

Cowen Group, Inc.  
Form 10-Q  
August 06, 2009

Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2009**

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: 000-52048**

**Cowen Group, Inc.**

(Exact name of registrant as specified in its charter)

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

**84-1702964**  
(I.R.S. Employer  
Identification No.)

**1221 Avenue of the Americas**  
**New York, New York**  
(Address of principal executive offices)

**10020**  
(Zip Code)

**(646) 562-1000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  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 August 6, 2009, there were 15,124,024 shares of the registrant's common stock outstanding.

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TABLE OF CONTENTS

Item No.	Page No.
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>1. Unaudited Condensed Consolidated Financial Statements</u></b>	
<u>Condensed Consolidated Statements of Financial Condition</u>	4
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<b><u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	
<b><u>3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	
<b><u>4. Controls and Procedures</u></b>	
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>1. Legal Proceedings</u></b>	
<b><u>1A. Risk Factors</u></b>	
<b><u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	
<b><u>3. Defaults Upon Senior Securities</u></b>	
<b><u>4. Submission of Matters to a Vote of Security Holders</u></b>	
<b><u>5. Other Information</u></b>	
<b><u>6. Exhibits</u></b>	
<b><u>SIGNATURES</u></b>	
<b><u>EXHIBIT INDEX</u></b>	
Exhibit 10.2	52
Exhibit 10.3	53
Exhibit 10.4	54
Exhibit 31.1	54
Exhibit 31.2	54
Exhibit 32	56

Table of Contents

**Special Note Regarding Forward-Looking Statements**

We have made statements in this Quarterly Report on Form 10-Q (including in "Management's Discussion and Analysis of Financial Condition and Results of Operations") that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as "may," "might," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "intend" or "continue," the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are only predictions 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, 2008, as updated in "Risk Factors" in Part II, Item 1A, herein.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three and six months ended June 30, 2009 and 2008. The Consolidated Financial Statements as of December 31, 2008 were audited.

**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)**

	June 30, 2009	December 31, 2008
<b>Assets</b>		
Cash and cash equivalents	\$ 82,035	\$ 108,595
Restricted cash pursuant to escrow agreement	5,222	13,034
Securities owned, at fair value	17,221	8,632
Receivable from brokers, dealers and clearing brokers	18,149	17,918
Corporate finance and syndicate receivables, net	9,821	3,391
Due from related parties	5,865	1,087
Exchange memberships, at cost (fair value of \$282 and \$221 at June 30, 2009 and December 31, 2008, respectively)	379	379
Investments	16,288	15,141
Furniture, fixtures, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$13,178 and \$11,863 at June 30, 2009 and December 31, 2008, respectively)	9,327	10,472
Goodwill	2,551	2,551
Intangible assets, net	223	369
Other assets	19,026	25,929
Total assets	\$ 186,107	\$ 207,498
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Bank overdrafts	\$ 426	\$ 242
Securities sold, not yet purchased, at fair value	17,719	4,141
Payable to brokers, dealers and clearing brokers	276	214
Employee compensation and benefits payable	9,005	34,453
Legal reserves and legal expenses payable (see Note 11, Commitments, Contingencies and Guarantees)	7,760	7,798
Accounts payable, accrued expenses and other liabilities	10,889	17,010
Total liabilities	46,075	63,858
<b>Equity</b>		
Cowen Group, Inc. stockholders' equity:		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 15,124,152 and 14,201,448 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively (including 3,243,684 and 2,963,960 restricted shares, respectively)	110	110
Additional paid-in capital	230,405	223,567
Accumulated deficit	(91,668)	(80,716)
Accumulated other comprehensive loss	(455)	(846)

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Total Cowen Group, Inc. stockholders' equity	138,392	142,115
Noncontrolling interest	1,640	1,525
Total equity	140,032	143,640
Total liabilities and equity	\$ 186,107	\$ 207,498

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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>				
Investment banking	\$ 11,848	\$ 20,502	\$ 17,075	\$ 34,364
Brokerage	35,015	37,116	70,623	75,199
Interest and dividend income	114	919	291	2,142
Other	2,808	4,133	5,529	5,955
Total revenues	49,785	62,670	93,518	117,660
<b>Expenses</b>				
Employee compensation and benefits	31,388	38,905	60,533	67,714
Floor brokerage and trade execution	3,369	3,073	6,230	5,513
Service fees	4,187	4,117	8,359	8,326
Communications	2,892	3,893	5,998	7,542
Occupancy and equipment	4,092	4,030	8,226	8,219
Marketing and business development	2,409	3,877	5,263	7,503
Depreciation and amortization	703	649	1,505	1,287
Other	5,261	6,493	8,662	11,658
Total expenses	54,301	65,037	104,776	117,762
Loss before income taxes	(4,516)	(2,367)	(11,258)	(102)
Benefit from income taxes	(134)	(1,656)	(410)	(45)
Net loss	(4,382)	(711)	(10,848)	(57)
Less: net income attributable to noncontrolling interests	55		104	
Net loss attributable to Cowen Group, Inc.	\$ (4,437)	\$ (711)	\$ (10,952)	\$ (57)
Weighted average common shares outstanding:				
Basic	11,658	11,238	11,531	11,246
Diluted	11,658	11,238	11,531	11,246
Earnings (loss) per share:				
Basic	\$ (0.38)	\$ (0.06)	\$ (0.95)	\$ (0.01)
Diluted	\$ (0.38)	\$ (0.06)	\$ (0.95)	\$ (0.01)

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>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (10,848)	\$ (57)
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Share-based compensation	6,867	2,662
Depreciation and amortization	1,505	1,287
Deferred income taxes	217	(12)
(Increase) decrease in operating assets:		
Restricted cash pursuant to escrow agreement	7,812	179
Securities owned, at fair value	(8,589)	(4,259)
Receivable from brokers, dealers and clearing brokers	(232)	9,828
Corporate finance and syndicate receivables, net	(6,430)	5,156
Due from related parties	(4,778)	(6,066)
Other assets	7,083	7,681
Increase (decrease) in operating liabilities:		
Bank overdrafts	184	(928)
Securities sold, not yet purchased, at fair value	13,578	8,409
Payable to brokers, dealers and clearing brokers	62	5,467
Employee compensation and benefits payable	(25,448)	(51,834)
Legal reserves and legal expenses payable	(38)	(1,738)
Accounts payable, accrued expenses and other liabilities	(6,116)	3,256
Net cash used in operating activities	(25,171)	(20,969)
<b>Cash flows from investing activities</b>		
Purchases of investments	(1,452)	(6,158)
Distributions from investments	305	
Purchases of fixed assets	(214)	(713)
Net cash used in investing activities	(1,361)	(6,871)
<b>Cash flows from financing activities</b>		
Share repurchases		(4,351)
(Distributions to) contributions from noncontrolling interest	(28)	467
Net cash used in financing activities	(28)	(3,884)
Net decrease in cash and cash equivalents	(26,560)	(31,724)
<b>Cash and cash equivalents</b>		
Beginning of period	108,595	139,879
End of period	\$ 82,035	\$ 108,155
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for:		



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Interest	\$	126	\$	94
Income taxes	\$	234	\$	2,045

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

**Cowen Group, Inc.**

**Condensed Consolidated Statements of Comprehensive Loss**

(in thousands)

(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Net loss</b>	\$(10,848)	\$(57)
Other comprehensive income:		
Foreign currency translation adjustment (net of taxes)	391	48
<b>Comprehensive loss</b>	(10,457)	(9)
Less: comprehensive income attributable to noncontrolling interests	104	
<b>Comprehensive loss attributable to Cowen Group, Inc.</b>	\$(10,561)	\$ (9)

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

**Cowen Group, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**1. Organization and Basis of Presentation**

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

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

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

Cowen Asset Management, LLC ("CAM US"), a Delaware single-member limited liability company, was a wholly-owned subsidiary of the Company through April 27, 2009, at which point the Company effected a recapitalization of CAM US and transitioned to a minority owner. CAM US focused on a growth-oriented investment style centered on small and mid-sized companies based in North America. See Note 20, "Wind-down of Certain Asset Management Businesses" for further discussion.

Cowen Asset Management Limited ("CAM UK"), a corporation formed under the laws of England and Wales, is a wholly-owned subsidiary of the Company. CAM UK provides traditional asset management services for investors outside the United States, focusing on a global equity strategy. Cowen Funds p.l.c. (the "Cowen Funds"), an open-ended investment company ("OEIC") with variable capital, is incorporated with limited liability in Ireland, regulated by the Irish Financial Services Regulatory Authority ("IFSRA"), and established as an undertaking for collective investment in transferable securities ("UCITS"). A UCITS is a public limited company that manages investment funds in the European Union. As such, Cowen Funds is structured as an umbrella fund with segregated liability between sub-funds which are listed on the Irish Stock Exchange. The Company, through Cowen, has a controlling financial interest in Cowen Funds. In the second quarter of 2009, the Company commenced a wind down of its asset management business in the UK, which includes CAM UK and the Cowen Funds. See Note 20, "Wind-down of Certain Asset Management Businesses" for further discussion.

Cowen Healthcare Royalty Management, LLC ("CHRP Management"), a Delaware single-member limited liability company, is an indirect wholly-owned subsidiary of the Company. CHRP Management manages Cowen Healthcare Royalty Partners, L.P. (the "CHRP Fund"), which invests principally in

Table of Contents

**Cowen Group, Inc.**

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

**1. Organization and Basis of Presentation (Continued)**

commercial-stage biopharmaceutical products and companies through the purchase of royalty or synthetic royalty interests and structured debt and equity instruments.

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

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

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

**Basis of Presentation**

Management believes that these Condensed Consolidated Financial Statements include normally recurring adjustments and accruals necessary for a fair presentation of the Condensed Consolidated Statements of Financial Condition, Operations and Cash Flows for the periods presented. We have evaluated subsequent events through August 6, 2009, which is the date that these financial statements were issued. These Condensed Consolidated Financial Statements and related notes are unaudited and exclude some of the disclosures required in annual financial statements.

The Condensed Consolidated Statements of Operations do not include litigation expenses incurred by the Company in connection with certain litigation and other legal matters that are indemnified by SG through an indemnification agreement (the "Indemnification Agreement"). The legal reserves related to these indemnified matters are included in legal reserves and legal expenses payable in the Condensed Consolidated Statements of Financial Condition. The effect of this indemnification on the Company's consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost will be reflected as an increase in litigation and related expense and the indemnification recovery will be recorded as a reduction to the Company's litigation and related expense. See Note 11, "Commitments, Contingencies and Guarantees" and Note 13, "Separation from Société Générale and Other Related Matters" for further discussion.

The Condensed Consolidated Financial Statements include the accounts of the Company, its subsidiaries and entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated upon consolidation. Certain reclassifications have been

Table of Contents

**Cowen Group, Inc.**

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

**1. Organization and Basis of Presentation (Continued)**

made to conform prior-period amounts to the current-period presentation, including the reclassification of interest expense of \$0.1 million to other for the three and six months ended June 30, 2008.

**2. Summary of Significant Accounting Policies**

**Principles of Consolidation**

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

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

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

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

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

**Noncontrolling Interest**

The Company adopted FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"), as of January 1, 2009. SFAS 160 requires reporting entities to present noncontrolling (minority) interests as

Table of Contents

**Cowen Group, Inc.**

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

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

equity (as opposed to as a liability or mezzanine equity), present income allocated to both noncontrolling interests and common stockholders, and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The Company has revised its prior period presentation as required to conform to this new pronouncement.

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. At June 30, 2009 and December 31, 2008, cash and cash equivalents included \$71.4 million and \$98.4 million, respectively, of money market funds.

**Valuation of Financial Instruments**

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

The Company determines fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own unobservable inputs that are not corroborated by observable market data.

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

Table of Contents

**Cowen Group, Inc.**

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

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

factors generally pertinent to the valuation of financial instruments. See Note 10, "Fair Value Measurements" for further discussion.

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

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

**Corporate Finance and Syndicate Receivables, net**

Corporate finance and syndicate receivables, net, include receivables relating to the Company's investment banking and advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis. The allowance for doubtful accounts was \$0.4 million and \$0.3 million as of June 30, 2009 and December 31, 2008, respectively.

**Investments**

The Company's limited partnership investment in the CHRP Fund is accounted for under the equity method, with the Company's proportionate share of the income or loss of the CHRP Fund recorded in other revenue. See Note 8, "Investments" for further discussion.

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

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

**Goodwill**

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

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

Table of Contents

**Cowen Group, Inc.**

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

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

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

**Intangible Assets, net**

Intangible assets with finite lives are amortized over their estimated average useful lives in accordance with SFAS 142. Finite lived intangible assets are tested for impairment whenever events or circumstances suggest that the carrying amount of an asset is not recoverable and the carrying amount exceeds the fair value of the intangible asset. The Company does not have any intangible assets deemed to have indefinite lives. See Note 9, "Goodwill and Intangible Assets" for further discussion.

**Exchange Memberships**

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

**Share-Based Compensation**

Share-based awards granted under the Company's equity and incentive compensation plans are accounted for according to the provisions of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). See Note 16, "Share-Based Compensation" for a description of these awards.

**Legal Reserves**

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS No. 5, *Accounting for Contingencies* ("SFAS 5"). These amounts are reported in other expenses, net of recoveries, in the Condensed Consolidated Statements of Operations. The Condensed Consolidated Statements of Operations do not include litigation expenses incurred by the Company in connection with indemnified litigation matters. See Note 11, "Commitments, Contingencies, and Guarantees" and Note 13, "Separation from Société Générale and Other Related Matters" for additional information. As the successor of the named party in these litigation matters, the Company recognizes the related legal reserve in the Condensed Consolidated Statements of Financial Condition.

**Revenue Recognition**

***Investment Banking***

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



Table of Contents

**Cowen Group, Inc.**

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

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

*Underwriting fees*

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

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

*Strategic/financial advisory fees*

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

*Private placement fees*

The Company earns agency placement fees 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.

Table of Contents

**Cowen Group, Inc.**

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

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

***Principal Transactions***

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

***Equity Research Fees***

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

***Other***

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

**Revenue Recognition on Incentive Income**

The Company recognizes incentive income when certain financial returns are achieved over the life of funds managed by the Company, and has elected to account for incentive income that is subject to contingencies in accordance with Method 1 of Emerging Issues Task Force Topic D-96, *Accounting for Management Fees Based on a Formula* ("D-96"). Under Method 1 of D-96, incentive income is recognized at the end of the contract period when all of the contingencies have been resolved. The Company may be required to repay a portion of the incentive income to the limited partners of the fund in the event minimum performance levels are not achieved by the fund as a whole (these potential repayments are referred to as "clawbacks"). The Company would be required to establish a reserve for potential clawbacks if it determined that the likelihood of a clawback is probable and the amount of the clawback can be reasonably estimated. As of June 30, 2009, the Company has not recorded any incentive income related to this arrangement.

**Derivative Financial Instruments**

The Company uses listed options for proprietary trading activities and to economically hedge trading positions. The Company also holds warrant positions. Warrants provide the holder the right to purchase securities from the issuer, and have been received in connection with certain private placement transactions.

The fair value of options is based on current market quotes. The fair value of warrants is based on a valuation model that considers contractual term, market price and volatility. Initially, the fair value of warrants received in connection with private placement transactions is included in investment banking

Table of Contents

**Cowen Group, Inc.**

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

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

revenues in the Condensed Consolidated Statement of Operations. Subsequent realized and unrealized gains and losses related to changes in the fair value of warrants are included in brokerage revenue in the Condensed Consolidated Statement of Operations. The fair value of listed options and warrants is included in securities owned and securities sold, not yet purchased in the Condensed Consolidated Statements of Financial Condition.

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

**Earnings Per Share**

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

**Leases**

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

**Foreign Currency**

The Company consolidates certain foreign subsidiaries that have designated a foreign currency as their functional currency. For entities that have designated a foreign currency as their functional currency, assets and liabilities are translated into U.S. dollars based on current rates, which are the rates prevailing at each statement of financial condition date, and revenues and expenses are translated at historical rates, which are the average rates for the relevant periods. The resulting translation gains and losses, and the tax effects of such gains and losses, are recorded in other comprehensive income (loss), a separate component of stockholders' equity. Gains or losses resulting from foreign currency transactions are included in the Condensed Consolidated Statements of Operations.

**Income Taxes**

The income tax provision reflected in the Condensed Consolidated Statements of Operations is consistent with the liability method described in SFAS No. 109, *Accounting for Income Taxes*. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under applicable tax laws and rates. A valuation allowance is provided for deferred tax assets when it is considered more likely than not that any benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

The Company follows the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 requires recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance

Table of Contents

**Cowen Group, Inc.**

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

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

on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

**Subsequent Events**

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted SFAS 165 in the quarter ended June 30, 2009. The adoption of SFAS 165 did not have a material impact on the Company's consolidated financial statements.

**3. Accounting Developments**

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS 167"). SFAS 167 amends FIN 46R, and changes how a company determines when an entity should be consolidated if it is insufficiently capitalized or is not controlled through voting (or similar rights). The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 is effective for the first annual reporting period beginning on or after November 15, 2009, with earlier application prohibited. The Company is currently evaluating the impact that SFAS 167 will have on its consolidated financial statements.

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

In connection with the IPO, the Company entered into an Indemnification Agreement with SG under which (1) SG will indemnify, and will defend and hold harmless the Company and each of the Company's subsidiaries from and against certain liabilities assumed or retained by SG; and (2) SG will indemnify the Company for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters. See Note 13, "Separation from Société Générale and Other Related Matters," for further discussion of the Indemnification Agreement.

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

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****4. Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale (Continued)**

SGASH. SGASH is also entitled to any interest earned on such deposits held in escrow. The balance in the escrow account was \$5.2 million as of June 30, 2009 and \$13.0 million as of December 31, 2008.

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

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

Securities owned and securities sold, not yet purchased, both at fair value, consist of the following at June 30, 2009 and December 31, 2008:

	June 30, 2009		December 31, 2008	
	Owned	Sold, Not Yet Purchased	Owned	Sold, Not Yet Purchased
	(in thousands)			
Equity securities	\$ 12,895	\$ 17,574	\$ 6,556	\$ 3,530
Options	2,478	145	353	611
Mutual funds	1,489		1,430	
Warrants	359		293	
<b>Total</b>	<b>\$ 17,221</b>	<b>\$ 17,719</b>	<b>\$ 8,632</b>	<b>\$ 4,141</b>

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.

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

Amounts receivable from and payable to brokers, dealers and clearing brokers at June 30, 2009 and December 31, 2008 consist of the following:

	June 30, 2009		December 31, 2008	
	Receivable	Payable	Receivable	Payable
	(in thousands)			
Clearing brokers	\$ 9,277	\$ 17	\$ 12,814	\$ 69
Fees and commissions	8,872	259	5,104	145
<b>Total</b>	<b>\$ 18,149</b>	<b>\$ 276</b>	<b>\$ 17,918</b>	<b>\$ 214</b>



Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****7. Exchange Memberships**

Exchange memberships provide the Company with the right to do business on the exchanges of which it is a member. No impairment occurred during the three and six months ended June 30, 2009 or 2008. The fair value of the exchange memberships was approximately \$0.3 million at June 30, 2009 and December 31, 2008.

**8. Investments**

The Company invests in the CHRP Fund through a direct limited partnership investment by Cowen Group, Inc., as well as through its ownership interest in CHRGP, the general partner of the CHRP Fund. The direct investment in the CHRP Fund through Cowen Group, Inc. is accounted for under the equity method. The Company consolidates CHRGP and records the noncontrolling equity interest in CHRGP as noncontrolling interest in the Condensed Consolidated Statements of Financial Condition. The carrying value of the investment at June 30, 2009 and December 31, 2008 was \$16.3 million and \$15.1 million, respectively, which included \$1.6 million and \$1.5 million, respectively, of noncontrolling interest in CHRGP.

**9. Goodwill and Intangible Assets***Goodwill*

All of the Company's goodwill at June 30, 2009 and December 31, 2008 resulted from the 2008 acquisition of Latitude. Goodwill is reviewed for possible impairment at least annually, consistent with valuation methodologies pursuant to SFAS 142. There were no additions to goodwill and no impairment losses recorded during the six months ended June 30, 2009.

*Intangible assets*

Information regarding the Company's intangible assets that are subject to amortization is presented below as of June 30, 2009 and December 31, 2008. The intangible assets were acquired as part of the purchase of Latitude in 2008.

	Amortization Period (in years)	June 30, 2009			December 31, 2008		
		Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount
Customer contracts	0.5	\$ 390	\$ (390)	\$ 390	\$ (260)	\$ 130	
Trademarks	10.0	170	(14)	156	(6)	164	
Database	5.0	80	(13)	67	(5)	75	
		\$ 640	\$ (417)	\$ 223	\$ (271)	\$ 369	

Amortization expense related to intangible assets was \$0.01 million and \$0.1 million for the three and six months ended June 30, 2009, respectively. There was no amortization expense related to intangible assets recorded in the three and six months ended June 30, 2008. All of the Company's intangible assets have finite lives.

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****9. Goodwill and Intangible Assets (Continued)**

The estimated future amortization expense for the Company's intangible assets as of June 30, 2009 is as follows:

	(in thousands)
Remainder of 2009	\$ 17
2010	33
2011	33
2012	33
2013	28
Thereafter	79
	\$ 223

**10. Fair Value Measurements**

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The valuation hierarchy contains three levels:

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

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

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

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

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

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

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

**Warrants.** Warrants in public companies are valued using a Black-Scholes valuation model, based on observable inputs directly related to the warrants. These warrants are classified within Level 2.



Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****10. Fair Value Measurements (Continued)**

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

The following table summarizes the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Assets:</b>				
Equity securities	\$ 12,537	\$ 24	\$ 334	\$ 12,895
Options	2,478			2,478
Mutual funds	1,489			1,489
Warrants		359		359
	\$ 16,504	\$ 383	\$ 334	\$ 17,221
<b>Liabilities:</b>				
Equity securities	\$ 17,574	\$	\$	\$ 17,574
Options	145			145
	\$ 17,719	\$	\$	\$ 17,719

For the three and six months ended June 30, 2009, there were no changes in the value of assets classified within Level 3, and there were no asset transfers in or out of Level 3.

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

The Company is involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of its businesses. The Company estimates potential losses that may arise out of these matters and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS 5. To the extent that the Company is indemnified by SG, indemnified legal expenses and liabilities will be paid out of escrow pursuant to the Escrow Agreement with SG. See Note 4, "Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale" and Note 13, "Separation from Société Générale and Other Related Matters," for further discussion of the Escrow Agreement and the Indemnification Agreement. Although there can be no assurances as to the ultimate outcome, Cowen has established reserves for litigation and regulatory matters that it believes are adequate as of June 30, 2009. 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.

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****11. Commitments, Contingencies and Guarantees (Continued)**

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

***Lease Commitments***

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

As of June 30, 2009, the Company had the following lease commitments related to these agreements:

	<b>Minimum Lease Payments (in thousands)</b>
Remainder of 2009	\$ 5,053
2010	10,070
2011	10,006
2012	9,302
2013	7,473
Thereafter	4,004
	<b>\$ 45,908</b>

Rent expense was \$3.0 million and \$2.9 million for the three months ended June 30, 2009 and 2008, respectively, and was \$5.9 million and \$5.7 million for the six months ended June 30, 2009 and 2008, respectively. Rent expenses above include building operating expenses which are charged to the Company.

***Guarantees***

The Company has outsourced certain information technology services under agreements which are in place until 2010. As of June 30, 2009, the Company's annual minimum guaranteed payments under these agreements are as follows:

	<b>Minimum Guaranteed Payments (in thousands)</b>
Remainder of 2009	\$ 6,312
2010	5,597
	<b>\$ 11,909</b>

Table of Contents

**Cowen Group, Inc.**

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

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

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

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

***Capital Commitment***

The Company has committed to invest \$27.0 million in the aggregate to the CHRP Fund as a limited partner and also as a member of Cowen Healthcare Royalty GP, LLC, the general partner of the CHRP Fund. This commitment is expected to be called over a two to three year period. The Company will make its pro-rata investment in the CHRP Fund along with the other limited partners. Through June 30, 2009, the Company has funded \$14.9 million towards these commitments.

**12. Variable Interest Entities**

The Company currently holds an interest in CHRGP, which has been deemed to be a VIE. CHRGP is an entity formed for the purpose of collecting incentive fees related to the CHRP Fund, if certain performance thresholds are exceeded. As of June 30, 2009, the Company owns 40.24% of CHRGP, and the remainder is owned by related party entities, the owners of which are Cowen employees. CHRGP is deemed to be a VIE because the related party ownership interests are subject to a vesting period, contingent on the continued employment of the owners with the Company. The Company has been deemed to be the primary beneficiary as the other owners' ownership interests are subject to a vesting condition. CHRGP is committed to provide 1% of the total investment in the CHRP Fund, and each owner is responsible for their pro-rata portion of the 1% commitment. As of June 30, 2009, CHRGP's investment in the CHRP Fund was \$2.7 million, of which the Company's pro-rata share was \$1.1 million.

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

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

Table of Contents

**Cowen Group, Inc.**

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

**13. Separation from Société Générale and Other Related Matters (Continued)**

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

Under the Indemnification Agreement, the Company will indemnify, and will defend and hold harmless SG and its subsidiaries from and against all liabilities specifically retained or assumed by the Company following the IPO. SG will indemnify, and will defend and hold harmless the Company and each of the Company's subsidiaries from and against certain liabilities assumed or retained by them, and SG will indemnify the Company for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters.

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

Table of Contents

**Cowen Group, Inc.**

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

**14. Related Party Transactions**

The Company has related party transactions with Cowen Investments Holdings, LLC, an unconsolidated investment fund holding company, the CHRP Fund, and Crosswind Investments, LLC ("Crosswind"). See Note 20 "Wind-down of Certain Asset Management Businesses" for more information on Crosswind.

Amounts receivable from related parties were \$5.9 million and \$1.1 million as of June 30, 2009 and December 31, 2008, respectively. Amounts receivable from related parties at June 30, 2009 included a \$5.0 million 10-day promissory note due from the CHRP Fund that was paid in full in July of 2009.

There were no material amounts payable to related parties as of June 30, 2009 and December 31, 2008. Revenues from related parties were \$2.2 million and \$3.8 million for the three months ended June 30, 2009 and 2008, respectively, and \$4.3 million and \$5.4 million for the six months ended June 30, 2009 and 2008, respectively, and are included in other revenues in the Condensed Consolidated Statements of Operations. The related party revenues and receivable balances primarily relate to management fees earned by the Company, and amounts receivable from the CHRP Fund.

**15. Deferred Compensation**

A portion of the bonus compensation for certain employees was provided in the form of deferred cash awards granted on February 2, 2009. These deferred cash awards provide for future cash payment to the employee, subject to vesting provisions. The awards vest one-third on each of May 15, 2010, 2011 and 2012. An employee that voluntarily ceases employment, or is terminated with cause, will generally forfeit any unvested portion of the deferred cash awards granted to them. The amount of each deferred cash award is fixed at grant date, and may be settled in Company stock, at the Company's option, based on the share price on vest date.

During the three and six months ended June 30, 2009, the Company granted a total of \$0.7 million and \$7.8 million of deferred cash awards, respectively. The Company expenses these awards on a straight-line basis over the vesting period. For the three and six months ended June 30, 2009, the Company recorded compensation expense of \$0.9 million and \$1.6 million, respectively, related to deferred cash awards. At June 30, 2009, the balance of the accrued payable related to the deferred cash awards was \$1.5 million, and is included in employee compensation and benefits payable on the Condensed Consolidated Statements of Financial Condition. The total unrecognized compensation expense related to deferred cash awards was \$6.6 million at June 30, 2009.

There were no grants of deferred cash awards, or expense related to deferred cash awards, for the three and six months ended June 30, 2008.

**16. Share-Based Compensation**

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

Table of Contents

**Cowen Group, Inc.**

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

**16. Share-Based Compensation (Continued)**

and expire seven years from the date of grant. Restricted shares issued generally vest over three to five year periods. Restricted stock units may be immediately vested or may generally vest over a three to five year period. As of June 30, 2009, there were approximately 1.2 million shares available for future issuance under the 2006 and 2007 Plans.

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

In relation to these awards, the Company recognized expense of \$2.9 million and \$4.4 million for the three months ended June 30, 2009 and 2008, respectively, and expense of \$6.9 million and \$2.7 million for the six months ended June 30, 2009 and 2008, respectively. The income tax effect recognized for these awards was a benefit of \$1.2 million and \$1.9 million for the three months ended June 30, 2009 and 2008, respectively, and a benefit of \$2.9 million and \$1.1 million for the six months ended June 30, 2009 and 2008.

Effective March 4, 2008, Kim S. Fennebresque, formerly Chairman, President and Chief Executive Officer of the Company, resigned as President and Chief Executive Officer. Mr. Fennebresque resigned as Chairman effective July 15, 2008. In connection with Mr. Fennebresque's resignation, he forfeited, in its entirety, the equity award of 975,000 restricted shares he received in connection with the Company's IPO (the "IPO Award"). As a result, compensation expense for the six months ended June 30, 2008 includes a reversal of \$5.1 million of expense previously recognized for Mr. Fennebresque's IPO Award. This adjustment is partially offset by the reversal of associated income tax benefits of \$2.2 million.

In addition, as part of his resignation agreement with the Company, Mr. Fennebresque will continue to vest in the equity awards he received as part of his 2006 and 2007 annual compensation. The fair value of the related shares were remeasured as a result of this vesting modification, and any remaining expense associated with these awards was expensed in the first quarter of 2008, as there is no longer a service period requirement relating to these awards. The net result of the remeasurement and acceleration of these awards was an expense of \$0.1 million in the six months ended June 30, 2008.

***Stock Options***

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

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

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

Table of Contents

## Cowen Group, Inc.

## Notes to Condensed Consolidated Financial Statements (Continued)

## 16. Share-Based Compensation (Continued)

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

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

There were no stock option granted or exercised during the six months ended June 30, 2009 and 2008. The following table summarizes the Company's stock option activity for the six months ended June 30, 2009:

	Shares Subject to Option	Weighted Average Exercise Price/Share	Weighted Average Remaining Term  (in years)	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)
<b>Balance outstanding at December 31, 2008</b>	911,455	\$ 15.08		
Options granted				
Options exercised				
Options forfeited	(11,592)	16.00		
Options expired	(7,081)	16.00		
<b>Balance outstanding at June 30, 2009</b>	892,782	\$ 15.06	4.32	\$ 86
<b>Options exercisable at June 30, 2009</b>	185,679	\$ 16.00	4.03	\$

(1) Based on the Company's closing stock price of \$8.35 on June 30, 2009.

As of June 30, 2009, there was \$0.7 million of unrecognized compensation expense related to the Company's grant of stock options. Unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 1.6 years. No stock options vested during the six months ended June 30, 2009 and 2008.

**Restricted Shares**

The following table summarizes the Company's restricted share activity for the six months ended June 30, 2009:

	Nonvested Restricted Shares	Weighted-Average Grant Date Fair Value
<b>Balance outstanding at December 31, 2008</b>	2,963,960	\$ 13.56
Granted	1,006,195	5.90
Vested	(633,374)	12.54
Forfeited	(93,097)	11.66
<b>Balance outstanding at June 30, 2009</b>	3,243,684	\$ 11.44

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.





Table of Contents

**Cowen Group, Inc.**

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

**16. Share-Based Compensation (Continued)**

As of June 30, 2009, there was \$11.0 million of unrecognized compensation expense related to the Company's grant of nonvested restricted shares. Unrecognized compensation expense related to nonvested restricted shares is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of shares vested during the six months ended June 30, 2009 and 2008, based on their grant date fair value, was \$7.9 million and \$4.0 million, respectively.

***Restricted Stock Units***

As of June 30, 2009, there were 14,177 restricted stock units outstanding for awards to non-employee members of the Company's Board of Directors, which were immediately vested and expensed upon grant. As of June 30, 2009, there were 16,245 restricted stock units outstanding for awards to employees, which generally vest over a three to five year period. During the six months ended June 30, 2009, the Company did not award any restricted stock units to its employees or non-employee Board members.

**17. 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 tax results of the Company's U.K. operations are reported by CIL and CAM UK separately in their respective U.K. tax filings. If applicable, CIL and CAM UK share tax losses to the extent permitted by local law. CLAL files a stand-alone Hong Kong tax return while the tax results of Cowen Latitude Investment Consulting (Beijing) Co., Ltd. ("CLICB") are reported in its People's Republic of China tax filings. The Company's effective income tax rate was 2.9% and 70.0% for the three months ended June 30, 2009 and 2008, respectively, and was 3.6% and 44.1% for the six months ended June 30, 2009 and 2008, respectively.

The 2009 effective tax rate differs from the statutory rate of 35% primarily due to a net increase in the valuation allowance and non-deductible meals and entertainment expense, both of which lower the Company's effective tax rate as the Company reported a net loss for the periods. In estimating its 2009 effective tax rate, the Company changed the estimate of its ability to realize certain deferred tax assets that were recorded at year end. This resulted in the Company reducing the valuation allowance associated with such change and recording a net tax benefit for the periods.

The current period 2009 effective tax rate also reflects a permanent difference associated with share-based compensation due to the difference in the Company's stock price when shares vested during the quarters ended March 31, 2009, and June 30, 2009, compared to when the awards were initially granted. At December 31, 2008, the Company established a valuation allowance against a significant portion of its deferred tax assets. As such, the permanent difference associated with share-based compensation for the period is offset by the release of the federal and state and local valuation allowance resulting in no change to the effective tax rate.

For the period June 30, 2008, the effective tax rate differed from the statutory rate of 35% primarily due to non-deductible placement fees, meals and entertainment, share-based compensation, and state and local taxes.

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

Table of Contents**Cowen Group, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****17. Income Taxes (Continued)**

the Company has significant business operations, such as New York. The Company and its former parent SGAI are currently under examination by the Internal Revenue Service and New York state and city for the period 2004 through 2006.

**18. Earnings Per Share**

The Company calculates its basic and diluted earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. As of June 30, 2009, there were 15,124,152 shares outstanding, of which 3,243,684 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 14,177 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 as of the end of the period 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 and restricted shares outstanding were not included in the computation of diluted earnings per common share for the three and six months ended June 30, 2009 and 2008, as their inclusion would have been anti-dilutive. The computation of earnings per share is as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(in thousands, except per share data)</b>			
Net loss attributable to Cowen Group, Inc.	\$ (4,437)	\$ (711)	\$ (10,952)	\$ (57)
Shares for basic and diluted calculations:				
Average shares used in basic computation	11,658	11,238	11,531	11,246
Stock options				
Restricted shares				
Average shares used in diluted computation	11,658	11,238	11,531	11,246
Earnings (loss) per share:				
Basic	\$ (0.38)	\$ (0.06)	\$ (0.95)	\$ (0.01)
Diluted	\$ (0.38)	\$ (0.06)	\$ (0.95)	\$ (0.01)

Table of Contents

**Cowen Group, Inc.**

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

**19. Regulatory Requirements**

As a registered broker-dealer, Cowen is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934 (the "Exchange Act"). Under the alternative method permitted by this Rule, Cowen's minimum net capital requirement, as defined, is \$1.0 million. Cowen is not permitted to withdraw equity if certain minimum net capital requirements are not met. As of June 30, 2009, Cowen had net capital of approximately \$61.2 million, which was approximately \$60.2 million in excess of its minimum net capital requirement of \$1.0 million.

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

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

CIL is subject to the capital requirements of the Financial Services Authority ("FSA") of the U.K. Financial Resources, as defined, must exceed the total Financial Resources requirement of the FSA. At June 30, 2009, CIL's Financial Resources of \$8.3 million exceeded the minimum requirement of \$3.1 million by \$5.2 million.

CAM UK is subject to the capital requirements of the FSA of the U.K. and the IFSRA in Ireland. As per U.K. FSA regulation, Financial Resources, as defined, must exceed the Total Capital requirement, as defined. At June 30, 2009, CAM UK's Financial Resources of \$1.1 million exceeded the FSA's minimum requirement of \$0.7 million by \$0.4 million and IFSRA's minimum requirement of \$0.9 million net shareholder's funds was exceeded by \$0.2 million.

CLAL is subject to the financial resources requirements of the Securities and Futures Commission ("SFC") of Hong Kong. Financial Resources, as defined, must exceed the total Financial Resources requirement of the SFC. At June 30, 2009, CLAL's Financial Resources of \$0.8 million exceeded the minimum requirement of \$0.02 million by \$0.8 million.

**20. Wind-down of Certain Asset Management Businesses**

On April 27, 2009, the Company completed its transition from 100% owner to minority owner of CAM US, which was concurrently renamed Crosswind Investments, LLC. Formerly a wholly-owned subsidiary of Cowen Group, Inc., Crosswind is now an investment management firm majority owned by former employees of the Company.

As part of the recapitalization agreement and separation agreements entered into with the former employees, the Company settled preexisting employment contracts with such employees. The expense related to the settlement of those preexisting employment contracts is included in employee compensation and benefits expense in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009.

During the three months ended June 30, 2009, the Company also began the process to wind down its traditional asset management operations in the United Kingdom, which includes CAM UK and

Table of Contents

**Cowen Group, Inc.**

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

**20. Wind-down of Certain Asset Management Businesses (Continued)**

Cowen Funds. The Company expects to complete this wind-down during the third quarter of 2009. The wind down of CAM UK and Cowen Funds is not expected to have a material effect on the Company's financial position or results of operations.

**21. Transaction Agreement**

On June 3, 2009, the Company, Ramius LLC ("Ramius") and certain entities formed to effect the transactions, entered into a Transaction Agreement and Agreement and Plan of Merger (the "Transaction Agreement"). Under the terms of the Transaction Agreement, the Company and Ramius have jointly formed and own LexingtonPark Parent Corp., a new holding company ("New Parent"). New Parent, in turn, has organized two wholly owned subsidiaries, Lexington Merger Corp. ("Merger Sub") and Park Exchange LLC ("Exchange Sub"). Subject to the terms and conditions of the Transaction Agreement, at the completion of the transactions, Merger Sub will merge with and into the Company, with the Company surviving the merger, and Ramius will transfer to Exchange Sub substantially all of Ramius's assets and Exchange Sub will assume substantially all of Ramius's liabilities. The Company will become a wholly owned subsidiary of New Parent, and Exchange Sub will remain a wholly owned subsidiary of New Parent. New Parent will then change its name to "Cowen Group, Inc." and its shares are expected to trade on NASDAQ under the ticker symbol "COWN" and Exchange Sub will change its name to "Ramius LLC."

At the completion of the transactions, Exchange Sub will assume substantially all of the liabilities of Ramius and New Parent will issue 37,536,826 shares of New Parent Class A common stock to Ramius in exchange for Ramius transferring substantially all of its assets to Exchange Sub. At the same time, each share of Company common stock issued and outstanding immediately prior to the completion of the transactions will automatically be converted into the right to receive one share of New Parent Class A common stock.

Pursuant to an Asset Exchange Agreement, dated as of June 3, 2009, as amended, HVB Alternative Advisors LLC, an affiliate of BA Alpine Holdings, Inc., a third party investor in Ramius, will receive 2,713,882 shares of Class A common stock of New Parent, and approximately \$10.4 million in cash or in the form of a promissory note, in exchange for transferring to Merger Sub the 50% interest in Ramius's fund of funds business not already owned by Ramius. At the completion of the transactions, Ramius and HVB Alternative Advisors LLC will together hold shares representing approximately 71.24% of the Class A common stock of New Parent on a fully diluted basis and the Company's shareholders will collectively hold approximately 28.76% (including shares to be issued in conjunction with the transactions) of the Class A common stock of New Parent on a fully diluted basis. The exchange ratio was determined based on the relative book values of Ramius and the Company as of December 31, 2008 (with agreed upon adjustments).

The transactions will be treated under the acquisition method for accounting purposes. In this case, the transaction will be accounted for as an acquisition by Ramius of the Company. As such, the Company's assets acquired and liabilities assumed will be recorded at their fair value. The fair value of New Parent securities to be issued to the Company's stockholders is the purchase consideration in the transactions. The purchase consideration for the Company under the acquisition method will be based on the stock price of the Company on the closing date of the transactions multiplied by the number of shares issued by New Parent to the Company's stockholders. Restricted shares, restricted share units and stock options of the Company's common stock at the effective time of the merger will be

Table of Contents

**Cowen Group, Inc.**

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

**21. Transaction Agreement (Continued)**

converted into restricted shares, restricted share units and stock options of New Parent stock on a one-for-one basis.

The completion of the transactions is subject to a number of conditions, including approval of the Company's stockholders, regulatory approval and other customary closing conditions. Assuming these conditions are met, the transactions are expected to close in the fourth quarter of 2009. If the transactions are not completed the Company will be required to pay a termination fee of \$3.5 million, and, in some cases, expenses of Ramius up to \$750,000 if the transactions are terminated under qualifying circumstances, as described in the Transaction Agreement.

Table of Contents

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

*The following discussion should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results and the timing of events may differ significantly from those projected in forward-looking statements due to a number of factors, including those set forth in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as amended by Amendment No. 1 to the Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, dated as of April 28, 2009, and as updated in "Risk Factors" in Part II, Item 1A, herein.*

*When we use the terms "we," "us," "our" and the "Company," we mean Cowen Group, Inc., a Delaware corporation, its consolidated subsidiaries and entities in which it has a controlling financial interest, taken as a whole, as well as any predecessor entities, unless the context otherwise indicates.*

**Overview**

We are an international investment bank dedicated to providing superior research, brokerage, and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace & defense, and alternative energy sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade equity and equity-linked securities, principally in our target sectors. We focus our investment banking efforts, principally equity and equity-linked capital raising and strategic advisory services, on small to mid-capitalization public companies as well as private companies. We also offer alternative asset management services to institutional investors and other accredited investors. Our alternative asset management business consists of Cowen Healthcare Royalty Partners, which invests principally in commercial-stage biopharmaceutical products and companies, and Cowen Capital Partners, LLC, which manages a portfolio of middle market private equity investments for third party investors. We operate through a single reportable segment.

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

**External Factors Impacting Our Business**

Our financial performance is highly dependent on the environment in which our businesses operate. The macro business environment for many of our businesses has been, and continues to be, challenging. There can be no assurance that these conditions will improve in the near term.

A favorable business environment is characterized by many factors, including a stable geopolitical climate, transparent financial markets, low inflation, low interest rates, low unemployment, strong business profitability and high business and investor confidence. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation, interest rates, exchange rate volatility, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in the capital markets, or a combination of these or other factors. These factors influence levels of equity security issuance and merger and acquisition activity generally and in our target sectors, which affect our investment banking business. The same factors also affect trading volumes and valuations in secondary financial markets, which affect our brokerage business. Commission rates, market volatility, 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.

Table of Contents

In recent months, U.S. and global markets, as well as general economic conditions, have continued to be challenging. The Company's target sectors have been particularly disrupted. Although the Company has no outstanding debt, credit derivative or structured product exposure, 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.

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

**Recent Developments**

On June 3, 2009, the Company, Ramius LLC ("Ramius") and certain entities formed to effect the transactions, entered into a Transaction Agreement and Agreement and Plan of Merger (the "Transaction Agreement"). Under the terms of the Transaction Agreement, the Company and Ramius have jointly formed and own LexingtonPark Parent Corp., a new holding company ("New Parent"). New Parent, in turn, has organized two wholly owned subsidiaries, Lexington Merger Corp. ("Merger Sub") and Park Exchange LLC ("Exchange Sub"). Subject to the terms and conditions of the Transaction Agreement, at the completion of the transactions, Merger Sub will merge with and into the Company, with the Company surviving the merger, and Ramius will transfer to Exchange Sub substantially all of Ramius's assets and Exchange Sub will assume substantially all of Ramius's liabilities. The Company will become a wholly owned subsidiary of New Parent, and Exchange Sub will remain a wholly owned subsidiary of New Parent. New Parent will then change its name to "Cowen Group, Inc." and its shares are expected to trade on NASDAQ under the ticker symbol "COWN" and Exchange Sub will change its name to "Ramius LLC."

At the completion of the transactions, Exchange Sub will assume substantially all of the liabilities of Ramius and New Parent will issue 37,536,826 shares of New Parent Class A common stock to Ramius in exchange for Ramius transferring substantially all of its assets to Exchange Sub. At the same time, each share of Company common stock issued and outstanding immediately prior to the completion of the transactions will automatically be converted into the right to receive one share of New Parent Class A common stock.

Pursuant to an Asset Exchange Agreement, dated as of June 3, 2009, as amended, HVB Alternative Advisors LLC, an affiliate of BA Alpine Holdings, Inc., a third party investor in Ramius, will receive 2,713,882 shares of Class A common stock of New Parent, and approximately \$10.4 million in cash or in the form of a promissory note, in exchange for transferring to Merger Sub the 50% interest in Ramius's fund of funds business not already owned by Ramius. At the completion of the transactions, Ramius and HVB Alternative Advisors LLC will together hold shares representing approximately 71.24% of the Class A common stock of New Parent on a fully diluted basis and the Company's shareholders will collectively hold approximately 28.76% (including shares to be issued in conjunction with the transactions) of the Class A common stock of New Parent on a fully diluted basis. The exchange ratio was determined based on the relative book values of Ramius and the Company as of December 31, 2008 (with agreed upon adjustments).

The completion of the transactions is subject to a number of conditions, including approval of the Company's stockholders, regulatory approval and other customary closing conditions. Assuming these

Table of Contents

conditions are met, the transactions are expected to close in the fourth quarter of 2009. If the transactions are not completed the Company will be required to pay a termination fee of \$3.5 million, and, in some cases, expenses of Ramius up to \$750,000 if the transactions are terminated under qualifying circumstances, as described in the Transaction Agreement. On July 10, 2009, a registration statement on Form S-4 of New Parent, including a proxy statement of Cowen Group, Inc., was filed in connection with the transactions. A copy of the Form S-4 is available at the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).

**Basis of Presentation**

The Condensed Consolidated Financial Statements for the three and six months ended June 30, 2009 included elsewhere in this Form 10-Q have been prepared in conformity with U.S. GAAP. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for a full year.

The Condensed Consolidated Statements of Operations do not include litigation expenses incurred by us in connection with certain litigation and other legal matters that are indemnified by SG through the Indemnification Agreement. The legal reserves related to these indemnified matters are included in legal reserves and legal expenses payable in the Condensed Consolidated Statements of Financial Condition. The effect of this indemnification on our consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost and the indemnification recovery will be reflected as an increase in litigation and related expense and the indemnification recovery will be recorded as a reduction to our litigation and related expense. See Note 11 of the Notes to the Condensed Consolidated Financial Statements, "Commitments, Contingencies and Guarantees" and Note 13 of the Notes to the Condensed Consolidated Financial Statements, "Separation from Société Générale and Other Related Matters" for further discussion.

The Condensed Consolidated Financial Statements include the accounts of the Company, its subsidiaries and entities in which the Company has a controlling financial interest. All intercompany accounts and transactions have been eliminated upon consolidation. Certain reclassifications have been made to conform prior-period amounts to the current-period presentation, including the reclassification of interest expense of \$0.1 million to other for the three and six months ended June 30, 2008.

**Revenues**

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

*Investment Banking*

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

*Underwriting fees*

We earn underwriting revenues in securities offerings in which we act as an underwriter, such as IPOs, follow-on equity offerings and convertible security offerings. Our underwriting revenues include management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting cycle have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become



Table of Contents

effective with the SEC, or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of shares from the issuer; and (iii) the Company has been informed of the number of shares that it has been allotted.

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

*Strategic/financial advisory fees*

Our strategic advisory revenues include success fees earned in connection with advising companies, both buyers and sellers, principally in mergers and acquisitions. We also earn fees for related advisory work such as providing fairness opinions. We record strategic advisory revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

*Private placement fees*

We earn agency placement fees in non-underwritten transactions such as private placements, PIPEs and Registered Direct transactions ("RDs"). We record private placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

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

*Brokerage*

Our brokerage revenues consist of commissions, principal transactions and fees paid to us for equity research. Management reviews brokerage revenue on a combined basis as the vast majority of the revenue is derived from the same group of clients. We derive our brokerage revenue primarily from trading equity and equity-linked securities on behalf of institutional investors. The majority of our trading gains and losses are a result of activities that support the facilitation of client orders in both listed and over-the-counter securities, although all trading gains and losses are recorded in brokerage.

*Commissions*

Our brokerage business generates commission revenues from securities trading commissions paid by institutional investor clients. Commissions are recognized on a trade date basis. We permit institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Commissions on soft dollar brokerage are recorded net of the related expenditures on an accrual basis.

*Principal transactions*

Our brokerage revenues also include net trading gains and losses from principal transactions, which primarily include acting as a market-maker in over-the-counter equity securities, listed options trading, trading of convertible securities, and from trading gains and losses on inventory and other firm positions, which include warrants previously received as part of investment banking transactions. In

Table of Contents

certain cases, we commit our own capital to provide liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects us to market risk. These positions are typically held for a very short duration.

*Equity research fees*

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

*Interest and Dividend Income*

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

*Other*

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

**Expenses**

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

*Compensation Expense*

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

Historically, we have sought to maintain a ratio of compensation and benefits expense to revenue of between 58% and 60%, excluding the compensation expense associated with the initial grant of equity to our senior employees in connection with our IPO. As noted in the past, we believe that it will be difficult to achieve our target compensation levels under challenging market conditions. In the second quarter of 2009 we elected to accrue compensation at 62% of revenues, excluding expense

Table of Contents

associated with the initial grant of equity in connection with our IPO. The success of our business is based largely on the quality of our employees, and we must continually monitor the market for their services and seek to offer competitive compensation. We will continue to attempt to maintain compensation levels within our target range; however, we believe it is in our stockholders' best interest to minimize employee turnover. As a result, we have in the past and will continue to review our compensation to revenue ratio on a quarterly basis, and there can be no assurance that we will be able to achieve our target levels under difficult market conditions.

The expense associated with the initial grant of equity to our senior employees in connection with our IPO was \$0.5 million and \$1.3 million for the three and six months ended June 30, 2009, respectively. The annual expense associated with the initial grant of equity to our senior employees in connection with our IPO is estimated to be approximately \$2.2 million, \$1.2 million, and \$0.3 million in the years 2009, 2010, and 2011, respectively. The Company recorded an adjustment of \$5.1 million in the first quarter of 2008 to reverse amounts previously expensed in 2006 and 2007 associated with the shares forfeited by Kim Fennebresque, our former Chairman and Chief Executive Officer, upon his resignation. This adjustment was partially offset by the reversal of associated income tax benefits of \$2.2 million.

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

***Non-compensation Expense***

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

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

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

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

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

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

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

**Provision for Income Taxes**

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

Table of Contents

The income tax provision reflected in the Condensed Consolidated Statements of Operations is consistent with the liability method described in SFAS No. 109, *Accounting for Income Taxes*. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under applicable tax laws and rates. A valuation allowance is provided for deferred tax assets when it is considered more likely than not that any benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

The 2009 projected effective tax rate differs from the statutory rate of 35% primarily due to a net increase in the valuation allowance and non-deductible meals and entertainment expense. The Company's projected effective tax rate and tax expense (benefit) for each quarterly reporting period requires considerable approximations and substantial judgment including but not restricted to the results of its business, estimates of the portion of domestic versus foreign income, permanent book to tax differences, differences in stock grant and stock vesting prices and the ability to utilize deferred tax assets. Such judgments and approximations are subject to change as tax law and rules as well as the information used in determining such approximations and judgments evolve. Moreover, a high proportion of the Company's deferred tax assets are attributable to share-based compensation. To the extent that share-based awards vest at a share price less than the grant price, such a shortfall will result in an unfavorable permanent book-tax difference. Finally, the share price as well as numerous other factors will determine the limitation on net operating losses and net unrealized built in losses to the extent the Company undergoes an ownership change as defined by Internal Revenue Code Section 382.

**Results of Operations**

*Three Months Ended June 30, 2009 Compared with the Three Months Ended June 30, 2008*

**Overview**

Total revenues decreased \$12.9 million, or 21%, to \$49.8 million for the three months ended June 30, 2009 compared with \$62.7 million in the second quarter of 2008. This decrease was primarily due to reductions in investment banking revenue of \$8.7 million, brokerage revenue of \$2.1 million, interest and dividend revenues of \$0.8 million, and other revenue of \$1.3 million.

Total expenses decreased \$10.7 million, or 17%, to \$54.3 million for the three months ended June 30, 2009 compared with \$65.0 million in the second quarter of 2008. The decrease was primarily due to the reduction in both the compensation and benefits expense and non-compensation expense. The compensation to revenue ratio increased from 60% in the second quarter of 2008 to 62% in the second quarter of 2009, excluding the expense associated with the initial grant of equity to the Company's employees in connection with its initial public offering. Total non-compensation expenses decreased \$3.2 million, or 12%, during the three months ended June 30, 2009 compared with the second quarter of 2008, primarily due to a decrease in communication, marketing and business development, and other expenses. We recorded a net loss attributable to Cowen Group, Inc. of \$4.4 million for the three months ended June 30, 2009 compared with a net loss attributable to Cowen Group, Inc. of \$0.7 million in the second quarter of 2008.

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### Table of Contents

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

	Three Months Ended June 30,		Period-to-Period	
	2009	2008	\$ Change	% Change
(in thousands)				
<b>Revenues</b>				
Investment banking	\$ 11,848	\$ 20,502	\$ (8,654)	(42.2)%
Brokerage	35,015	37,116	(2,101)	(5.7)
Interest and dividend income	114	919	(805)	(87.6)
Other	2,808	4,133	(1,325)	(32.1)
 Total revenues	 49,785	 62,670	 (12,885)	 (20.6)
<b>Expenses</b>				
Employee compensation and benefits	31,388	38,905	(7,517)	(19.3)
Floor brokerage and trade execution	3,369	3,073	296	9.6
Service fees, net	4,187	4,117	70	1.7
Communications	2,892	3,893	(1,001)	(25.7)
Occupancy and equipment	4,092	4,030	62	1.5
Marketing and business development	2,409	3,877	(1,468)	(37.9)
Depreciation and amortization	703	649	54	8.3
Other	5,261	6,493	(1,232)	(19.0)
 Total expenses	 54,301	 65,037	 (10,736)	 (16.5)
 Loss before income taxes	 (4,516)	 (2,367)	 (2,149)	 NM
Benefit from income taxes	(134)	(1,656)	1,522	NM
 Net loss	 (4,382)	 (711)	 (3,671)	 NM
Less: Net income attributable to noncontrolling interests	55		55	NM
 Net loss attributable to Cowen Group, Inc.	 \$ (4,437)	 \$ (711)	 \$ (3,726)	 NM%

*NM* indicates not meaningful.

### **Revenues**

#### *Investment Banking*

Investment banking revenues decreased \$8.7 million, or 42%, to \$11.8 million for the three months ended June 30, 2009 compared with \$20.5 million in the second quarter of 2008. Our underwriting revenues decreased \$4.0 million, or 94%, to \$0.3 million for the three months ended June 30, 2009 compared with \$4.3 million during the same period in the prior year. The underwriting revenue results in both periods were primarily due to the continued depressed capital markets environment and the Company's focus on equity rather than debt underwriting activities. Our private placement revenues decreased \$0.8 million, or 29%, to \$2.0 million for the three months ended June 30, 2009 compared with \$2.8 million in the second quarter of 2008. The decrease was primarily attributable to the overall slowdown in private capital raising activity. Our strategic advisory fees decreased \$3.8 million, or 28%, to \$9.6 million for the three months ended June 30, 2009 compared with \$13.4 million in the second quarter of 2008. The decrease in strategic advisory fees was primarily the result of a decrease in the number of transactions completed in the second quarter of 2009 as compared to the second quarter of 2008.

#### *Brokerage*

Brokerage revenue decreased \$2.1 million, or 6%, to \$35.0 million for the three months ended June 30, 2009 compared with \$37.1 million in the second quarter of 2008. The decrease resulted primarily from a reduction in per share commissions, a reduction in volumes in our

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traditional cash equities business, and a higher loss ratio as we provided greater liquidity to our clients, partially offset by increased revenue in our listed options business and our program trading business.

Table of Contents

***Interest and Dividend Income***

Interest and dividend income decreased \$0.8 million, or 88%, to \$0.1 million for the three months ended June 30, 2009 as compared with \$0.9 million in the second quarter of 2008. The decrease resulted primarily from lower average interest rates as compared to the second quarter of 2008.

***Other***

Other revenues decreased \$1.3 million, or 32%, to \$2.8 million for the three months ended June 30, 2009 compared with \$4.1 million in the second quarter of 2008. This decrease was attributable to a reduction in fees for managing the assets and investments of certain private equity and alternative asset management funds. Management fees in the second quarter of 2008 included one time fees paid by investors admitted to the Cowen Healthcare Royalty Fund during the quarter, as such investors were required to pay their pro rata portion of fees retroactive from the date of the first closing of the fund. Absent the one time fees, CHRP management fees increased \$0.7 million in the second quarter of 2009 compared to the second quarter of 2008.

**Expenses**

***Employee Compensation and Benefits***

Employee compensation and benefits expense decreased \$7.5 million, or 19%, to \$31.4 million for the three months ended June 30, 2009 compared with \$38.9 million in the second quarter of 2008. The decrease was primarily attributable to the application of the Company's compensation to revenue ratio to lower revenue in the 2009 period. Excluding the expense associated with the initial grant of equity, employee compensation and benefits expense as a percentage of total revenues was 62% and 60% for the three months ended June 30, 2009 and 2008, respectively. Severance expense associated with the recapitalization of CAM US in the second quarter of 2009 was included in the compensation to revenue ratio.

***Floor Brokerage and Trade Execution***

Floor brokerage and trade execution fees increased \$0.3 million, or 10%, to \$3.4 million for the three months ended June 30, 2009 compared with \$3.1 million in the second quarter of 2008. This increase was primarily attributable to a combination of increased trading volumes and a pricing adjustment under our clearing agreement.

***Communications***

Communication expenses decreased \$1.0 million, or 26%, to \$2.9 million for the three months ended June 30, 2009 compared with \$3.9 million in the second quarter of 2008. This decrease was primarily attributable to a reduction in costs associated with certain market data services.

***Marketing and Business Development***

Marketing and business development expense decreased \$1.5 million, or 38%, to \$2.4 million for the three months ended June 30, 2009 compared with \$3.9 million in the second quarter of 2008. These results were primarily attributable to a combination of decreased conference related expenses as well as a reduction in travel related expenses.

***Other***

Other expenses decreased \$1.2 million, or 19%, to \$5.3 million for the three months ended June 30, 2009 compared with \$6.5 million in the second quarter of 2008. This decrease is primarily attributable to \$2.0 million of placement fees incurred in the second quarter 2008 related to a closing

Table of Contents

associated with the CHRP fund, partially offset by an increase in professional fees in the second quarter 2009 associated with the proposed merger with Ramius.

**Provision for Income Taxes**

For the three months ended June 30, 2009, the tax benefit was \$0.1 million. The 2009 effective tax rate differs from the statutory rate of 35% primarily due to a net increase in the valuation allowance and non-deductible meals and entertainment expense both of which lower the Company's effective tax rate as the Company reported a net loss for the period.

For the three months ended June 30, 2008, the effective tax rate differed from the statutory rate of 35% primarily due to non-deductible placement fees, meals and entertainment, share-based compensation, and state and local taxes.

***Six Months Ended June 30, 2009 Compared with the Six Months Ended June 30, 2008***

**Overview**

Total revenues decreased \$24.1 million, or 21%, to \$93.5 million for the six months ended June 30, 2009 compared with \$117.6 million in the first half of 2008. This decrease was primarily due to a decrease in investment banking revenues of \$17.3 million, a decrease in brokerage revenue of \$4.6 million, a decrease in interest and dividends of \$1.8 million, and a decrease in other revenues of \$0.4 million.

Total expenses decreased \$13.0 million, or 11%, to \$104.8 million for the six months ended June 30, 2009 compared with \$117.8 million in the first half of 2008. The decrease was primarily due to the decrease in both the compensation and benefits expense and non-compensation expense. Compensation expense decreased as a result of the decrease in total revenues partially offset by an increase in the Company's compensation to revenue ratio from 60% to 63.4%, excluding the expense associated with the initial grant of equity to the Company's employees in connection with its initial public offering. Employee compensation and benefits expense for the first half of 2009 included a \$1.3 million expense associated with the initial grant of equity to the Company's employees in connection with its initial public offering which compares to a reversal of \$2.9 million of expense in the prior year period. The reversal in the first half of 2008 primarily relates to amounts previously expensed in 2006 and 2007 associated with the IPO awards that were forfeited by Mr. Fennebresque in connection with his resignation. Total non-compensation expenses decreased \$5.8 million, or 12%, during the six months ended June 30, 2009 compared with the first half of 2008, primarily due to decreases in communication, marketing and business development, and other expenses. These decreases were partially offset by an increase in floor brokerage and trade execution charges and depreciation and amortization expense. We recorded a net loss attributable to Cowen Group, Inc. of \$11.0 million for the six months ended June 30, 2009 compared with a net loss attributable to Cowen Group, Inc. of \$0.1 million in the first half of 2008.



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### Table of Contents

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

	Six Months Ended June 30,		Period-to-Period %	
	2009	2008	\$ Change	Change
(in thousands)				
<b>Revenues</b>				
Investment banking	\$ 17,075	\$ 34,364	\$(17,289)	(50.3)%
Brokerage	70,623	75,199	(4,576)	(6.1)
Interest and dividend income	291	2,142	(1,851)	(86.4)
Other	5,529	5,955	(426)	(7.2)
 Total revenues	 93,518	 117,660	 (24,142)	 (20.5)
<b>Expenses</b>				
Employee compensation and benefits	60,533	67,714	(7,181)	(10.6)
Floor brokerage and trade execution	6,230	5,513	717	13.0
Service fees, net	8,359	8,326	33	0.4
Communications	5,998	7,542	(1,544)	(20.5)
Occupancy and equipment	8,226	8,219	7	0.1
Marketing and business development	5,263	7,503	(2,240)	(29.9)
Depreciation and amortization	1,505	1,287	218	16.9
Other	8,662	11,658	(2,996)	(25.7)
 Total expenses	 104,776	 117,762	 (12,986)	 (11.0)%
 Loss before income taxes	 (11,258)	 (102)	 (11,156)	 NM
Benefit from income taxes	(410)	(45)	(365)	NM
 Net loss	 (10,848)	 (57)	 (10,791)	 NM
Less: Net income attributable to noncontrolling interests	104		104	NM
 Net loss attributable to Cowen Group, Inc.	 \$ (10,952)	 \$ (57)	 \$(10,895)	 NM

### **Revenues**

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

Investment banking revenues decreased \$17.3 million, or 50%, to \$17.1 million for the six months ended June 30, 2009 compared with \$34.4 million in the first half of 2008. Our underwriting revenues decreased \$4.1 million, or 71%, to \$1.7 million for the six months ended June 30, 2009 compared with \$5.8 million during the same period in the prior year. The decrease in underwriting revenues was the result of a decrease in transaction volume which was due to the continued depressed capital markets environment. Our private placement revenues decreased \$1.4 million, or 33%, to \$2.7 million for the six months ended June 30, 2009 compared with \$4.1 million in the first half of 2008. The decrease was primarily attributable to decreased transaction volume which is consistent with the overall slowdown in private capital raising activity. Our strategic advisory fees decreased \$11.9 million, or 48%, to \$12.6 million for the six months ended June 30, 2009 compared with \$24.5 million during the same period in the prior year. The decrease in strategic advisory fees was primarily due to a decrease in the number of transactions completed during the first half of 2009 compared to the first half of 2008.

#### ***Brokerage***

Brokerage revenue decreased \$4.6 million, or 6%, to \$70.6 million for the six months ended June 30, 2009 as compared with \$75.2 million in the first half of 2008. The decrease resulted primarily from a reduction in per share commissions, a reduction in volumes in our traditional cash equities business, and a higher loss ratio as we provided greater liquidity to our clients, partially offset by increased revenue in our listed options business and our program trading business.



Table of Contents

***Interest and Dividend Income***

Interest and dividend income decreased \$1.8 million, or 86%, to \$0.3 million for the six months ended June 30, 2009 compared with \$2.1 million in the first half of 2008. The decrease resulted primarily from lower average interest rates as compared with the first half of 2008.

***Other***

Other revenues decreased \$0.4 million, or 7%, to \$5.5 million for the six months ended June 30, 2009 compared with \$5.9 million in the first half of 2008. This decrease was attributable to a reduction in fees for managing the assets and investments of certain private equity and alternative asset management funds. Management fees in the first half of 2008 included one time fees paid by investors admitted to the Cowen Healthcare Royalty Fund during the quarter, as such investors were required to pay their pro rata portion of fees retroactive from the date of the first closing of the fund. Absent the one time fees, CHRP management fees increased \$2.1 million in the first half of 2009 compared to the first half of 2008.

**Expenses**

***Employee Compensation and Benefits***

Employee compensation and benefits expense decreased \$7.2 million, or 11%, to \$60.5 million for the six months ended June 30, 2009 compared with \$67.7 million in the first half of 2008. The decrease was primarily attributable to the application of the Company's compensation to revenue ratio to lower revenue in the first half of 2009, partially offset by the increase of the Company's compensation to revenue ratio, excluding the expense associated with the initial grant of equity, to 63.4% in the first half of 2009 compared to 60% in the first half of 2008. Employee compensation and benefits expense for the first half of 2009 included a \$1.3 million expense associated with the initial grant of equity to the Company's employees in connection with its initial public offering which compares to a reversal of \$2.9 million of expense in the prior year period. The reversal in the first half of 2008 primarily relates to amounts previously expensed in 2006 and 2007 associated with the IPO awards that were forfeited by Mr. Fennebresque in connection with his resignation. Severance expense associated with the recapitalization of CAM US in the first half of 2009 was included in the compensation to revenue ratio.

***Floor Brokerage and Trade Execution***

Floor brokerage and trade execution fees increased \$0.7 million, or 13%, to \$6.2 million for the six months ended June 30, 2009 compared with \$5.5 million in the first half of 2008. This increase was primarily attributable to a combination of increased aggregate trading volumes (electronic, options and traditional cash equities) and a pricing adjustment under our clearing agreement.

***Communications***

Communications expenses decreased \$1.5 million, or 20%, to \$6.0 million for the six months ended June 30, 2009 compared with \$7.5 million in the first half of 2008. This decrease was primarily attributable to a reduction in costs associated with certain market data services.

***Marketing and Business Development***

Marketing and business development expense decreased \$2.2 million, or 30%, to \$5.3 million for the six months ended June 30, 2009 compared with \$7.5 million in the first half of 2008. These results are primarily attributable to a reduction in certain conference and travel related expenses.

***Depreciation and Amortization***

Depreciation and amortization expense increased \$0.2 million, or 17%, to \$1.5 million for the six months ended June 30, 2009 compared with \$1.3 million in the first half of 2008. This increase was

Table of Contents

primarily attributable to the amortization of intangible assets related to the Latitude acquisition in 2008.

***Other***

Other expenses decreased \$3.0 million, or 26%, to \$8.7 million for the six months ended June 30, 2009 compared with \$11.7 million in the first half of 2008. This decrease was primarily attributable to \$2.2 million in placement fees incurred for the six months ended June 30, 2008 related to the closings associated with the CHRP Fund and a reduction in legal fees, partially offset by an increase in professional fees in the first half of 2009 associated with the proposed merger with Ramius.

**Provision for income taxes**

For the six months ended June 30, 2009, the tax benefit was \$0.4 million. The 2009 effective tax rate differs from the statutory rate of 35% primarily due to a net increase in the valuation allowance and non-deductible meals and entertainment expense both of which lower the Company's effective tax rate as the Company reported a net loss for the period.

For the six months ended June 30, 2008, the effective tax rate differed from the statutory rate of 35% primarily due to non-deductible placement fees, meals and entertainment, share-based compensation, and state and local taxes.

**Liquidity and Capital Resources**

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

Most of our assets consist of cash, cash equivalents and assets readily convertible into cash such as our securities held in inventory. Securities inventories are stated at fair value and are generally readily marketable. As of June 30, 2009, we had cash and cash equivalents of \$82.0 million.

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

The Company has committed to invest \$27.0 million in the aggregate to the CHRP Fund as a limited partner of the CHRP Fund and also as a member of Cowen Healthcare Royalty GP, LLC, the general partner of the CHRP Fund. This commitment is expected to be called over a two to three year period. The Company will make its pro-rata investment in the CHRP Fund along with the other limited partners. Through June 30, 2009, the Company has funded \$14.9 million towards these commitments.

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

At June 30, 2009, Cowen's net capital under the SEC's Uniform Net Capital Rule was \$61.2 million, or \$60.2 million in excess of the minimum required net capital.

CIL is subject to the capital requirements of the FSA of the U.K. Financial Resources, as defined, must exceed the total Financial Resources requirement of the FSA. At June 30, 2009, CIL's Financial Resources of \$8.3 million exceeded the minimum requirement of \$3.1 million by \$5.2 million.

Table of Contents

CAM UK is subject to the capital requirements of the FSA of the U.K. and the IFSRA in Ireland. As per U.K. FSA regulation, Financial Resources, as defined, must exceed the Total Capital requirement, as defined. At June 30, 2009, CAM UK's Financial Resources of \$1.1 million exceeded the FSA's minimum requirement of \$0.7 million by \$0.4 million, and IFSRA's minimum requirement of \$0.9 million net shareholder's funds was exceeded by \$0.2 million.

CLAL is subject to the financial resources requirements of the SFC of Hong Kong. Financial Resources, as defined, must exceed the total Financial Resources requirement of the SFC. At June 30, 2009, CLAL's Financial Resources of \$0.8 million exceeded the minimum requirement of \$0.02 million by \$0.8 million.

*Cash Flows*

**Six Months Ended June 30, 2009.**

Cash decreased by \$26.6 million for the six months ended June 30, 2009, primarily as a result of cash used in operating activities.

Our operating activities used \$25.2 million of cash due to a decrease in cash from changes in operating assets of \$5.1 million, a decrease in cash from changes in operating liabilities of \$17.8 million and a net loss of \$10.9 million, partially offset by a net increase in cash from non-cash charges of \$8.6 million.

The changes in operating assets of \$5.1 million was primarily due to an increase in corporate finance and syndicate receivables of \$6.4 million, an increase in securities owned of \$8.6 million and an increase in due from related parties of \$4.8 million, partially offset by a decrease in restricted cash pursuant to escrow agreement of \$7.8 million and a decrease in other assets of \$7.1 million. The increase in corporate finance and syndicate receivables was primarily related to an increase in transactions near the end of the reporting period where the cash has not yet been collected. The change in securities owned, at fair value, caused cash to decrease by that amount. The increase in due from related parties was primarily due to a \$5.0 million 10-day promissory note due from the CHRP Fund that was outstanding at June 30, 2009. The decrease in cash pursuant to escrow agreement was due to settlements related to indemnified legal matters. The decrease in other assets was primarily related to amortization expense on forgivable loans.

The change in operating liabilities of \$17.8 million was primarily due to a decrease in employee compensation and benefits payable of \$25.4 million and a decrease in accounts payable, accrued expenses and other liabilities of \$6.1 million, partially offset by an increase in securities sold, not yet purchased of \$13.6 million. The decrease in employee compensation and benefits payable was due to the payment of 2008 bonus accruals in the first quarter of 2009. The decrease in accounts payable, accrued expenses and other liabilities was primarily due to timing on payments of accruals. The six-month change in securities sold, not yet purchased, at fair value, caused cash to increase by that amount.

The non-cash charges represent share-based compensation, deferred income taxes, and depreciation and amortization charges.

Our investing activities used \$1.4 million of cash due to cash investment purchases of \$1.5 million and purchases of fixed assets of \$0.2 million, partially offset by distributions from investments of \$0.3 million.

**Six Months Ended June 30, 2008.**

Cash decreased by \$31.7 million for the six months ended June 30, 2008, primarily as a result of cash used in operating activities.

Table of Contents

Our operating activities used \$21.0 million of cash due to a decrease in cash from changes in operating liabilities of \$37.3 million and a net loss of \$0.1 million, partially offset by an increase in cash from changes in operating assets of \$12.5 million and non-cash charges of \$3.9 million.

The change in operating liabilities of \$37.3 million was primarily due to a decrease in employee compensation and benefits payable of \$51.8 million, partially offset by an increase in securities sold, not yet purchased, at fair value, of \$8.4 million. The decrease in employee compensation and benefits payable was due to the payment of 2007 bonus accruals in the first half of 2008. The six-month change in securities sold, not yet purchased, at fair value, caused cash to increase by that amount.

The change in operating assets of \$12.5 million was primarily due to a decrease in receivable from brokers, dealers and clearing brokers of \$9.8 million and a decrease in other assets of \$7.7 million, partially offset by an increase in securities owned, at fair value, of \$4.3 million. The decrease in receivable from brokers, dealers, and clearing brokers was primarily due to a reduction in net inventory and collections from clearing brokers. The decrease in other assets was primarily related to collections on taxes receivable. The change in securities owned, at fair value, caused cash to decrease by that amount. The non-cash charges primarily represent share-based compensation, deferred income taxes, and depreciation and amortization charges.

Our investing activities used \$6.9 million of cash due to investment purchases of \$6.2 million and purchases of fixed assets of \$0.7 million.

Our financing activities used \$3.9 million of cash in the first six months of 2008, primarily due to the use of \$4.4 million for the purchase of shares under our stock repurchase program. For the six months ended June 30, 2008, the Company repurchased 0.5 million of its own shares in the open market, at an average price of \$9.29. These shares have been permanently retired. The repurchase program is funded through the return of capital to the Company from Cowen.

***Credit Facilities***

We have an irrevocable letter of credit for \$5.0 million, expiring on December 1, 2009, which supports obligations under Cowen's Boston office lease. The Company also has two additional irrevocable letters of credit, the first of which is for \$100,000, expiring on July 26, 2010, supporting Cowen's workers' compensation insurance with Safety National Casualty Corporation, and the second of which is for \$57,000, expiring on November 14, 2009, supporting CHRP Management's Stamford office lease. To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of June 30, 2009, there were no amounts due related to these letters of credit.

***Off-Balance Sheet Arrangements***

We had no material off-balance sheet arrangements as of June 30, 2009; however, through indemnification provisions in our clearing agreement, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreement, we are required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date. See Item 7A "Quantitative and Qualitative Disclosures about Market Risk Credit Risk" in our Annual Report on Form 10-K for the year ended December 31, 2008.

We are a member of various securities exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. Our liability under these arrangements is not quantifiable and could exceed the

Table of Contents

cash and securities we have posted as collateral. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the accompanying Condensed Consolidated Statements of Financial Condition for these arrangements.

**Critical Accounting Policies and Estimates**

The preparation of our Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors, such as those described in "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be materially adversely affected.

Our significant accounting policies are summarized in Note 2 to our Condensed Consolidated Financial Statements in Part I, Item 1. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

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

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

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

***Revenue Recognition***

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

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

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

Table of Contents

amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.

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

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

***Valuation of Financial Instruments***

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

We determine fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own unobservable inputs that are not corroborated by observable market data.

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

***Goodwill***

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

A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of a reporting unit with the fair value of the reporting unit. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, the second step is applied. The second step is to compare the carrying amount of the reporting unit's goodwill with the implied fair value of the



Table of Contents

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

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

***Legal and Regulatory Reserves***

We are involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of our businesses. To the extent that we are indemnified by SG under our Indemnification Agreement, indemnified legal expenses and liabilities will be paid out of escrow pursuant to our Escrow Agreement. See Note 4 of the Notes to the Condensed Consolidated Financial Statements, "Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale" and Note 13 of the Notes to the Condensed Consolidated Financial Statements, "Separation from Société Générale and Other Related Matters" in Part I, Item 1, for further discussion of the Escrow and Indemnification Agreements. To the extent that we are not indemnified by SG, we estimate potential losses that may arise out of these matters and record a reserve and take a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS 5, *Accounting for Contingencies*. Such estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, our defenses and our experience in similar cases or proceedings as well as our assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. We may increase or decrease our legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters. Any future increases to our loss contingency reserves or releases from these reserves may affect our results of operations. Historically, legal costs have significantly impacted our financial results.

**Accounting Developments**

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS 167"). SFAS 167 amends FIN 46R, and changes how a company determines when an entity should be consolidated if it is insufficiently capitalized or is not controlled through voting (or similar rights). The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 is effective for the first annual reporting period beginning on or after November 15, 2009, with earlier application prohibited. We are currently evaluating the impact that SFAS 167 will have on our consolidated financial statements.

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

During the three months ended June 30, 2009, 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, 2008. 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.

Table of Contents

**Item 4. Controls and Procedures**

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer (the principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of June 30, 2009.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of June 30, 2009, 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.

Table of Contents

**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 second quarter of 2009. These items should be read together with the Company's discussion in Note 11 "Commitments, Contingencies and Guarantees - Litigation," in the Notes to the 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, 2008, as updated by our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

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

On June 10, 2009, the United States District Court for the Southern District of New York ("SDNY") granted plaintiffs' Motion for Preliminary Approval of Settlement and, on June 11, 2009, issued a Preliminary Order in Connection with Settlement Proceedings. The SDNY will hold a "Settlement Fairness Hearing" on September 10, 2009, at which time the court will determine whether to finally approve the settlement. To the extent that the Company incurs legal fees, costs or expenses related to this settlement, the Company will be indemnified by SG.

***Adelphia Communications Corp. Litigation***

On May 21, 2009, Judge McKenna of the SDNY issued an opinion and order granting plaintiff W.R. Huff Asset Management ("Huff") leave to amend the complaint to add the actual purchasers of the securities, but in addition, granted defendants leave to serve discovery regarding the identity of those purchasers and the circumstances under which Huff was purportedly prosecuting claims on their behalf.

In the bankruptcy proceeding, the SDNY issued an opinion on May 6, 2009 that resolved the pending motions to dismiss portions of the Amended Complaint filed by the litigation trust. In its decision, the SDNY dismissed the fraudulent concealment claim and the fraud claim as to certain alleged misstatements. The court denied the motions to dismiss the remaining claims. To the extent that we incur additional legal fees or pay any fine or monetary sanction, we will be indemnified by SG.

***BigBand Litigation***

On May 7, 2009, the Company, along with several other underwriters, was named as a defendant in an amended complaint filed in a separate derivative action that is pending against BigBand's officers and directors in the Superior Court of the State of California, County of San Mateo. The amended complaint alleges, among other things, that the underwriter defendants aided and abetted purported breaches of fiduciary duty by BigBand's officers and directors and that the underwriters breached fiduciary duties in connection with alleged insider selling and misappropriation of information. The amended complaint also contains related equitable claims for unjust enrichment, contribution and indemnification.

In the federal securities action, the United States District Court for the Northern District of California filed an order dated May 28, 2009 preliminarily approving the settlement filed by plaintiffs.

***Global Cash Litigation***

On June 23, 2009, the United States District Court for the District of Nevada ("DNV") heard oral argument on defendants' motion to dismiss the consolidated amended complaint, and on June 29, 2009, the DNV issued an order denying that motion. The defendants filed an answer to the consolidated amended complaint on July 29, 2009.

Table of Contents

***Regulatory Inquiries and Investigations***

**NYSE Enforcement**

On May 29, 2009, the Division of Enforcement of the New York Stock Exchange ("NYSE") sent a letter to the Company stating that it was commencing an investigation into certain alleged violations of NYSE order handling rules identified during an examination of the Company by the SEC's Office of Compliance Inspections and Examinations. The Company is cooperating fully with the investigation.

**US Trustee Inquiry**

On June 9, 2009, the Office of the United States Trustee for the District of Delaware sent a letter to the Company requesting informal discovery relating to the Company's retention as financial advisor to a debtor corporation involved in a Chapter 11 bankruptcy proceeding pending before the United States Bankruptcy Court for the District of Delaware. The Company is cooperating fully with this inquiry.

**Item 1A. Risk Factors**

A discussion of the risk factors affecting the Company can be found in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as amended by Amendment No. 1 to the Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, dated as of April 28, 2009, and in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, which are filed with the SEC and incorporated by reference into this document. Further risk factors related to the Company's entry into a transaction agreement with Ramius and additional agreements with Ramius in order to consummate a strategic business combination transaction (the "Transactions") should also be considered. These risk factors are discussed in the section titled "Risk Factors" contained in the proxy statement of the Company that forms a part of the registration statement on Form S-4 of LexingtonPark Parent Corp., as filed with the SEC on July 10, 2009, and are incorporated herein by reference.

**Risks Relating to the Completion of the Transactions**

*The Transactions are subject to conditions, including certain conditions that may not be satisfied, and may not be completed on a timely basis, or at all. Failure to complete the Transactions could have material and adverse effects on the Company.*

The completion of the Transactions is subject to a number of conditions, including approval of the Company's stockholders, which makes the completion and timing of the completion of the Transactions uncertain. If the Transactions are not completed on a timely basis, or at all, the Company's ongoing business may be adversely affected and, without realizing the benefits of having completed the Transactions, the Company will be subject to a number of risks, including the following:

the Company will be required to pay a termination fee of \$3.5 million, and, in some cases, expenses of Ramius up to \$750,000 if the Transactions are terminated under qualifying circumstances, as described in the transaction agreement;

the Company will be required to pay costs relating to the Transactions, such as legal, accounting, financial advisor and printing fees, whether or not the Transactions are completed;

time and resources committed by the Company's management to matters relating to the Transactions (including integration planning) could otherwise have been devoted to pursuing other beneficial opportunities;

Table of Contents

the market price of the Company's common stock could decline to the extent that the current market price reflects a market assumption that the transactions will be completed; and

if the transaction agreement is terminated *and* the Company's Board of Directors seeks another business combination, stockholders cannot be certain that the Company will be able to find a party willing to enter into a transaction agreement on terms equivalent to or more attractive than the terms that Ramius has agreed to in the Transactions.

*Uncertainty regarding the completion of the Transactions may cause clients to delay or defer decisions concerning the Company and may adversely affect the Company's ability to attract and retain key employees.*

The Transactions will happen only if stated conditions are met, including, among others, the approval of the Transactions by the Company's stockholders, the receipt of all required regulatory approvals and the satisfaction of the conditions to completing the Transactions contained in the asset exchange agreement. Many of the conditions are beyond the control of the Company. In addition, both the Company and Ramius have rights to terminate the transaction agreement under various circumstances. As a result, there may be uncertainty regarding the completion of the Transactions. This uncertainty may cause clients to delay or defer decisions concerning the Company, which could negatively impact revenues, earnings and cash flow of the Company, regardless of whether the transactions are ultimately completed. Similarly, uncertainty regarding the completion of the Transactions may foster uncertainty among employees about their future roles with the combined company. This may adversely affect the ability of the Company to attract and retain key management, sales, marketing and technical personnel.

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

As announced in November 2007, the Company's Board of Directors authorized the repurchase, subject to market conditions, of up to 2.0 million shares of the Company's outstanding common stock. There were no purchases made by or on the behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the quarter ended June 30, 2009. As of June 30, 2009, there were 115,929 shares that may yet be purchased under the announced plan.

**Item 3. Defaults Upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

See Exhibit Index.

Table of Contents

**SIGNATURES**

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

COWEN GROUP, INC.

By: /s/ DAVID M. MALCOLM

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Name: David M. Malcolm  
Title: *Chief Executive Officer and  
President*  
*(principal executive officer)*

By: /s/ THOMAS K. CONNER

\_\_\_\_\_

Name: Thomas K. Conner  
Title: *Chief Financial Officer and  
Treasurer*  
*(principal financial officer and  
principal  
accounting officer)*

Dated: August 6, 2009

Table of Contents

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Transaction Agreement and Agreement and Plan of Merger, dated June 3, 2009, by and among Cowen Group, Inc., LexingtonPark Parent Corp., Lexington Merger Corp., Park Exchange LLC and Ramius LLC (incorporated by reference from Exhibit 2.1 on Form 8-K filed on June 5, 2009).
10.1	Asset Exchange Agreement, dated as of June 3, 2009, entered into by and among Ramius LLC, HVB Alternative Advisors, LLC, Bayerische Hypo- und Vereinsbank AG, Cowen Group, Inc., LexingtonPark Parent Corp. and Lexington Merger Corp. (incorporated by reference from Exhibit 10.1 on Form 8-K filed on June 5, 2009).
10.2	Employment Agreement of David M. Malcolm.*
10.3	Appendix A to Employment Agreement of David M. Malcolm.*
10.4	Employment Agreement of Christopher A. White.*
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.

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Signifies management contract or compensatory plan or arrangement.