

COWEN GROUP, INC.  
Form 10-Q  
May 14, 2010

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**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 March 31, 2010**

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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**27-0423711**  
(I.R.S. Employer Identification No.)

**599 Lexington Avenue**  
**New York, New York**  
(Address of Principal Executive Offices)

**10022**  
(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 ☐

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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 ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(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 Exchange Act). Yes ☐ No ☒

### APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 12, 2010 there were 74,656,513 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," "estimate," "predict," "project," "possible," "potential," "intend," "seek" or "continue," the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three months ended March 31, 2010 and 2009. The Consolidated Financial Statements as of December 31, 2009 were audited.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Unaudited Condensed Consolidated Financial Statements****Cowen Group, Inc.****Condensed Consolidated Statements of Financial Condition****(in thousands, except share and per share data)****(unaudited)**

|   | <b>As of March 31,<br/>2010</b> | <b>As of December 31,<br/>2009</b> |
|---|---------------------------------|------------------------------------|
| <b>Assets</b>   |                                 |                                    |
| Cash and cash equivalents   | \$ 12,855                       | \$ 147,367                         |
| Cash collateral pledged   | 501                             | 7,246                              |
| Securities owned, at fair value   | 141,960                         | 54,153                             |
| Other investments   | 25,376                          | 28,490                             |
| Receivable from brokers   | 62,377                          | 32,525                             |
| Fees receivable   | 16,029                          | 22,446                             |
| Due from related parties (see Note 16)  | 10,568                          | 14,860                             |
| Fixed assets, net of accumulated depreciation and amortization of \$18,033 and \$16,449, respectively   | 30,822                          | 32,603                             |
| Goodwill  | 27,179                          | 27,179                             |
| Intangible assets, net of accumulated amortization of \$5,416 and \$4,506, respectively   | 15,484                          | 16,394                             |
| Other assets  | 25,674                          | 24,199                             |
| <b>Consolidated Funds</b>   |                                 |                                    |
| Cash and cash equivalents   | 1,031                           | 625                                |
| Securities owned, at fair value   | 8,628                           |                                    |
| Other investments, at fair value  | 515,195                         | 550,407                            |
| Other assets  | 1,431                           | 947                                |
| <b>Total Assets</b>   | <b>\$ 895,110</b>               | <b>\$ 959,441</b>                  |
| <b>Liabilities and Stockholders' Equity</b>   |                                 |                                    |
| Securities sold, not yet purchased, at fair value   | \$ 58,298                       | \$ 14,812                          |
| Payable to brokers  | 28,523                          | 3,817                              |
| Compensation payable  | 25,078                          | 80,923                             |
| Note payable and short-term borrowings  | 18,000                          | 49,746                             |
| Fees payable (see Note 16)  | 3,417                           | 5,387                              |
| Due to related parties (see Note 16)  | 7,924                           | 8,103                              |
| Accounts payable, accrued expenses and other liabilities  | 49,986                          | 65,599                             |
| <b>Consolidated Funds</b>   |                                 |                                    |
| Capital withdrawals payable   | 23,531                          | 26,312                             |
| Accounts payable, accrued expenses and other liabilities  | 348                             | 392                                |
| <b>Total Liabilities</b>  | <b>215,105</b>                  | <b>255,091</b>                     |
| <b>Commitments and Contingencies (see Note 11)</b>  |                                 |                                    |
| <b>Redeemable non-controlling interests</b>   | <b>215,400</b>                  | <b>230,825</b>                     |
| <b>Stockholders' equity</b>   |                                 |                                    |
| Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding   |                                 |                                    |
| Class A common stock, par value \$0.01 per share: 250,000,000 shares authorized, 74,743,163 shares issued and outstanding as of March 31, 2010 and December 31, 2009 (including 2,298,204 and 2,323,116 | 726                             | 726                                |

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restricted shares, respectively)

Class B common stock, par value \$0.01 per share:  
250,000,000 authorized, no shares issued and  
outstanding

|                                      |          |          |
|--------------------------------------|----------|----------|
| Additional paid-in capital           | 488,082  | 483,872  |
| Accumulated deficit                  | (23,529) | (10,553) |
| Accumulated other comprehensive loss | (674)    | (520)    |

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| <b>Total stockholders' equity</b> | <b>464,605</b> | <b>473,525</b> |
|-----------------------------------|----------------|----------------|

|   |                   |                   |
|---|-------------------|-------------------|
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ 895,110</b> | <b>\$ 959,441</b> |
|---|-------------------|-------------------|

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

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

|  | <b>Three Months Ended<br/>March 31,</b> |                 |
|--|---|-----------------|
|  | <b>2010</b>                             | <b>2009</b>     |
| <b>Revenues</b>  |   |                 |
| Investment banking   | \$ 6,005                                | \$              |
| Brokerage  | 29,575                                  |                 |
| Management fees  | 9,270                                   | 11,511          |
| Incentive income   | 2,093                                   |                 |
| Interest and dividends   | 804                                     | 91              |
| Reimbursement from affiliates  | 1,742                                   | 3,394           |
| Other  | 622                                     | 1,019           |
| <i>Consolidated Funds</i>  |   |                 |
| Interest and dividends   | 5,781                                   | 4,626           |
| Other  | 366                                     | 84              |
| <b>Total revenues</b>  | <b>56,258</b>                           | <b>20,725</b>   |
| <b>Expenses</b>  |   |                 |
| Employee compensation and benefits   | 43,433                                  | 14,907          |
| Floor brokerage and trade execution  | 5,028                                   |                 |
| Interest and dividends   | 446                                     | 349             |
| Professional, advisory and other fees  | 2,388                                   | 1,402           |
| Service fees   | 3,812                                   | 606             |
| Communications   | 3,302                                   | 274             |
| Occupancy and equipment  | 5,629                                   | 2,531           |
| Depreciation and amortization  | 2,494                                   | 1,236           |
| Client services and business development   | 4,164                                   | 1,485           |
| Other  | 7,386                                   | 2,739           |
| <i>Consolidated Funds</i>  |   |                 |
| Interest and dividends   | 1,568                                   | 2,410           |
| Professional, advisory and other fees  | 678                                     | 840             |
| Floor brokerage and trade execution  | 709                                     |                 |
| Other  | 204                                     | 127             |
| <b>Total expenses</b>  | <b>81,241</b>                           | <b>28,906</b>   |
| <b>Other income (loss)</b>   |   |                 |
| Net gains (losses) on securities, derivatives and other investments              | 1,524                                   | 259             |
| <i>Consolidated Funds:</i>   |   |                 |
| Net realized and unrealized gains (losses) on investments and other transactions | 19,218                                  | 12,667          |
| Net realized and unrealized gains (losses) on derivatives                        | (220)                                   | (17,355)        |
| Net gains (losses) on foreign currency transactions                              | (725)                                   | 1,341           |
| <b>Total other income (loss)</b>   | <b>19,797</b>                           | <b>(3,088)</b>  |
| <b>Income (loss) before income taxes</b>   | <b>(5,186)</b>                          | <b>(11,269)</b> |
| Income tax expense (benefit)   | (266)                                   | (66)            |
| <b>Net income (loss)</b>   | <b>(4,920)</b>                          | <b>(11,203)</b> |

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|  |         |       |
|--|---------|-------|
| Net (income) loss attributable to non-controlling interests in consolidated subsidiaries | (8,056) | 2,404 |
|--|---------|-------|

|   |                    |                   |
|---|--------------------|-------------------|
| <b>Net income (loss) attributable to Cowen Group, Inc. stockholders</b> | <b>\$ (12,976)</b> | <b>\$ (8,799)</b> |
|---|--------------------|-------------------|

Weighted average common shares outstanding:

|         |        |        |
|---------|--------|--------|
| Basic   | 72,509 | 37,537 |
| Diluted | 72,509 | 37,537 |

Earnings (loss) per share:

|       |           |           |
|-------|-----------|-----------|
| Basic | \$ (0.18) | \$ (0.23) |
|-------|-----------|-----------|

|         |           |           |
|---------|-----------|-----------|
| Diluted | \$ (0.18) | \$ (0.23) |
|---------|-----------|-----------|

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**  
(in thousands, except share data)  
(unaudited)

|  | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Earnings/<br>Accumulated<br>deficit | Total<br>Stockholders'<br>Equity | Redeemable<br>Noncontrolling<br>Interest | Total<br>Comprehensive<br>Income<br>(Loss) |
|--|---------------------------------|-----------------|----------------------------------|---|---|----------------------------------|--|--|
| <b>Balance,<br/>December 31, 2009</b>          | <b>74,743,163</b>               | <b>\$ 726</b>   | <b>\$ 483,872</b>                | <b>\$ (520)</b>                               | <b>\$ (10,553)</b>                              | <b>\$ 473,525</b>                | <b>\$ 230,825</b>                        |  |
| Comprehensive<br>income (loss):                |                                 |                 |                                  |   |   |                                  |  |  |
| Net income (loss)                              |                                 |                 |                                  |   | (12,976)  | (12,976)                         | 8,056                                    | (4,920)                                    |
| Defined Benefit<br>Plans                       |                                 |                 |                                  | 87  |   | 87                               |  | 87   |
| Foreign currency<br>translation                |                                 |                 |                                  | (241)   |   | (241)                            |  | (241)                                      |
| Total<br>comprehensive<br>income               |                                 |                 |                                  | (154)   | (12,976)  | (13,130)                         | 8,056                                    | (5,074)                                    |
| Capital<br>contributions                       |                                 |                 |                                  |   |   |                                  | 1,902                                    |  |
| Capital distributions                          |                                 |                 |                                  |   |   |                                  | (23,671)                                 |  |
| Deconsolidation of<br>CHRP GP (see<br>Note 2b) |                                 |                 |                                  |   |   |                                  | (1,712)                                  |  |
| Amortization of<br>share based<br>compensation |                                 |                 | 4,210                            |   |   | 4,210                            |  |  |
| <b>Balance, March 31,<br/>2010</b>             | <b>74,743,163</b>               | <b>\$ 726</b>   | <b>\$ 488,082</b>                | <b>\$ (674)</b>                               | <b>\$ (23,529)</b>                              | <b>\$ 464,605</b>                | <b>\$ 215,400</b>                        |  |

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

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

|  | <b>Three Months Ended<br/>March 31,</b> |               |
|--|---|---------------|
|  | <b>2010</b>                             | <b>2009</b>   |
| <b>Cash flows from operating activities:</b>   |   |               |
| Net income (loss)  | \$ (4,920)                              | \$ (11,203)   |
| Adjustments to reconcile net income (loss) to net cash (used in) /<br>provided by operating activities:  |   |               |
| Depreciation and amortization  | 2,494                                   | 1,236         |
| Share-based compensation   | 4,210                                   |               |
| Net loss on disposal of fixed assets   | 264                                     |               |
| Purchases of securities owned, at fair value   | (123,057)                               | (56,709)      |
| Proceeds from sales of securities owned, at fair value   | 72,719                                  | 60,049        |
| Proceeds from the sale of short investments  | 36,626                                  |               |
| Payments to cover short investments  | (17,641)                                |               |
| Net (gains) losses on securities, derivatives and other investments                                      | (1,297)                                 | (586)         |
| <i>Consolidated Funds:</i>   |   |               |
| Purchases of securities owned, at fair value   | (52,535)                                |               |
| Proceeds from sales of securities owned, at fair value   | 43,904                                  |               |
| Purchases of other investments   | (13,039)                                | (1,015)       |
| Proceeds from sales of other investments   | 69,481                                  | 35,824        |
| Net realized and unrealized (gains) losses on securities and other<br>investments and other transactions | (21,227)                                | 1,875         |
| (Increase) decrease in operating assets:   |   |               |
| Securities owned, at fair value, held at broker dealer   | (37,710)                                |               |
| Receivable from brokers  | (29,852)                                | 14,287        |
| Fees receivable  | 6,417                                   | 5,012         |
| Due from related parties   | 4,292                                   | 6,325         |
| Other assets   | (1,475)                                 | (714)         |
| <i>Consolidated Funds:</i>   |   |               |
| Cash and cash equivalents  | (406)                                   | (39)          |
| Other assets   | (725)                                   | 153           |
| Increase (decrease) in operating liabilities:  |   |               |
| Securities sold, but not yet purchased, at fair value, held at<br>broker dealer                          | 24,629                                  |               |
| Payable to brokers   | 24,706                                  |               |
| Compensation payable   | (55,527)                                | (27,772)      |
| Fees payable   | (1,970)                                 | (5,146)       |
| Due to related parties   | (179)                                   | 1,662         |
| Accounts payable, accrued expenses and other liabilities   | (15,613)                                | (3,854)       |
| <i>Consolidated Funds:</i>   |   |               |
| Due to related parties   |   | (136)         |
| Accounts payable, accrued expenses and other liabilities   | (44)                                    | (63)          |
| <b>Net cash (used in) / provided by operating activities</b>   | <b>(87,475)</b>                         | <b>19,186</b> |

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

Table of Contents**Cowen Group, Inc.****Condensed Consolidated Statements of Cash Flows (Continued)**

(in thousands)

(unaudited)

Three Months Ended  
March 31,

2010 2009

*(continued)***Cash flows from investing activities:**

|  |       |       |
|--|-------|-------|
| Purchases of other investments           | (958) |       |
| Proceeds from sales of other investments | 3,539 | 4,233 |
| Purchase of fixed assets                 | (67)  | (195) |

|  |              |              |
|--|--------------|--------------|
| <b>Net cash provided by investing activities</b> | <b>2,514</b> | <b>4,038</b> |
|--|--------------|--------------|

**Cash flows from financing activities:**

|  |          |          |
|--|----------|----------|
| Securities repurchased under agreement to sell |          | (1,425)  |
| Repayments on the line of credit               | (25,001) |          |
| Capital withdrawals to members                 |          | (12,664) |

**Consolidated Funds:**

|  |          |          |
|--|----------|----------|
| Repayments on the line of credit   |          | (10,208) |
| Capital contributions by non-controlling interests in Consolidated Funds | 1,902    |          |
| Capital withdrawals to non-controlling interests in Consolidated Funds   | (26,452) | (21,991) |

|  |                 |                 |
|--|-----------------|-----------------|
| <b>Net cash used in financing activities</b> | <b>(49,551)</b> | <b>(46,288)</b> |
|--|-----------------|-----------------|

|  |           |          |
|--|-----------|----------|
| Change in cash and cash equivalents              | (134,512) | (23,064) |
| Cash and cash equivalents at beginning of period | 147,367   | 46,677   |

|   |                  |                  |
|---|------------------|------------------|
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 12,855</b> | <b>\$ 23,613</b> |
|---|------------------|------------------|

**Supplemental information**

|  |        |        |
|--|--------|--------|
| Cash paid during the period for interest | \$ 580 | \$ 18  |
| Cash paid during the period for taxes    | \$ 138 | \$ 230 |

**Supplemental non-cash information:**

|  |          |    |
|--|----------|----|
| Deconsolidation of CHRP GP (See Note 2b) | \$ 1,712 | \$ |
|--|----------|----|

|   |          |    |
|---|----------|----|
| Net settlement of cash collateral pledged with repayments on the line of credit | \$ 6,745 | \$ |
|---|----------|----|

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, was formed on June 1, 2009 in connection with the Transaction Agreement and Agreement and Plan of Merger ("Transaction Agreement"), dated as of June 3, 2009, by and among Cowen Holdings, Inc., ("Cowen Holdings," formerly Cowen Group, Inc.), Lexington Merger Corp., Ramius LLC ("Ramius," formerly Park Exchange LLC) and RCG Holdings LLC ("RCG," formerly Ramius LLC). For more information related to the acquisition, see Note 3.

Cowen Group, Inc. is a diversified financial services firm and, together with its consolidated subsidiaries (collectively, "Cowen Group" or the "Company") provides alternative investment management, investment banking, research, and sales and trading services through its two business segments: alternative investment management and broker-dealer. The alternative investment management segment includes hedge funds, fund of funds, real estate, healthcare royalty funds and cash management services, offered primarily under the Ramius name. The broker-dealer segment offers industry focused investment banking services for growth-oriented companies, domain knowledge-driven research and a sales and trading platform for institutional investors, primarily under the Cowen name.

**2. Significant Accounting Policies**

**a.**

**Basis of presentation**

These consolidated financial statements include the accounts of the Company, its operating and other subsidiaries, and entities in which the Company has a controlling financial interest or a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these consolidated financial statements, as further discussed below, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

In the opinion of management these unaudited consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("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, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007, included in the Form 10-K of Cowen Group as filed with the SEC on March 25, 2010. 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 business combination between Ramius and Cowen Holdings was accounted for as an acquisition by Ramius of Cowen Holdings. As a result, the historical financial statements of Ramius have become the historical financial statements of the Company.

The assets and liabilities of Cowen Holdings were recorded at their respective fair values, as of November 2, 2009, and combined with those of Ramius. The financial statements of the Company that include periods after November 2, 2009 reflect such fair values and were not restated retroactively to reflect the historical financial position or results of operations of Cowen Holdings. For periods after November 2, 2009, the results of operations of Cowen Holdings are included in the results of

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**Cowen Group, Inc.**

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

**(unaudited)**

**2. Significant Accounting Policies (Continued)**

operations of the Company. Stockholders' equity has been retroactively restated to include the 37,536,826 shares of Class A common stock issued to RCG at the consummation of the Transactions (as defined in Note 3) as the issued capital for all periods prior to the Transactions.

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

**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 interest entity ("VOE") or a variable interest entity ("VIE") under US GAAP.

Voting Interest 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 have the obligation to absorb losses, the right to receive residual returns and the right to direct the activities of the entity that most significantly impact the entity's economic performance. VOEs are consolidated in accordance with Financial Accounting Standards Board ("FASB") accounting standards. In accordance with these standards, the Company presently consolidates five funds deemed to be VOEs for which it acts as the general partner. RTS Global 3x Fund LP ("RTS 3x") was first consolidated in the first quarter of 2010, when it commenced operations.

VIEs are entities that lack one or more of the characteristics of a VOE. Any enterprise having a controlling financial interest in a VIE is considered that VIE's primary beneficiary. In accordance with FASB accounting standards, an enterprise must consolidate all VIEs of which it is the primary beneficiary. Prior to the adoption of the revised accounting guidance for VIEs (as discussed in note 2d) the primary beneficiary of a VIE is defined as the enterprise that has a variable interest, or a combination of variable interests, that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. Subsequent to the adoption of the revised accounting guidance for VIEs the primary beneficiary of a VIE is the enterprise that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and which has an obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company determines whether it is the primary beneficiary of a VIE by performing a qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, terms of any contracts between the Company and the VIE, which interests create or absorb variability, related party relationships and the design of the VIE.

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**Cowen Group, Inc.**

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

(unaudited)

**2. Significant Accounting Policies (Continued)**

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

c.

**Valuation of investments and derivative contracts**

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

- Level 1      Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2      Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3      Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

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

The Company and its operating company subsidiaries act as the manager for the Consolidated Funds. Both the Company and the Consolidated Funds hold certain investments which are valued by the Company, acting as the investment manager. The fair value of these investments is generally estimated based on proprietary models developed by the Company, which include discounted cash flow analyses, public market comparables, and other techniques and may be based, at least in part, on independently sourced market information. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions used in these models, and the timing and actual values realized

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**Cowen Group, Inc.**

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

**(unaudited)**

**2. Significant Accounting Policies (Continued)**

with respect to investments could be materially different from values derived based on the use of those estimates. The valuation methodologies applied impact the reported value of the Company's investments and the investments held by the Consolidated Funds in the consolidated financial statements. Certain of the Company's investments are relatively illiquid or thinly traded and may not be immediately liquidated on demand if needed. Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed and such differences could be material.

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

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

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

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

**Other investments** Other investments measured at fair value consist primarily of portfolio funds and real estate investments, which are valued as follows:

i.

**Portfolio funds** Portfolio funds ("Portfolio Funds") include interests in funds and investment companies managed externally by the Company and unaffiliated managers. The Company follows a new accounting pronouncement regarding fair value measurements and disclosures relating to investments in certain entities that calculate net asset value ("NAV") per share (or

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**Cowen Group, Inc.**

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

**(unaudited)**

**2. Significant Accounting Policies (Continued)**

its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that either are investment companies as defined by the AICPA Audit and Accounting Guide, Investment Companies, or have attributes similar to an investment company, and calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment.

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on the ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a Level 2 fair value measurement. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a Level 3 fair value measurement. See Note 4 for further details of the Company's investments in Portfolio Funds.

**ii.**

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

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

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



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**Cowen Group, Inc.**

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

(unaudited)

**2. Significant Accounting Policies (Continued)**

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

See Note 4 for further information regarding the Company's investments and fair value measurements.

d.

**Recently adopted accounting pronouncements**

In June 2009, the FASB issued a new accounting standard which revises the accounting for VIEs by introducing a new consolidation model. This new standard changes the approach to determining the primary beneficiary of a VIE and requires companies to more frequently assess whether they must consolidate VIEs. The new model identifies two primary characteristics of a controlling financial interest: (1) the power to direct significant activities of the VIE, and (2) the obligation to absorb losses of and/or provide rights to receive benefits from the VIE that are potentially significant to the VIE. In February 2010, the FASB finalized an Accounting Standards Update ("ASU") which defers the requirements of this standard for certain interests in investment funds and certain similar entities. Therefore the adoption of this new standard on January 1, 2010 did not have a material impact on the Company's financial position, results of operations or cash flows, as substantially all of the entities in which it holds variable interests qualify for the scope deferral under the ASU.

In June 2009, the FASB issued amended guidance on accounting for transfers of financial assets. The amendments were issued to improve the information that a reporting entity provides in its financial statements about a transfer of financial assets, the effects of a transfer on its financial statements, and a transferor's continuing involvement, if any, in transferred financial assets. The amendments eliminate the concept of qualifying special purpose entities from US GAAP. These entities will now be evaluated for consolidation in accordance with the applicable consolidation criteria. The amendments are effective for reporting periods beginning on or after November 15, 2009. The adoption of this new standard on January 1, 2010 did not have a material impact on the Company's financial position, results of operations or cash flows.

In January 2010, the FASB issued a new accounting standard that provides amended disclosure requirements related to fair value measurements. This standard is effective for financial statements issued for reporting periods beginning after December 15, 2009 for certain disclosures and for reporting periods beginning after December 15, 2010 for other disclosures. Since these amended principles require only additional disclosures concerning fair value measurements, adoption will and has not affected the Company's financial condition, results of operations or cash flows.

e.

**Future adoption of accounting pronouncements**

As of March 31, 2010, none of the changes to the Codification issued by the FASB that are not yet effective are expected to have an impact on the Company's financial position or results of operations.

**3. Acquisition**

On November 2, 2009, the transactions contemplated by the Transaction Agreement (the "Transactions"), were consummated including (1) the merger of Lexington Merger Corp. with and into

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****3. Acquisition (Continued)**

Cowen Holdings, pursuant to which each outstanding share of common stock of Cowen Holdings was converted into one share of Class A common stock of the Company and (2) the transfer by RCG (which prior to the consummation of the Transactions operated the Ramius business) of substantially all of its assets and liabilities to Park Exchange LLC in exchange for the Company's issuance to RCG of 37,536,826 shares of Class A common stock of the Company. Following the consummation of the Transactions, each of Park Exchange LLC and Cowen Holdings became wholly owned subsidiaries of the Company, and Park Exchange LLC was renamed Ramius LLC.

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

Included in the accompanying consolidated statements of operations for the three months ended March 31, 2010 are revenues of \$38.1 million and a net loss of \$15.2 million related to Cowen Holdings. The following table provides unaudited supplemental pro forma financial information for the three months ended March 31, 2009 as if the Transactions had occurred as of the beginning of that period:

|   |    | <b>Three Months Ended<br/>March 31, 2009<br/>(in thousands, except<br/>per share data)<br/>(unaudited)</b> |
|---|----|--|
| Pro forma total revenues  | \$ | 64,458   |
| Pro forma net loss  |    | (20,394)   |
| Pro forma net loss attributable<br>to Cowen Group, Inc.<br>stockholders |    | (18,410)   |
| Pro forma net loss per share:   |    |  |
| Basic   | \$ | (0.33)   |
| Diluted   | \$ | (0.33)   |

**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds****a.****Operating Entities*****Securities owned, at fair value***

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

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

As of March 31, 2010 and December 31, 2009, securities owned consisted of the following, at fair value:

|                             | As of March 31,<br>2010 | As of December 31,<br>2009 |
|-----------------------------|-------------------------|----------------------------|
|                             | (dollars in thousands)  |                            |
| U.S. Government securities* | \$ 14,003               | \$                         |
| Common stocks               | 51,206                  | 11,439                     |
| Restricted common stock     | 5,058                   |                            |
| Corporate bonds*            | 64,489                  | 38,327                     |
| Options                     | 5,300                   | 1,312                      |
| Warrants and rights         | 587                     | 1,356                      |
| Mutual Funds                | 1,317                   | 1,719                      |
|                             | \$ 141,960              | \$ 54,153                  |

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\*

At March 31, 2010, maturities ranged from April 2010 to December 2012 and interest rates ranged between 0.04% and 12.00%. At December 31, 2009, maturities ranged from April 2010 to December 2012 and interest rates ranged between 0.04% and 12.00%.

***Other investments***

As of March 31, 2010 and December 31, 2009, other investments consisted of the following:

***Other investments***

|  | As of March 31,<br>2010 | As of December 31,<br>2009 |
|--|-------------------------|----------------------------|
|  | (dollars in thousands)  |                            |
| (1) Portfolio Funds, at fair value         | \$ 17,022               | \$ 20,683                  |
| (2) Real estate investments, at fair value | 1,108                   | 1,077                      |
| (3) Equity method investments              | 6,933                   | 6,521                      |
| (4) Lehman claims, at fair value           | 313                     | 209                        |
|  | \$ 25,376               | \$ 28,490                  |

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)*****(1) Portfolio Funds, at fair value***

The Portfolio Funds as of March 31, 2010 and December 31, 2009, included the following:

***Portfolio Funds***

|   | As of March 31,<br>2010 | As of December 31,<br>2009 |
|---|-------------------------|----------------------------|
|   | (dollars in thousands)  |                            |
| Tapestry Investment Co PCC Ltd          | \$ 1,505                | \$ 2,669                   |
| Cowen Healthcare Royalty Partners, L.P. | 14,144                  | 17,009                     |
| Ramius Global Credit Fund LP            | 801                     |                            |
| Ramius Value and Opportunity Fund LP    | 298                     | 639                        |
| RCG Special Opportunities Fund, Ltd     | 165                     | 321                        |
| Other affiliated funds                  | 109                     | 45                         |
|   | \$ 17,022               | \$ 20,683                  |

***(2) Real estate investments, at fair value***

Real estate investments at March 31, 2010 and December 31, 2009 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 \$0.3 million and \$0.2 million, respectively, and real estate debt investments held by the Company of \$0.8 million and \$0.9 million, respectively.

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)*****(3) Equity method investments***

Equity method investments include investments held by the Company in several operating companies whose responsibilities primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate fund's underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 30% to 55%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in three of these entities: RCG Longview Debt Fund IV Management, LLC, RCG Longview Debt Fund IV Partners, LLC and RCG Longview Partners II, LLC. The operating agreements that govern the management of day to day operations and affairs of each of these three entities stipulate that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these three entities require the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess unilateral control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments is the investment in CHRP GP (see note 2b). The following table summarizes equity method investments held by the Company:

|   | As of March 31,<br>2010 | As of December 31,<br>2009 |
|---|-------------------------|----------------------------|
|   | (dollars in thousands)  |                            |
| RCG Longview Debt Fund IV Management, LLC | \$ 1,944                | \$ 1,651                   |
| Cowen Healthcare Royalty GP, LLC*         | 1,153                   |                            |
| RCG Longview Partners, LLC                | 1,365                   | 1,565                      |
| RCG Urban American, LLC                   | 675                     | 605                        |
| Urban American Real Estate Fund II, L.P.  | 490                     | 409                        |
| RCG Longview Louisiana Manager, LLC       | 341                     | 400                        |
| RCG Longview Equity Management, LLC       | 298                     | 1,360                      |
| RCG Kennedy House, LLC                    | 258                     | 222                        |
| Other                                     | 409                     | 309                        |
|   | \$ 6,933                | \$ 6,521                   |

\*

See Note 2b

As of March 31, 2010, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of

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**Cowen Group, Inc.**

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

**(unaudited)**

**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

losses in the investee including reflecting its share of the clawback obligation in the amount of \$6.2 million. All such amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition.

The Company's income (loss) from equity method investments was \$0.4 million and \$0.6 million for the three months ended March 31, 2010 and 2009, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations.

***(4) Lehman Claims, at fair value***

Lehman Brothers International (Europe) ("LBIE"), through certain affiliates, was a prime broker to the Company, and the Company held cash and cash equivalent balances with LBIE. On September 15, 2008, LBIE was placed into administration (the "Administration") in the United Kingdom and, as a result, the assets held by the Company in its LBIE accounts were frozen at LBIE. The status and ultimate resolution of the assets under LBIE's Administration proceedings is uncertain. The assets of the Company at LBIE at the time of Administration (the "Total Net Equity Claim") consist of \$1.0 million. There can be no assurance that the Total Net Equity Claim value, as determined by the Company, will be accepted by the Administrators, nor does the Company know the manner and timing in which such claim will be satisfied and the ultimate value that will be received.

Given the great degree of uncertainty as to the status of the assets held at LBIE and the process and prospects of the return of those assets, the Company has decided to fair value the Total Net Equity Claim at an approximately 80% discount at December 31, 2009 and a 70% discount at March 31, 2010, which represents management's best estimate at the respective dates of 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 Lehman unsecured debt. In determining the estimated value of the Total Net Equity Claim, the Company was required to use considerable judgment and is based on the facts currently available. As additional information on the LBIE proceeding becomes available, the Company may need to adjust the valuation of the Estimated Recoverable Lehman Claim. The actual loss that may ultimately be incurred by the Company with respect to the pending LBIE claim is not known and could be materially different from the estimated value assigned by the Company.

***Securities sold, not yet purchased, at fair value***

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

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

purchased, at fair value, were \$58.3 million and \$14.8 at March 31, 2010 and December 31, 2009, respectively.

**b.****Consolidated Funds*****Securities owned, at fair value***

Securities owned held by the Consolidated Funds are comprised of:

|                             | As of March 31,<br>2010 | As of December 31,<br>2009 |
|-----------------------------|-------------------------|----------------------------|
|                             | (dollars in thousands)  |                            |
| U.S. Government securities* | \$ 7,438                | \$                         |
| Corporate bonds*            | 1,190                   |                            |
|                             | \$ 8,628                | \$                         |

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\*

Maturities in 2010 range from April 2010 to April 2011 and interest rates ranging between 0.00% and 4.88%. Investments are United States based. The corporate bonds cover the healthcare, mortgage and utility industries.

***Other investments, at fair value***

Other investments held by the Consolidated Funds are comprised of:

|                     | As of March 31,<br>2010 | As of December 31,<br>2009 |
|---------------------|-------------------------|----------------------------|
|                     | (dollars in thousands)  |                            |
| (1) Portfolio Funds | \$ 501,229              | \$ 546,526                 |
| (2) Lehman Claims   | 13,966                  | 3,881                      |
|                     | \$ 515,195              | \$ 550,407                 |

***(1) Investments in Portfolio Funds, at fair value***

At March 31, 2010 and December 31, 2009, investments in Portfolio Funds, at fair value, included the following:

|                              | As of March 31,<br>2010 | As of December 31,<br>2009 |
|------------------------------|-------------------------|----------------------------|
|                              | (dollars in thousands)  |                            |
| Investments of Enterprise LP | \$ 412,294              | \$ 449,160                 |

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|  |        |        |
|--|--------|--------|
| Investments of consolidated fund of funds investment companies | 88,935 | 97,366 |
|--|--------|--------|

|  |    |         |    |         |
|--|----|---------|----|---------|
|  | \$ | 501,229 | \$ | 546,526 |
|--|----|---------|----|---------|



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**Cowen Group, Inc.**

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

**(unaudited)**

**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

***Consolidated investments of Enterprise LP***

Ramius Enterprise LP ("Enterprise LP") operated under a "master feeder" structure with Ramius Enterprise Master Fund Ltd ("Enterprise Master"), whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate, LP. The consolidated investments in Portfolio Funds recorded in other investments on the condensed consolidated statements of financial condition includes Enterprise LP's investment of \$412.3 million and \$449.2 million in Enterprise Master as of March 31, 2010 and December 31, 2009, respectively. Enterprise LP can redeem from or contribute to its investment in Enterprise Master on a monthly basis at the decision of the Company with no prior notice as cash is needed at Enterprise LP. There are no unfunded commitments at Enterprise LP. See Note 11 for unfunded commitments of Enterprise Master. Enterprise Master utilizes certain strategies including 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 has broad investment powers and maximum flexibility in seeking to achieve its investment objective. It may invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. See Note 5 for further information on the underlying investments of Enterprise Master.

***Investments of consolidated fund of funds investment companies***

The investments of consolidated fund of funds investment companies of \$88.9 million and \$97.4 million at March 31, 2010 and December 31, 2009, respectively, include the investments of Ramius Levered Multi-Strategy FOF LP ("Levered FOF"), Ramius Multi-Strategy FOF LP ("Multi-Strat FOF") and Ramius Vintage Multi-Strategy FOF LP ("Vintage FOF"), all of which are investment companies managed by Ramius Alternative Solutions LLC and RTS 3x which is managed by Ramius Trading Strategies LLC. Levered FOF's and Multi-Strat FOF's investment objectives are to invest discrete pools of their capital on a leveraged basis among portfolio managers that invest through Portfolio Funds, forming a multi-strategy, diversified investment portfolio designed to achieve returns with low to moderate volatility. Vintage FOF's investment objective is to allocate its capital among portfolio managers that invest through investment pools or managed accounts thereby forming concentrated investments in high conviction managers designed to achieve attractive risk adjusted returns with moderate relative volatility. RTS 3x's investment objective is to achieve attractive investment returns on a risk-adjusted basis that are non-correlated with the traditional equity and bond markets by investing substantially all of its capital pursuant to managed futures and global macro-based investment strategies. RTS 3x seeks to achieve its objective through a multi-advisor investment approach by allocating its capital among third-party Trading Advisors that are unaffiliated with RTS 3x.

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**Cowen Group, Inc.**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**(unaudited)**
**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

The following is a summary of the investments held by the four consolidated fund of funds, at fair value, as of March 31, 2010 and December 31, 2009:

|  | Strategy               | March 31, 2010                       |                              |                                      |                       | Total Fair Value |
|--|------------------------|--------------------------------------|------------------------------|--------------------------------------|-----------------------|------------------|
|  |                        | Ramius Levered Multi-Strategy FOF LP | Ramius Multi-Strategy FOF LP | Ramius Vintage Multi-Strategy FOF LP | RTS Global 3x Fund LP |                  |
|  |                        | Fair Value                           | Fair Value                   | Fair Value                           | Fair Value            |                  |
| (dollars in thousands)                       |                        |                                      |                              |                                      |                       |                  |
| Ramius Multi-Strategy Master FOF LP*         | Multi-Strategy         | \$                                   | \$ 34,536                    | \$                                   | \$                    | \$ 34,536(a)     |
| Ramius Vintage Multi-Strategy Master FOF LP* | Multi-Strategy         |                                      |                              | 40,255                               |                       | 40,255(a)        |
| Tapestry Pooled Account V LLC*               | Credit-Based           | 726                                  |                              |                                      |                       | 726(b)           |
| Externally Managed Portfolio Funds           | Credit-Based           | 639                                  |                              |                                      |                       | 639(b)           |
| Externally Managed Portfolio Funds           | Futures & Global Macro |                                      |                              |                                      | 9,354                 | 9,354(c)         |
| Externally Managed Portfolio Funds           | Event Driven           | 2,815                                |                              |                                      |                       | 2,815(d)         |
| Externally Managed Portfolio Funds           | Hedged Equity          | 29                                   |                              |                                      |                       | 29(e)            |
| Externally Managed Portfolio Funds           | Multi-Strategy         | 528                                  |                              |                                      |                       | 528(f)           |
| Externally Managed Portfolio Funds           | Fixed Income Arbitrage | 53                                   |                              |                                      |                       | 53(g)            |
| Externally Managed Portfolio Funds           | Other                  |                                      |                              |                                      |                       |                  |
|  |                        | \$ 4,790                             | \$ 34,536                    | \$ 40,255                            | \$ 9,354              | \$ 88,935        |

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**Cowen Group, Inc.**

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

(unaudited)

**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

|  | Strategy       | December 31, 2009                             |                                    |   | Total<br>Fair<br>Value |
|--|----------------|---|------------------------------------|---|------------------------|
|  |                | Ramius<br>Levered<br>Multi-Strategy<br>FOF LP | Ramius<br>Multi-Strategy<br>FOF LP | Ramius<br>Vintage<br>Multi-Strategy<br>FOF LP |                        |
|  |                | Fair Value                                    | Fair Value                         | Fair Value                                    |                        |
| (dollars in thousands)                       |                |   |                                    |   |                        |
| Ramius Multi-Strategy Master FOF LP*         | Multi-Strategy | \$  | \$ 43,939                          | \$  | \$ 43,939(a)           |
| Ramius Vintage Multi-Strategy Master FOF LP* | Multi-Strategy |   |                                    | 47,371  | 47,371(a)              |
| Tapestry Pooled Account V LLC*               | Credit-Based   | 783   |                                    |   | 783(b)                 |
| Externally Managed Portfolio Funds           | Credit-Based   | 1,894   |                                    |   | 1,894(b)               |
| Externally Managed Portfolio Funds           | Event Driven   | 2,787   |                                    |   | 2,787(d)               |
| Externally Managed Portfolio Funds           | Hedged Equity  | 28  |                                    |   | 28(e)                  |
| Externally Managed Portfolio Funds           | Multi-Strategy | 497   |                                    |   | 497(f)                 |
|  | Fixed Income   |   |                                    |   |                        |
| Externally Managed Portfolio Funds           | Arbitrage      | 56  |                                    |   | 56(g)                  |
| Externally Managed Portfolio Funds           | Other          | 11  |                                    |   | 11                     |
|  |                | \$ 6,056                                      | \$ 43,939                          | \$ 47,371                                     | \$ 97,366              |

\*  
These Portfolio Funds are affiliates of the Company.

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

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**Cowen Group, Inc.**

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

(unaudited)

**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

- (a) Investments held in affiliated master funds can be redeemed on a monthly basis with no advance notice.
- (b) The Credit-Based strategy aims to generate returns via positions in the credit sensitive sphere of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of the interest exposure. Of this balance, 43% has annual redemption policies subject to a 90-day redemption notification period. The investments held in Tapestry Pooled Account V LLC, a related fund, are held solely in a credit based fund which the fund's manager has placed in a side-pocket. The remaining amount of the investments within this category represents an investment in a fund that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated.
- (c) The futures and global macro strategy is made up of several portfolio funds, each of which will be advised independently by a professional commodity trading advisor implementing primarily managed futures or global macro-based investment strategies. The trading advisors (through their respective portfolio funds) will trade independently of each other and, as a group, will employ a wide variety of systematic, relative value and discretionary trading programs in the global currency, fixed income, commodities and equity futures markets. In implementing their trading programs, the trading advisors will trade primarily in the futures and forward markets (as well as in related options). Although certain trading advisors may be permitted to use total return swaps and trade other financial instruments from time to time on an interim basis, the primary focus will be on the futures and forward markets. Redemption frequency of these portfolio funds are monthly (and intra-monthly for a \$10,000 fee) and the notification period for redemptions is 5 business days (or 3 business days for intra-month).
- (d) The Event Driven strategy is generally implemented through various combinations and permutations of merger arbitrage, restructuring and distressed instruments. Approximately 9% of the investments in this category represent investments in a fund that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated. The remaining amount of the investments in this category is in a side pocket or suspended with undetermined payout dates.
- (e) The Hedged Equity strategy focuses on equity strategies with some directional market exposure. The strategy attempts to profit from market efficiencies and direction. As of December 31, 2009, the investee fund manager has side-pocketed the Company's investment.
- (f) The Multi-Strategy investment objective is to invest discrete pools of its capital among portfolio managers that invest through investment funds, forming multi-strategy, diversified investment portfolios designed to achieve non-market directional returns with low relative volatility. The investments in this category represent investments in a fund that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated.
- (g) The Fixed Income Arbitrage strategy seeks to achieve long term capital appreciation by employing a variety of strategies to generate returns without significant exposure to credit spread, interest rate changes or duration. As of December 31, 2009, the investment manager has gated the Company's investment.

**(2) Lehman Claims, at fair value**

With respect to the aforementioned Lehman claims, the Total Net Equity Claim of Enterprise Master consists of \$24.3 million. As a result of Enterprise Master and certain of the funds managed by the Company having assets they held at LBIE frozen in their LBIE prime brokerage account and the degree of uncertainty as to the status of those assets and the process and prospects of the return of those assets, Enterprise Master and the funds managed by the Company decided that only the investors who were invested at the time of the Administration should participate in any profit or loss relating to the Estimated Recoverable Lehman Claim. As a result, Enterprise Master and certain of the funds managed by the Company with assets held at LBIE granted a 100% participation in the Estimated Recoverable Lehman Claims to Special Purpose Vehicles (the "SPVs" or "Lehman Segregated Funds") incorporated under the laws of 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.



Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

In addition, Lehman Brothers, Inc. ("LBI") was a prime broker to Enterprise Master and it holds cash balances of \$5.3 million. On September 19, 2008, LBI was placed in a Securities Investor Protection Corporation ("SIPC") liquidation proceeding after the filing for bankruptcy of its parent Lehman Brothers Holdings, Inc. The status of the assets under LBI's bankruptcy proceedings has not been determined. The amount that will ultimately be recovered from LBI will depend on the amount of assets available in the fund of customer property to be established by the trustee appointed under the Securities Investor Protection Act (the "SIPA Trustee") as approved by the bankruptcy court as well as the total amount of customer claims that seek recovery from the fund of customer property. Based on recent court filings by the SIPA Trustee, the total amount of customer claims exceeds the assets that are likely to be in the fund of customer property. In addition, the court filings also indicate that Barclays plc has submitted a substantial claim against LBI relating to an asset purchase agreement entered into by Barclays plc with LBIE near the time of the SIPC liquidation proceeding that could affect the amount of assets that are included in the fund of customer property. As a result of these uncertainties and the timing of any distributions from LBI in respect of the Company's customer claims, management has estimated recovery with respect to the Company's LBI exposure at 47%, which represents the present value of the mid point between what management believes are reasonable estimates of the low side and high side potential recovery rates with respect to the Company's LBI exposure. The estimated recoverable amount by the Company may differ from the actual recoverable amount of the pending LBI claim, and the differences may be material.

**Indirect Concentration of the Underlying Investments Held by Consolidated Funds**

From time to time, through its investments in the Consolidated Funds, the Company may indirectly maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Consolidated Funds' net assets (on an aggregated basis). Based on information that is available to the Company at March 31, 2010 and December 31, 2009, the Company identified Consolidated Funds that had interests in an issuer of investments, for which the Company's pro-rata share exceeds 5% of the Consolidated Funds' net assets (on an aggregated basis). The following table presents such interests which represent the aggregate of (i) the gross amount of exposure that Consolidated Funds have through their investments held directly and (ii) the gross amount of exposure held indirectly through their investments in any unconsolidated master funds:

|  | <b>As of March 31, 2010</b>   |                   |
|--|-------------------------------|-------------------|
|  | <b>Shares/ Principal</b>      | <b>Fair Value</b> |
|  | <b>Amount</b>                 |                   |
|  | <b>(amounts in thousands)</b> |                   |
| U.S. Treasury notes, 0.87% - 8.75%,<br>due February 2012 - August 2020, including futures    | \$ 77,342                     | \$ 81,354         |
| U.S. Treasury notes, 1.00% - 3.625%,<br>due December 2011 - February 2020, including futures | 111,710                       | (111,342)         |
|  | 25                            |                   |

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## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

## 4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)

|   | As of December 31, 2009  |             |
|---|--------------------------|-------------|
|   | Shares/ Principal Amount | Fair Value  |
|   | (amounts in thousands)   |             |
| Harvest Energy Trust 7.875% October 2011  | \$ 3,415                 | \$ 3,441    |
| Harvest Energy Trust 6.40% - 7.5% October 2012 - May 2015                               | C\$ 29,202               | \$ 28,169   |
| Burlington Northern Sante Fe (common stock shares)                                      | 358                      | \$ 35,314   |
| U.S. Treasury notes, 0.75% - 8.75%, due September 2011 - August 2020, including futures | \$ 181,230               | \$ 185,220  |
| U.S. Treasury notes, 1.375% - 3.625%, due April 2012 - November 2019, including futures | \$ 83,090                | \$ (82,034) |

*Fair value measurements*

The following table presents the financial instruments recorded at fair value on the condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of March 31, 2010 and December 31, 2009:

*Operating Entities*

|                          | Assets at Fair Value as of March 31, 2010 |           |           |            |
|--------------------------|---|-----------|-----------|------------|
|                          | Level 1                                   | Level 2   | Level 3   | Total      |
|                          | (dollars in thousands)                    |           |           |            |
| Securities owned         |   |           |           |            |
| US Government securities | \$ 14,003                                 | \$        | \$        | \$ 14,003  |
| Common stocks            | 50,866                                    | 6         | 334       | 51,206     |
| Restricted common stock  |   |           | 5,058     | 5,058      |
| Corporate bonds          |   | 64,489    |           | 64,489     |
| Options                  | 5,300                                     |           |           | 5,300      |
| Warrants and rights      |   |           | 587       | 587        |
| Mutual Funds             | 1,317                                     |           |           | 1,317      |
| Other investments        |   |           |           |            |
| Portfolio Funds(a)       | 1,504                                     | 1,111     | 14,407    | 17,022     |
| Real estate investments  |   |           | 1,108     | 1,108      |
| Lehman claim             |   |           | 313       | 313        |
| Other assets             |   |           |           |            |
| Derivative contracts     | 87  |           |           | 87         |
|                          | \$ 73,077                                 | \$ 65,606 | \$ 21,807 | \$ 160,490 |

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## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

## 4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)

## Liabilities at Fair Value as of March 31, 2010

|                        | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|---------|-------|
| (dollars in thousands) |         |         |         |       |

**Securities sold, not yet purchased**

|               |           |    |    |           |
|---------------|-----------|----|----|-----------|
| Common stocks | \$ 55,930 | \$ | \$ | \$ 55,930 |
| Options       | 2,368     |    |    | 2,368     |
|               | \$ 58,298 | \$ | \$ | \$ 58,298 |

## Assets at Fair Value as of December 31, 2009

|                        | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|---------|-------|
| (dollars in thousands) |         |         |         |       |

**Securities owned**

|                     |           |        |        |           |
|---------------------|-----------|--------|--------|-----------|
| Common stocks       | \$ 11,081 | \$ 24  | \$ 334 | \$ 11,439 |
| Corporate bonds     |           | 38,327 |        | 38,327    |
| Options             | 1,312     |        |        | 1,312     |
| Warrants and rights |           | 1,356  |        | 1,356     |
| Mutual funds        | 1,719     |        |        | 1,719     |

**Other investments**

|                         |       |     |        |        |
|-------------------------|-------|-----|--------|--------|
| Portfolio Funds(a)      | 2,669 | 644 | 17,370 | 20,683 |
| Real estate investments |       |     | 1,077  | 1,077  |
| Lehman claim            |       |     | 209    | 209    |

|           |           |           |           |
|-----------|-----------|-----------|-----------|
| \$ 16,781 | \$ 40,351 | \$ 18,990 | \$ 76,122 |
|-----------|-----------|-----------|-----------|

## Liabilities at Fair Value as of December 31, 2009

|                        | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|---------|-------|
| (dollars in thousands) |         |         |         |       |

**Securities sold, not yet purchased**

|               |           |    |    |           |
|---------------|-----------|----|----|-----------|
| Common stocks | \$ 14,307 | \$ | \$ | \$ 14,307 |
| Options       | 505       |    |    | 505       |
|               | \$ 14,812 | \$ | \$ | \$ 14,812 |



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**Cowen Group, Inc.**

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

(unaudited)

**4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

*Consolidated Funds' investments*

| Assets at Fair Value as of March 31, 2010 |                        |            |            |            |
|---|------------------------|------------|------------|------------|
|   | Level 1                | Level 2    | Level 3    | Total      |
|   | (dollars in thousands) |            |            |            |
| <b>Securities owned</b>                   |                        |            |            |            |
| Corporate Bonds                           | \$ 1,190               | \$         | \$         | \$ 1,190   |
| US Government securities                  | 7,438                  |            |            | 7,438      |
| <b>Other investments</b>                  |                        |            |            |            |
| Portfolio Funds(a)                        |                        | 412,294    | 88,935     | 501,229    |
| Lehman claims                             |                        |            | 13,966     | 13,966     |
|   | \$ 8,628               | \$ 412,294 | \$ 102,901 | \$ 523,823 |

| Assets at Fair Value as of December 31, 2009 |                        |            |            |            |
|--|------------------------|------------|------------|------------|
|  | Level 1                | Level 2    | Level 3    | Total      |
|  | (dollars in thousands) |            |            |            |
| Other investments                            |                        |            |            |            |
| Portfolio Funds(a)                           | \$                     | \$ 449,160 | \$ 97,366  | \$ 546,526 |
| Lehman claims                                |                        |            | 3,881      | 3,881      |
|  | \$                     | \$ 449,160 | \$ 101,247 | \$ 550,407 |

(a) Based on its analysis of the nature and risks of these investments, the Company has determined that presenting them as a single class is appropriate.

The following table includes a rollforward of the amounts for the three months ended March 31, 2010 and December 31, 2009, for financial instruments classified within level 3. The classification of a

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****4. Investments and Fair Value Measurements for Operating Entities and Consolidated Funds (Continued)**

financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

|                                 | <b>Operating Entities</b> |  |                                    |                            |                        | <b>Consolidated Funds</b> |                            |                         |
|---------------------------------|---------------------------|--|------------------------------------|----------------------------|------------------------|---------------------------|----------------------------|-------------------------|
|                                 | <b>Common<br/>stock</b>   | <b>Restricted<br/>common<br/>stock</b> | <b>Warrants<br/>and<br/>Rights</b> | <b>Portfolio<br/>Funds</b> | <b>Real<br/>estate</b> | <b>Lehman<br/>claim</b>   | <b>Portfolio<br/>Funds</b> | <b>Lehman<br/>claim</b> |
| Balance at<br>December 31, 2009 | \$ 334                    | \$                                     | \$                                 | \$ 17,370                  | \$ 1,077               | \$ 209                    | \$ 97,366                  | \$ 3,881                |
| Transfers in (out)              |                           |  | 1,356                              | (2,866)                    |                        |                           |                            |                         |
| Purchases                       |                           | 5,000                                  |                                    | 134                        | 44                     |                           | 13,039                     |                         |
| Sales                           |                           |  | (402)                              | (803)                      | (53)                   |                           | (24,205)                   |                         |
| Realized gains (losses)         |                           |  |                                    |                            |                        | 104                       | 2,398                      |                         |
| Unrealized gains<br>(losses)    |                           | 58                                     | (367)                              | 572                        | 40                     |                           | 337                        | 10,085                  |
| Balance at March 31,<br>2010    | \$ 334                    | \$ 5,058                               | \$ 587                             | \$ 14,407                  | \$ 1,108               | \$ 313                    | \$ 88,935                  | \$ 13,966               |
| Balance at<br>December 31, 2008 | \$                        | \$                                     | \$                                 | \$ 1,970                   | \$ 1,605               | \$ 209                    | \$ 157,513                 | \$ 3,881                |
| Transfers in (out)              |                           |  |                                    |                            |                        |                           |                            |                         |
| Purchases                       |                           |  |                                    |                            |                        |                           | 1,015                      |                         |
| Sales                           |                           |  |                                    |                            |                        |                           | (34,929)                   |                         |
| Realized gains (losses)         |                           |  |                                    | (220)                      |                        |                           | 602                        |                         |
| Unrealized gains<br>(losses)    |                           |  |                                    | 2                          | (103)                  |                           | (933)                      |                         |
| Balance at March 31,<br>2009    | \$                        | \$                                     | \$                                 | \$ 1,752                   | \$ 1,502               | \$ 209                    | \$ 123,268                 | \$ 3,881                |

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

There were no significant transfers between Level 1 and Level 2 assets and liabilities for the three months ended March 31, 2010.

[Table of Contents](#)**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****5. Underlying Investments of Unconsolidated Funds Held by Consolidated Funds*****Enterprise Master***

As discussed in Note 4, Enterprise LP's investment in Enterprise Master is equal to Enterprise LP's proportional share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master at March 31, 2010 and December 31, 2009:

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

|                                       | <b>March 31, 2010</b>         |   | <b>December 31, 2009</b>    |   |
|---------------------------------------|-------------------------------|---|-----------------------------|---|
|                                       | <b>Securities<br/>owned</b>   | <b>Securities<br/>sold, but not yet<br/>purchased</b> | <b>Securities<br/>owned</b> | <b>Securities<br/>sold, but not yet<br/>purchased</b> |
|                                       | <b>(dollars in thousands)</b> |   |                             |   |
| Bank debt                             | \$ 1,948                      | \$  | \$ 1,646                    | \$  |
| Commercial mortgage backed securities |                               |   | 2,723                       |   |
| Common stock                          | 194,251                       | (73,917)  | 182,447                     | (47,151)  |
| Convertible debt                      | 119,207                       | (3,290)   | 123,060                     |   |
| Corporate bonds                       | 124,713                       | (1,515)   | 181,402                     | (1,541)   |
| Exchange traded funds                 | 1,772                         | (11,349)  |                             | (5,549)   |
| Foreign government debt               | 5,794                         | (5,833)   | 10,374                      | (10,660)  |
| Loans                                 | 878                           |   | 812                         |   |
| Options put                           | 2,246                         | (1,284)   | 6,052                       | (84)  |
| Options call                          | 3,406                         | (2,441)   | 2,335                       | (3,048)   |
| OTC fx call option                    | 1                             |   | 5                           | (1)   |
| Preferred stock                       | 2,898                         | (622)   | 4,558                       | (198)   |
| Private equity                        | 132                           |   | 107                         |   |
| Restricted stock                      | 8,127                         |   | 6,172                       |   |
| Rights                                | 1,832                         |   | 1,950                       |   |
| Trade claims                          | 128                           |   | 128                         |   |
| US Treasury Notes                     | 123,168                       | (153,132)   | 185,118                     | (82,004)  |
| Warrants                              | 10,040                        |   | 6,831                       |   |
|                                       | \$ 600,541                    | \$ (253,383)  | \$ 715,720                  | \$ (150,236)  |

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## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

## 5. Underlying Investments of Unconsolidated Funds Held by Consolidated Funds (Continued)

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

| Description                                | As of March 31,<br>2010 | As of December 31,<br>2009 |
|--|-------------------------|----------------------------|
|  | (dollars in thousands)  |                            |
| Asset swaps                                | \$ 152                  | \$ 295                     |
| Credit default swaps protection purchased  | (429)                   | (574)                      |
| Credit default swaps protection sold       | 424                     | 432                        |
| Currency forwards                          | (225)                   | 691                        |
| Equity swaps long exposure                 | 21                      | (1,001)                    |
| Futures                                    | (115)                   | (822)                      |
| Interest rate call swaption long exposure  | 13                      | 105                        |
| Interest rate call swaption short exposure |                         | (127)                      |
| Interest rate swaps long exposure          |                         | 40                         |
| Total return swap                          | 903                     | 2,123                      |
|  | <b>\$ 744</b>           | <b>\$ 1,162</b>            |

*Portfolio Funds, owned by Enterprise Master, at fair value*

|  |                        | March 31, 2010    | December 31, 2009 |
|--|------------------------|-------------------|-------------------|
| Strategy                                   | Fair Value             |                   |                   |
|  | (dollars in thousands) |                   |                   |
| 624 Art Holdings, LLC*                     | Artwork                | \$ 926            | \$ 2,091          |
| QREX, LLC*                                 | Life Settlements       |                   | 1,278             |
| Q Capital Strategies, LLC*                 | Life Settlements       | 667               | 779               |
| RCG Longview Equity Fund, LP*              | Real Estate            | 9,240             | 9,036             |
| RCG Longview II, LP*                       | Real Estate            | 2,238             | 2,261             |
| RCG Longview Debt Fund IV, LP*             | Real Estate            | 6,777             | 6,807             |
| RCG Longview, LP*                          | Real Estate            | 237               | 272               |
| RCG Soundview, LLC*                        | Real Estate            | 3,294             | 3,859             |
| RCG Urban American Real Estate Fund, L.P.* | Real Estate            | 2,961             | 2,961             |
| RCG International Sarl*                    | Multi-Strategy         | 6,718             | 7,096             |
| Portside Growth & Opportunity Fund*        | Multi-Strategy         | 8,373             | 9,753             |
| RCG Special Opportunities Fund, Ltd*       | Multi-Strategy         | 106,420           | 110,279           |
| Ramius Credit Opportunities Fund Ltd*      | Distressed             | 341               | 717               |
| RCG Endeavour, LLC*                        | Multi-Strategy         | 99                | 149               |
| RCG Energy, LLC*                           | Energy                 | 22,101            | 23,063            |
| RCG Rennergys, LLC*                        | Energy                 | 3                 | 3                 |
| Other Private Investments                  | Various                | 14,786            | 16,059            |
| Real Estate Investments                    | Real Estate            | 20,839            | 21,364            |
|  |                        | <b>\$ 206,020</b> | <b>\$ 217,827</b> |

\*

These Portfolio Funds are affiliates of the Company.

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## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

## 5. Underlying Investments of Unconsolidated Funds Held by Consolidated Funds (Continued)

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

As discussed in Note 4, Multi-Strat FOF and Vintage FOF's investments in their respective master funds are equal to their proportional share of their master fund's net assets; as a result, the investments in Portfolio Funds of the master funds reflected below exceed the net investment which Multi-Strat FOF and Vintage FOF have recorded. The following table presents summarized investment information for the underlying Portfolio Funds held by Ramius Multi-Strategy Master FOF LP and Ramius Vintage Multi-Strategy Master FOF LP, at fair value, as of March 31, 2010 and December 31, 2009:

| Strategy                                     | March 31, 2010                               |   | December 31, 2009                            |   |
|--|--|---|--|---|
|  | Ramius<br>Multi-Strategy<br>Master<br>FOF LP | Ramius<br>Vintage<br>Multi-Strategy<br>Master<br>FOF LP | Ramius<br>Multi-Strategy<br>Master<br>FOF LP | Ramius<br>Vintage<br>Multi-Strategy<br>Master<br>FOF LP |
| (dollars in thousands)                       |  |   |  |   |
| Ramius Hedged Equity FOF LP*                 | Hedged Equity                                | \$ 1,471  | \$ 6,725                                     | \$  |
| Ramius Vintage Multi-Strategy Master FOF LP* | Multi Strategy                               | 2,444   | 5,394  |   |
| Tapestry Pooled Account II, LLC*             | Hedged Equity                                |   | 4,405  | 5,643   |
| Tapestry Pooled Account V, LLC*              | Credit-Based                                 | 1,495   | 1,596  | 1,612   |
| Externally Managed Funds                     | Credit-Based                                 | 6,270   | 984  | 4,084   |
| Externally Managed Funds                     | Event Driven                                 | 8,705   | 9,770  | 9,117   |
| Externally Managed Funds                     | Fixed Income                                 |   |  | 13,912  |
| Externally Managed Funds                     | Arbitrage                                    | 76  | 81   |   |
| Externally Managed Funds                     | Hedged Equity                                | 6,838   | 4,749  | 5,461   |
| Externally Managed Funds                     | Multi Strategy                               | 7,779   | 7,988  | 11,564  |
| Externally Managed Funds                     | Other  |   | 47   | 14,647  |
| Externally Managed Funds                     | Global Macro                                 | 3,008   | 3,231  | 2,081   |
| Externally Managed Funds                     | Opportunistic                                |   |  | 5,321   |
| Externally Managed Funds                     | Equity                                       |   | 2,967  | 2,825   |
| Externally Managed Funds                     | Managed Futures                              | 2,332   | 1,236  | 2,256   |
|  |  | \$ 40,418   | \$ 36,926                                    | \$ 48,422   |
|  |  |   |  | \$ 51,956   |

\*

These Portfolio Funds are affiliates of the Company.

*RTS Global 3x Fund LP's Portfolio Fund investments*

RTS Global 3X, which commenced operations in March 2010, invests over half of its equity in six externally managed portfolio funds (See Note 4) which primarily concentrate around futures and global

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**Cowen Group, Inc.**

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

(unaudited)

**5. Underlying Investments of Unconsolidated Funds Held by Consolidated Funds (Continued)**

macro strategies. The following table presents summarized investment information for the underlying Portfolio Funds held by RTS Global 3X, at fair value, as of March 31, 2010:

|                      | <b>As of March 31, 2010</b>   |
|----------------------|-------------------------------|
|                      | <b>(dollars in thousands)</b> |
| Bond Futures         | \$ 5                          |
| Commodity Forward    | 169                           |
| Commodity Future     | 837                           |
| Currency Forward     | 270                           |
| Currency Future      | 296                           |
| Energy Future        | 6                             |
| Index Future         | 261                           |
| Interest Rate Future | 25                            |
|                      | \$ 1,869                      |

**6. Goodwill**

Goodwill is reviewed for possible impairment at least annually or more frequently if events or circumstances indicate a possible impairment. There were no additions to goodwill and no impairment losses during three months ended March 31, 2010.

[Table of Contents](#)**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****7. Redeemable non-controlling interests in consolidated subsidiaries**

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

|  | As of March 31,<br>2010 | As of December 31,<br>2009 |
|--|-------------------------|----------------------------|
|  | (dollars in thousands)  |                            |
| <b><i>Non-controlling interests in consolidated subsidiaries</i></b> |                         |                            |
| Operating Companies(a)   | \$                      | \$ 1,713                   |
| Consolidated Funds   | 215,400                 | 229,112                    |
|  | \$ 215,400              | \$ 230,825                 |

(a)  
See Note 2b

|  | Three Months<br>Ended March 31, |          |
|--|---------------------------------|----------|
|  | 2010                            | 2009     |
|  | (dollars in thousands)          |          |
| <b><i>Net (income) loss attributable to non-controlling interests in consolidated subsidiaries</i></b> |                                 |          |
| Operating Companies  | \$                              | \$ 421   |
| Consolidated Funds   | (8,056)                         | 1,983    |
|  | \$ (8,056)                      | \$ 2,404 |

**8. Share-Based Compensation and Employee Ownership Plans****Share-based compensation plans in place after the Transactions**

The Company issues share-based compensation under Cowen Holdings's previously established 2006 Equity and Incentive Plan and 2007 Equity and Incentive Plan (collectively, the "Equity Plans"). The Equity Plans permit the grant of options, restricted shares, restricted stock units and other equity based awards to the Company's employees, consultants and directors for up to 10,225,000 shares of common stock. 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. As of March 31, 2010, there were approximately 0.1 million shares available for future issuance under the Equity Plans.

In addition to the Equity Plans, certain employees of the Company were issued RCG membership interests by RCG, a related party of the Company, in connection with the Transactions (the "RCG Grants"). 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.

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****8. Share-Based Compensation and Employee Ownership Plans (Continued)**

The Company measures compensation cost for share-based awards according to the fair value 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 and the RCG grants, the Company recognized expense of \$2.7 million and \$1.5 million, respectively, for the three months ended March 31, 2010. The income tax effect recognized for the Equity Plans and the RCG Grants was a benefit of \$1.1 million and \$0.6 million, respectively, for the three months ended March 31, 2010.

***Stock Options***

There were no stock options granted or exercised during the three months ended March 31, 2010 and 2009. The following table summarizes the Company's stock option activity for the three months ended March 31, 2010:

|   | Shares<br>Subject to<br>Option | Weighted<br>Average<br>Exercise<br>Price/Share | Weighted<br>Average<br>Remaining<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value(1)<br>(in thousands) |
|---|--------------------------------|--|--|--|
| <b>Balance outstanding at December 31, 2009</b> | 892,782                        | \$ 15.06                                       |  |  |
| Options granted                                 |                                |  |  |  |
| Options acquired                                |                                |  |  |  |
| Options exercised                               |                                |  |  |  |
| Options forfeited                               |                                |  |  |  |
| Options expired                                 | (21,879)                       | 16.00  |  |  |
| <b>Balance outstanding at March 31, 2010</b>    | 870,903                        | \$ 15.04                                       | 3.60   | \$   |
| <b>Options exercisable at March 31, 2010</b>    | 809,570                        | \$ 14.97                                       | 3.60   | \$   |

(1)

Based on the Company's closing stock price of \$5.66 on March 31, 2010.

As of March 31, 2010, the unrecognized compensation expense related to the Company's grant of stock options was immaterial.

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

The following table summarizes the Company's restricted shares and restricted stock units granted to employees activity for the three months ended March 31, 2010:

|   | Nonvested<br>Restricted Shares<br>and Stock Units | Weighted-Average<br>Grant Date<br>Fair Value |
|---|---|--|
| <b>Balance outstanding at December 31, 2009</b> | 2,554,182   | \$ 6.90                                      |
| Granted   | 3,848,499   | 4.89   |
| Vested  | (24,912)  | 7.55   |
| Forfeited                                       | (39,268)  | 4.89   |

|                                       |           |    |      |
|---------------------------------------|-----------|----|------|
| Balance outstanding at March 31, 2010 | 6,338,501 | \$ | 5.69 |
|---------------------------------------|-----------|----|------|

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****8. Share-Based Compensation and Employee Ownership Plans (Continued)**

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 March 31, 2010, there was \$23.9 million of unrecognized compensation expense related to the Company's grant of nonvested restricted shares and restricted share units to employees. Unrecognized compensation expense related to nonvested restricted shares and restricted share units granted to employees is expected to be recognized over a weighted-average period of 2.0 years.

***RCG Grants***

The following table summarizes the Company's RCG Grants activity for the three months ended March 31, 2010:

|   | <b>Nonvested<br/>RCG Grants</b> | <b>Weighted-Average<br/>Grant Date<br/>Fair Value</b> |
|---|---------------------------------|---|
| <b>Balance outstanding at December 31, 2009</b> | 2,859,426                       | \$ 7.30   |
| Granted   | 1,515                           | 5.55  |
| Vested  |                                 |   |
| Forfeited                                       | (20,016)                        | 7.30  |
| <b>Balance outstanding at March 31, 2010</b>    | 2,840,925                       | \$ 7.30   |

The fair value of the RCG Grants was determined based on the number of the Company's shares underlying the RCG membership interest and the quoted price of the Company's common stock on the date of the Transactions.

As of March 31, 2010 there was \$15.7 million of unrecognized compensation expense related to the Company's RCG Grants. Unrecognized compensation expense related to RCG Grants is expected to be recognized over a weighted-average period of 2.58 years.

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

As of March 31, 2010, there were 129,135 restricted stock units outstanding for awards to non-employee members of the Company's Board of Directors. During the three months ended March 31, 2010, the Company awarded 101,259 restricted stock units to its non-employee Board members, which were immediately vested and expensed upon grant.

**9. Defined Benefit Plans**

The following amounts relate to the defined benefit plans in aggregate for the three months ended March 31, 2010 and 2009.

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****9. Defined Benefit Plans (Continued)****Components of net periodic benefit cost included in employee compensation and benefits**

|                                    | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|------------------------------------|---|-------------|
|                                    | <b>2010</b>                                 | <b>2009</b> |
|                                    | <b>(dollars in<br/>thousands)</b>           |             |
| Service cost                       | \$  | \$          |
| Interest cost                      | 79  | 84          |
| Expected return on plan assets     | (73)  | (80)        |
| Amortization of (loss) / gain      |   | 1           |
| Amortization of prior service cost | 5   | 5           |
| Net periodic benefit cost          | \$ 11                                       | \$ 10       |

During the three months ended March 31, 2010, the Company made no contributions to its defined benefit plans. The amount to be contributed to these plans in 2010 will be determined in the second quarter.

**10. 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 are the United Kingdom, Germany, Japan, Hong Kong, and China. The Company's effective income tax rate was 5.13% and 0.58% for the three months ended March 31, 2010 and 2009, respectively. The Company used the discrete method in calculating its effective tax for the first quarter of 2010. A reliable estimate of an annual effective tax rate could not be calculated due to the variability in the estimated annual effective tax rates that would result across a range of likely scenarios of income before tax and of permanent differences. The Company will reexamine its methodology in the second quarter of 2010, and use the annual method if reliable estimates can be calculated.

For the period March 31, 2010, the effective tax rate differs from the statutory rate of 35% primarily due to an increase in the Company's valuation allowance.

For the period March 31, 2009, the effective tax rate differed from the statutory rate of 35% primarily because the Company was taxed as a partnership that was only subject to New York City Unincorporated Business Tax.

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

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****10. Income Taxes (Continued)**

actually expected to be realized, for tax purposes, in the foreseeable future. As of March 31, 2010, the Company recorded a valuation allowance against substantially all of its net deferred tax assets.

The Company is subject to examination by the United States Internal Revenue Service, the United Kingdom Inland Revenue Service and state and local and foreign tax authorities in jurisdictions where the Company has significant business operations, such as New York. There are no ongoing income tax audits by any taxing authority, except an enterprise tax audit (based on profits) by the Chinese Tax Authority. This audit covers tax years 2005-2008, and the Company recorded a tax provision against the anticipated assessment from the audit as of March 31, 2010, which was not material. The Company believes the audit will be completed in the second quarter of 2010 and does not expect that the final assessment by the Chinese tax authorities will be materially different than the amount already accrued.

**11. Commitments and Contingencies**

The Company has entered into non-cancellable leases for office space and equipment. These leases contain escalation clauses for operating expenses and real estate taxes. The Company records rent expense on a straight-line basis over the lease term, including any rent holiday periods. Rent expense for the three months ended March 31, 2010 and 2009, was \$3.9 million and \$2.2 million, respectively. At March 31, 2010, future minimum annual lease payments for the Company was as follows:

|                   | <b>Minimum Lease Payments</b> |                        |
|-------------------|-------------------------------|------------------------|
|                   | <b>Equipment Leases</b>       | <b>Facility Leases</b> |
|                   | <b>(in thousands)</b>         |                        |
| Remainder of 2010 | \$ 8,097                      | \$ 13,653              |
| 2011              | 6,140                         | 17,222                 |
| 2012              | 3,506                         | 16,426                 |
| 2013              | 1,760                         | 14,921                 |
| 2014              | 146                           | 10,667                 |
| Thereafter        |                               | 59,998                 |
|                   | \$ 19,649                     | \$ 132,887             |

The Company entered into agreements to sublease certain of the premises for which the lease commitments are included in the above table. These subleases expire in May 2010. During the three months ended March 31, 2010 and 2009, the Company recorded sublease income related to these leases of \$0.5 million and \$0.5 million, respectively.

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.

As of March 31, 2010, the Company had unfunded commitments of \$8.3 million pertaining to capital commitments in three real estate investments held by the Company, all of which pertain to related party investments. Such commitments can be called at any time, subject to advance notice. In addition, the Company has committed to invest \$42.0 million to the funds managed by Cowen Healthcare Royalty Partners (the "CHRP Funds") as a limited partner of the CHRP Funds and also as a member of Cowen Healthcare Royalty GP, LLC, the general partner of the CHRP Funds. This commitment is expected to be called over a two to three year period. The Company will make its



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**Cowen Group, Inc.**

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

**(unaudited)**

**11. Commitments and Contingencies (Continued)**

pro-rata investment in the CHRP Funds along with the other limited partners. Through March 31, 2010, the Company has funded \$15.5 million towards these commitments.

***Litigation***

In connection with Cowen Holdings's previous IPO and separation from Société Générale ("SG") in 2006, Cowen Holdings entered into an indemnification agreement with SG under which (1) SG will indemnify, and will defend and hold harmless Cowen Holdings and each of the Cowen Holdings's subsidiaries from and against certain liabilities assumed or retained by SG; and (2) SG will indemnify Cowen Holdings for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the Cowen Holdings's IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters.

The Company is involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of its businesses. The Company estimates potential losses that may arise out of these matters and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with FASB accounting standards. To the extent that the Company is indemnified by SG, indemnified legal expenses and liabilities will be paid out of escrow pursuant to an escrow agreement with SG. Although there can be no assurances as to the ultimate outcome, the Company has established reserves for litigation and regulatory matters that it believes are adequate as of March 31, 2010. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters.

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

Various claims against the Company may exist in the ordinary course of business. Management of the Company does not believe that any such matter will have a material adverse effect on the Company's consolidated statements of financial condition, condensed consolidated statements of operations or condensed consolidated statements of cash flows.



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**Cowen Group, Inc.**

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

**(unaudited)**

**12. Note Payable and Short-Term Borrowings**

On June 3, 2009, the Company entered into a collateralized revolving credit agreement with HVB AG, as lender, administrative agent and issuing bank, providing for a revolving credit facility with a \$50.0 million aggregate loan commitment amount available, with a \$7.0 million letter of credit sub-limit. The first borrowing under this line occurred on June 30, 2009. As of March 31, 2010 and December 31, 2009, the Company had borrowings of \$18 million and \$43.0 million, respectively, under the line of credit portion and \$6.7 million at December 31, 2009 under the letter of credit portion. At the Company's election and discretion, borrowings under this collateralized revolving credit agreement bear interest per annum (based on a 360 day year) equal to either: (a) 0.5% plus the greater of (1) the lender's prime rate, (2) the overnight federal funds rate plus 0.5% and (3) the LIBOR rate plus 1.0% or (b) the LIBOR rate plus 2.75%. Due to the variable interest rate on these borrowings, their carrying values approximate fair value. The Company is required to pay a quarterly commitment fee on the undrawn portion of the revolving credit facility equal to 1.0% per annum of the undrawn amount. For letters of credit, the Company will pay a fee on the stated amount of the letter of credit at a rate equal to 2.75%. The 2009 collateralized revolving credit agreement was to mature on November 2, 2009 but was extended; \$25 million was extended through January 4, 2010 and \$25 million was extended through September 29, 2011. All terms of the extended collateralized revolving credit agreement remain the same except the following: at the Company's election and discretion, borrowings under the extended 2009 collateralized revolving credit agreement bear interest per annum (based on a 360 day year) equal to either: (1) the lender's prime rate plus 1.5% or (2) the 1, 2 or 3 month LIBOR rate plus 3.5%. For letters of credit, the Company will pay a fee on the stated amount of the letter of credit at a rate equal to 3.5%. The 2009 collateralized revolving credit agreement contained financial and other restrictive covenants that limited the Company's ability to incur additional debt and engage in other activities. As of March 31, 2010 and during the period from June 3, 2009 to March 31, 2010, the Company was in compliance with these covenants.

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

Interest incurred on the Company's lines of credit (in combination with all previous lines of credit) for the three months ended March 31, 2010 and 2009 were \$0.1 million and \$0.3 million, respectively.

Cash collateral pledged at December 31, 2009, on the condensed consolidated statements of financial condition, represents collateral that was required to be posted for obligations or potential obligations under the letter of credit discussed above pursuant to the lease agreement for the Company's premises in New York City. This collateral was released with the terms of the extended collateralized revolving credit agreement. The Company's investment in Enterprise Master through Enterprise LP has been pledged as collateral under the line of credit portion of the revolving credit agreement discussed above.

The Company also has two additional irrevocable letters of credit, the first of which is for \$100,000, which expires on July 26, 2010, supporting workers' compensation insurance with Safety National Casualty Corporation, and the second of which is for \$57,000, which expires on November 14, 2010, supporting Cowen Healthcare Royalty Management, LLC's Stamford office lease. To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. Each of these letters of credit provides for automatic annual renewals, at the Company's option, on their

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**Cowen Group, Inc.**

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

**(unaudited)**

**12. Note Payable and Short-Term Borrowings (Continued)**

expiration dates. As of March 31, 2010 and December 31, 2009, there were no amounts due related to these letters of credit.

**13. Earnings Per Share**

The Company calculates its basic and diluted earnings per share in accordance with FASB accounting standards. Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. As of March 31, 2010, there were 74,743,163 shares outstanding, of which 2,298,204 are restricted. To the extent that outstanding restricted shares are unvested, they are excluded from the calculation of basic earnings per share. The Company has included 129,135 fully vested, unissued restricted stock units in its calculation of basic earnings per share.

Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive nonvested restricted stock and stock options. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares and unexercised stock options. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares are assumed to have been delivered, and options are assumed to have been exercised, on the grant date. The assumed proceeds from the assumed vesting, delivery and exercising were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized and (b) the amount of tax benefit that was credited to additional paid-in capital assuming vesting and delivery of the restricted shares. The tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense recognized for financial statement reporting purposes. Stock options, restricted shares, and restricted share units outstanding were not included in the computation of diluted net loss per common share for the three months ended March 31, 2010, as their inclusion would have been anti-dilutive. There were no restricted shares, restricted share units, or stock options outstanding during the three months ended March 31, 2009.

In calculating earnings per share for the periods prior to the November 2, 2009 transaction date, the net earnings (loss) amounts represent the results for the former Ramius, and the shares outstanding

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****13. Earnings Per Share (Continued)**

represents the number of shares received by the former Ramius in the Transactions. The computation of earnings per share is as follows:

|  | <b>For the Three Months<br/>Ended March 31,</b>  |             |
|--|--|-------------|
|  | <b>2010</b>                                      | <b>2009</b> |
|  | <b>(in thousands, except<br/>per share data)</b> |             |
| Net (loss) income attributable to Cowen Group, Inc. stockholders | \$ (12,976)                                      | \$ (8,799)  |
| Shares for basic and diluted calculations:                       |  |             |
| Average shares used in basic computation                         | 72,509   | 37,537      |
| Stock options  |  |             |
| Restricted shares  |  |             |
| Average shares used in diluted computation                       | 72,509   | 37,537      |
| Earnings (loss) per share:                                       |  |             |
| Basic  | \$ (0.18)  | \$ (0.23)   |
| Diluted  | \$ (0.18)  | \$ (0.23)   |

**14. Segment Reporting**

The Company conducts its operations through two segments: the alternative investment management segment and the broker-dealer segment (subsequent to the Transactions). 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, which management uses to evaluate the financial performance of and make operating decisions for the segment including determining appropriate compensation levels.

The chief operating decision maker uses Economic Income to assess the performance of the segments and make operating decisions for the segments. Economic Income is a pre-tax measure that (i) presents the segments' results of operations without the impact resulting from the consolidation of any of the Consolidated Funds and (ii) excludes goodwill impairment, and (iii) excludes the reorganization expenses for the Transactions and one-time equity awards made in connection with the Transactions.

As further stated below, one major difference between Economic Income and US GAAP net income is that Economic Income 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. This pro rata share has no effect on the overall financial performance for the Alternative Investment Management segment, as ultimately, this income or loss is not income or loss for the Alternative Investment Management segment itself. Included in Economic Income 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.

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## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

## 14. Segment Reporting (Continued)

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

| Three Months Ended March 31, 2010  |   |                    |                    |                        |                      |                    |
|--|---|--------------------|--------------------|------------------------|----------------------|--------------------|
|  |   |                    | Adjustments        |                        |                      |                    |
|  | Alternative<br>Investment<br>Management | Broker-Dealer      | Total<br>Income    | Funds<br>Consolidation | Other<br>Adjustments | US GAAP            |
| (dollars in thousands)   |   |                    |                    |                        |                      |                    |
| <b>Revenues</b>  |   |                    |                    |                        |                      |                    |
| Investment banking   | \$                                      | \$                 | 6,005              | \$                     | \$                   | \$ 6,005           |
| Brokerage  |   |                    | 29,575             |                        |                      | 29,575             |
| Management fees  | 12,587                                  | 28                 | 12,615             | (895)                  | (2,450)              | 9,270              |
| Incentive income   | 1,982                                   |                    | 1,982              |                        | 111                  | 2,093              |
| Investment Income  | 11,192                                  | 229                | 11,421             |                        | (11,421)             |                    |
| Interest and dividends   |   |                    |                    |                        | 804                  | 804                |
| Reimbursement from affiliates  |   |                    |                    | (145)                  | 1,887                | 1,742              |
| Other Revenue  | (51)                                    | 124                | 73                 |                        | 549                  | 622                |
| <i>Consolidated Funds</i>  |   |                    |                    | 6,147                  |                      | 6,147              |
| <b>Total revenues</b>  | <b>25,710</b>                           | <b>35,961</b>      | <b>61,671</b>      | <b>5,107</b>           | <b>(10,520)</b>      | <b>56,258</b>      |
| <b>Expenses</b>  |   |                    |                    |                        |                      |                    |
| Employee compensation and benefits   | 16,184                                  | 25,136             | 41,320             |                        | 2,113                | 43,433             |
| Interest and dividends   | 116                                     |                    | 116                |                        | 330                  | 446                |
| Non-compensation expenses  | 8,783                                   | 24,468             | 33,251             |                        | 952                  | 34,203             |
| Reimbursement from affiliates  | (1,887)                                 |                    | (1,887)            |                        | 1,887                |                    |
| <i>Consolidated Funds</i>  |   |                    |                    | 3,159                  |                      | 3,159              |
| <b>Total expenses</b>  | <b>23,196</b>                           | <b>49,604</b>      | <b>72,800</b>      | <b>3,159</b>           | <b>5,282</b>         | <b>81,241</b>      |
| <b>Other income (loss)</b>   |   |                    |                    |                        |                      |                    |
| Net gain (loss) on securities, derivatives and other investments                   |   |                    |                    |                        | 1,524                | 1,524              |
| <i>Consolidated Funds</i>  |   |                    |                    | 6,108                  | 12,165               | 18,273             |
| <b>Total other income (loss)</b>   |   |                    |                    | <b>6,108</b>           | <b>13,689</b>        | <b>19,797</b>      |
| <b>Income (loss) before income taxes and non-controlling interests</b>             |   |                    |                    |                        |                      |                    |
|  | <b>2,514</b>                            | <b>(13,643)</b>    | <b>(11,129)</b>    | <b>8,056</b>           | <b>(2,113)</b>       | <b>(5,186)</b>     |
| Income taxes   |   |                    |                    |                        | (266)                | (266)              |
| <b>Economic Income (Loss) / Net income (loss) before non-controlling interests</b> |   |                    |                    |                        |                      |                    |
|  | <b>2,514</b>                            | <b>(13,643)</b>    | <b>(11,129)</b>    | <b>8,056</b>           | <b>(1,847)</b>       | <b>(4,920)</b>     |
| (Income) loss attributable to non-controlling interests                            |   |                    |                    | (8,056)                |                      | (8,056)            |
| <b>Economic Income (Loss) / Net Income (loss) available to all Members</b>         | <b>\$ 2,514</b>                         | <b>\$ (13,643)</b> | <b>\$ (11,129)</b> | <b>\$</b>              | <b>\$ (1,847)</b>    | <b>\$ (12,976)</b> |



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## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

## 14. Segment Reporting (Continued)

|   | Three Months Ended March 31, 2009       |                        |                      |            |
|---|---|------------------------|----------------------|------------|
|   |   | Adjustments            |                      |            |
|   | Alternative<br>Investment<br>Management | Funds<br>Consolidation | Other<br>Adjustments | US GAAP    |
|   | (dollars in thousands)                  |                        |                      |            |
| Revenues  |   |                        |                      |            |
| Investment banking  | \$                                      | \$                     | \$                   | \$         |
| Brokerage   |   |                        |                      |            |
| Management fees   | 14,596                                  | (1,010)                | (2,075)              | 11,511     |
| Incentive income  | (2,122)                                 |                        | 2,122                |            |
| Investment Income   | (620)                                   | 1,061                  | (441)                |            |
| Interest and dividends  |   |                        | 91                   | 91         |
| Reimbursement from affiliates   |   | 3,394                  |                      | 3,394      |
| Other Revenue   | 359                                     |                        | 660                  | 1,019      |
| Consolidated Funds  |   | 4,710                  |                      | 4,710      |
| Total revenues  | 12,213                                  | 8,155                  | 357                  | 20,725     |
| Expenses  |   |                        |                      |            |
| Employee compensation and benefits  | 14,907                                  |                        |                      | 14,907     |
| Interest and dividends  | 342                                     |                        | 7                    | 349        |
| Non-compensation expenses   | 9,664                                   |                        | 609                  | 10,273     |
| Reimbursement from affiliates   | (3,414)                                 | 3,414                  |                      |            |
| Consolidated Funds  |   | 3,377                  |                      | 3,377      |
| Total expenses  | 21,499                                  | 6,791                  | 616                  | 28,906     |
| Other income (loss)   |   |                        |                      |            |
| Net gain (loss) on securities, derivatives and other investments            |   |                        | 259                  | 259        |
| Consolidated Funds  |   | (3,347)                |                      | (3,347)    |
| Total other income (loss)   |   | (3,347)                | 259                  | (3,088)    |
| Income (loss) before income taxes and non-controlling interests             | (9,286)                                 | (1,983)                |                      | (11,269)   |
| Income taxes  |   |                        | (66)                 | (66)       |
| Economic Income (Loss) / Net income (loss) before non-controlling interests | (9,286)                                 | (1,983)                | 66                   | (11,203)   |
| (Income) loss attributable to non-controlling interests                     | 421                                     | 1,983                  |                      | 2,404      |
| Less: Special allocation to the Managing Member                             |   |                        |                      |            |
| Economic Income (Loss) / Net Income (loss) available to all Members         | \$ (8,865)                              | \$                     | \$ 66                | \$ (8,799) |



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**Cowen Group, Inc.**

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

**(unaudited)**

**14. Segment Reporting (Continued)**

The following is a summary of the adjustments made to US GAAP net income (loss) for the segment to arrive at Economic Income:

**Funds Consolidation:** The impacts of consolidation and the related elimination entries of the Consolidated Funds are not included in Economic Income. Adjustments include elimination of incentive income and management fees earned from the Consolidated Funds and addition of fund expenses excluding management fees paid, fund revenues and investment income (loss).

**Other Adjustments:**

- (a) Economic Income recognizes revenues (i) net of distribution fees paid to agents and (ii) our proportionate share of revenues of certain real estate operating entities for which the investments are recorded under the equity method of accounting for investments.
- (b) Economic Income excludes goodwill impairment and income taxes as management does not consider this item when evaluating the performance of the segment. Also, reimbursement from affiliates is shown as a reduction of Economic Income expenses, but is included as a part of revenues under US GAAP.
- (c) Economic Income recognizes our income from proprietary trading net of related expenses.
- (d) Economic Income recognizes our proportionate share of expenses for certain real estate operating entities for which the investments are recorded under the equity method of accounting for investments.

Substantially all of the Company's revenues are earned from the sponsored funds which the Company manages. For the three months ended March 31, 2010 and 2009, there was no one fund or other customer which represented more than 10% of the Company's total revenues.

**15. Regulatory Requirements**

Ramius Securities LLC is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital. Ramius Securities LLC has elected to use the alternative method, permitted by the Rule, which requires that Ramius Securities LLC maintain net capital in an amount not less than \$250,000. As of March 31, 2010, Ramius Securities LLC had net capital of \$1.4 million, which was approximately \$1.2 million in excess of its required minimum net capital requirement.

In connection with the November 2, 2009 acquisition and subsequent firm-wide initiative to find efficiencies, the firm decided to consolidate the operations of its two wholly-owned registered broker/dealers, Ramius Securities LLC and Cowen and Company, LLC. During the first quarter 2010, many of the processes performed by Ramius Securities LLC were transferred to Cowen and Company, LLC. On April 8, 2010, Ramius Securities LLC filed Form BDW Uniform Request for Withdrawal From Broker-Dealer Registration.

As a registered broker-dealer, Cowen and Company, LLC is also subject to the Rule. Under the alternative method permitted by the Rule, Cowen's minimum net capital requirement, as defined, is \$1.0 million. The Company is not permitted to withdraw equity if certain minimum net capital



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**Cowen Group, Inc.**

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

**(unaudited)**

**15. Regulatory Requirements (Continued)**

requirements are not met. As of March 31, 2010, Cowen and Company, LLC had total net capital of approximately \$34.2 million, which was approximately \$33.2 million in excess of its minimum net capital requirement of \$1.0 million.

Ramius Securities LLC and Cowen and Company, LLC are exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 as their activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

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

Ramius UK Ltd. ("Ramius UK") and Cowen International Limited ("CIL") are subject to the capital requirements of the Financial Services Authority ("FSA") of the UK. Financial Resources, as defined, must exceed the total Financial Resources requirement of the FSA. At March 31, 2010, Ramius UK's Financial Resources of \$1.6 million exceeded its minimum requirement of \$0.4 million by \$1.2 million. At March 31, 2010, CIL's Financial Resources of \$4.7 million exceeded its minimum requirement of \$2.5 million by \$2.2 million.

Cowen Latitude Advisors Limited ("CLAL") is subject to the financial resources requirements of the Securities and Futures Commission ("SFC") of Hong Kong. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the SFC. At March 31, 2010, CLAL's Financial Resources of \$0.3 million exceeded the minimum requirement of \$0.02 million by \$0.3 million.

**16. Related Party Transactions**

The Company acts as managing member, general partner and/or investment manager to the Ramius managed funds, Cowen Healthcare Royalty Management, LLC ("CHRP Management"), and the CHRP Funds, and certain managed accounts. Management fees and incentive income are primarily earned from affiliated entities. Fees receivable from related parties represents the management fees and incentive income owed to the Company from these related funds and certain affiliated managed accounts.

The Company may, at its discretion, waive certain of the fees charged to the funds that it manages to avoid duplication of fees when such funds have an underlying investment in another affiliated investment fund. For the three months ended March 31, 2010 and 2009, the Company reimbursed the funds that it manages \$0.8 million and \$1.4 million, respectively, which were recorded net in management fees and incentive income in the condensed consolidated statements of operations. At March 31, 2010 and December 31, 2009, related amounts still payable were \$3.1 million and \$2.7 million, respectively, and were reflected in fees payable in the condensed consolidated statements of financial condition.

Certain affiliated funds incurred a loss related to a trading error for which the Company determined, consistent with its internal policies, to bear the cost of correcting such error. This resulted in a loss of approximately \$2.7 million for the Company. This amount is included in other expenses in

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**Cowen Group, Inc.**

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

**(unaudited)**

**16. Related Party Transactions (Continued)**

the accompanying condensed consolidated statement of operations for the three months ended March 31, 2010.

Pursuant to the operating agreement for its subsidiary Ramius Alternative Solutions LLC, the Company is required to pay certain distribution fees on assets raised by third party distributors. Such distribution fees are reported as client services and business development in the condensed consolidated statements of operations and for the three months ended March 31, 2010 and 2009, equaled \$0.3 million and \$0.5 million, respectively. At March 31, 2010 and December 31, 2009, related amounts still payable were \$0.3 million and \$0.5 million, respectively, and were reflected in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition.

As a result of a business combination in 2004, Ramius Alternative Solutions LLC acquired receivables of \$9.6 million and assumed liabilities of a corresponding amount relating to various agreements with investors. Such amounts have been recorded in fees receivable and due to related parties, respectively, in the condensed consolidated statements of financial condition. The remaining balance yet to be paid was \$2.3 million and \$2.6 million as of March 31, 2010 and December 31, 2009, respectively. Of such amounts outstanding at March 31, 2010, \$0.6 million will be paid in the remainder of 2010.

The Company may, on occasion, also make loans to employees or other affiliates, excluding executive officers of the Company. These loans are interest bearing and settle pursuant to the agreed-upon terms with such employees or affiliates and are included in receivable from affiliates in the condensed consolidated statement of financial condition. As of March 31, 2010 and December 31, 2009, loans to employees of \$2.2 million and \$1.9 million, respectively, were included in due from related parties on the condensed consolidated statements of financial condition. For the three months ended March 31, 2010 and 2009, interest charged for these loans and advances was immaterial. The remaining balance included in due from related parties primarily relates to amounts due to the Company from affiliated funds and real estate entities due to expenses paid on their behalf.

Included in due to related parties is approximately \$5.1 million and \$5.0 million at March 31, 2010 and December 31, 2009, respectively, related to a subordination agreement with an investor in certain real estate funds. This total is based on a hypothetical liquidation of the real estate funds as of the balance sheet date.

**17. Guarantees**

FASB accounting standards require the Company to disclose information about its obligations under certain guarantee arrangements. Those standards define guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying security (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Those standards also define guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

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**Cowen Group, Inc.**

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

**(unaudited)**

**17. Guarantees (Continued)**

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

The Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make significant payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

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

The Company also provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

**18. Subsequent Events**

On May 12, 2010, the Company announced its intention to close two of the funds it manages. In addition, redemptions in one of its funds triggered certain contractual rights of certain investors, which would have allowed them to withdraw their assets held in that fund upon 30 days notice. The investors have instead agreed to extend the time period pursuant to which the Company must return the bulk of its assets in the funds to the end of 2010. As of April 1, 2010, the investors had approximately \$668 million invested in the Company's funds.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This discussion contains forward-looking statements, which involve numerous risks and uncertainties, including, but not limited to, those described in the section titled "Risk Factors" in Item 1A of our Annual Report on Form 10-K. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements and related notes of Cowen Group, Inc. included elsewhere in this quarterly report. Actual results may differ materially from those contained in any forward-looking statements.*

**Overview**

Cowen Group Inc. is a diversified financial services firm and, together with its consolidated subsidiaries (collectively, "Cowen Group" or the "Company"), provides alternative investment management, investment banking, research, and sales and trading services through its two business segments: Ramius LLC, its alternative investment management segment, and Cowen and Company, LLC its broker-dealer segment. Prior to the consummation of the transactions ("Transactions") on November 2, 2009, the Company conducted its operations through one reportable segment, the alternative investment management segment.

Our alternative investment management business had approximately \$7.9 billion of assets under management as of April 1, 2010. The predecessor to this business was founded in 1994 and, through one of its subsidiaries, has been a registered investment adviser under the Investment Advisers Act since 1997. Our alternative investment management products and services include hedge funds, fund of funds, real estate, health care royalty funds and cash management services. Our institutional investors include pension funds, insurance companies, banks, foundations and endowments, wealth management organizations and family offices.

Our hedge fund and fund of funds platforms have historically sought to deliver consistent, risk-adjusted returns throughout a market cycle (which we generally view as approximately three to five years). In these platforms, we seek positive performance with minimal correlation to directional market indices. Risk-adjusted returns refer to positive returns with lower volatility as compared to traditional asset classes such as equities.

In February 2010, we announced plans to integrate senior management and certain aspects of the infrastructure of our hedge fund and fund of funds businesses to improve institutional efficiency and service. On March 1, 2010, we announced the formation of the Ramius Trading Strategies managed account platform.

Our broker-dealer businesses include research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace & defense, financial institutions, REITs and alternative energy sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade equity and equity-linked securities, principally in our target sectors. We focus our investment banking efforts, principally equity and equity-linked capital raising and strategic advisory services, on small to mid-capitalization public companies as well as private companies.

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

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**Certain Factors Impacting Our Business**

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

*Assets under management.* Our revenues from management fees are directly linked to assets under management. As a result, the future performance of our alternative investment management business will depend on, among other things, its ability to retain assets under management and to grow assets under management from existing and new products. In addition, positive performance increases assets under management which results in higher management fees. As noted below in "Recent Developments," on May 12, 2010, the Company announced its intention to close the Ramius Multi-Strategy and Ramius Enterprise funds. In addition, redemptions in Ramius Multi-Strategy Fund Ltd triggered certain contractual rights of affiliates of UniCredit S.p.A., which would have allowed them to withdraw their assets held in that fund upon 30 days notice. Such affiliates of UniCredit S.p.A have instead agreed, pursuant to a Modification Agreement entered into on May 11, 2010, to extend the time period pursuant to which the Company must return the bulk of its assets in our funds to the end of 2010. As of April 1, 2010, affiliates of UniCredit S.p.A had approximately \$668 million invested in our investment vehicles, including a fund of funds managed account.

*Investment performance.* Our revenues from incentive income are linked to the performance of the funds and accounts that we manage. Performance also affects assets under management because it influences investors' decisions to invest assets in, or withdraw assets from, the funds and accounts managed by us.

*Fee and allocation rates.* Our management fee revenues are linked to the management fee rates we charge as a percentage of assets under management. Our incentive income revenues are linked to the incentive allocation rates we charge as a percentage of performance driven asset growth. Our incentive allocations are subject to "high-water marks," whereby incentive income is generally earned by us only to the extent that the net asset value of a fund at the end of a measurement period exceeds the highest net asset value as of the end of the preceding measurement period for which we earned incentive income. Our incentive allocations are also subject, in some cases, to performance hurdles.

*Investment performance of our own capital.* We invest our own capital and the performance of such invested capital affects our revenues. As of March 31, 2010, we had an investment of approximately \$256.2 million in Ramius Enterprise LP ("Enterprise Fund"), an entity which invests its capital in Ramius Enterprise Master Fund Ltd. Most of our return on the Company's invested capital is derived from its investment in the Enterprise Fund, with such income directly dependent on the performance of the Enterprise Fund. As noted below in "Recent Developments," on May 12, 2010, the Company announced its intention to close the Enterprise Fund.

***External Factors Impacting our Business***

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

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

Our alternative investment management business was affected by the conditions impacting the global financial markets and the hedge fund industry during 2008, which was characterized by substantial declines in investment performance and unanticipated levels of requested redemptions. After a very challenging period during the first quarter of 2009, market conditions have stabilized and begun to improve. While there continue to be net redemptions in the industry, investors' need for capital has become less acute. The variability of redemptions affects our alternative investment management business, and it is always possible that we could intermittently experience redemptions above historical levels, regardless of fund performance. These conditions will continue to affect our alternative investment management business, and as alternative investment managers continue to restrict fund investor liquidity, it is possible that we could continue to experience elevated redemptions relative to historic levels, regardless of fund performance.

Our broker-dealer business has been and may continue to be adversely affected by market conditions. U.S. and global markets, as well as general economic conditions, continue to be challenging. The Company's investment banking target sectors have been particularly disrupted. The historic decline in market conditions and investor sentiment continue to negatively impact the financial services industry and the securities markets generally, in the form of fewer and smaller investment banking, strategic advisory and equity capital-raising transactions. The same factors also affect trading volumes and valuations in secondary financial markets, which affect our brokerage business. Commission rates, market volatility, investment fund flows between equity and debt securities and other factors also affect our brokerage revenues and may cause these revenues to vary from period to period.

Our broker-dealer business focuses primarily on small to mid-capitalization and private companies in specific industry sectors. These sectors may experience growth or downturns independent of general economic and market conditions, or may face market conditions that are disproportionately better or worse than those impacting the economy and markets generally. Therefore, our broker-dealer business could be affected differently than overall market trends.

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

**Recent Developments**

The Company has taken proactive steps to restructure aspects of its alternative investment management business towards clearly defined liquid strategies and longer term investments and to close certain products that have limited growth potential. Given the potential impact of currently known and expected redemptions on remaining clients that may negatively impact both portfolio liquidity and, potentially, performance going forward, management has decided that the Ramius Multi-Strategy and Ramius Enterprise funds will be closed. Investors will be presented with a variety of options in regards to the liquid portion of their investment in each fund, taking into consideration that not all investors have elected to redeem.

Since over 50% of the current assets under management in Ramius Enterprise LP represents the Company's balance sheet, capital will be retained in the same securities or assets and actively managed by the existing investment professionals in substantially similar investment strategies.

Additionally, redemptions in Ramius Multi-Strategy Fund triggered certain contractual rights held by affiliates of UniCredit S.p.A ("UniCredit"), which would have allowed them to withdraw their assets

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held in that Fund upon 30 days notice. Such affiliates of UniCredit have instead agreed, pursuant to the terms of a Modification Agreement, to extend the time period pursuant to which the Company must return the bulk of its investments in our funds, including a fund of funds managed account, to the end of 2010. In addition, the remaining 50% of UniCredit's Cowen Group shares that were not released from lock-up at the beginning of May will be released from the existing lock-up agreement. The Modification Agreement is described more detail below under "Item 5.01 Other Information."

Due to the retention of both core trading positions and investment professionals as noted above, as well as the more liquid nature of the assets involved, we believe the process of returning capital to investors in the two existing multi-strategy funds should not have a negative effect on other investment products that we manage.

The Company's institutional and private clients will continue to have access to a premier suite of products and solutions that encompass both liquid strategies like Ramius Value and Opportunity, our Global Credit Fund, our replication platform, and our new Ramius Trading Strategies managed account platform, as well as our longer term investment funds like our Real Estate funds and funds managed by Cowen Healthcare Royalty Partners.

**Basis of presentation**

The unaudited condensed consolidated financial statements of the Company appearing elsewhere in this Form 10-Q include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest or a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in the consolidated financial statements, are not subject to 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. Certain of these funds in which the Company has a substantive, controlling general partner interest are consolidated with the Company pursuant to generally accepted accounting principles as described below (the "Consolidated Funds"). Consequently, the Company's consolidated financial statements reflect the assets, liabilities, income and expenses of these funds on a gross basis. The ownership interests in these funds which are not owned by the Company are reflected as non-controlling interests in consolidated subsidiaries in the consolidated financial statements appearing elsewhere in this Form 10-Q. The management fees and incentive income earned by the Company from these funds are eliminated in consolidation.

The business combination between Ramius and Cowen Holdings was accounted for as an "acquisition" by Ramius of Cowen Holdings, as that term is used under accounting principles generally accepted in the United States of America ("GAAP") for accounting and financial reporting purposes. As a result, the historical financial statements of Ramius (the business of which was operated by RCG Holdings LLC, the Company's accounting predecessor, prior to the consummation of the Transactions) have become the historical financial statements of the Company. As a result, the Company's results for the first quarter of 2010 reflect three months of combined operations, while the first quarter of 2009 GAAP results include three months of legacy Ramius operations only.

**Revenue recognition**

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

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

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

***Management fees***

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

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

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

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

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

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

**Ramius Trading Strategies** Management fees and platform fees for the Company's commodity trading advisory business are generally charged at an annual rate of up to 3% and 1.50%, respectively, for the levered vehicle and 1% and 0.50%, respectively, for the unlevered vehicle. Management and platform fees are generally calculated monthly based on assets under management at the end of each month.

**Other** The Company also provides other investment advisory services. Other management fees are primarily earned from the Company's cash management business and range from annual rates of 0.08% to 0.20% of assets, based on the average daily balances of the assets under management.



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***Incentive income***

The Company earns incentive income based on net profits (as defined in the respective investment management agreements) of the Company's funds and certain managed accounts, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have carried forward from prior years. Incentive income earned is typically between 10% and 20% for hedge funds and 10% for fund of funds, in each case, of the net profits earned for the full year that are attributable to each fee-paying investor. Incentive income on real estate investments is earned in the year of a sale or realization of a private investment. Incentive income in the CHRP Funds is earned only after investors receive a full return of their capital plus a preferred return.

In periods following a period of a net loss attributable to an investor, the Company does not earn incentive income on any future profits attributable to that investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a "high-water mark." The Company has elected to record incentive income revenue in accordance with "Method 2" of the Financial Accounting Standards Board ("FASB") accounting standards. Under Method 2, the incentive income from consolidated funds and managed accounts for any period is based upon the net profits of those consolidated funds and managed accounts at the reporting date. Any incentive income recognized in a quarter's consolidated statement of operations may be subject to reversal in a subsequent quarter as a result of subsequent negative investment performance prior to the conclusion of the fiscal year, when all contingencies have been resolved. As a result of negative investment performance in 2008, and in the case of certain real estate funds, in 2009, the Company entered 2010 with high-water marks in many funds that the Company manages. These high-water marks require the funds to recover cumulative losses before the Company can begin to earn incentive income in 2010 and beyond.

***Investment Banking***

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

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

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

**Strategic/financial advisory fees** The Company's strategic advisory revenues include success fees earned in connection with advising companies, both buyers and sellers, principally in mergers and acquisitions. The Company also earns fees for related advisory work such as providing

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

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

***Brokerage***

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

**Commissions** Commission revenue includes fees from executing client transactions in listed securities. These fees are recognized on a trade date basis. The Company permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Commissions on soft dollar brokerage are recorded net of the related expenditures on an accrual basis.

**Principal Transactions** Principal transaction revenue includes net trading gains and losses from the Company's market-making activities in over-the-counter equity securities, listed options trading, trading of convertible securities, and trading gains and losses on inventory and other firm positions, which include warrants previously received as part of investment banking transactions. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a very short duration.

**Equity Research Fees** Equity research fees are paid to the Company for providing equity research. Revenue is recognized once an arrangement exists, access to research has been provided, the fee amount is fixed or determinable, and collection is reasonably assured.

***Interest and dividends***

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

***Reimbursement from affiliates***

The Company allocates, at its discretion, certain expenses incurred on behalf of its hedge fund, fund of funds and real estate businesses. These expenses relate to the administration of such subsidiaries and assets that the Company manages for its funds. In addition, pursuant to the funds' offering documents, the Company charges certain allowable expenses to the funds, including charges and personnel costs for legal, compliance, accounting, tax compliance, marketing, risk and technology

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expenses that directly relate to administering the assets of the funds. Such expenses that have been reimbursed at their actual costs are included in the consolidated statements of operations as employee compensation and benefits, professional, advisory and other fees, communications, occupancy and equipment, client services and business development and other.

***Other revenues***

The Company receives other revenues which are unrelated to its principal sources of revenue and which may vary from year to year. Historical sources of such other revenues primarily include certain placement fee income and rebate income earned from stock lending activities of the Company.

**Expenses**

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

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

*Interest and Dividends.* Amounts included within interest and dividend expense primarily relate to interest paid on the Company's revolving line of credit.

*General, Administrative and Other.* General, administrative and other expenses are primarily related to professional services, occupancy and equipment, business development expenses, communications, insurance and other miscellaneous expenses. These expenses may also include certain one-time charges and non-cash expenses.

*Consolidated Funds Expenses.* Certain funds are consolidated by the Company pursuant to GAAP. As such, the Company's consolidated financial statements reflect the expenses of these consolidated entities and the portion attributable to other investors is allocated to a non-controlling interest.

***Income Taxes***

Prior to November 2009, Ramius, the accounting predecessor of the Company, operated as a limited liability company that was treated as a partnership and was not subject to U.S. federal or state income taxes. However, as a partnership, Ramius was subject to New York City unincorporated business tax, on its business and investment activities conducted in New York City. In 2010 and in the future, the Company will be subject to U.S. federal, state and city taxation as a corporation. The Company is also subject to foreign taxation on income it generates in certain countries.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating or capital loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that, in management's view, is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. As of March 31, 2010, the Company recorded a valuation allowance against substantially all of its net deferred tax assets.

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As of March 31, 2010, the Company recorded tax receivables resulting from refund claims stemming from the carry back of net operating losses to the Company's 2006 and 2008 tax returns.

***Non-controlling Interests***

Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities.

**Assets Under Management and Fund Performance**

***Assets Under Management***

As of April 1, 2010, the Company had assets under management of \$7,865 million, a 0.22% increase as compared to assets under management of \$7,848 million as of January 1, 2010. The \$17 million increase in assets under management during this period resulted from \$71 million in net redemptions (including redemptions effective on April 1, 2010), that was more than offset by a \$88 million performance-related increase in assets.

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The following table is a breakout of total assets under management by platform as of April 1, 2010.

| Platform   | Total Assets<br>under Management<br>(dollars in millions) | Primary Strategies  |
|--|---|---|
| <b>Hedge Funds</b>                                     | \$ 1,703 <sup>(1)</sup>                                   | Multi-Strategy<br>Single Strategy   |
| <b>Fund of Funds</b>                                   | 1,777 <sup>(2)</sup>                                      | Multi-Strategy<br>Single Strategy<br>Customized Solutions<br>Hedging Strategies<br>Advisory |
| <b>Real Estate<sup>(3)</sup></b>                       | 1,628 <sup>(4)</sup>                                      | Debt<br>Equity  |
| <b>Ramius Trading Strategies</b>                       | 18<br>6   | RTS Global 3X Fund LP<br>RTS Global Fund LP   |
| <b>Cowen Healthcare Royalty Partners<sup>(5)</sup></b> | 903 <sup>(4)</sup>  | Royalty Interests   |
| <b>Other<sup>(6)</sup></b>                             | 1,275   | Cash Management<br>Mortgage Advisory  |
| <b>Total</b>   | \$ 7,865  |   |

(1) This amount includes the Company's invested capital of approximately \$256.2 million as of April 1, 2010.

(2) This amount includes the Company's invested capital of approximately \$32 million as of April 1, 2010.

(3) The Company owns between 30% and 55% of the general partners of the real estate business. We do not possess unilateral control over any of these general partners.

(4) This amount reflects committed capital.

(5) The Company shares the management fees from the CHRP Funds equally with the founders of the CHRP Funds. In addition, the Company receives a share of the carried interests of the general partners of the CHRP Funds of between 33.3% and 40.2%.

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

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The following table presents total assets under management by period:

|   | Year ended December 31, |                  |                            | January 1,       | Three months ended |
|---|-------------------------|------------------|----------------------------|------------------|--------------------|
|   | 2007                    | 2008             | 2009                       | 2010             | April 1, 2010      |
| <b>Beginning Assets under Management</b>  | \$ 9,592,135            | \$ 12,900,355    | \$ 9,765,230               | \$ 8,313,638     | \$ 7,847,712       |
| <b>Net Subscriptions (Redemptions)</b>    | 2,601,939               | (1,066,714)      | (1,780,117) <sup>(2)</sup> | (465,926)        | (70,511)           |
| <b>Net Performance<sup>(1)</sup></b>      | 706,281                 | (2,068,411)      | 328,525                    |                  | 87,949             |
| <br><b>Ending Assets under Management</b> | <br>\$ 12,900,355       | <br>\$ 9,765,230 | <br>\$ 8,313,638           | <br>\$ 7,847,712 | <br>\$ 7,865,150   |

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

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

***Fund Performance***

The aggressive pursuit of risk assets by directional investors in the first quarter of 2010 stands in stark contrast to the beginning of 2009, when markets conditions were still unstable and investor liquidity issues not yet resolved. Building on recovery events of 2009, both real economic data and market sentiment were supportive of higher asset prices. Aided by the continuation of low interest rates and strong corporate earnings, both credit and equity markets turned in positive performance, with directional investments faring better than hedged strategies. Similarly, more aggressive sectors of the market offered the best performance, such as high yield, small cap stocks and emerging markets. Event-driven strategies also did well. The Company experienced positive results in all of its major investment products. Nonetheless, we believe in the value of holding appropriate hedging positions and are mindful of the amount of credit spread compression and equity appreciation that has already occurred. Managers are also mindful of developments in Europe, especially in Greece, that may have destabilizing effects on markets in the future.

The table below sets forth performance information as of March 31, 2010, for the Company's funds with assets greater than \$200 million as well as information with respect to the firm's largest single-strategy hedge fund and Ramius Trading Strategies funds. The performance reflected below is representative of the net return of the most recently issued full fee paying class of fund interests offered for the respective fund. The net returns are net of all management and incentive fees, and are calculated monthly based on the change in an investor's current month ending equity as a percentage of their prior month's ending equity, adjusted for the current month's subscriptions and redemptions. Such returns are compounded monthly in calculating the final net year to date return. Performance information for the CHRP Funds are not presented due to existing confidentiality provisions.

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The following table presents fund performance for the three months ended March 31, 2010 and 2009:

| Platform                  | Strategy           | Largest Fund(1)   | Performance for three months Ended March 31, |                        |
|---------------------------|--------------------|---|--|------------------------|
|                           |                    |   | 2010(2)                                      | 2009                   |
| Hedge Funds               | Multi-Strategy     | Ramius Multi-Strategy Fund Ltd<br>(Inception Jan. 1, 1996)                  | 2.25%  | (0.70)%                |
|                           |                    | Ramius Enterprise LP<br>(Inception Jan. 1, 2008)                            | 1.93%  | (0.87)%                |
|                           | Single Strategy    | Ramius Value and Opportunity Overseas Fund Ltd.<br>(Inception Mar. 1, 2006) | 7.80%  | 0.93%                  |
| Fund of Funds             | Managed Accounts   | Activist Portfolio with Hedging Overlay<br>(Inception Sept. 1, 2007)        | 2.94%  | 0.40%                  |
|                           |                    | Low Volatility Multi-Strategy Fund<br>(Inception Aug. 1, 2005)              | 1.55%  | 0.24%                  |
| Real Estate               | Debt               | RCG Longview Debt Fund IV, L.P.<br>(Inception Nov. 12, 2007)                | 2.93% <sup>(3)</sup>                         | (4.96)% <sup>(3)</sup> |
|                           | Equity             | RCG Longview Equity Fund, L.P.<br>(Inception Nov. 22, 2006)                 | 8.01% <sup>(3)</sup>                         | (2.29)% <sup>(3)</sup> |
| Ramius Trading Strategies | Commodity Advisory | RTS Global 3X Fund LP<br>(Inception Mar 1, 2010)                            | 5.99%  | n/a                    |
|                           |                    | RTS Global Fund LP<br>(Inception Mar 1, 2010)                               | 1.95%  | n/a                    |
| Other                     | Cash Management    |   | 0.67%  | 0.00%                  |

- (1) Funds with assets under management greater than \$200 million (excluding CHRP), the Company's largest single-strategy fund and the Ramius Trading Strategies funds. The inception date for a fund represents the initial date that the fund accepted capital from third party investors. As of April 1, 2010, the net assets of the funds presented above were \$3.85 billion, or 48.98% of the total assets under management as of April 1, 2010 of \$7.87 billion. These funds represent funds with net assets greater than \$200 million (excluding CHRP), the Company's largest single-strategy hedge fund and the Ramius Trading Strategies funds. Excluded from the table above are funds with \$4.02 billion, or 51.02% of total assets under management as of April 1, 2010. These include a total of 64 smaller individual funds and managed accounts, and the Cowen Healthcare Royalty Partners fund.
- (2) Performance does not reflect any increase in valuation for LBIE assets which have been segregated.
- (3) Returns for each year represent net internal rates of return to limited partners after management fees and incentive allocations, if any, and are computed on a year-to-year basis consistent with industry standards. Incentive allocations are computed based on a hypothetical liquidation of net assets of each fund as of the balance sheet date. Returns are calculated for the investors as a whole. The computation of such returns for an individual investor may vary from these returns based on different management fee and incentive arrangements and the timing of capital transactions. The hypothetical liquidation value may not reflect the ultimate value that may be realized from the real estate investments, particularly given the relatively long period of time that the real estate investments may be held under the terms of the real estate fund documents.

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The hedge funds and fund of funds listed above have perpetual high-water marks. These high-water marks require the funds to recover cumulative losses before the Company can begin to earn



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incentive income in 2010 and beyond on the assets that suffered losses in 2008. In order for the Company to earn an incentive fee from an investor who had participated fully in the 2008 loss, 2009 full year and 2010 first quarter gain, for each of the following hedge funds: Ramius Multi-Strategy Fund Ltd. and Ramius Enterprise LP, the funds would have to increase their respective net asset values by 23.07% and 29.08%, respectively, net of management fees. In order for the Company to earn an incentive fee from an investor who had participated fully in the 2008 loss, 2009 full year and 2010 first quarter gain, for the Low Volatility Multi-Strategy Fund, the fund would have to increase its respective net asset value by 12.26%, net of management fees. Since December 2009, the Activist Portfolio with Hedging Overlay fund has achieved returns in excess of its high-water mark threshold for an investor who had participated fully in the 2008 loss and the 2009 gain.

**Results of Operations**

To provide comparative information of the Company's operating results for the periods presented, a discussion of Economic Income of our alternative investment management and broker-dealer segments follows the discussion of our total consolidated GAAP results. Economic Income reflects, on a consistent basis for all periods presented in the Company's financial statements, income earned from the Company's funds and managed accounts and from its own invested capital. Economic Income excludes certain adjustments required under GAAP. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company Segment Analysis and Economic Income," and Note 14 to the Company's condensed consolidated financial statements, appearing elsewhere in this Form 10-Q, for a reconciliation of Economic Income to total Company net income (loss).

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**Three Months Ended March 31, 2010 Compared with the Three Months Ended March 31, 2009**

The Company's first quarter of 2010 results reflect three months of combined operations while the first quarter of 2009 results reflect three months of legacy Ramius operations only.

**Three Months Ended March 31, 2010 Compared with the Three Months Ended March 31, 2009**  
**Consolidated Statements of Operations**  
(unaudited)

|  | Three Months Ended<br>March 31, |                   | Period to Period  |                 |
|--|---------------------------------|-------------------|-------------------|-----------------|
|  | 2010                            | 2009              | \$ Change         | % Change        |
|  | (dollars in thousands)          |                   |                   |                 |
| <b>Revenues</b>  |                                 |                   |                   |                 |
| Investment banking   | \$ 6,005                        | \$ 6,005          | \$ 6,005          | NM              |
| Brokerage  | 29,575                          |                   | 29,575            | NM              |
| Management fees  | 9,270                           | 11,511            | (2,241)           | (19.5)%         |
| Incentive income   | 2,093                           |                   | 2,093             | NM              |
| Interest and dividends   | 804                             | 91                | 713               | 783.5%          |
| Reimbursement from affiliates                                    | 1,742                           | 3,394             | (1,652)           | (48.7)%         |
| Other Revenue  | 622                             | 1,019             | (397)             | (39.0)%         |
| <i>Consolidated Funds revenues</i>                               | 6,147                           | 4,710             | 1,437             | 30.5%           |
| <b>Total revenues</b>  | <b>56,258</b>                   | <b>20,725</b>     | <b>35,533</b>     | <b>171.4%</b>   |
| <b>Expenses</b>  |                                 |                   |                   |                 |
| Employee compensation and benefits                               | 43,433                          | 14,907            | 28,526            | 191.4%          |
| Interest and dividends   | 446                             | 349               | 97                | 27.8%           |
| General, administrative and other expenses                       | 34,203                          | 10,273            | 23,930            | 232.9%          |
| <i>Consolidated Funds expenses</i>                               | 3,159                           | 3,377             | (218)             | (6.5)%          |
| <b>Total expenses</b>  | <b>81,241</b>                   | <b>28,906</b>     | <b>52,335</b>     | <b>181.1%</b>   |
| <b>Other income (loss)</b>                                       |                                 |                   |                   |                 |
| Net gain (loss) on securities, derivatives and other investments | 1,524                           | 259               | 1,265             | 488.4%          |
| <i>Consolidated Funds net gains (losses)</i>                     | 18,273                          | (3,347)           | 21,620            | NM              |
| <b>Total other income (loss)</b>                                 | <b>19,797</b>                   | <b>(3,088)</b>    | <b>22,885</b>     | <b>(741.1)%</b> |
| <b>Income (loss) before income taxes</b>                         | <b>(5,186)</b>                  | <b>(11,269)</b>   | <b>6,083</b>      | <b>(54.0)%</b>  |
| Income taxes   | (266)                           | (66)              | (200)             | 303.0%          |
| <b>Net loss</b>  | <b>(4,920)</b>                  | <b>(11,203)</b>   | <b>6,283</b>      | <b>(56.1)%</b>  |
| (Income) loss attributable to non-controlling interests          | (8,056)                         | 2,404             | (10,460)          | NM              |
| <b>Net loss attributable to Cowen Group, Inc. stockholders</b>   | <b>\$ (12,976)</b>              | <b>\$ (8,799)</b> | <b>\$ (4,177)</b> | <b>47.5%</b>    |

**Revenues**
**Investment Banking**

Investment banking revenues were \$6.0 million for the three months ended March 31, 2010, representing the investment banking activity of Cowen Holdings for the quarter. There were no investment banking revenues for the three months ended March 31, 2009, as the historic results of operations only reflect the legacy Ramius business.



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***Brokerage***

Brokerage revenues were \$29.6 million for the three months ended March 31, 2010, representing the brokerage activity of Cowen Holdings for the quarter. There were no brokerage revenues for the three months ended March 31, 2009, as the historic results of operations only reflect the legacy Ramius business.

***Management Fees***

Management fees decreased \$2.2 million, or 20%, to \$9.3 million for the three months ended March 31, 2010 compared with \$11.5 million in the prior year quarter. The decrease was primarily due to the lower level of assets under management in the first quarter of 2010 relative to the same period last year as well as the impact of certain management fee reductions for certain affiliates of UniCredit which became effective in conjunction with the closing of the Transactions.

***Incentive Income.***

Incentive income was \$2.1 million for the three months ended March 31, 2010, compared to no incentive income for the prior year quarter. Incentive income earned in 2010 relates primarily to fees earned on one of our fund of funds products that surpassed its high water mark in December 2009 as well as fees earned on a portion of our Value and Opportunity fund. However, due to losses in 2008, many of our funds still have high-water marks such that Ramius will not earn incentive income with respect to the assets of the fund investors who suffered such losses in 2008 until these investors recover their losses.

***Interest and Dividends***

Interest and dividends increased \$0.7 million, or 784%, to \$0.8 million for the three months ended March 31, 2010, compared with \$0.1 million in the prior year quarter. The increase was primarily attributable to an increase in interest income resulting from an increase in investments in interest bearing assets in the first quarter of 2010 relative to the same period last year.

***Reimbursements from Affiliates***

Reimbursements from affiliates decreased \$1.7 million, or 49%, to \$1.7 million for the three months ended March 31, 2010 compared with \$3.4 million for the prior year quarter. The decrease was attributable to lower assets under management in the first quarter of 2010 compared to the same period last year as the Company generally limits such allocations based on a percentage of assets under management.

***Other Revenue***

Other revenue decreased \$0.4 million, or 39%, to \$0.6 million for the three months ended March 31, 2010 compared with \$1.0 million in the prior year quarter. The decrease was primarily due to a reduction in retail commissions earned in the first quarter of 2010 compared to the same period last year.

***Consolidated Funds Revenues***

Consolidated Funds revenues increased \$1.4 million, or 30.5%, to \$6.1 million for the three months ended March 31, 2010 compared with \$4.7 million in the prior year quarter. The increase was primarily attributable to fees earned in the first quarter of 2010 in the Enterprise Fund for waiving anti-dilution rights on specific warrants held that did not occur in the same period last year.

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**Expenses**

***Employee Compensation and Benefits***

Employee compensation and benefits expenses increased \$28.5 million, or 191%, to \$43.4 million for the three months ended March 31, 2010 compared with \$14.9 million in the prior year quarter. The increase was due to the impact of including three months of compensation and benefits expense associated with the legacy Cowen Holdings business, partially offset by lower accruals for incentive compensation and lower base salaries and benefit expense associated with a reduction in head count in 2010 compared to 2009 for the legacy Ramius business.

***Interest and Dividends***

Interest and dividend expense remained substantially unchanged at \$0.4 million for the three months ended March 31, 2010 compared to \$0.3 million for the prior year quarter. Interest and dividends expense relates primarily to interest on our credit facility.

***General, Administrative and Other Expenses***

General, administrative and other expenses increased \$23.9 million, or 233%, to \$34.2 million for the three months ended March 31, 2010 compared with \$10.3 million in the prior year quarter. The increase was due to the impact of including three months of general, administrative and other expense associated with the legacy Cowen Holdings business.

***Consolidated Funds Expenses***

Consolidated Funds expenses decreased \$0.2 million, or 5.9%, to \$3.2 million for the three months ended March 31, 2010 compared with \$3.4 million in the prior year quarter. The decrease was attributable to a decrease in interest expense recognized by the Enterprise Fund due to a decrease in short holdings of interest bearing securities.

***Other Income (Loss)***

Other income (loss) increased \$22.9 million to income of \$19.8 million for the three months ended March 31, 2010 compared to a loss of \$3.1 million in the prior year quarter. The increase is a result of positive fund performance in the current year period versus negative performance in the prior year period as a result of the general unprecedented levels of market volatility, and liquidity constraints that persisted in the first quarter of 2009 and affected almost every asset class globally. As previously described, the Company invests its own capital primarily in the Enterprise Fund with any gains or losses from the Company's investment in the Enterprise Fund shown under Consolidated Funds for that period. The gains and losses shown under Consolidated Funds reflect the consolidated total performance for such funds, and the portion of those gains or losses that are attributable to other investors is allocated to a non-controlling interest.

**Income Taxes**

Income tax benefit increased \$0.2 million to \$0.3 million for the three months ended March 31, 2010 from \$0.1 million in the prior year quarter. The increase was caused by the recognition of state and local tax benefits related to prior years.

**Income (Loss) Attributable to Non-controlling Interests**

Income attributable to non-controlling interests was \$8.1 million for the three months ended March 31, 2010 compared with a loss of \$2.4 million in the prior year quarter. The period over period change was the result of improved performance in certain of the Consolidated Funds.

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**Segment Analysis and Economic Income (Loss)**

***Segments***

Prior to the consummation of the Transactions, the Company conducted its operations through one reportable segment, the alternative investment management segment, which provides management services to its hedge funds, fund of funds, real estate and other investment platforms. Following the combination of Ramius and Cowen Holdings, the Company conducts its operations through two segments: an alternative investment management segment and a broker-dealer segment. The Company's alternative investment management segment currently includes its hedge funds, fund of funds, real estate and other investment platforms businesses, as well as CHRP, which was a legacy Cowen operating business prior to the Transactions. The Company's broker-dealer segment currently includes its investment banking, brokerage and equity research businesses.

***Economic Income (Loss)***

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

Our Economic Income may not be comparable to similarly titled measures used by other companies. We use Economic Income as a measure of each segment's operating performance, not as a measure of liquidity. Economic Income should not be considered in isolation or as a substitute for operating income, net income, operating cash flows, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. As a result of the adjustments made to arrive at Economic Income, Economic Income has limitations in that it does not take into account certain items included or excluded under GAAP, including our Consolidated Funds. Economic Income is considered by management as a supplemental measure to the GAAP results to provide a more complete understanding of each segment's performance as measured by management. For a reconciliation of Economic Income to GAAP net income (loss) for the periods presented and additional information regarding the reconciling adjustments discussed above, see Note 14 to the Company's condensed consolidated financial statements included in this Form 10-Q.

In general, Economic Income (loss) is a pre-tax measure that (i) presents the Company's results of operations without the impact resulting from the consolidation of any of the Company's funds (in both periods presented), (ii) excludes goodwill impairment (there were no goodwill impairment charges in either period presented), (iii) excludes allocations to the managing member, as there will be no such allocations in the future (there were no allocations made to the managing member in either period presented), and (iv) excludes the reorganization expenses for the Transactions (there were no reorganization expenses in either period presented) and one-time equity awards made in connection with the Transactions (in the 2010 period only). In addition, Economic Income 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 GAAP purposes, these items are included in each of their respective line items. Economic Income revenues also include management fees, incentive income and investment income earned through the Company's investment as a general partner in certain real estate entities. For GAAP purposes, all of these items are recorded in other income (loss). In addition, Economic Income expenses are reduced by reimbursement from affiliates, which for GAAP purposes is presented gross as part of revenue.

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**Economic Income Revenues**

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

Our alternative investment management segment generates Economic Income revenues through three principal sources: management fees, incentive income and investment income from our own capital. Management fees are directly impacted by any increase or decrease in assets under management, while incentive income is impacted by our funds' performance and any increase or decrease in assets under management. Investment income from the Company's own capital is impacted by the performance of the funds in which our capital is invested, which is principally the Enterprise Fund. The Company periodically receives other Economic Income revenue which is unrelated to our own invested capital or our activities on behalf of the Company's funds, such as certain placement fee income received by a non-wholly owned subsidiary that engaged in the distribution of interests in the real estate funds.

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

**Economic Income Expenses**

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

**Non-controlling Interests**

Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities. Non-wholly-owned entities included Ramius Alternative Solutions LLC, in the 2009 period only, as subsequent to the Transactions that entity became a wholly-owned subsidiary of the Company.

[Table of Contents](#)**Three Months Ended March 31, 2010 Compared with the Three Months Ended March 31, 2009**

For the three months ended March 31, 2010, the Company's alternative investment management segment includes three months of its hedge funds, fund of funds, real estate and other investment platforms operating results. In addition, the alternative investment management segment includes three months of CHRP's operating results for the three months ended March 31, 2010, as a result of the Transactions. For the three months ended March 31, 2009, the Company's alternative investment management segment reflects three months of its hedge funds, fund of funds, real estate and other investment platforms operating results, but does not include any of CHRP's operating results.

For the three months ended March 31, 2010, the Company's broker-dealer segment includes three months of its investment banking and brokerage businesses' operating results. There were no investment banking or brokerage operating results for the three months ended March 31, 2009 as the historic results of operations reflect the legacy Ramius business only.

|                                       | Three Months Ended March 31,      |                    |                    |                                   | Total             |          |
|---------------------------------------|-----------------------------------|--------------------|--------------------|-----------------------------------|-------------------|----------|
|                                       | 2010                              |                    | 2009               |                                   | \$ Change         | % Change |
|                                       | (dollars in thousands)            |                    |                    |                                   |                   |          |
|                                       | Alternative Investment Management | Broker-Dealer      | Total 2010         | Alternative Investment Management |                   |          |
| <b>Economic Income</b>                |                                   |                    |                    |                                   |                   |          |
| <b>Revenues</b>                       |                                   |                    |                    |                                   |                   |          |
| Investment banking                    | \$                                | \$ 6,005           | \$ 6,005           | \$                                | \$ 6,005          | NM       |
| Brokerage                             |                                   | 29,575             | 29,575             |                                   | 29,575            | NM       |
| Management fees                       | 12,587                            | 28                 | 12,615             | 14,596                            | (1,981)           | (13.6)%  |
| Incentive income (loss)               | 1,982                             |                    | 1,982              | (2,122)                           | 4,104             | NM       |
| Investment income (loss)              | 11,192                            | 229                | 11,421             | (620)                             | 12,041            | NM       |
| Other revenue                         | (51)                              | 124                | 73                 | 359                               | (286)             | (79.7)%  |
| <b>Total economic income revenues</b> | <b>25,710</b>                     | <b>35,961</b>      | <b>61,671</b>      | <b>12,213</b>                     | <b>49,458</b>     | 405.0%   |
| <b>Economic Income</b>                |                                   |                    |                    |                                   |                   |          |
| <b>Expenses</b>                       |                                   |                    |                    |                                   |                   |          |
| Compensation and benefits             | 16,184                            | 25,136             | \$ 41,320          | 14,907                            | \$ 26,413         | 177.2%   |
| Non-compensation expenses             | 8,899                             | 24,468             | 33,367             | 10,006                            | 23,361            | 233.5%   |
| Reimbursement from affiliates         | (1,887)                           |                    | (1,887)            | (3,414)                           | 1,527             | (44.7)%  |
| <b>Total economic income expenses</b> | <b>23,196</b>                     | <b>49,604</b>      | <b>72,800</b>      | <b>21,499</b>                     | <b>51,301</b>     | 238.6%   |
| Net economic income (loss)            |                                   |                    |                    |                                   |                   |          |
| (before non-controlling interest)     | 2,514                             | (13,643)           | (11,129)           | (9,286)                           | (1,843)           | 19.8%    |
| Non-controlling interest              |                                   |                    |                    | 421                               | (421)             | NM       |
| <b>Economic income (loss)</b>         | <b>\$ 2,514</b>                   | <b>\$ (13,643)</b> | <b>\$ (11,129)</b> | <b>\$ (8,865)</b>                 | <b>\$ (2,264)</b> | 25.5%    |

**Economic Income Revenues**

Total economic income revenues were \$61.7 million for three months ended March 31, 2010, an increase of \$49.5 million compared to economic income revenues of \$12.2 million for the prior year quarter.



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**Alternative Investment Management Segment**

Alternative investment management segment economic income revenues were \$25.7 million for the three months ended March 31, 2010, an increase of \$13.5 million compared to a revenues of \$12.2 million for the prior year quarter.

*Management Fees.* Management fees for the segment decreased \$2.0 million, or 14%, to \$12.6 million for the three months ended March 31, 2010 compared with \$14.6 million for the prior year quarter. The decrease was due to the decrease in assets under management as well as the impact of certain management fee reductions for certain affiliates of UniCredit which became effective in conjunction with the closing of the Transactions.

*Incentive Income (Loss).* Incentive income for the segment was \$2.0 million for the three months ended March 31, 2010 compared to a loss of \$2.1 million for the prior year quarter. The loss in the prior year quarter was primarily due to a reversal of previously recorded incentive income allocations from Ramius's interests in the general partner of a certain real estate fund pursuant to the terms of the governing documents of such fund. The incentive income for the three months ended March 31, 2010 primarily relates to fees earned on one of our fund of funds products that surpassed its high water mark in December 2009 as well as fees earned on a portion of our Value and Opportunity fund. However, many of our funds still have high-water marks so that Ramius will not earn incentive income with respect to the investments of the fund investors who suffered such losses in 2008 until the investors recover their losses.

*Investment Income.* Investment income for the segment was a gain of \$11.2 million for the three months ended March 31, 2010 compared with a loss of \$0.6 million for the prior year quarter. The increase is a result of positive fund performance in the current year period versus negative performance in the prior year period. A portion of our investment performance in the quarter was related to positive developments with regard to certain identified assets currently held by Lehman Brothers International (Europe) which resulted in marking these positions up from 20 cents on the dollar to 72 cents on the dollar during the quarter.

*Other Revenue.* Other revenue for the segment was a loss of \$0.1 million for the three months ended March 31, 2010 compared with a gain of \$0.4 million for the prior year quarter. The decrease was primarily due to a reduction in retail commissions earned in the first quarter of 2010 compared to the same period last year, in addition to losses on both the disposal of fixed assets and foreign currency fluctuations on foreign assets for the three months ended March 31, 2010.

**Broker-Dealer Segment**

Broker-dealer segment economic income revenues were \$36.0 million for the three months ended March 31, 2010. There were no broker-dealer segment revenues in the prior year quarter as the historic results of operations only reflect the legacy Ramius business.

*Investment Banking.* Investment banking revenues were \$6.0 million for the three months ended March 31, 2010, representing the investment banking activity of Cowen Holdings for the quarter. During the quarter, the Company completed 4 underwriting transactions, 1 private capital raising transactions and 4 strategic advisory transactions. There were no investment banking revenues in the first quarter of 2009 as the historic results of operations only reflect the legacy Ramius business.

*Brokerage.* Brokerage revenues were \$29.6 million for three months ended March 31, 2010, representing the brokerage activity of Cowen Holdings for the quarter. There were no brokerage revenues in the first quarter of 2009 as the historic results of operations only reflect the legacy Ramius business.

Table of Contents**Economic Income Expenses**

*Compensation and Benefits.* Total compensation and benefits expense was \$41.3 million for the three months ended March 31, 2010, an increase of \$26.4 million compared to \$14.9 million in the prior year quarter. The increase was primarily attributable to the inclusion of three months of legacy Cowen compensation and benefits expense in the first quarter of 2010.

Compensation and benefits expenses for the alternative investment management segment increased \$1.3 million, or 9%, to \$16.2 million for the three months ended March 31, 2010 compared with \$14.9 million in the prior year quarter. The increase was driven by higher accruals for incentive compensation offset partially by lower base salaries and benefit expense associated with a reduction in head count.

Compensation and benefits expenses for the broker-dealer segment were \$25.1 million for the three months ended March 31, 2010, which represents the operations of legacy Cowen for the quarter. There were no broker-dealer segment compensation and benefits expenses in the prior year quarter as the historic results of operations only reflect the legacy Ramius business.

*Non-compensation Expenses.* Total non-compensation expenses increased \$23.4 million to \$33.4 million for the three months ended March 31, 2010 compared to \$10.0 million in the prior year quarter. The increase was due to the inclusion of three months of non-compensation expenses associated with the legacy Cowen Holdings business in the first quarter of 2010, partially offset by a decrease in non-compensation expense from the alternative investment management business.

Non-compensation expenses for the alternative investment management segment were \$8.9 million for the three months ended March 31, 2010. Non-compensation expenses for the broker-dealer segment were \$24.5 million for the three months ended March 31, 2010, which represents the quarterly results of legacy Cowen Holdings. The following table shows the components of the non-compensation expenses, in total, for the three months ended March 31, 2010 and 2009:

|                                       | <b>Three Months Ended<br/>March 31,</b> |                  | <b>Period-to-Period</b> |                 |
|---------------------------------------|---|------------------|-------------------------|-----------------|
|                                       | <b>2010</b>                             | <b>2009</b>      | <b>\$ Change</b>        | <b>% Change</b> |
|                                       | <b>(dollars in thousands)</b>           |                  |                         |                 |
| <b>Non-compensation expenses:</b>     |   |                  |                         |                 |
| Interest expense                      | \$ 116                                  | \$ 342           | \$ (226)                | (66.1)%         |
| Professional, advisory and other fees | 2,388                                   | 1,402            | 986                     | 70.3%           |
| Occupancy and equipment               | 5,645                                   | 2,531            | 3,114                   | 123.0%          |
| Floor brokerage and trade execution   | 4,945                                   |                  | 4,945                   | NM              |
| Service fees, net                     | 3,812                                   | 606              | 3,206                   | 529.0%          |
| Communications                        | 3,308                                   | 274              | 3,034                   | 1107.3%         |
| Marketing and business development    | 3,846                                   | 1,485            | 2,361                   | 159.0%          |
| Depreciation and amortization         | 2,494                                   | 1,236            | 1,258                   | 101.8%          |
| Other                                 | 6,813                                   | 2,130            | 4,683                   | 219.6%          |
| <b>Total</b>                          | <b>\$ 33,367</b>                        | <b>\$ 10,006</b> | <b>\$ 23,361</b>        | <b>233.5%</b>   |

*Reimbursement from Affiliates.* Reimbursements from affiliates, which relate to the alternative investment management segment, decreased \$1.5 million, or 45%, to \$1.9 million for the three months ended March 31, 2010 compared with \$3.4 million in the prior year quarter. The decrease was attributable to lower assets under management in the 2010 period as such allocations are largely made based on a percentage of assets under management.

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

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**Liquidity and Capital Resources**

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

pay our operating expenses, primarily consisting of compensation and benefits and general and administrative expenses;

repay borrowings and related interest expense; and

provide capital to facilitate the growth of our existing business.

Based on our historical results, management's experience, our current business strategy and current assets under management, the Company believes that its existing cash resources will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. Our cash reserves include cash, cash equivalents, assets readily convertible into cash such as our securities held in inventory. Securities inventories are stated at fair value and are generally readily marketable. As of March 31, 2010, we had cash and cash equivalents of \$12.9 million. At March 31, 2010, the Company's investment in the Enterprise Fund was valued at \$256.2 million. The Company withdrew approximately \$35.2 million from the Enterprise Fund effective January 1, 2010. In December 2009, the Company completed a public offering of 17,292,698 shares of Class A common stock, resulting in approximately \$80.6 million of additional equity.

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

As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Development" we have entered into a modification agreement with affiliates of Unicredit and it is not expected to have a material impact on the Company's liquidity and capital resources.

As of March 31, 2010, the Company had unfunded commitments of \$8.3 million pertaining to capital commitments in three real estate investments held by the Company, all of which pertain to related party investments. Such commitments can be called at any time, subject to advance notice. In addition, the Company has committed to invest \$42.0 million in the CRRP Funds as a limited partner of the CRRP Funds and also as a member of Cowen Healthcare Royalty GP, LLC, the general partner of the CRRP Funds. This commitment is expected to be called over the fund investment period. The Company will make its pro-rata investment in the CRRP Funds along with the other limited partners. Through March 31, 2010, the Company has funded \$15.5 million towards these commitments.

Ramius Securities is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital. Ramius Securities has elected to use the alternative method, permitted by the Rule. Since Ramius Securities has elected not to be subject to the Aggregate Indebtedness Standard (a)(1)(i) of the Rule and Ramius Securities has not made a market in any securities since January 2006, Ramius Securities shall not permit its net capital to be less than \$250,000. As of March 31, 2010, Ramius Securities had net capital of \$1.4 million, which was approximately \$1.2 million in excess of its required minimum net capital requirement. In connection with the Transactions, the firm decided to consolidate the operations of its two wholly-owned registered broker/dealers, Ramius Securities LLC and Cowen and Company, LLC. During the first quarter 2010, many of

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the processes performed by Ramius Securities LLC were transferred to Cowen and Company, LLC. On April 8, 2010, Ramius Securities LLC filed a Form BDW Uniform Request for Withdrawal From Broker-Dealer Registration.

As a registered broker-dealer, Cowen and Company is also subject to the Rule, and is subject to a minimum net capital requirement. Under the alternative method permitted by the Rule, Cowen and Company's minimum net capital requirement, as defined, is \$1.0 million. The Company is not permitted to withdraw equity if certain minimum net capital requirements are not met. As of March 31, 2010, Cowen and Company had net capital of approximately \$34.2 million, which was approximately \$33.2 million in excess of its minimum net capital requirement of \$1.0 million.

Ramius Securities and Cowen and Company are exempt from the provisions of Rule 15c3-3 under the Exchange Act as their activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

Ramius UK Ltd. and Cowen International Limited are subject to the applicable capital requirements of the Financial Services Authority ("FSA") of the UK. Financial Resources, as defined, must exceed the total Financial Resources requirement of the FSA. At March 31, 2010, Ramius UK's Financial Resources of \$1.6 million exceeded its minimum requirement of \$0.4 million by \$1.2 million. At March 31, 2010, CIL's Financial Resources of \$4.7 million exceeded its minimum requirement of \$2.5 million by \$2.2 million.

Cowen Latitude Advisors Limited ("CLAL") is subject to the applicable financial resources requirements of the Securities and Futures Commission ("SFC") of Hong Kong. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the SFC. At March 31, 2010, CLAL's Financial Resources of \$0.3 million exceeded the minimum requirement of \$0.02 million by \$0.3 million.

The Company may also incur additional indebtedness or raise additional capital under certain circumstances to respond to market opportunities and challenges. Current market conditions may make it more difficult or costly to borrow additional funds or raise additional capital. In addition, our secured revolving credit facility with UniCredit Bank AG (formerly known as Bayerische Hypo-und Vereinsbank AG) ("HVB AG") referenced below prohibits us and certain of our subsidiaries from incurring any indebtedness, other than certain indebtedness permitted under the facility.

***Cash Flows Analysis***

The Company's primary sources of cash are derived from its operating activities, fees, realized returns on its own invested capital and borrowings under its line of credit. The Company's primary uses of cash include compensation, general and administrative expenses and payments of interest and principal under its line of credit. Cash flow results during the three months ended March 31, 2009 only reflect the cash flows and net loss of Ramius LLC prior to the Transaction. As a result, the cash flow amounts from operating, investing and financing activities for the three months ended March 31, 2010 and 2009 are not comparable.

*Operating Activities.* Net cash provided used in operating activities of \$87.5 million for the three months ended March 31, 2010 was predominately related to cash used to pay for year-end bonus accruals included in compensation payable and payments for purchases of securities related to proprietary capital. Net cash provided by operating activities of \$19.2 million for the three months ended March 31, 2009 was predominately related to proceeds from sales of other investments held by the consolidated funds and net sales of holdings in the broker dealer, partially offset by a net loss and payments for year end bonus accruals.

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*Investing Activities.* Net cash provided by investing activities of \$2.5 million and \$4.0 million for the three months ended March 31, 2010 and 2009, respectively, was primarily due to the proceeds from sale of other investments.

*Financing Activities.* Net cash used in financing activities for the three months ended March 31, 2010 was \$49.6 million primarily related to a repayment on the line of credit and payments by the consolidated funds for capital withdrawals. For the three months ended March 31, 2009 net cash used in financing activities was \$46.3 million which was primarily related to withdrawals from members, occurring prior to the notification of the Transaction as well as a consolidated fund's full repayment on its line of credit and payments by the consolidated funds for capital withdrawals.

**Notes Payable, Short-Term Borrowings and Credit Facilities**

On June 3, 2009, the Company entered into a collateralized revolving credit agreement with HVB AG, as lender, administrative agent and issuing bank, providing for a revolving credit facility with a \$50.0 million aggregate loan commitment amount available, with a \$7.0 million letter of credit sub-limit. The first borrowing under this line occurred on June 30, 2009. As of March 31, 2010 and December 31, 2009, the Company had borrowings of \$18 million and \$43.0 million, respectively, under the line of credit portion and \$6.7 million at December 31, 2009 under the letter of credit portion. At the Company's election and discretion, borrowings under this collateralized revolving credit agreement bear interest per annum (based on a 360 day year) equal to either: (a) 0.5% plus the greater of (1) the lender's prime rate, (2) the overnight federal funds rate plus 0.5% and (3) the LIBOR rate plus 1.0% or (b) the LIBOR rate plus 2.75%. Due to the variable interest rate on these borrowings, their carrying values approximate fair value. The Company is required to pay a quarterly commitment fee on the undrawn portion of the revolving credit facility equal to 1.0% per annum of the undrawn amount. For letters of credit, the Company will pay a fee on the stated amount of the letter of credit at a rate equal to 2.75%. The 2009 collateralized revolving credit agreement was to mature on November 2, 2009 but was extended; \$25 million was extended through January 4, 2010 and \$25 million was extended through September 29, 2011. All terms of the extended collateralized revolving credit agreement remain the same except the following: at the Company's election and discretion, borrowings under the extended 2009 collateralized revolving credit agreement bear interest per annum (based on a 360 day year) equal to either: (1) the lender's prime rate plus 1.5% or (2) the 1, 2 or 3 month LIBOR rate plus 3.5%. For letters of credit, the Company will pay a fee on the stated amount of the letter of credit at a rate equal to 3.5%. The 2009 collateralized revolving credit agreement contained financial and other restrictive covenants that limited the Company's ability to incur additional debt and engage in other activities. As of March 31, 2010 and during the period from June 3, 2009 to March 31, 2010, the Company was in compliance with these covenants.

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

Interest incurred on the Company's lines of credit (in combination with all previous lines of credit) for the three months ended March 31, 2010 and 2009 were \$0.3 million and \$0.1 million, respectively.

Cash collateral pledged at December 31, 2009, on the condensed consolidated statements of financial condition, represents collateral that was required to be posted for obligations or potential obligations under the letter of credit discussed above pursuant to the lease agreement for the Company's premises in New York City. This collateral was released with the terms of the extended collateralized revolving credit agreement. The Company's investment in Enterprise Master through Enterprise LP has been pledged as collateral under the line of credit portion of the revolving credit agreement discussed above.

The Company also has two additional irrevocable letters of credit, the first of which is for \$100,000, which expires on July 26, 2010, supporting workers' compensation insurance with Safety

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National Casualty Corporation, and the second of which is for \$57,000, which expires on November 14, 2010, supporting Cowen Healthcare Royalty Management, LLC's Stamford office lease. To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. Each of these letters of credit provides for automatic annual renewals, at the Company's option, on their expiration dates. As of March 31, 2010 and December 31, 2009, there were no amounts due related to these letters of credit.

**Off-Balance Sheet Arrangements**

We have no material off-balance sheet arrangements as of March 31, 2010. However, through indemnification provisions in our clearing agreement, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreement, we are required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

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

**Critical Accounting Policies and Estimates**

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

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

***Consolidation***

These consolidated financial statements include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest, including the Consolidated Funds, in which the Company has a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. The Company's funds are not subject to these consolidation provisions with respect to their investments pursuant to their specialized accounting.

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

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***Fair Value of Investments***

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

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

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

The Company and its operating company subsidiaries act as the manager for the Consolidated Funds. Both the Company and the Consolidated Funds hold certain investments which are valued by the Company, acting as the investment manager. The fair value of these investments is generally estimated based on proprietary models developed by the Company, which include discounted cash flow analyses, public market comparables, and other techniques and may be based, at least in part, on independently sourced market information. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions used in these models, and the timing and actual values realized with respect to investments could be materially different from values derived based on the use of those estimates. The valuation methodologies applied impact the reported value of the Company's investments and the investments held by the Consolidated Funds in the consolidated financial statements.

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

**Securities** Securities whose values are based on quoted market prices in active markets for identical assets, and are therefore classified in level 1 of the fair value hierarchy, include active listed

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equities, certain U.S. government and sovereign obligations, and certain money market securities. The Company does not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

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

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

**Other investments** Other investments measured at fair value consist primarily of portfolio funds and real estate investments, which are valued as follows:

i.

**Portfolio funds** Portfolio funds ("Portfolio Funds") include interests in funds and investment companies managed externally by the Company and unaffiliated managers. In September 2009, the FASB issued a new accounting pronouncement regarding fair value measurements and disclosures relating to investments in certain entities that calculate net asset value ("NAV") per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that either are investment companies as defined by the AICPA Audit and Accounting Guide, Investment Companies, or have attributes similar to an investment company, and calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The Company has adopted this guidance effective with the issuance of its December 31, 2009 financial statements. As this guidance is consistent with the Company's existing fair value measurement policy for its Portfolio funds, the Company's adoption did not have an impact on its financial condition, results of operations or cash flows.

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on the ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a Level 2 fair value measurement. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a Level 3 fair value measurement. See Note 4 for further details of the Company's investments in Portfolio Funds.

ii.

**Real estate investments** Real estate investments are valued at estimated fair value. The fair value of real estate investments are estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Real estate investments without a public market are valued based on assumptions and valuation techniques used by the Company. Such valuation techniques may include discounted



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cash flow analysis, prevailing market capitalization rates or earning multiples applied to earnings from the investment, analysis of recent comparable sales transactions, actual sale negotiations and bona fide purchase offers received from third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a quarterly basis by the Company for significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.

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

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

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

See Note 5 to the Company's audited consolidated financial statements included in our 2009 Form 10-K filed with the SEC on March 25, 2010 for further information regarding the Company's investments and fair value measurements.

***Management fees***

The Company earns management fees from funds and managed accounts for which serves as the investment manager, based on a fixed percentage of net asset value, committed capital or invested capital. Management fees are based on contractual terms specified in the underlying investment management agreements with each specific fund or managed account. Management fees are generally paid on a quarterly basis at the beginning of each quarter in arrears and are prorated for capital inflows and redemptions. Management fees earned from our fund of funds products and certain portfolio funds are based and initially calculated on estimated net asset values and actual fees ultimately earned could be impacted to the extent of any changes in these estimates.

***Incentive Income***

The Company is entitled to incentive income on the net profits, defined in the investment management agreement, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have carried forward from prior years. In all instances other than the CHRP Funds, the Company has elected to adopt Method 2 of ASC Topic 605-20, Accounting for Management Fees Based on a Formula. Under Method 2, the incentive income of Ramius's funds and managed accounts for any period is based upon the net profits of Company's funds at the reporting date. Any incentive income recognized in a quarter's consolidated statement of operations may be subject to clawback in a subsequent quarter.

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***Investment Banking Revenues***

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

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

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

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

**Private placement fees.** The Company earns agency placement fees in non-underwritten transactions such as private placements, PIPEs and RDs. The Company records private placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the purchase price consideration of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. The Company tests goodwill for impairment in accordance with the two-step method described in FASB accounting standards. The first step involves a comparison of the estimated fair value of the reporting unit to its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, its goodwill is not impaired and the second step of the impairment test is not necessary. If the carrying amount of the reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with its carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair

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value of the reporting unit is allocated to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess. Goodwill is tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. Goodwill impairment tests are subject to significant judgment in determining the estimation of future cash flows, discount rates and other assumptions. Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill.

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

***Legal and Regulatory Reserves***

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with FASB accounting standards. These amounts are reported in other expenses, net of recoveries, in the consolidated statements of operations. The consolidated statements of operations do not include litigation expenses incurred by the Company in connection with indemnified litigation matters. See Note 11 to the Company's condensed consolidated financial statements for further discussion. As the successor of the named party in these litigation matters, the Company recognizes the related legal reserve in the consolidated statements of financial condition.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

During the three months ended March 31, 2010, there were no material changes in our quantitative and qualitative disclosures about market risks from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009. For a detailed discussion concerning our market risk, see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in our Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer (the principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of March 31, 2010.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2010, our disclosure controls and procedures are effective to provide a reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

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

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The following information reflects developments with respect to the Company's legal proceedings that occurred in the first quarter of 2010. These items should be read together with the Company's discussion in Note 11 "Commitments, Contingencies and Guarantees - Litigation," in the Notes to the Unaudited Condensed Consolidated Financial Statements in Part I, Item 1 and the Company's discussion set forth under Legal Proceedings in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

On April 16, 2010, plaintiffs filed a motion with the United States District Court for the Southern District of New York ("SDNY") requesting that those class members who appealed the SDNY's final order approving the settlement be required to post appeal bonds. To the extent that Cowen Holdings incurs additional legal fees or pays any settlement amount, it will be indemnified by Société Générale.

***Adelphia Communications Corp. Litigation***

On April 19, 2010, the Appaloosa plaintiffs filed with the SDNY a Stipulation and Order of Dismissal with Prejudice, which was signed by the SDNY on April 20, 2010. To the extent that Cowen Holdings incurs additional legal fees or pays any settlement amount in connection with this dismissal, it will be indemnified by Société Générale.

***Madden Litigation***

On April 14, 2010, the United State District Court for the Northern District of California ("NDCA") denied Cowen and Company's motion to dismiss and granted plaintiffs' motion to remand the case back to the Superior Court of the State of California for the City and County of San Francisco. To the extent that Cowen Holdings incurs additional legal fees or pays any settlement, fine or monetary sanction, it will be indemnified by Société Générale.

***Global Cash Litigation***

On March 15, 2010, the United States District Court for the District of Nevada issued an order preliminarily approving the settlement and scheduling a fairness hearing on the settlement for June 25, 2010.

***CardioNet Litigation***

On March 5, 2010, Cowen and Company was named as a defendant, along with several other underwriters, in a putative class action filed in the Superior Court of the State of California, County of San Diego, in connection with an August 2008 follow-on offering for CardioNet, Inc. ("CardioNet"). The complaint alleges, among other things, that the prospectuses for CardioNet's March 2008 IPO (in which Cowen and Company did not participate) and subsequent follow-on offering (in which Cowen and Company did participate) were false and misleading and failed to disclose, among other things, that CardioNet incorrectly reported revenue and failed to disclose certain risks relating to Medicare reimbursement rates for CardioNet's services. On April 5, 2010, Cowen and Company and the other defendants moved to remove the case to the United States District Court for the Southern District of California and, on April 7, 2010, moved to transfer the case to the United States District Court for the Eastern District of Pennsylvania. On April 23, 2010, plaintiffs moved to remand the case back to California state court. The motions to transfer and remand remain pending.

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***Fuqi Litigation***

In March 2010, Cowen and Company was named, along with several other underwriters, as a defendant in two putative class actions filed in the SDNY in connection with a July 2009 follow-on offering for Fuqi International, Inc. ("Fuqi"). The complaint alleges, among other things, that the prospectus for Fuqi's follow-on offering was false and misleading and contained materially inaccurate financial statements that overstated the company's gross profit and net income.

***Lehman Brothers***

On December 29, 2009, Lehman Brothers International (Europe), or LBIE, announced that the Claim Resolution Agreement ("CRA") it had proposed, which would provide a framework for returning trust assets to LBIE's trust creditors, had become effective with respect to LBIE and the signatories to the CRA, which includes the Ramius hedge funds who had assets at LBIE. The CRA included a March 19, 2010 bar date for LBIE's trust creditors to notify LBIE of claims to any of the trust assets controlled by LBIE. Given (1) the fact that the bar date has passed and (2) the additional information Ramius has received from LBIE regarding the various components of the Ramius hedge funds' claims against LBIE, Ramius has decided to value its total net equity claim as follows: (i) the trust assets that we have been informed are within the control of LBIE and are expected to be distributed to us in the relatively near term are being valued at market less a 1% discount that corresponds to the fee that will be charged under the CRA for the return of trust assets, (ii) the trust assets that are not within the control of LBIE, but that Ramius believes are held by LBIE through Lehman Brothers, Inc. ("LBI"), are being valued at 47% which represents the present value of the mid-point between what Ramius believes are reasonable estimates of the low-side and high-side potential recovery rates with respect to its LBI exposure, (iii) the trust assets that are not within the control of LBIE and are not believed to be held through LBI are being valued at 30%, which represents Ramius's estimate of potential recovery rates with respect to this exposure and (iv) Ramius's remaining unsecured claims against LBIE are being valued at 30%, which represents Ramius's estimate of potential recovery rates with respect to this exposure.

***Regulatory Inquiries and Investigations***

In addition to the civil litigation matters described above, we are also involved in a number of regulatory inquiries and investigations, which are not covered by the Indemnification Agreement. The most significant regulatory matters that developed during the first quarter of 2010 are as follows:

On January 13, 2010, Ramius's broker-dealer subsidiary, referred to as Ramius Securities, received a Wells Notice from FINRA's Department of Market Regulation indicating that it intended to recommend an enforcement action be brought against Ramius Securities for certain alleged violations of Regulation SHO regarding the short sale of securities. Ramius Securities responded to the Wells Notice on March 24, 2010.

On April 30, 2010, Cowen and Company received a Letter of Acceptance, Waiver and Consent from FINRA's Department of Market Regulation seeking the payment of a fine and the implementation of remedial measures regarding certain alleged trade reporting violations. Cowen and Company has not yet responded to the letter.

**Item 1A. Risk Factors**

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There are no material

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changes from the risk factors previously disclosed in our 2009 Form 10-K filed with the SEC on March 25, 2010.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Removed and Reserved**

**Item 5. Other Information**

As disclosed above in "Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Developments", on May 11, 2010, the Company, RCG Holdings LLC ("RCG"), C4S & Co., L.L.C., as managing member of RCG ("C4S"), Ramius LLC, a wholly owned subsidiary of the Company ("Ramius") and Ramius Alternative Solutions LLC, a wholly owned subsidiary of the Company ("Ramius Alternative Solutions" and, together with the Company, RCG, C4S and Ramius, the "Company Parties") entered into a Modification Agreement (the "Modification Agreement") with BA Alpine Holdings, Inc. ("BA Alpine"), Alpine Cayman Islands Limited ("Alpine Cayman"), UniCredit Bank AG (formerly known as Bayerische Hypo- und Vereinsbank AG) ("HVB AG"), HVB Alternative Advisors LLC ("HVB") and CEAKSCH Verwaltungs G.m.b.H. ("CEAKSCH" and, together with BA Alpine, Alpine Cayman, HVB AG and HVB, the "UniCredit Parties"), which, among other things, amends certain agreements between certain Company Parties and certain UniCredit Parties, as set forth more specifically below. The description of the Modification Agreement is qualified in its entirety by reference to the full text of the Modification Agreement, a copy of which is attached hereto as Exhibit 10.25.

*Amendments to the Investment Management Agreement*

The Modification Agreement, amends the Amended and Restated Investment Management Agreement, dated as of June 3, 2003, as amended on June 3, 2009, by and between Ramius and Alpine Cayman (as amended, the "Investment Management Agreement"), to provide that Ramius will (i) liquidate or cause to be liquidated all assets attributable to Alpine Cayman and CEAKSCH and which are readily reducible to cash ("Liquid Assets") of Ramius Multi-Strategy Master Fund Ltd. by December 31, 2010 and (ii) cause the distribution of the net proceeds of such liquidation to Alpine Cayman and CEAKSCH to be completed by January 31, 2011. However, Ramius has the option to extend the liquidation period with respect to certain Liquid Assets until December 31, 2011, upon the payment of applicable extension fees. Under the Investment Management Agreement as amended by the Modification Agreement, Ramius has also agreed to use its reasonable best efforts, at its sole expense, (i) to obtain bids from third parties to purchase certain assets of Alpine Cayman and CEAKSCH that are not Liquid Assets and interests in certain Ramius investment vehicles held by Alpine Cayman or CEAKSCH and (ii) to facilitate the closing of such sales by December 31, 2010. Furthermore, following June 30, 2010, Alpine Cayman and CEAKSCH will no longer be obligated to pay management fees to Ramius with respect to their assets under the management of Ramius.

*Amendments to the Investment Reporting Agreement*

The Modification Agreement, amends the Investment Reporting Agreement, dated as of July 29, 2005, as amended January 1, 2007 and June 3, 2009, by and between Ramius Alternative Solutions and HVB AG (as amended, the "Investment Reporting Agreement"), Ramius Alternative Solutions will distribute (i) a portion of HVB AG's indirect investment in Ramius FOF European Platform S2 01

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(such investment, the "*European Platform Investment*") equal to €85 million in cash on or prior to May 25, 2010 and (ii) the remaining portion of the European Platform Investment consisting of remaining available cash on or prior to July 30, 2010. Commencing with the fiscal quarter ending June 30, 2010, Ramius Alternative Solutions will distribute on a quarterly basis all portions of the European Platform Investment which are received from underlying managers. With respect to any portion of the European Platform Investment that is not readily reducible to cash, HVB AG may elect to cause Ramius Alternative Solutions to (a) use its reasonable best efforts, at its sole expense, to (x) obtain bids from third parties to purchase such portion of the European Platform Investment and (y) facilitate the closing of such sales by December 31, 2010 or (b) distribute such portion of the European Platform Investment in kind. Furthermore, following June 30, 2010, HVB AG will no longer be obligated to pay management or incentive fees to Ramius with respect to the European Platform Investment.

*Amendments to the Asset Exchange Agreement*

Pursuant to the terms of the Modification Agreement, the Asset Exchange Agreement, dated as of June 3, 2009, as amended July 9, 2009, by and among the Company, RCG, HVB, HVB AG and Cowen Holdings, Inc., a wholly owned subsidiary of the Company (as amended, the "*Asset Exchange Agreement*"), has been amended to remove the remaining contractual restrictions on the sale or other disposition of shares of the Company's Class A common stock which HVB received pursuant to the terms of the Asset Exchange Agreement.

*Release of Claims*

The Modification Agreement also provides for the mutual release by each of the Company Parties and the UniCredit Parties of all claims that such parties had, have or may have in the future against each other arising under or relating to the Investment Management Agreement, Investment Reporting Agreement or Asset Exchange Agreement, provided that the parties fulfill their respective obligations under the Modification Agreement, except to the extent such claims relate to acts or omissions occurring after the date of the Modification Agreement.

*Amendments to the RCG Operating Agreement*

RCG owns approximately 49.9% of the Company's Class A Common Stock and BA Alpine is a member of RCG. Pursuant to the terms of the Modification Agreement, C4S, the managing member of RCG, and BA Alpine have consented to the amendment of the Fourth Amended and Restated Limited Liability Company Agreement of RCG, dated as of November 2, 2009, to remove all remaining limitations on distributions and withdrawals applicable to BA Alpine (as a Series I member of RCG) under such agreement with respect to the shares of the Company's Class A common stock held by RCG and underlying BA Alpine's interests in RCG, except as otherwise required by applicable law.

**Item 6. Exhibits**

See Exhibit Index.

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**SIGNATURES**

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

COWEN GROUP, INC.

By: /s/ PETER A. COHEN

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Name: Peter A. Cohen  
Title: *Chief Executive Officer and President*  
*(principal executive officer)*

By: /s/ STEPHEN A. LASOTA

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Name: Stephen A. Lasota  
Title: *Chief Financial Officer*  
*(principal financial officer and principal*  
*accounting officer)*

Dated: May 13, 2010



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**Exhibit Index**

| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 10.1                   | Modification Agreement, dated as of May 11, 2010, among the Registrant, RCG Holdings LLC, C4S & Co., L.L.C., Ramius LLC, Ramius Alternative Solutions LLC, BA Alpine Holdings, Inc., Alpine Cayman Islands Limited, UniCredit Bank AG (formerly known as Bayerische Hypo- und Vereinsbank AG, Munich), HVB Alternative Advisors LLC and CEAKSCH Verwaltungs G.m.b.H. |
| 31.1                   | Certification of CEO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.  |
| 31.2                   | Certification of CFO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.  |
| 32                     | Certification of CEO and CFO Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.  |