its funds is such that all three of the above conditions are met for substantially all of the funds managed by the Company. Where the VIEs have qualified for the deferral, the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Company holds a variable interest is a variable interest entity and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIEs



expected residual returns, or both. If these conditions are met, the Company is considered to be the primary beneficiary of the VIE and thus is required to consolidate it.

The Company reconsiders whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

design of the VIE. As of September 30, 2013 the Company consolidates three VIEs and as of December 31, 2012 the Company does not consolidate any VIEs. As of September 30, 2013, the total net assets of the consolidated VIEs are \$7.1 million. The VIEs act as managing members/general partners and/or investment managers to affiliated fund entities which they sponsor and/or manage. The VIEs are financed through their operations and/or loan agreements with the Company.

As of September 30, 2013 and December 31, 2012, the Company holds a variable interest in Ramius Enterprise Master Fund Ltd (“Enterprise Master”) (the “Unconsolidated Master Fund”) through one of its Consolidated Funds, Enterprise LP. Investment companies, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under US GAAP, are not subject to the consolidation provisions for their investments. Therefore, the Company has not consolidated the Unconsolidated Master Fund.

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

The Company does not consolidate any of these funds or real estate entities that are VIEs as it has concluded that it is not the primary beneficiary in each instance. Fund investors are entitled to all of the economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company's involvement with funds and real estate entities that are unconsolidated VIEs is limited to providing investment management services in exchange for management fees and incentive income. Although the Company may advance amounts and pay certain expenses on behalf of the funds and real estate entities that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services. (See Note 5 for additional disclosures on VIEs)

**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 share of 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 charge when the loss in value is deemed other than temporary.

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

**Retention of Specialized Accounting**—The Consolidated Funds are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these funds pursuant to US GAAP. The Company reports its 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 within net realized and unrealized gains (losses) on investments and other transactions. 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”), ATM Execution (formerly known as Cowen Capital LLC), ATM USA, LLC, and Cowen Equity Finance LP, apply the specialized industry accounting for brokers and dealers in securities also prescribed under US GAAP. The Company also retains specialized accounting in consolidation.

c. Use of estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with US GAAP requires the management of the Company to make estimates and assumptions that affect the fair value of securities and other investments, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accompanying 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

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

estimates. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

d. Valuation of investments and derivative contracts

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

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has

the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including

inputs in markets that are not considered to be active; and

Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little,

if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

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

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

The Company primarily uses the "market approach" to value its financial instruments measured at fair value. In determining an instrument's level within the hierarchy, the Company categorizes 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.

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The election is made on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

The Company has elected the fair value option for its investments through Ramius Co-Investment I LLC (formerly known as Cowen Bluebird LLC), Ramius Co-Investment II LLC (formerly known as RCG Ultragenex Holdings LLC) and certain investments it holds through its operating companies. This option has been elected because the Company believes that it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded.

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

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 trading activity may not be readily visible, consisting primarily of convertible debt, corporate debt and loans, are stated at fair value and classified within level 2. The estimated fair values assigned by management are determined in good faith and are based on available information considering, trading activity, broker quotes, 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. As level 2 investments include positions that are not always traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability.

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

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

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

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

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

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

Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the Company invests in real estate and real estate related investments for which no liquid market exists. The market prices

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

for such investments may be volatile and may not be readily ascertainable. Amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.

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

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

e. Securities borrowed and securities loaned

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. The related rebates are recorded in the statement of operations as interest income and interest expense. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary.

f. 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 September 30, 2013 and December 31, 2012, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with one counterparty as of September 30, 2013 and multiple counterparties as of December 31, 2012. 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 and in accordance with the master netting agreements in place with the counter party. Collateralized Repurchase Agreements may result in credit exposure in the event the counterparties to the transactions are unable to fulfill their contractual obligations. The Company minimizes the credit risk associated with this activity by monitoring credit exposure and collateral values, and by requiring additional collateral to be promptly deposited with or returned to the Company when deemed necessary.

g. Deferred rent

Deferred rent primarily consists of step rent, allowances from landlords and valuing the Company's lease properties in accordance with US GAAP. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received and/or promised to the Company by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. The Company records receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued expenses and other



liabilities in the accompanying condensed consolidated statements of financial condition, as of September 30, 2013 and December 31, 2012 is \$16.2 million and \$13.8 million, respectively.

h. New accounting pronouncements

Recently issued accounting pronouncements

In July 2013, the FASB issued guidance which was directed to eliminate the disparity in practice for the financial statement presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exist. The guidance requires an entity to present the unrecognized tax benefit as a reduction to the deferred tax

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward with certain exceptions. The guidance is effective prospectively for reporting periods beginning after December 15, 2013 for all unrecognized tax benefits that exist at the effective date. Early adoption and retrospective application is also permitted. The Company is currently evaluating the impact of this guidance on the Company's financial condition and results of operations.

In June 2013, the FASB issued guidance which amended the scope, measurement and disclosure requirements for Financial Services - Investment Companies. The guidance among other things changed the definition and criteria used for the investment company assessment. The guidance also require investment companies to measure non-controlling ownership interest in other investment companies at fair value rather than using equity method of accounting and requires certain additional disclosures. The guidance is effective for reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of this guidance on the Company's financial condition and results of operations.

In April 2013, the FASB issued guidance which improved and clarified the requirements as to when an entity should apply the liquidation basis of accounting and provides principles for the recognition and measurement of assets and liabilities. The guidance requires an entity to prepare its financial statements using liquidation basis of accounting when the liquidation is imminent and to present relevant information about entity's resources by measuring and presenting assets and liabilities at the amount of expected cash proceeds and / or settlement amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2013. The Company is currently evaluating the impact of this guidance on the Company's financial condition and the results of operations and its applicability on certain of its affiliated entities.

## 4. Cash collateral pledged

As of September 30, 2013 and December 31, 2012, the Company pledged cash collateral in the amount of \$10.9 million and \$9.2 million, respectively, which relates to letters of credit issued to the landlords of the Company's premises in New York City and San Francisco (see Note 14).

## 5. Investments of Operating Entities and Consolidated Funds

## a. Operating Entities

Securities owned, at fair value

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

As of September 30, 2013 and December 31, 2012, securities owned, at fair value consisted of the following:

|                                | As of September 30,<br>2013 | As of December 31,<br>2012 |
|--------------------------------|-----------------------------|----------------------------|
|                                | (dollars in thousands)      |                            |
| U.S. Government securities (a) | \$3,506                     | \$137,478                  |
| Preferred stock                | 333                         | 2,332                      |
| Common stocks                  | 223,527                     | 259,292                    |
| Convertible bonds (b)          | 4,129                       | 6,202                      |
| Corporate bonds (c)            | 134,827                     | 193,078                    |
| Options                        | 10,974                      | 20,546                     |
| Warrants and rights            | 2,778                       | 2,354                      |
| Mutual funds                   | 525                         | 2,845                      |
|                                | \$380,599                   | \$624,127                  |

As of September 30, 2013, maturities ranged from October 2013 to April 2016 and interest rates ranged between (a)0.02% and 5.95%. As of December 31, 2012, maturities ranged from November 2013 to November 2022 and interest rates ranged between 0.25% and 5.95%.

(b)

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As of September 30, 2013, the maturity was July 2014 with an interest rate of 5.00%. As of December 31, 2012, maturities ranged from May 2014 to July 2014 with an interest rate of 5.00%.

As of September 30, 2013, maturities ranged from December 2013 to February 2046 and interest rates ranged (c) between 2.58% and 11.75%. As of December 31, 2012, maturities ranged from January 2013 to February 2041 and interest rates ranged between 3.09% and 12.50%.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

The Company's direct involvement with derivative financial instruments includes futures, currency forwards, equity swaps and warrants and rights. Open equity positions in futures transactions are recorded as receivables from and payables to broker-dealers or clearing brokers, as applicable. The Company's derivatives trading activities exposes the Company to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, counterparty risk, foreign currency movements and changes in the liquidity of markets. The Company's overall exposure to financial derivatives is limited. The Company's long exposure to futures, currency forwards and equity swaps, at fair value, as of September 30, 2013 and December 31, 2012 of \$0.6 million and \$0.2 million, respectively, is included in other assets in the accompanying condensed consolidated statements of financial condition. The Company's short exposure to futures, currency forwards and equity swaps, at fair value, as of September 30, 2013 and December 31, 2012 of \$0.3 million and \$1.0 million, respectively, is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. The realized and unrealized gains/(losses) related to derivatives trading activities for the three months ended September 30, 2013, and 2012, were \$0.8 million, and \$3.0 million, respectively, and was \$3.1 million and \$5.0 million for the nine months ended September 30, 2013 and 2012, respectively, and are included in other income in the accompanying 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 September 30, 2013 and December 31, 2012, collateral consisting of \$8.9 million and \$6.7 million of cash, respectively, is included in receivable from brokers on the accompanying condensed consolidated statements of financial condition. As of September 30, 2013 and December 31, 2012 all derivative contracts were with multiple major financial institutions.

## Other investments

As of September 30, 2013 and December 31, 2012, other investments consisted of the following:

|  | As of September 30,<br>2013 | As of December 31,<br>2012 |
|--|-----------------------------|----------------------------|
|  | (dollars in thousands)      |                            |
| (1) Portfolio Funds, at fair value         | \$70,813                    | \$55,898                   |
| (2) Real estate investments, at fair value | 2,127                       | 1,864                      |
| (3) Equity method investments              | 24,664                      | 26,462                     |
| (4) Lehman claims, at fair value           | 558                         | 706                        |
|  | \$98,162                    | \$84,930                   |

## (1) Portfolio Funds, at fair value

The Portfolio Funds, at fair value as of September 30, 2013 and December 31, 2012, included the following:

|  | As of September 30,<br>2013 | As of December 31,<br>2012 |
|--|-----------------------------|----------------------------|
|  | (dollars in thousands)      |                            |
| HealthCare Royalty Partners (a)(*)   | \$10,204                    | \$7,866                    |
| HealthCare Royalty Partners II (a)(*)  | 4,510                       | 6,415                      |
| Orchard Square Partners Credit Fund LP (formerly known as Ramius Global Credit Fund LP) (b)(*) | 12,417                      | 14,196                     |
| Tapestry Investment Co PCC Ltd (c)   | 86                          | 194                        |
| Starboard Value and Opportunity Fund LP (d)(*)   | 17,242                      | 15,706                     |
| Formation 8 Partners Fund I (e)  | 2,802                       | 1,500                      |
| RCG LV Park Lane LLC (f)   | 685                         | 708                        |
| RCGL 12E13th LLC (g)   | 400                         | —                          |
| RCG Longview Debt Fund V, L.P. (g)   | 11,679                      | —                          |
| Other private investment (h)   | 8,004                       | 7,826                      |
| Other affiliated funds (i)(*)  | 2,784                       | 1,487                      |

\$70,813

\$55,898

\* These portfolio funds are affiliates of the Company

The Company has no unfunded commitments regarding the portfolio funds held by the Company except as noted in Note 13.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

HealthCare Royalty Partners, L.P. and HealthCare Royalty Partners II, L.P. are private equity funds and therefore (a) distributions will be made when cash flows are received from the underlying investments, typically on a quarterly basis.

Orchard Square Partners Credit Fund LP (formerly known as Ramius Global Credit Fund LP) has a quarterly (b) redemption policy with a 60 day notice period and a 4% penalty on redemptions of investments of less than a year in duration.

Tapestry Investment Company PCC Ltd is in the process of liquidation and redemptions will be made periodically (c) at the investment managers' decision as the underlying investments are liquidated.

(d) Starboard Value and Opportunity Fund LP permits quarterly withdrawals upon 90 days notice.

Formation 8 Partners Fund I is a private equity fund which invests in equity of early stage and growth (e) transformational information and energy technology companies. Distributions will be made when the underlying investments are liquidated.

RCG LV Park Lane LLC is a single purpose entity formed to participate in a joint venture which acquired, at a (f) discount, the mortgage notes on a portfolio of multifamily real estate properties located in Birmingham, Alabama. RCG LV Park Lane LLC is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.

(g) RCGL 12E13th LLC and RCG Longview Debt Fund V, L.P. are real estate private equity structures and therefore distributions will be made when the underlying investments are liquidated.

(h) Other private investment represents the Company's closed end investment in a wireless broadband communication provider in Italy.

(i) The majority of these funds are affiliates of the Company or are managed by the Company and the investors can redeem from these funds as investments are liquidated.

(2) Real estate investments, at fair value

Real estate investments as of September 30, 2013 and December 31, 2012 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 \$2.1 million and \$1.9 million, respectively.

(3) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 20% 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. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) the three HealthCare Royalty Partners General Partners, which serve as the general partners for the Healthcare Royalty Funds, (b) an investment in the CBOE (Chicago Board Options Exchange) Stock Exchange LLC representing a 9.6% stake in the exchange service provider for which the Company exercises significant influence over through representation on the CBOE Board of Directors, and (c) Starboard Value LP (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of a deep value small cap hedge fund and related managed

accounts. The following table summarizes equity method investments held by the Company:

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

|   | As of September 30,<br>2013 | As of December 31,<br>2012 |
|---|-----------------------------|----------------------------|
|   | (dollars in thousands)      |                            |
| RCG Longview Debt Fund IV Management, LLC | \$ 1,594                    | \$ 1,954                   |
| RCG Longview Debt Fund V Partners, LLC    | 1,010                       | —                          |
| HealthCare Royalty GP, LLC                | 832                         | 642                        |
| HealthCare Royalty GP II, LLC             | 764                         | 1,086                      |
| HealthCare Royalty GP III, LLC            | 47                          | —                          |
| CBOE Stock Exchange, LLC                  | 1,810                       | 2,058                      |
| Starboard Value LP                        | 11,692                      | 12,757                     |
| RCG Longview Partners, LLC                | 2,016                       | 1,535                      |
| RCG Longview Louisiana Manager, LLC       | 1,327                       | 1,866                      |
| RCG Urban American, LLC                   | 281                         | 1,380                      |
| RCG Urban American Management, LLC        | 141                         | 545                        |
| RCG Longview Equity Management, LLC       | 230                         | 285                        |
| Urban American Real Estate Fund II, LLC   | 1,612                       | 1,636                      |
| RCG Kennedy House, LLC                    | 428                         | 377                        |
| Other                                     | 880                         | 341                        |
|   | \$24,664                    | \$26,462                   |

As of September 30, 2013 and December 31, 2012, 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. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. 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.

The Company's income (loss) from equity method investments was \$5.2 million and \$1.5 million, for the three months ended September 30, 2013 and 2012, respectively, and was \$12.6 million and \$9.4 million for the nine months ended September 30, 2013 and 2012, 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 and nine months ended September 30, 2013 and 2012, respectively.

For the period ended September 30, 2013, certain of the Company's equity method investments have met the significance criteria as defined under SEC guidance. As such, the Company is required to present summarized income statement information for the significant investees for the three and nine months ended September 30, 2013 and 2012. The summarized income statement information for the Company's investments in the individually significant investees is as follows:

|  | Three Months Ended<br>September 30, |          | Nine Months Ended September<br>30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2013                                | 2012     | 2013                               | 2012     |
|  | (dollars in thousands)              |          |                                    |          |
| Revenues                                   | \$6,821                             | \$3,909  | \$17,746                           | \$16,190 |
| Expenses                                   | (2,266                              | ) (2,785 | ) (6,945                           | ) (7,850 |
| Net realized and unrealized gains (losses) | (16                                 | ) 26     | (116                               | ) 135    |



|                                 |         |         |          |         |
|---------------------------------|---------|---------|----------|---------|
| Net Income                      | \$4,539 | \$1,150 | \$10,685 | \$8,475 |
| (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 which the Company believed were held at LBIE at the time of Administration (the “Total Net Equity Claim”) consisted

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

of \$1.0 million, which the Company believed would represent an unsecured claim against LBIE. On November 2, 2012, the Company executed a Claims Determination Deed with respect to this claim. By entering into this deed, the Company and LBIE reached agreement on the amount of the Company's unsecured claim, which was agreed to be approximately \$0.9 million. As a result of entering into this deed, the Company is entitled to participate in dividends to unsecured creditors of LBIE and at the end of November 2012 the Company received its first dividend in an amount equal to 25.2% of its agreed claim, or approximately \$0.2 million and at the end of June 2013 the Company received its second dividend in an amount equal to 43.3% of its agreed claim, or approximately \$0.4 million. This does not include claims held by the Company against LBIE through its investment in Enterprise Master discussed in Note 5b(2). The Company does not know the timing with respect to future dividends to unsecured creditors or the ultimate value that will be received, although in October 2013 LBIE announced its intention to pay a third interim dividend before the end of 2013. The amount of the dividend has not yet been determined.

Given the fact that LBIE has begun to make distributions to unsecured creditors and the increased trading levels for unsecured claims of LBIE, the Company decided to record the estimated fair value of the Total Net Equity Claim at 127.5% as of September 30, 2013 and at par as of December 31, 2012, which represented 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 recovery that may ultimately be received by the Company with respect to the pending LBIE claim is not known and could be different from the estimated value assigned by the Company. (See Note 5b(2)).

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the 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, at fair value may exceed the amount reflected in the accompanying 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 limitations. As of September 30, 2013 and December 31, 2012 securities sold, not yet purchased, at fair value consisted of the following:

|                     | As of September 30,<br>2013 | As of December 31,<br>2012 |
|---------------------|-----------------------------|----------------------------|
|                     | (dollars in thousands)      |                            |
| Common stocks       | \$ 122,211                  | \$ 168,797                 |
| Corporate bonds (a) | 56                          | 61                         |
| Options             | 8,862                       | 9,076                      |
| Warrants and rights | —                           | 3                          |
|                     | \$ 131,129                  | \$ 177,937                 |

(a) As of September 30, 2013 and December 31, 2012, the maturity was January 2026 with an interest rate of 5.55%. 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 September 30, 2013 and December 31, 2012:

As of September 30,  
2013  
(dollars in thousands)

Securities sold under agreements to repurchase

|  |         |
|--|---------|
| Agreements with Royal Bank of Canada bearing interest of 1.75% due June 2015 to January 2016 | \$6,311 |
|  | \$6,311 |

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

|   | As of December 31,<br>2012<br>(dollars in thousands) |
|---|--|
| Securities sold under agreements to repurchase  |  |
| Agreements with Royal Bank of Canada bearing interest of 2.12% - 2.2% due January 31, 2013 to June 25, 2013 | \$29,039   |
| Agreements with Barclays Capital Inc bearing interest of (0.05%) - 0.23% due January 1, 2013                | 136,906  |
|   | \$165,945  |

For all of the Company's holdings of repurchase agreements as of September 30, 2013, the repurchase dates are open and the agreement can be terminated by either party at any time. The agreements rolls over on a day-to-day basis. Transactions involving the sale of securities under repurchase agreements are carried at their contract value, which approximates fair value, and are accounted for as collateralized financings. In connection with these financings, as of September 30, 2013 and December 31, 2012, the Company had pledged collateral, consisting of government and corporate bonds, in the amount of \$7.7 million and \$173.7 million, respectively, which is included in securities owned, at fair value in the accompanying condensed consolidated statements of financial condition.

Securities lending and borrowing transactions

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. The related rebates are recorded in the statement of operations as interest income and interest expense. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary.

Fees and interest received or paid are recorded in interest and dividend income and interest expense, respectively, on an accrual basis. In the case where the fair value basis of accounting is elected, any resulting change in fair value is reported in trading revenues. Accrued interest income and expense are recorded in the same manner as under the accrual method. At September 30, 2013 and December 31, 2012, the Company does not have any securities lending transactions for which fair value basis of accounting was elected.

As of September 30, 2013, the Company has loaned to brokers and dealers, securities having a market value of \$856.3 million. In addition, as of September 30, 2013, the Company has borrowed from brokers and dealers, securities having a market value of \$866.7 million.

Variable Interest Entities

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 \$1.6 billion and \$228.3 million as of September 30, 2013 and \$1.4 billion and \$22.8 million as of December 31, 2012, respectively. In addition, the maximum exposure relating to these variable interest entities as of September 30, 2013 was \$205.8 million, and as of December 31, 2012 was \$220.9 million, all of which is included in other investments, at fair value in the Company's condensed consolidated statements of financial condition. The exposure to loss primarily relates to the Consolidated Feeder Funds' investment in their Unconsolidated Master Funds as of September 30, 2013 and December 31, 2012.

b. Consolidated FundsSecurities owned, at fair value

As of September 30, 2013 the Company held no securities owned, at fair value, held by the Consolidated Funds. As of December 31, 2012 securities owned, at fair value, held by the Consolidated Funds are comprised of:

|                                     | As of December 31,<br>2012<br>(dollars in thousands) |
|-------------------------------------|--|
| Government sponsored securities (a) | \$1,911  |

Commercial paper (b)

1,614  
\$3,525

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

(a) As of December 31, 2012, maturities ranged from August 2013 to December 2014 and interest rates ranged between 0.28% and 4.00%.

(b) As of December 31, 2012, commercial paper was purchased at a discount and matures on January 2, 2013.

Other investments, at fair value

As of September 30, 2013 and December 31, 2012 other investments, at fair value, held by the Consolidated Funds are comprised of:

|                     | As of September 30,<br>2013 | As of December 31,<br>2012 |
|---------------------|-----------------------------|----------------------------|
|                     | (dollars in thousands)      |                            |
| (1) Portfolio Funds | \$ 183,727                  | \$ 190,081                 |
| (2) Lehman claims   | 16,483                      | 14,124                     |
|                     | \$ 200,210                  | \$ 204,205                 |

(1) Investments in Portfolio Funds, at fair value

As of September 30, 2013 and December 31, 2012, investments in Portfolio Funds, at fair value, included the following:

|   | As of September 30,<br>2013 | As of December 31,<br>2012 |
|---|-----------------------------|----------------------------|
|   | (dollars in thousands)      |                            |
| Investments of Enterprise LP              | \$ 154,363                  | \$ 173,348                 |
| Investments of Merger Fund                | 22,641                      | —                          |
| Investments of consolidated fund of funds | 6,723                       | 16,733                     |
|   | \$ 183,727                  | \$ 190,081                 |

Consolidated investments of Enterprise LP

Enterprise LP operates under a “master-feeder” structure, whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate Fund, L.P. The consolidated investments in Portfolio Funds include Enterprise LP's investment of \$154.4 million and \$173.3 million in Enterprise Master as of September 30, 2013 and December 31, 2012, 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.

Consolidated investments of Merger Fund

Effective August 1, 2013, the Merger Fund operates under a “master-feeder” structure, whereby Ramius Merger Master Ltd's ("Merger Master") shareholders are Merger Fund and Ramius Merger Fund Ltd. The consolidated investments in Portfolio Funds include Merger Fund's investment of \$22.6 million in Merger Master as of September 30, 2013. The Merger Master's investment objective is to achieve consistent absolute returns while emphasizing the preservation of investor capital. The Merger Master seeks to achieve these objectives by taking a fundamental, research-driven approach to investing, primarily in the securities of issuers engaged in, or subject to, announced (or unannounced but otherwise anticipated) extraordinary corporate transactions, which may include, but are not limited to, mergers, acquisitions, leveraged buyouts, tender offers, hostile takeover bids, sale processes, exchange offers, and recapitalizations. Merger Master invests in the securities of one or more issuers engaged in or subject to announced (or

unannounced but otherwise anticipated) extraordinary corporate transactions, which may include, but are not limited to, mergers, acquisitions, leveraged buyouts, tender offers, hostile takeover bids, sale processes, exchange offers, and recapitalizations. Merger Master typically seeks to derive a profit by realizing the price differential, or “spread,” between the market price of securities purchased or sold short and the market price or value of securities realized in connection with the completion or termination of the extraordinary corporate transaction, or in connection with the adjustment of market prices in anticipation thereof, while seeking to minimize the market risk associated with the

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

aforementioned investment activities. Merger Master will, depending on markets conditions, generally focus the majority of its investment program on announced transactions. If the investment manager of Merger Master considers it necessary, it may either alone or as part of a group, also initiate shareholder actions seeking to maximize value. Such shareholder actions may include, but are not limited to, re-orienting management's focus or initiating the sale of the company (or one or more of its divisions) to a third party. There are no unfunded commitments at Merger Fund.

Investments of consolidated fund of funds investment companies

The investments of the consolidated fund of funds investment companies are \$6.7 million and \$16.7 million as of September 30, 2013 and December 31, 2012, respectively. These investments include the investments of Levered FOF, Multi-Strat Master FOF and Vintage Master FOF, all of which are investment companies managed by Ramius Alternative Solutions LLC and RTS Global 3X, which was managed by Ramius Trading Strategies LLC. Multi-Strat Master FOF's investment objective 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 Master 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. Levered FOF, Multi-Strat Master FOF and Vintage Master FOF are all in liquidation. RTS Global 3X was consolidated as of December 31, 2012 but was liquidated on March 31, 2013. As such it holds no investments as of September 30, 2013. RTS Global 3X's investment objective was 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 sought 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 allocated 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 consolidated fund of funds, at fair value, as of September 30, 2013 and December 31, 2012:

|                                    |               | Fair Value as of September 30, 2013           |  |   |                             |             |
|------------------------------------|---------------|---|--|---|-----------------------------|-------------|
|                                    | Strategy      | Ramius<br>Levered<br>Multi-Strategy<br>FOF LP | Ramius<br>Multi-Strategy<br>Master<br>FOF LP | Ramius<br>Vintage<br>Multi-Strategy<br>Master<br>FOF LP | Total                       |             |
| (dollars in thousands)             |               |   |  |   |                             |             |
| Tapestry Pooled Account V LLC*     | Credit-Based  | \$254   | \$524  | \$559   | \$1,337                     | (a)         |
| Externally Managed Portfolio Funds | Event Driven  | 1,015   | 1,522  | 2,145   | 4,682                       | (c)         |
| Externally Managed Portfolio Funds | Hedged Equity | —   | —  | 704   | 704                         | (d)         |
|                                    |               | \$1,269                                       | \$2,046                                      | \$3,408   | \$6,723                     |             |
| Fair value as of December 31, 2012 |               |   |  |   |                             |             |
|                                    | Strategy      | Ramius<br>Levered<br>Multi-Strategy<br>FOF LP | Ramius<br>Multi-Strategy<br>Master<br>FOF LP | Ramius<br>Vintage<br>Multi-Strategy<br>Master<br>FOF LP | RTS<br>Global 3X<br>Fund LP | Total       |
| (dollars in thousands)             |               |   |  |   |                             |             |
| Tapestry Pooled Account V LLC*     | Credit-Based  | \$315   | \$649  | \$693   | \$—                         | \$1,657 (a) |



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|   |                           |         |          |         |         |          |     |
|---|---------------------------|---------|----------|---------|---------|----------|-----|
| Independently Advised<br>Portfolio Funds* | Futures &<br>Global Macro | —       | —        | —       | 7,161   | 7,161    | (b) |
| Externally Managed<br>Portfolio Funds     | Event Driven              | 1,545   | 2,316    | 3,264   | —       | 7,125    | (c) |
| Externally Managed<br>Portfolio Funds     | Hedged Equity             | —       | —        | 790     | —       | 790      | (d) |
|   |                           | \$1,860 | \$ 2,965 | \$4,747 | \$7,161 | \$16,733 |     |

\* These Portfolio Funds are affiliates of the Company.

As of September 30, 2013, the Company has no unfunded commitments regarding investments held by the three consolidated fund of funds.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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.

- (a) The investments held in Tapestry Pooled Account V LLC, a related fund, are held solely in a credit based fund which the underlying 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.

The Futures and Global Macro strategy was comprised of several portfolio accounts, each of which was advised independently by a commodity trading advisor implementing primarily managed futures or global macro-based investment strategies. The trading advisors (through their respective portfolio accounts) traded independently of each other and, as a group, employed a wide variety of systematic, relative value and discretionary trading

- (b) programs in the global currency, fixed income, commodities and equity futures markets. In implementing their trading programs, the trading advisors traded primarily in the futures and forward markets (as well as in related options). Although certain trading advisors were permitted to use total return swaps and trade other financial instruments from time to time on an interim basis, the primary focus was on the futures and forward markets.

Redemption frequency of these portfolio accounts were monthly (and intra month for a \$10,000 fee) and the notification period for redemptions was 5 business days (or 3 business days for intra month redemptions).

- (c) The Event Driven strategy is generally implemented through various combinations and permutations of merger arbitrage, restructuring and distressed instruments. The investments in this category are primarily in a side pocket or suspended with undetermined payout dates.

- (d) 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.

(2) Lehman Claims, at fair value

With respect to the aforementioned Lehman claims, the Total Net Equity Claim of Enterprise Master based on the value of assets at the time of Lehman's insolvency held directly by Enterprise Master and through Enterprise Master's ownership interest in affiliated funds consisted 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. In December 2011, Enterprise Master received an aggregate of approximately \$2.4 million relating to securities, interest and dividends earned with respect to securities held by LBIE on behalf of Enterprise Master and its affiliated funds. A distribution of \$2.9 million occurred in February of 2012. After giving effect of these distributions, the remaining Net Equity Claim for Enterprise Master held directly and through its ownership interest in affiliated funds is \$12.4 million. On November 2, 2012, Enterprise Master executed a Claims Determination Deed with respect to the unsecured portion of its direct claim against LBIE. By entering into this deed, Enterprise Master and LBIE reached agreement on the amount of Enterprise Master's unsecured claim, which was agreed to be approximately \$1.3 million. As a result of entering into this deed, Enterprise Master is entitled to participate in dividends to unsecured creditors of LBIE and at the end of November 2012 Enterprise Master received its first dividend in an amount equal to 25.2% of its agreed claim, or approximately \$0.3 million. In February 2013, Enterprise Master sold its unsecured claim, including the amount received in connection with the first dividend, for \$1.3 million, or par. Enterprise Master distributed the proceeds of the sale to the Company in March 2013. Enterprise Master is valuing the \$11.7 million claim at \$20.7 million as of September 30, 2013. Of the \$20.7 million current valuation of Enterprise Master's claim, \$16.5 million was attributable to Enterprise LP based on its ownership percentage in Enterprise Master at the time of the Administration. Of the \$11.7 million net equity claim, \$10.6 million represents claims to trust assets that the Company believes were held by LBIE through Lehman Brothers, Inc. ("LBI"). LBIE has made a corresponding claim for these assets and other trust assets held at LBI by LBIE on behalf of other prime brokerage clients pursuant to an omnibus customer claim (the "LBIE Omnibus Customer Claim"). LBIE was only going to be able to return trust assets held at LBI to Enterprise Master

once LBIE received a distribution from LBI in respect of the LBIE Omnibus Customer Claim. In February 2013, LBIE, Lehman Brothers Holdings, Inc. and LBI announced that they entered into two separate agreements settling all intercompany claims between LBI on the one part, and LBHI and LBIE on the other part. The settlement agreements were subject to the approval by the U.S. Bankruptcy Judge in the LBI Securities Investor Protection Act (SIPA) proceeding and, in the case of the agreement between LBI and LBIE, an order of the English High Court. The U.S. Bankruptcy Judge approved the settlement agreement in April 2013 and the English High Court issued an order approving the settlement in May 2013. The settlements allowed the trustee appointed under SIPA (the "SIPA Trustee") to proceed with plans to allocate and distribute sufficient cash and securities to LBI's customer claimants, including LBIE with respect to the LBIE Omnibus Customer Claim, to enable the SIPA Trustee to satisfy valid customer claims in full. In March 2013, LBIE made a

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Notes to Condensed Consolidated Financial Statements (Continued)

consensual proposal to the clients holding trust assets pursuant to the LBIE Omnibus Customer Claim to facilitate the return of the amounts recovered from LBI with respect to the LBIE Omnibus Customer Claim. Under the consensual proposal, LBIE indicated that it intended to liquidate any securities received from LBI with respect to the LBIE Omnibus Customer Claim and then allocate the value received from LBI among all of the LBIE clients who had trust assets held at LBI under the LBIE Omnibus Customer Claim. In allocating the amounts received from LBI, LBIE indicated that it intended to allow clients to determine their entitlements on a portfolio basis based on the higher of (i) the market value of the portfolio as of September 19, 2008 or (ii) the market value of the portfolio together with accrued income thereon as of November 30, 2012 (the "Best Claim"). LBIE's purpose in seeking a consensual arrangement with its clients relating to the liquidation and allocation described above was to ensure that a distribution could be made without having to seek UK court direction on these issues, which would otherwise have substantially delayed any distribution. On April 2, 2013, LBIE announced that the consensual proposal had been accepted by a sufficient number of clients to satisfy the acceptance threshold and would therefore become effective. The settlement agreement between LBI and LBIE also became effective and LBIE announced in June 2013 that it had recovered the majority of the cash and securities from LBI and that it has liquidated approximately 90% of the aggregate value of securities received or to be received from LBI and that it intends to make its first distribution to trust asset claimants at the end of September 2013. On September 26, 2013, LBIE announced that it had made a first interim distribution to trust claimants of 100% of the claimant's Best Claim amount. As previously announced by LBIE, LBIE has requested guidance from the US Internal Revenue Service ("IRS") with regard to the character and source of the settlement payments. In order to balance LBIE's objective of making a significant distribution to claimants with the requirement to pay the appropriate US withholding tax in respect of distributions, as an interim solution LBIE deposited 30% of the gross distribution to claimants with the IRS as a reserve, except with respect to claimants who provided LBIE with validly executed Form W-9. Once the appropriate US withholding tax treatment of the distributions is finally determined by the IRS, LBIE expects to be in a position to promptly receive back funds and release any excess reserves back to the appropriate claimants. The amount of the distribution received by Enterprise Master on September 26, 2013 was \$14.9 million, with \$1 million reserved by LBIE in respect of the withholding described above. As of September 30, 2013, after giving effect to the receipt of the distribution described above, the Company is valuing Enterprise Master's remaining trust asset claim at 105% of its Best Claim, or \$0.8 million. In addition to Enterprise Master's claims against LBIE, LBI was a prime broker to Enterprise Master and Enterprise Master held cash balances of \$4.9 million at LBI. These are not part of the LBIE Omnibus Customer Claim. 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 settlement agreements between LBI, LBHI and LBIE discussed above have permitted the trustee appointed under the Securities Investor Protection Act (the "SIPA Trustee") to make distributions to LBI customers and the SIPA Trustee announced that it expected to be able to make 100% distributions to its customers. In July 2013, Enterprise Master received a distribution of \$4.9 million from LBI in respect of this claim.

The remaining components of the LBIE claims included within the \$20.7 million value as of September 30, 2013 consist of several components 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") and (b) the foreign denominated trust assets that are not within the control of LBIE (which the Company does not believe are held through LBI), were valued at \$4.7 million, which represents the market value of those assets less a 1% discount that corresponds to the fee charged under the CRA, which represented the Company's estimate of potential recovery rates. 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 significant.

As a result of Enterprise Master and certain of the funds managed by the Company having assets 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 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.

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## 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 September 30, 2013 and December 31, 2012, the Company assessed whether or not its Consolidated Funds 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 September 30, 2013 or December 31, 2012.

## Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

## Enterprise Master

Enterprise LP's investment in Enterprise Master represents Enterprise LP's proportionate 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 September 30, 2013 and December 31, 2012:

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

|                  | As of September 30,<br>2013 | As of December 31,<br>2012 |
|------------------|-----------------------------|----------------------------|
|                  | (dollars in thousands)      |                            |
| Bank debt        | \$5                         | \$79                       |
| Common stock     | 2,703                       | 2,680                      |
| Preferred stock  | 997                         | 997                        |
| Private equity   | 309                         | 297                        |
| Restricted stock | 137                         | 26                         |
| Rights           | 2,455                       | 1,714                      |
| Trade claims     | 128                         | 128                        |
| Warrants         | —                           | 2                          |
|                  | \$6,734                     | \$5,923                    |

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

| Description       | As of September 30,<br>2013 | As of December 31,<br>2012 |
|-------------------|-----------------------------|----------------------------|
|                   | (dollars in thousands)      |                            |
| Currency forwards | \$(7                        | ) \$6                      |
|                   | \$(7                        | ) \$6                      |

Portfolio Funds, owned by Enterprise Master, at fair value

|  |                         | As of September 30,<br>2013 | As of December 31,<br>2012 |
|--|-------------------------|-----------------------------|----------------------------|
|  |                         | (dollars in thousands)      |                            |
| RCG Longview Equity Fund, LP*              | Strategy<br>Real Estate | \$10,599                    | \$11,027                   |
| RCG Longview II, LP*                       | Real Estate             | 819                         | 970                        |
| RCG Longview Debt Fund IV, LP*             | Real Estate             | 18,362                      | 30,572                     |
| RCG Longview, LP*                          | Real Estate             | 332                         | 265                        |
| RCG Soundview, LLC*                        | Real Estate             | 446                         | 2,374                      |
| RCG Urban American Real Estate Fund, L.P.* | Real Estate             | 1,936                       | 1,987                      |
| RCG International Sarl*                    | Multi-Strategy          | 1,700                       | 752                        |
| RCG Special Opportunities Fund, Ltd*       | Multi-Strategy          | 83,418                      | 80,166                     |
| RCG Endeavour, LLC*                        | Multi-Strategy          | 32                          | 43                         |
| RCG Energy, LLC *                          | Energy                  | 3,363                       | 14,239                     |

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|                           |             |           |           |
|---------------------------|-------------|-----------|-----------|
| RCG Renegys, LLC*         | Energy      | 1         | 1         |
| Other Private Investments | Various     | 12,396    | 12,430    |
| Real Estate Investments   | Real Estate | 14,970    | 12,321    |
|                           |             | \$148,374 | \$167,147 |

\*These Portfolio Funds are affiliates of the Company.

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Notes to Condensed Consolidated Financial Statements (Continued)

## Merger Master

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

|                    | As of September 30,<br>2013<br>(dollars in thousands) |
|--------------------|---|
| Common stocks      | \$29,408  |
| Corporate bond (a) | 9,580   |
| Options            | 376   |
|                    | \$39,364  |

(a) As of September 30, 2013, maturities ranged from October 2018 to October 2020 and interest rates ranged between 7.75% and 8.13% .

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

| Description | As of September 30,<br>2013<br>(dollars in<br>thousands) |
|-------------|--|
| Equity swap | \$43   |
| Cross rate  | (3 )   |
|             | \$40   |

## RTS Global 3X Fund LP's Portfolio Fund investments

RTS Global 3X invested over half of its equity in six externally managed portfolio funds which primarily concentrated on futures and global macro strategies. RTS Global 3X's investments in the portfolio funds represented its proportionate share of the portfolio funds net assets; as a result, the portfolio funds' investments reflected below may exceed the net investment which RTS Global 3X had recorded. RTS Global 3X was consolidated as of December 31, 2012 but was liquidated on March 31, 2013. As such it holds no investments as of September 30, 2013. The following table presents the summarized investment information, which primarily consisted of receivables/(payables) on derivatives, for the underlying Portfolio Funds held by RTS Global 3X, at fair value, as of December 31, 2012:

|                       | As of December 31,<br>2012<br>(dollars in<br>thousands) |
|-----------------------|---|
| Bond futures          | \$489   |
| Commodity forwards    | (659 )  |
| Commodity futures     | 47  |
| Currency forwards     | 202   |
| Currency futures      | 264   |
| Energy futures        | 239   |
| Equity future         | (27 )   |
| Index futures         | (257 )  |
| Interest rate futures | 40  |
|                       | \$338   |





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Notes to Condensed Consolidated Financial Statements (Continued)

## 6. Fair Value Measurements for Operating Entities and Consolidated Funds

The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the accompanying condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of September 30, 2013 and 2012:

## Operating Entities

|  | Assets at Fair Value as of September 30, 2013      |                        |          | Total     |
|--|--|------------------------|----------|-----------|
|  | Level 1  | Level 2                | Level 3  |           |
|  |  | (dollars in thousands) |          |           |
| Securities owned and derivatives                   |  |                        |          |           |
| US Government securities                           | \$3,506  | \$—                    | \$—      | \$3,506   |
| Preferred stock                                    | —  | —                      | 333      | 333       |
| Common stocks                                      | 219,315  | 2,103                  | 2,109    | 223,527   |
| Convertible bonds                                  | —  | 4,129                  | —        | 4,129     |
| Corporate bonds                                    | —  | 134,827                | —        | 134,827   |
| Futures  | 263  | —                      | —        | 263       |
| Currency forwards                                  | —  | 49                     | —        | 49        |
| Equity swaps                                       | —  | 276                    | —        | 276       |
| Options  | 10,965   | 9                      | —        | 10,974    |
| Warrants and rights                                | 111  | —                      | 2,667    | 2,778     |
| Mutual funds                                       | 525  | —                      | —        | 525       |
| Other investments                                  |  |                        |          |           |
| Portfolio Funds                                    | —  | 19,110                 | 51,703   | 70,813    |
| Real estate investments                            | —  | —                      | 2,127    | 2,127     |
| Lehman claim                                       | —  | —                      | 558      | 558       |
|  | \$234,685  | \$160,503              | \$59,497 | \$454,685 |
|  | Liabilities at Fair Value as of September 30, 2013 |                        |          |           |
|  | Level 1  | Level 2                | Level 3  | Total     |
|  | (dollars in thousands)                             |                        |          |           |
| Securities sold, not yet purchased and derivatives |  |                        |          |           |
| Common stocks                                      | \$122,211  | \$—                    | \$—      | \$122,211 |
| Corporate bonds                                    | —  | 56                     | —        | 56        |
| Futures  | 160  | —                      | —        | 160       |
| Currency forwards                                  | —  | 105                    | —        | 105       |
| Equity swaps                                       | —  | 4                      | —        | 4         |
| Options  | 8,603  | 259                    | —        | 8,862     |
|  | \$130,974  | \$424                  | \$—      | \$131,398 |

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Notes to Condensed Consolidated Financial Statements (Continued)

|  | Assets at Fair Value as of December 31, 2012      |            |            | Total      |
|--|---|------------|------------|------------|
|  | Level 1   | Level 2    | Level 3    |            |
|  | (dollars in thousands)                            |            |            |            |
| Securities owned and derivatives                   |   |            |            |            |
| US Government securities                           | \$ 137,478  | \$—        | \$—        | \$ 137,478 |
| Preferred stock                                    | —   | —          | 2,332      | 2,332      |
| Common stocks                                      | 254,606   | 2,137      | 2,549      | 259,292    |
| Convertible bonds                                  | —   | 6,202      | —          | 6,202      |
| Corporate bonds                                    | —   | 192,563    | 515        | 193,078    |
| Currency forwards                                  | —   | 202        | —          | 202        |
| Options  | 18,273  | 2,273      | —          | 20,546     |
| Warrants and rights                                | 641   | —          | 1,713      | 2,354      |
| Mutual funds                                       | 2,845   | —          | —          | 2,845      |
| Other investments                                  |   |            |            |            |
| Portfolio Funds                                    | —   | 30,228     | 25,670     | 55,898     |
| Real estate investments                            | —   | —          | 1,864      | 1,864      |
| Lehman claim                                       | —   | —          | 706        | 706        |
|  | \$ 413,843  | \$ 233,605 | \$ 35,349  | \$ 682,797 |
|  | Liabilities at Fair Value as of December 31, 2012 |            |            |            |
|  | Level 1   | Level 2    | Level 3    | Total      |
|  | (dollars in thousands)                            |            |            |            |
| Securities sold, not yet purchased and derivatives |   |            |            |            |
| Common stocks                                      | \$ 168,797  | \$—        | \$—        | \$ 168,797 |
| Corporate bonds                                    | —   | 61         | —          | 61         |
| Futures  | 370   | —          | —          | 370        |
| Currency forwards                                  | —   | 603        | —          | 603        |
| Options  | 8,990   | 86         | —          | 9,076      |
| Warrants and rights                                | —   | —          | 3          | 3          |
|  | \$ 178,157  | \$ 750     | \$ 3       | \$ 178,910 |
| Consolidated Funds' investments                    |   |            |            |            |
|  | Assets at Fair Value as of September 30, 2013     |            |            |            |
|  | Level 1   | Level 2    | Level 3    | Total      |
|  | (dollars in thousands)                            |            |            |            |
| Other investments                                  |   |            |            |            |
| Portfolio Funds                                    | \$—   | \$ 22,641  | \$ 161,086 | \$ 183,727 |
| Lehman claims                                      | —   | —          | 16,483     | 16,483     |
|  | \$—   | \$ 22,641  | \$ 177,569 | \$ 200,210 |

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Notes to Condensed Consolidated Financial Statements (Continued)

|                          | Assets at Fair Value as of December 31, 2012 |         |           | Total     |
|--------------------------|--|---------|-----------|-----------|
|                          | Level 1                                      | Level 2 | Level 3   |           |
|                          | (dollars in thousands)                       |         |           |           |
| Securities owned         |  |         |           |           |
| US Government securities | \$1,911                                      | \$—     | \$—       | \$1,911   |
| Commercial paper         | —  | 1,614   | —         | 1,614     |
| Other investments        |  |         |           |           |
| Portfolio Funds          | —  | 7,161   | 182,920   | 190,081   |
| Lehman claims            | —  | —       | 14,124    | 14,124    |
|                          | \$1,911                                      | \$8,775 | \$197,044 | \$207,730 |

The following table includes a rollforward of the amounts for the three and nine months ended September 30, 2013 and 2012 for financial instruments classified within level 3. The classification of a financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

|   | Three Months Ended September 30, 2013 |              |               |                       |                    |                         |                           | Balance at September 30, 2013 |
|---|---------------------------------------|--------------|---------------|-----------------------|--------------------|-------------------------|---------------------------|-------------------------------|
|   | Balance at June 30, 2013              | Transfers in | Transfers out | Purchases/(coverages) | (Sales)/shortfalls | Realized gains (losses) | Unrealized gains (losses) |                               |
|   | (dollars in thousands)                |              |               |                       |                    |                         |                           |                               |
| Operating Entities                          |                                       |              |               |                       |                    |                         |                           |                               |
| Preferred stock                             | \$333                                 | \$—          | \$—           | \$—                   | \$—                | \$—                     | \$333                     |                               |
| Common stocks                               | 2,273                                 | —            | —             | —                     | (2)                | (162)                   | 2,109                     |                               |
| Warrants and Rights                         | 2,136                                 | —            | —             | —                     | —                  | 531                     | 2,667                     |                               |
| Portfolio Funds                             | 43,343                                | —            | —             | 6,491                 | (289)              | 712                     | 51,703                    |                               |
| Real estate                                 | 2,158                                 | —            | —             | —                     | —                  | (31)                    | 2,127                     |                               |
| Lehman claim                                | 278                                   | —            | —             | —                     | —                  | 280                     | 558                       |                               |
| Consolidated Funds                          |                                       |              |               |                       |                    |                         |                           |                               |
| Portfolio Funds                             | 177,848                               | —            | —             | —                     | (17,886)           | 185                     | 161,086                   |                               |
| Lehman claim                                | 15,434                                | —            | —             | —                     | —                  | 1,049                   | 16,483                    |                               |
|   | (dollars in thousands)                |              |               |                       |                    |                         |                           |                               |
|   | Three Months Ended September 30, 2012 |              |               |                       |                    |                         |                           | Balance at September 30, 2012 |
|   | Balance at June 30, 2012              | Transfers in | Transfers out | Purchases/(coverages) | (Sales)/shortfalls | Realized gains (losses) | Unrealized gains (losses) |                               |
|   | (dollars in thousands)                |              |               |                       |                    |                         |                           |                               |
| Operating Entities                          |                                       |              |               |                       |                    |                         |                           |                               |
| Preferred stock                             | \$240                                 | \$—          | \$—           | \$2,000               | \$—                | \$—                     | \$240                     |                               |
| Common stocks                               | 719                                   | —            | —             | —                     | —                  | (33)                    | 686                       |                               |
| Warrants and Rights                         | 2,844                                 | —            | —             | 341                   | —                  | 877                     | 4,062                     |                               |
| Warrants and Rights, sold not yet purchased | 3                                     | —            | —             | —                     | —                  | (3)                     | —                         |                               |
| Portfolio Funds                             | 19,876                                | —            | —             | 320                   | (361)              | (48)                    | 20,493                    |                               |
| Real estate                                 | 2,079                                 | —            | —             | —                     | —                  | 23                      | 2,102                     |                               |
| Lehman claim                                | 731                                   | —            | —             | —                     | —                  | 30                      | 761                       |                               |
| Consolidated Funds                          |                                       |              |               |                       |                    |                         |                           |                               |
| Portfolio Funds                             | 209,507                               | —            | —             | —                     | (19,233)           | 182                     | 187,797                   |                               |
| Lehman claim                                | 6,538                                 | —            | —             | —                     | —                  | 322                     | 6,860                     |                               |



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|   | Nine Months Ended September 30, 2013 |                 |                  |                                    |                               |                                 |                                     |         |
|---|--------------------------------------|-----------------|------------------|------------------------------------|-------------------------------|---------------------------------|-------------------------------------|---------|
|   | Balance at<br>December 31,<br>2012   | Transfers<br>in | Transfers<br>out | Purchases/(cover-<br>(Sales)/short | Realized<br>gains<br>(losses) | Unrealized<br>gains<br>(losses) | Balance at<br>September 30,<br>2013 |         |
|   | (dollars in thousands)               |                 |                  |                                    |                               |                                 |                                     |         |
| <b>Operating Entities</b>                         |                                      |                 |                  |                                    |                               |                                 |                                     |         |
| Preferred stock                                   | \$2,332                              | \$—             | \$(2,000) (e)    | \$ —                               | \$ —                          | \$—                             | \$1                                 | \$ 333  |
| Common stocks                                     | 2,549                                | —               | —                | —                                  | (275 )                        | 260                             | (425 )                              | 2,109   |
| Corporate Bond                                    | 515                                  | —               | —                | 2,735                              | (3,346 )                      | (914 )                          | 1,010                               | —       |
| Warrants and Rights                               | 1,713                                | 290             | (c) —            | 166                                | (110 )                        | —                               | 608                                 | 2,667   |
| Warrants and Rights,<br>sold not yet<br>purchased | 3                                    | —               | —                | —                                  | —                             | (4 )                            | 1                                   | —       |
| Portfolio Funds                                   | 25,670                               | 13,128 (f)      | —                | 16,560                             | (7,821 )                      | (375 )                          | 4,541                               | 51,703  |
| Real estate                                       | 1,864                                | —               | —                | —                                  | —                             | —                               | 263                                 | 2,127   |
| Lehman claim                                      | 706                                  | —               | —                | —                                  | (382 )                        | —                               | 234                                 | 558     |
| <b>Consolidated Funds</b>                         |                                      |                 |                  |                                    |                               |                                 |                                     |         |
| Portfolio Funds                                   | 182,920                              | —               | —                | —                                  | (27,835 )                     | 505                             | 5,496                               | 161,086 |
| Lehman claim                                      | 14,124                               | —               | —                | —                                  | (1,449 )                      | 1,360                           | 2,448                               | 16,483  |

|   | Nine Months Ended September 30, 2012 |                 |                  |                                    |                               |                                 |                                     |          |
|---|--------------------------------------|-----------------|------------------|------------------------------------|-------------------------------|---------------------------------|-------------------------------------|----------|
|   | Balance at<br>December 31,<br>2011   | Transfers<br>in | Transfers<br>out | Purchases/(cover-<br>(Sales)/short | Realized<br>gains<br>(losses) | Unrealized<br>gains<br>(losses) | Balance at<br>September 30,<br>2012 |          |
|   | (dollars in thousands)               |                 |                  |                                    |                               |                                 |                                     |          |
| <b>Operating Entities</b>                         |                                      |                 |                  |                                    |                               |                                 |                                     |          |
| Preferred stock                                   | \$250                                | \$—             | \$—              | \$ 2,000                           | \$ —                          | \$—                             | \$ 24                               | \$ 2,274 |
| Common stocks                                     | 819                                  | —               | —                | —                                  | (6 )                          | 6                               | (133 )                              | 686      |
| Warrants and Rights                               | 1,534                                | —               | (88 ) (b)        | 623                                | (65 )                         | 56                              | 2,002                               | 4,062    |
| Warrants and<br>Rights, sold not yet<br>purchased | —                                    | —               | (1,004) (d)      | (306 )                             | 982                           | (38 )                           | 366                                 | —        |
| Portfolio Funds                                   | 16,919                               | —               | —                | 3,171                              | (1,175 )                      | (41 )                           | 1,619                               | 20,493   |
| Real estate                                       | 2,353                                | —               | —                | 152                                | (501 )                        | —                               | 98                                  | 2,102    |
| Lehman claim                                      | 553                                  | —               | —                | —                                  | —                             | —                               | 208                                 | 761      |
| <b>Consolidated Funds</b>                         |                                      |                 |                  |                                    |                               |                                 |                                     |          |
| Portfolio Funds                                   | 213,402                              | 16,227 (a)      | (17,151) (a)     | 434                                | (24,259 )                     | (1,510)                         | 654                                 | 187,797  |
| Lehman claim                                      | 7,340                                | —               | —                | —                                  | (2,291 )                      | 1,914                           | (103 )                              | 6,860    |

(a) Change in consolidated funds (from master-feeder to stand alone funds).

(b) The security was listed on an exchange subsequent to a private funding.

(c) The security was acquired through an acquisition (See Note 2).

(d) The security began trading on an exchange due to a business combination.

(e) The company completed an initial public offering.

(f) The investment was transferred into level 3 due to Company's commitment as part of its long term extension of its partnership with credit funds.

All realized and unrealized gains (losses) in the table above are reflected in other income (loss) in the accompanying condensed consolidated statements of operations.

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above.

The Company recognizes all transfers and the related unrealized gain (loss) at the beginning of the reporting period. Transfers between level 1 and 2 generally relate to whether the principal market for the security becomes active or inactive. Transfers between level 2 and 3 generally relate to whether significant relevant observable inputs are available for the fair value measurements or due to change in liquidity restrictions for the investments.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

During the three and nine months ended September 30, 2013 and 2012, there were no transfers between level 1 and level 2 assets and liabilities.

The following table includes quantitative information as of September 30, 2013 for financial instruments classified within level 3. The table below quantifies information about the significant unobservable inputs used in the fair value measurement of the Company's level 3 financial instruments.

| Quantitative Information about Level 3 Fair Value Measurements |  |   |  |   |
|--|--|---|--|---|
|  | Fair Value at<br>September 30,<br>2013 | Valuation techniques  | Unobservable Inputs                    | Range   |
| Common and preferred stocks                                    | \$2,351                                | Discounted cash flows, market multiples, recent transactions, bid levels, and comparable transactions | Market multiples and DCF discount rate | DCF discount rates: 15%-25%, Market multiples: 9x-10x |
| Warrants and rights, net                                       | 2,667                                  | Model based   | Volatility                             | Volatility: 10% to 130%                               |
| Other level 3 assets and liabilities (a)                       | \$5,018<br>232,048                     |   |  |   |
| Total level 3 assets and liabilities                           | \$237,066                              |   |  |   |

Quantitative disclosures of unobservable inputs and assumptions are not required for investments for which NAV per share is used as a practical expedient to determine fair value, as their redemption features rather than observability of inputs cause them to be classified as a level 3 type asset within the fair value hierarchy. In addition, (a) the fair value of the Consolidated Funds' investments are determined based on net asset value and therefore quantitative disclosures are not included in the table above. The quantitative disclosures also exclude financial instruments for which the determination of fair value is based on prices from prior transactions.

The Company has established valuation policies and procedures and an internal control infrastructure over its fair value measurement of financial instruments which includes ongoing oversight by the valuation committee as well as periodic audits performed by the Company's internal audit group. The valuation committee is comprised of senior management, including non-investment professionals, who are responsible for overseeing and monitoring the pricing of the Company's investments, including the review of the results of the independent price verification process, approval of new trading asset classes and use of applicable pricing models and approaches.

The US GAAP fair value leveling hierarchy is designated and monitored on an ongoing basis. In determining the designation, the Company takes into consideration a number of factors including the observability of inputs, liquidity of the investment and the significance of a particular input to the fair value measurement. Designations, models, pricing vendors, third party valuation providers and inputs used to derive fair market value are subject to review by the valuation committee and the internal audit group. The Company reviews its valuation policy guidelines on an ongoing basis and may adjust them in light of, improved valuation metrics and models, the availability of reliable inputs and information, and prevailing market conditions. The Company reviews a daily profit and loss report, as well as other periodic reports, and analyzes material changes from period-to-period in the valuation of its investments as part of its control procedures. The Company also performs back testing on a regular basis by comparing prices observed in executed transactions to previous valuations.

The fair market value for level 3 securities may be highly sensitive to the use of industry standard models, unobservable inputs and subjective assumptions. The degree of fair market value sensitivity is also contingent upon the subjective weight given to specific inputs and valuation metrics. The Company holds various equity and debt



instruments where different weight may be applied to industry standard models representing standard valuation metrics such as: discounted cash flows, market multiples, comparative transactions, capital rates, recovery rates and timing, and bid levels. Generally, changes in the weights ascribed to the various valuation metrics and the significant unobservable inputs in isolation may result in significantly lower or higher fair value measurements. Volatility levels for warrants and options are not readily observable and subject to interpretation. Changes in capital rates, discount rates and replacement costs could significantly increase or decrease the valuation of the real estate investments. The interrelationship between unobservable inputs may vary significantly amongst level 3 securities as they are generally highly idiosyncratic. Significant increases (decreases) in any of those inputs in isolation can result in a significantly lower (higher) fair value measurement.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

## 7. Receivables from and Payable to Brokers

Receivables from and payable to brokers includes cash held at the clearing brokers, amounts receivable or payable for unsettled transactions, monies borrowed and proceeds from short sales (including commissions and fees related to securities transactions) equal to the fair value of securities sold, not yet purchased, which are restricted until the Company purchases the securities sold short. Pursuant to the master netting agreements the Company entered into with its brokers, these balances are presented net (assets less liabilities) across balances with the same broker. As of September 30, 2013 and December 31, 2012, receivable from brokers was \$68.0 million and \$71.3 million, respectively. Payable to brokers was \$149.3 million and \$188.8 million as of September 30, 2013 and December 31, 2012, respectively. The Company's receivables from and payable to brokers balances are held at multiple reputable financial institutions.

## 8. Goodwill

In accordance with US GAAP, the Company tests goodwill for impairment on an annual basis or at an interim period if events or changed circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under US GAAP, the Company first assesses the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amounts as a basis for determining if it is necessary to perform the two-step approach. Periodically estimating the fair value of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge.

As a result of the Company's acquisition of Dahlman Rose & Company, LLC, during the first quarter of 2013, the Company recognized provisional goodwill in the amount of \$7.7 million within the broker dealer segment (See Note 2).

No impairment charges for goodwill were recognized during the three and nine months ended September 30, 2013 and 2012.

## 9. Redeemable Non-Controlling Interests in Consolidated Subsidiaries

Redeemable non-controlling interests in consolidated subsidiaries and the related net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries are comprised as follows:

|  | As of September 30,<br>2013         |           | As of December 31,<br>2012         |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | (dollars in thousands)              |           |                                    |           |
| Redeemable non-controlling interests in consolidated subsidiaries                                  |                                     |           |                                    |           |
| Operating companies  | \$9,606                             |           | \$4,106                            |           |
| Consolidated funds   | 80,573                              |           | 81,597                             |           |
|  | \$90,179                            |           | \$85,703                           |           |
|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|  | 2013                                | 2012      | 2013                               | 2012      |
|  | (dollars in thousands)              |           |                                    |           |
| Income (loss) attributable to redeemable<br>non-controlling interests in consolidated subsidiaries |                                     |           |                                    |           |
| Operating companies  | \$3,884                             | \$298     | \$7,280                            | \$893     |
| Consolidated funds   | 875                                 | (1,331)   | 3,229                              | (2,118)   |
|  | \$4,759                             | \$(1,033) | \$10,509                           | \$(1,225) |

## 10. Share-Based Compensation and Employee Ownership Plans

The Company issues share based compensation under the 2006 Equity and Incentive Plan, the 2007 Equity and Incentive Plan (both established prior to the November 2009 transaction between Ramius and Cowen) and the Cowen Group, Inc. 2010 Equity and Incentive Plan (collectively, the "Equity Plans"). The Equity Plans permit the grant of

options, restricted shares, restricted stock units, stock appreciation rights and other equity based awards to the Company's employees, consultants and directors for up to 17,725,000 shares of common stock plus any approved additional shares in accordance with the Equity Plans. Stock options granted generally vest over two-to-five-year periods and expire seven years from the date of grant. Restricted shares and restricted share units issued may be immediately vested or may generally vest over a two-to-five-year period. Stock appreciation rights awards ("SAR's") vest and expire after 5 years from grant date. As of September 30, 2013, there were approximately 1.4 million shares available for future issuance under the Equity Plans.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Under the 2010 Equity Plan, the Company awarded \$27.7 million of deferred cash awards to its employees in February 2013 in addition to awards granted during 2012. These awards vest over a period of five years and accrue interest at 0.75% per year. As of September 30, 2013, the Company had unrecognized compensation expense related to these awards of \$29.8 million.

In addition to the Equity Plans, certain employees of the Company, in November 2009, were issued membership interests in RCG Holdings LLC (formerly Ramius LLC) ("RCG") by RCG, a related party of the Company (the "RCG Grants"). Substantially all of the assets owned by RCG consist of shares of common stock of the Company. Accordingly, upon withdrawal of capital from RCG, members receive either distributions in kind of shares of common stock of the Company, or the proceeds from the sale of shares of the Company's common stock attributable to their capital accounts. The RCG Grants are subject to a service condition and vest to each employee over a period of approximately three years. Any RCG Grants forfeited are redistributed to the remaining stakeholders in RCG, which includes both employees and non-employees. The RCG Grants represent awards to employees of the Company by a related party, as compensation for services provided to the Company. As such, the expense related to these grants is included in the compensation expense of the Company, with a corresponding credit to stockholders equity.

The Company measures compensation cost for share based awards according to the equity method. In accordance with the expense recognition provisions of those standards, the Company amortizes unearned compensation associated with share based awards on a straight-line basis over the vesting period of the option or award. In relation to awards under the Equity Plans, the Company recognized expense of \$4.3 million and \$5.7 million for the three months ended September 30, 2013 and 2012, respectively, and \$13.8 million and \$16.2 million for the nine months ended September 30, 2013 and 2012, respectively. The income tax effect recognized for the Equity Plans was a benefit of \$2.9 million and \$4.4 million for the three months ended September 30, 2013 and 2012, respectively, and \$8.5 million and \$9.0 million for the nine months ended September 30, 2013 and 2012, respectively; however, these benefits were offset by a valuation allowance.

In relation to awards under the RCG Grants, the Company recognized expense of \$1.3 million and \$4.4 million for the three and nine months ended September 30, 2012, respectively. The income tax effect recognized for the RCG Grants was a benefit of \$0.5 million and \$1.7 million for the three and nine months ended September 30, 2012, respectively; however, these benefits were offset by valuation allowances.

**Stock Options and Stock Appreciation Rights**

The Company values options and SAR's using the Black-Scholes option valuation model which requires the Company to make assumptions regarding the expected term, volatility, risk-free rate and dividend yield.

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

**Expected term.** Expected term represents the period of time that awards granted are expected to be outstanding. The Company elected to use the "simplified" calculation method, as applicable to companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

**Expected volatility.** The Company bases its expected volatility on its own stock price history.

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

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

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2013:

|  | Shares Subject<br>to Option | Weighted Average<br>Exercise Price/Share | Weighted Average<br>Remaining Term<br>(in years) | Aggregate<br>Intrinsic<br>Value(1)<br>(dollars in<br>thousands) |
|--|-----------------------------|--|--|---|
| Balance outstanding at December 31,<br>2012  | 773,763                     | \$12.58                                  | 1.6  | \$—   |
| Options granted                              | —                           | —  | —  | —   |
| Options acquired                             | —                           | —  | —  | —   |
| Options expired                              | (473,757 )                  | 16.00                                    | —  | —   |
| Balance outstanding at September 30,<br>2013 | 300,006                     | \$7.18                                   | 2.66   | \$—   |
| Options exercisable at September 30,<br>2013 | 200,004                     | \$9.04                                   | 1.94   | \$—   |

(1)Based on the Company's closing stock price of \$3.44 on September 30, 2013 and \$2.45 on December 31, 2012. As of September 30, 2013, the unrecognized compensation expense related to the Company's grant of stock options was insignificant.

The following table summarizes the Company's SAR's for the nine months ended September 30, 2013:

|  | Shares Subject<br>to Option | Weighted Average<br>Exercise Price/Share | Weighted Average<br>Remaining Term<br>(in years) | Aggregate<br>Intrinsic<br>Value(1)<br>(dollars in<br>thousands) |
|--|-----------------------------|--|--|---|
| Balance outstanding at December 31,<br>2012  | —                           | \$—                                      | —  | \$—   |
| SAR's granted                                | 400,000                     | 2.90                                     | —  | —   |
| SAR's acquired                               | —                           | —  | —  | —   |
| SAR's expired                                | —                           | —  | —  | —   |
| Balance outstanding at September 30,<br>2013 | 400,000                     | \$2.90                                   | 4.46   | \$467,640   |
| SAR's exercisable at September 30,<br>2013   | —                           | \$—                                      | —  | \$—   |

(1)Based on the Company's closing stock price of \$3.44 on September 30, 2013.

As of September 30, 2013, the unrecognized compensation expense related to the Company's grant of SAR's was \$0.3 million.

**Restricted Shares and Restricted Stock Units Granted to Employees**

Restricted shares and restricted stock units are referred to collectively as restricted stock. The following table summarizes the Company's restricted share and restricted stock unit activity for the nine months ended September 30, 2013:

|  | Nonvested<br>Restricted Shares<br>and Restricted Stock<br>Units | Weighted-Average<br>Grant Date<br>Fair Value |
|--|---|--|
| Balance outstanding at December 31, 2012 | 10,252,023  | \$4.15                                       |
| Granted                                  | 7,234,924   | 2.66   |
| Vested                                   | (4,178,314 )  | 3.94   |

|   |            |        |
|---|------------|--------|
| Cancelled                                 | —          | —      |
| Forfeited                                 | (176,413   | ) 3.15 |
| Balance outstanding at September 30, 2013 | 13,132,220 | \$3.41 |

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

As of September 30, 2013, there was \$30.0 million of unrecognized compensation expense related to the Company's grant of nonvested restricted shares and restricted stock units to employees. Unrecognized compensation expense related to nonvested restricted shares and restricted stock units granted to employees is expected to be recognized over a weighted-average period of 1.83 years.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

## Restricted Shares and Restricted Stock Units Granted to Non-employee Board Members

There were 257,947 restricted stock units awarded, which were immediately vested and expensed, during the three and nine months ended September 30, 2013. Vested awards of 112,320 were delivered during the three and nine months ended September 30, 2013. As of September 30, 2013 there were 482,522 restricted stock units outstanding.

## 11. Defined Benefit Plan

The amounts contained in the following table relate to the Company's defined benefit plan for the three and nine months ended September 30, 2013 and 2012:

|  | Three Months Ended<br>September 30,<br>2013 |         | Nine Months Ended<br>September 30,<br>2012 |         |
|--|---|---------|--|---------|
|  | 2013  | 2012    | 2013                                       | 2012    |
|  | (dollars in thousands)                      |         |  |         |
| Components of net periodic benefit cost included in employee compensation and benefits |   |         |  |         |
| Service cost   | \$—   | \$—     | \$—  | \$—     |
| Interest cost  | 54  | 53      | 152  | 159     |
| Expected return on plan assets   | (64   | ) (60   | ) (186                                     | ) (176  |
| Amortization of (loss) / gain  | —   | —       | —  | —       |
| Amortization of prior service cost   | 5   | 5       | 16   | 15      |
| Effect of settlement   | —   | (17     | ) (95                                      | ) (20   |
| Net periodic benefit cost  | \$(5  | ) \$(19 | ) \$(113                                   | ) \$(22 |

## 12. Income Taxes

The taxable results of the Company's U.S. operations are included in the consolidated income tax returns of Cowen Group, Inc. as well as stand alone state and local tax returns. The Company has subsidiaries that are resident in foreign countries where tax filings have to be submitted on a stand alone basis. These subsidiaries are subject to tax in their respective countries and the Company is responsible for and, thus, reports all taxes incurred by these subsidiaries. The countries where the Company owns subsidiaries that file tax returns are United Kingdom, Luxembourg, Gibraltar, and Hong Kong.

The Company calculates its U.S. tax provision using the estimated annual effective tax rate methodology. The tax expense or benefit caused by an unusual or infrequent item is recorded in the quarter in which it occurs. The Company uses the discrete methodology to calculate its income tax provision for its foreign subsidiaries. Based on these methodologies, the Company's effective income tax rate was 2.22% and (3.26)% for the nine months ended September 30, 2013 and 2012, respectively. During the nine months ended September 30, 2013, the unusual or infrequent item whose tax impact was recorded discretely was primarily related to the tax provisions of the Company's foreign subsidiaries.

For the nine months ended September 30, 2013 and 2012, the effective tax rate differs from the statutory rate of 35% primarily due to a change in the Company's valuation allowance, stock compensation and other nondeductible expenses.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating or capital loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that, in management's view, is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. As of September 30, 2013, the Company recorded a valuation allowance against substantially all of its net deferred tax assets.

The Company may be examined by the United States Internal Revenue Service (IRS), the United Kingdom Inland Revenue Service and state and local and foreign tax authorities in jurisdictions where the Company has significant business operations, such as New York. Currently, the Company is under audit by New York State for its 2009 tax

year. No significant adjustments are expected as a result of this audit. During the third quarter of 2013, the Company concluded an IRS examination of one of the Company's former consolidated tax groups for its 2010 tax year with no adjustments.

The Company intends to permanently reinvest the capital and accumulated earnings of its foreign subsidiaries in the respective subsidiary, but repatriates the current earnings of its foreign subsidiaries to the United States to the extent such repatriation is permissible under local regulatory rules. The undistributed earnings of the Company's foreign subsidiaries



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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

totaled \$1.2 million as of September 30, 2013. The tax liability that would arise if these earnings were remitted to the United States is approximately \$0.1 million.

## 13. Commitments and Contingencies

## Lease Obligations

The Company has entered into non-cancellable leases for office space and equipment. These leases contain rent escalation clauses. The Company records rent expense on a straight-line basis over the lease term, including any rent holiday periods. Rent expense was \$4.3 million and \$3.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$12.3 million and \$11.0 million for the nine months ended September 30, 2013 and 2012, respectively.

On August 20, 2010, the Company entered into an amendment to the Company's original lease for offices located at 1221 Avenue of Americas, New York, to surrender a portion of the office space as of January 1, 2011. As of December 31, 2011, the Company vacated the remaining portion of the leased premises located at 1221 Avenue of Americas. As a result, the Company recognized a liability in the amount of \$5.7 million relating to future rent payments and other monthly amounts associated with the lease through its expiration in September 2013. The liability relating to future rent payments and other monthly amounts associated with vacating the remaining portion of the Company's leased premises, located at 1221 Avenue of Americas, was \$0.3 million and \$2.8 million as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013, future minimum annual lease and service payments for the Company were as follows:

|            | Equipment Leases<br>(a) | Service Payments | Facility Leases (b) |
|------------|-------------------------|------------------|---------------------|
|            | (dollars in thousands)  |                  |                     |
| 2013       | \$825                   | \$3,520          | \$4,899             |
| 2014       | 1,548                   | 11,577           | 19,223              |
| 2015       | 1,051                   | 3,876            | 16,181              |
| 2016       | 194                     | 247              | 13,069              |
| 2017       | —                       | —                | 9,946               |
| Thereafter | —                       | —                | 43,733              |
|            | \$3,618                 | \$19,220         | \$107,051           |

(a) Equipment Leases include the Company's commitments relating to operating and capital leases. See Note 14 for further information on the capital lease minimum payments which are included in the table.

(b) The Company has entered into various agreements to sublease certain of its premises. The Company recorded sublease income related to these leases of \$0.4 million and \$0.3 million for the three months ended September 30, 2013 and 2012, respectively, and \$1.0 million and \$1.0 million for the nine months ended September 30, 2013 and 2012, respectively.

## Clawback Obligations

For financial reporting purposes, the general partners have recorded a liability for potential clawback obligations to the limited partners of a real estate fund, due to changes in the unrealized value of the fund's remaining investments and where the fund's general partner has previously received carried interest distributions.

The actual clawback liability, however, does not become realized until the end of a fund's life. The life of the real estate funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at the end of 2013. Further extensions of such terms may be implemented under certain circumstances. As of September 30, 2013, the clawback obligations were \$6.2 million.

The Company serves as the general partner/managing member and/or investment manager to various affiliated and sponsored funds. As such, the Company is contingently liable for obligations for those entities. These amounts are not included above as the Company believes that the assets in these funds are sufficient to discharge any liabilities.

## Unfunded Commitments

As of September 30, 2013, the Company had unfunded commitments of \$19.4 million pertaining to capital commitments in four real estate investments held by the Company, all of which pertain to related party investments. Such commitments can be called at any time, subject to advance notice. The Company, as a limited partner of the HealthCare Royalty Partners funds and also as a member of HealthCare Royalty Partners General Partner, has committed to invest \$42.4 million in the Healthcare

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Royalty Partners funds which are managed by Healthcare Royalty Management. This commitment is expected to be called over a two to five year period. The Company will make its pro-rata investment in the HealthCare Royalty Partners funds along with the other limited partners. Through September 30, 2013, the Company has funded \$29.3 million towards these commitments. In April 2011, the Company committed \$15.0 million to Starboard Value and Opportunity Fund LP, which may increase or decrease over time with the performance of Starboard Value and Opportunity Fund LP. As of September 30, 2013, the Company has fully funded this commitment. In April 2013, the Company committed \$1.0 million to Starboard Leaders Fund LP, which may increase or decrease over time dependent on the performance of the fund, and, as of September 30, 2013, has funded \$0.5 million towards this commitment. In January 2013, the Company committed \$10.0 million to Orchard Square Partners Credit Fund LP (formerly known as Ramius Global Credit Fund LP). As of March 31, 2013, the Company has fully funded this commitment. In September 2012, the Company committed \$10.0 million to Formation 8 Partners Fund I LP as a limited partner and funded \$3.0 million through September 30, 2013. The remaining capital commitment is expected to be called over a five year period.

Litigation

In the ordinary course of business, the Company and its affiliates and subsidiaries and current and former officers, directors and employees (the "Company and Related Parties") are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of securities, banking, anti-fraud, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

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

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

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

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

The Company appropriately reserves for certain matters where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Such amounts are included within accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the

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

There have been no developments with respect to the Company's legal proceedings that occurred during the three months ended September 30, 2013.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

## 14. Short-Term Borrowings and Other Debt

As of September 30, 2013 and December 31, 2012, short term borrowings and other debt of the Company were as follows:

|                           | As of September 30,<br>2013 | As of December 31,<br>2012 |
|---------------------------|-----------------------------|----------------------------|
|                           | (dollars in thousands)      |                            |
| Notes payable             | \$491                       | \$206                      |
| Capital lease obligations | 2,878                       | 3,926                      |
|                           | \$3,369                     | \$4,132                    |

In January 2013, the Company borrowed \$2 million to fund insurance premium payments. This note bears interest at 2.22% and is due on December 1, 2013, with monthly payment requirements of \$0.2 million. As of September 30, 2013, the outstanding balance on this note payable was \$0.5 million. Interest expense for the three and nine months ended September 30, 2013 was insignificant.

The Company entered into several capital leases for computer equipment during the fourth quarter of 2010. These leases amount to \$6.3 million and are recorded in fixed assets and as capital lease obligations, which are included in short-term borrowings and other debt in the accompanying condensed consolidated statements of financial condition, and have lease terms that range from 48 to 60 months and interest rates that range from 0.60% to 6.14%. As of September 30, 2013, the remaining balance on these capital leases was \$2.9 million. Interest expense was \$0.1 million and \$0.1 million for the three months ended September 30, 2013 and 2012, respectively, and \$0.1 million and \$0.1 million for the nine months ended September 30, 2013 and 2012, respectively.

As of September 30, 2013, the Company has the following five irrevocable letters of credit related to leased office space, for which there is cash collateral pledged, which the Company pays a fee on the stated amount of the letter of credit.

| Location      | Amount<br>(dollars in<br>thousands) | Maturity          |
|---------------|-------------------------------------|-------------------|
| San Francisco | \$82                                | May 12, 2014      |
| New York      | \$1,191                             | September 3, 2014 |
| New York      | \$6,746                             | December 12, 2013 |
| New York      | \$1,000                             | February 22, 2014 |
| New York      | \$1,861                             | March 19, 2014    |

To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of September 30, 2013 and December 31, 2012, there were no amounts due related to these letters of credit.

Annual scheduled maturities of debt and minimum lease payments for capital lease obligation and short term borrowings and other debt outstanding as of September 30, 2013, are as follows:

|  | Capital Lease<br>Obligation | Short Term<br>Borrowings |
|--|-----------------------------|--------------------------|
|  | (dollars in thousands)      |                          |
| 2013                                   | \$385                       | \$464                    |
| 2014                                   | 1,402                       | 46                       |
| 2015                                   | 1,051                       | —                        |
| 2016                                   | 194                         | —                        |
| 2017                                   | —                           | —                        |
| Thereafter                             | —                           | —                        |
| Subtotal                               | 3,032                       | 510                      |
| Less: Amount representing interest (a) | (154                        | ) (19                    |
| Total                                  | \$2,878                     | \$491                    |

(a) Amount necessary to reduce net minimum lease payments to present value calculated at the Company's implicit rate at lease inception.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

## 15. Treasury stock

Treasury stock of \$37.5 million as of September 30, 2013, compared to \$31.7 million as of December 31, 2012, resulted from \$3.2 million acquired through repurchases of shares to cover employee minimum tax withholding obligations related to stock compensation vesting events under the Company's Equity Plan, \$2.7 million purchased in connection with a share repurchase program and \$0.1 million of treasury stock re-issued.

The following represents the activity relating to the treasury stock held by the Company during the nine months ended September 30, 2013:

|  | Treasury stock<br>shares | Cost<br>(dollars in<br>thousands) | Average cost<br>per share |
|--|--------------------------|-----------------------------------|---------------------------|
| Balance outstanding at December 31, 2012                           | 11,292,220               | \$31,728                          | \$2.81                    |
| Shares purchased for minimum tax withholding under the Equity Plan | 1,049,740                | 3,156                             | 3.01                      |
| Treasury stock reissued  | (24,744                  | ) (90                             | ) 3.64                    |
| Purchase of treasury stock   | 813,944                  | 2,723                             | 3.35                      |
| Balance outstanding at September 30, 2013                          | 13,131,160               | \$37,517                          | \$2.86                    |

## 16. Earnings Per Share

The Company calculates its basic and diluted earnings per share in accordance with US GAAP. Basic earnings per common share is calculated by dividing net income attributable to the Company's stockholders by the weighted average number of common shares outstanding for the period. As of September 30, 2013, there were 117,411,528 shares outstanding. The Company has included 482,522 fully vested, unissued restricted stock units in its calculation of basic earnings per share.

Diluted earnings per common share are calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive nonvested restricted stock and stock options. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares, restricted stock units and unexercised stock options and SAR's. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares and restricted stock units are assumed to have been delivered, and options are assumed to have been exercised, on the grant date. The assumed proceeds from the assumed vesting, delivery and exercising were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized and (b) the amount of tax benefit that would be credited to additional paid-in capital assuming vesting and delivery of the restricted stock. The tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense recognized for financial statement reporting purposes. All outstanding stock options were not included in the computation of diluted net income (loss) per common share for the three and nine months ended September 30, 2013 and 2012, respectively, as their inclusion would have been anti-dilutive.

The computation of earnings per share is as follows:

|  | Three Months Ended<br>September 30,           |           | Nine Months Ended<br>September 30, |           |
|--|---|-----------|------------------------------------|-----------|
|  | 2013  | 2012      | 2013                               | 2012      |
|  | (dollars in thousands, except per share data) |           |                                    |           |
| Net income (loss)  | \$8,370                                       | \$(11,618 | ) \$12,637                         | \$(15,761 |
| Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries                        | 4,759   | (1,033    | ) 10,509                           | (1,225    |
| Net income (loss) less Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries | \$3,611                                       | \$(10,585 | ) \$2,128                          | \$(14,536 |

Shares for basic and diluted calculations:

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|   |         |          |          |          |
|---|---------|----------|----------|----------|
| Weighted average shares used in basic computation   | 118,359 | 114,989  | 116,012  | 114,587  |
| Stock options                                       | —       | —        | —        | —        |
| Stock appreciation rights                           | 311     | —        | 296      | —        |
| Restricted stock                                    | 4,038   | —        | 3,583    | —        |
| Weighted average shares used in diluted computation | 122,708 | 114,989  | 119,891  | 114,587  |
| Earnings (loss) per share:                          |         |          |          |          |
| Basic   | \$0.03  | \$(0.09) | ) \$0.02 | \$(0.13) |
| Diluted   | \$0.03  | \$(0.09) | ) \$0.02 | \$(0.13) |

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

17. Segment Reporting

The Company conducts its operations through two segments: the alternative investment segment and the broker dealer segment. These activities are conducted primarily in the United States and substantially all of its revenues are generated domestically. The performance measure for these segments is Economic Income (Loss), which management uses to evaluate the financial performance of and make operating decisions for the segments including determining appropriate compensation levels.

In general, Economic Income (Loss) is a pre-tax measure that (i) eliminates the impact of consolidation for consolidated funds, (ii) excludes equity award expense related to the November 2009 Ramius/Cowen transaction, and (iii) excludes certain other acquisition-related and/or reorganization expenses (See Note 2). In addition, Economic Income (Loss) revenues include investment income that represents the income the Company has earned in investing its own capital, including realized and unrealized gains and losses, interest and dividends, net of associated investment related expenses. For US GAAP purposes, these items are included in each of their respective line items. Economic Income (Loss) revenues also include management fees, incentive income and investment income earned through the Company's investment as a general partner in certain real estate entities and the Company's investment in the Value and Opportunity business. For US GAAP purposes, all of these items are recorded in other income (loss). In addition, Economic Income (Loss) expenses are reduced by reimbursement from affiliates, which for US GAAP purposes is presented gross as part of revenue.

As further stated below, one major difference between Economic Income (Loss) and US GAAP net income (loss) is that Economic Income (Loss) presents the segments' results of operations without the impact resulting from the full consolidation of any of the Consolidated Funds. Consolidation of these funds results in including in income the pro rata share of the income or loss attributable to other owners of such entities which is reflected in net income (loss) attributable to redeemable non-controlling interest in consolidated subsidiaries in the accompanying condensed consolidated statements of operations. This pro rata share has no effect on the overall financial performance for the alternative investment segment, as ultimately, this income or loss is not income or loss for the alternative investment segment itself. Included in Economic Income (Loss) is the actual pro rata share of the income or loss attributable to the Company as an investor in such entities, which is relevant in management making operating decisions and evaluating financial performance.

The following tables set forth operating results for the Company's alternative investment and broker dealer segments and related adjustments necessary to reconcile the Company's Economic Income (Loss) measure to arrive at the Company's consolidated US GAAP net income (loss):

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

|  | Three Months Ended September 30, 2013 |                      |                                    | Adjustments            |                      | US       |
|--|---------------------------------------|----------------------|------------------------------------|------------------------|----------------------|----------|
|  | Alternative<br>Investment             | Broker-Dealer<br>(1) | Total<br>Economic<br>Income/(Loss) | Funds<br>Consolidation | Other<br>Adjustments | GAAP     |
|  | (dollars in thousands)                |                      |                                    |                        |                      |          |
| <b>Revenues</b>  |                                       |                      |                                    |                        |                      |          |
| Investment banking   | \$—                                   | \$ 27,694            | \$ 27,694                          | \$—                    | \$—                  | \$27,694 |
| Brokerage  | —                                     | 32,035               | 32,035                             | —                      | (3,573 ) (e)         | 28,462   |
| Management fees  | 14,299                                | —                    | 14,299                             | (275 )                 | (4,697 ) (a)         | 9,327    |
| Incentive income   | 5,666                                 | —                    | 5,666                              | —                      | (3,145 ) (a)         | 2,521    |
| Investment Income  | 10,031                                | 2,296                | 12,327                             | —                      | (12,327 ) (c)        | —        |
| Interest and dividends   | —                                     | —                    | —                                  | —                      | 10,969 (c)           | 10,969   |
| Reimbursement from affiliates  | —                                     | —                    | —                                  | (75 )                  | 1,461 (b)            | 1,386    |
| Other revenue  | 156                                   | (38 )                | 118                                | —                      | 438 (c)              | 556      |
| Consolidated Funds revenues  | —                                     | —                    | —                                  | 445                    | —                    | 445      |
| Total revenues   | 30,152                                | 61,987               | 92,139                             | 95                     | (10,874 )            | 81,360   |
| <b>Expenses</b>  |                                       |                      |                                    |                        |                      |          |
| Employee compensation and benefits   | 13,539                                | 40,291               | 53,830                             | —                      | (216 )               | 53,614   |
| Interest and dividends   | 52                                    | 23                   | 75                                 | —                      | 6,058 (c)            | 6,133    |
| Non-compensation expenses—Fixed  | 9,086                                 | 16,245               | 25,331                             | —                      | (25,331 ) (c)(d)     | —        |
| Non-compensation expenses—Variable   | 1,449                                 | 5,424                | 6,873                              | —                      | (6,873 ) (c)(d)      | —        |
| Non-compensation expenses  | —                                     | —                    | —                                  | —                      | 31,540 (c)(d)        | 31,540   |
| Reimbursement from affiliates  | (1,461 )                              | —                    | (1,461 )                           | —                      | 1,461 (b)            | —        |
| Consolidated Funds expenses  | —                                     | —                    | —                                  | 450                    | —                    | 450      |
| Total expenses   | 22,665                                | 61,983               | 84,648                             | 450                    | 6,639                | 91,737   |
| <b>Other income (loss)</b>   |                                       |                      |                                    |                        |                      |          |
| Net gain (loss) on securities, derivatives and other investments                   | —                                     | —                    | —                                  | —                      | 15,469 (c)           | 15,469   |
| Consolidated Funds net gains (losses)  | —                                     | —                    | —                                  | 1,230                  | 2,002                | 3,232    |
| Total other income (loss)  | —                                     | —                    | —                                  | 1,230                  | 17,471               | 18,701   |
| Income (loss) before income taxes and non-controlling interests                    | 7,487                                 | 4                    | 7,491                              | 875                    | (42 )                | 8,324    |
| Income taxes expense / (benefit)   | —                                     | —                    | —                                  | —                      | (46 ) (b)            | (46 )    |
| Economic Income (Loss) / Net income (loss) before non-controlling interests        | 7,487                                 | 4                    | 7,491                              | 875                    | 4                    | 8,370    |
| (Income) loss attributable to redeemable non-controlling interests in consolidated | (3,825 )                              | —                    | (3,825 )                           | (875 )                 | (59 )                | (4,759 ) |

subsidiaries

Economic Income (Loss) / Net

|  |         |      |          |     |         |         |
|--|---------|------|----------|-----|---------|---------|
| Income (loss) attributable to<br>Cowen Group, Inc. | \$3,662 | \$ 4 | \$ 3,666 | \$— | \$(55 ) | \$3,611 |
|--|---------|------|----------|-----|---------|---------|

stockholders

(1) For the three months ended September 30, 2013, the Company has reflected \$3.0 million of investment income and related compensation expense of \$1.0 million within the broker-dealer segment in proportion to its capital.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Three Months Ended September 30, 2012

|   | Alternative<br>Investment | Broker-Dealer<br>(1) | Total<br>Economic<br>Income/(Loss) | Adjustments            |                      |          | US<br>GAAP |
|---|---------------------------|----------------------|------------------------------------|------------------------|----------------------|----------|------------|
|   |                           |                      |                                    | Funds<br>Consolidation | Other<br>Adjustments |          |            |
| (dollars in thousands)  |                           |                      |                                    |                        |                      |          |            |
| Revenues  |                           |                      |                                    |                        |                      |          |            |
| Investment banking  | \$—                       | \$ 18,666            | \$ 18,666                          | \$—                    | \$—                  |          | \$18,666   |
| Brokerage   | —                         | 22,701               | 22,701                             | —                      | —                    |          | 22,701     |
| Management fees   | 13,426                    | —                    | 13,426                             | (362                   | ) (4,198             | ) (a)    | 8,866      |
| Incentive income  | 1,699                     | —                    | 1,699                              | —                      | (283                 | ) (a)    | 1,416      |
| Investment Income   | 6,864                     | 2,288                | 9,152                              | —                      | (9,152               | ) (c)    | —          |
| Interest and dividends  | —                         | —                    | —                                  | —                      | 3,605                | (c)      | 3,605      |
| Reimbursement from<br>affiliates  | —                         | —                    | —                                  | (97                    | ) 1,467              | (b)      | 1,370      |
| Other revenue   | 168                       | 213                  | 381                                | —                      | 320                  | (c)      | 701        |
| Consolidated Funds revenues   | —                         | —                    | —                                  | 273                    | —                    |          | 273        |
| Total revenues  | 22,157                    | 43,868               | 66,025                             | (186                   | ) (8,241             | )        | 57,598     |
| Expenses  |                           |                      |                                    |                        |                      |          |            |
| Employee compensation and<br>benefits   | 11,759                    | 34,490               | 46,249                             | —                      | 1,073                |          | 47,322     |
| Interest and dividends  | 93                        | 38                   | 131                                | —                      | 1,925                | (c)      | 2,056      |
| Non-compensation<br>expenses—Fixed  | 8,564                     | 15,452               | 24,016                             | —                      | (24,016              | ) (c)(d) | —          |
| Non-compensation<br>expenses—Variable   | 1,433                     | 4,287                | 5,720                              | —                      | (5,720               | ) (c)(d) | —          |
| Non-compensation expenses   | —                         | —                    | —                                  | —                      | 29,346               | (c)(d)   | 29,346     |
| Reimbursement from<br>affiliates  | (1,467                    | ) —                  | (1,467                             | ) —                    | 1,467                | (b)      | —          |
| Consolidated Funds expenses   | —                         | —                    | —                                  | 330                    | —                    |          | 330        |
| Total expenses  | 20,382                    | 54,267               | 74,649                             | 330                    | 4,075                |          | 79,054     |
| Other income (loss)   |                           |                      |                                    |                        |                      |          |            |
| Net gains (losses) on<br>securities, derivatives and<br>other investments         | —                         | —                    | —                                  | —                      | 12,510               | (c)      | 12,510     |
| Consolidated Funds net gains<br>(losses)  | —                         | —                    | —                                  | (815                   | ) (1,694             | )        | (2,509 )   |
| Total other income (loss)   | —                         | —                    | —                                  | (815                   | ) 10,816             |          | 10,001     |
| Income (loss) before income<br>taxes and non-controlling<br>interests             | 1,775                     | (10,399 )            | (8,624 )                           | (1,331 )               | (1,500 )             |          | (11,455 )  |
| Income taxes expense /<br>(benefit)   | —                         | —                    | —                                  | —                      | 163                  | (b)      | 163        |
| Economic Income (Loss) /<br>Net income (loss) before<br>non-controlling interests | 1,775                     | (10,399 )            | (8,624 )                           | (1,331 )               | (1,663 )             |          | (11,618 )  |
|   | (301 )                    | —                    | (301 )                             | 1,331                  | 3                    |          | 1,033      |

(Income) loss attributable to  
redeemable non-controlling  
interests in consolidated  
subsidiaries

Economic Income (Loss) /

|  |         |              |             |     |             |             |
|--|---------|--------------|-------------|-----|-------------|-------------|
| Net income (loss) attributable<br>to Cowen Group, Inc.<br>stockholders | \$1,474 | \$ (10,399 ) | \$ (8,925 ) | \$— | \$ (1,660 ) | \$ (10,585) |
|--|---------|--------------|-------------|-----|-------------|-------------|

(1) For the three months ended September 30, 2012, the Company has reflected \$2.3 million of investment income and related compensation expense of \$0.8 million within the broker-dealer segment in proportion to its capital.

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Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Nine Months Ended September 30, 2013

|                                    | Alternative Broker-Dealer<br>Investment (1) |                | Total<br>Economic<br>Income/(Loss) | Adjustments            |                      | US GAAP        |
|------------------------------------|---|----------------|------------------------------------|------------------------|----------------------|----------------|
|                                    |   |                |                                    | Funds<br>Consolidation | Other<br>Adjustments |                |
|                                    | (dollars in thousands)                      |                |                                    |                        |                      |                |
| <b>Revenues</b>                    |   |                |                                    |                        |                      |                |
| Investment banking                 | \$—   | \$ 70,431      | \$ 70,431                          | \$—                    | \$—                  | \$70,431       |
| Brokerage                          | —   | 93,352         | 93,352                             | —                      | (6,769 ) (e)         | 86,583         |
| Management fees                    | 43,050                                      | —              | 43,050                             | (871 )                 | (13,661 ) (a)        | 28,518         |
| Incentive income                   | 14,558                                      | —              | 14,558                             | —                      | (7,472 ) (a)         | 7,086          |
| Investment Income                  | 22,169                                      | 4,593          | 26,762                             | —                      | (26,762 ) (c)        | —              |
| Interest and dividends             | —   | —              | —                                  | —                      | 30,905 (c)           | 30,905         |
| Reimbursement from affiliates      | —   | —              | —                                  | (206 )                 | 4,291 (b)            | 4,085          |
| Other revenue                      | 381   | (427 )         | (46 )                              | —                      | 1,565 (c)            | 1,519          |
| Consolidated Funds revenues        | —   | —              | —                                  | 681                    | —                    | 681            |
| <b>Total revenues</b>              | <b>80,158</b>                               | <b>167,949</b> | <b>248,107</b>                     | <b>(396 )</b>          | <b>(17,903 )</b>     | <b>229,808</b> |
| <b>Expenses</b>                    |   |                |                                    |                        |                      |                |
| Employee compensation and benefits | 37,863                                      | 108,202        | 146,065                            | —                      | (721 )               | 145,344        |
| Interest and dividends             | 183   | 88             | 271                                | —                      | 20,016 (c)           | 20,287         |
| Non-compensation expenses—Fixed    | 26,695                                      | 46,197         | 72,892                             | —                      | (72,892 ) (c)(d)     | —              |
| Non-compensation expenses—Variable | 3,594                                       | 19,192         | 22,786                             | —                      | —                    | —              |