COWEN GROUP, INC.
Form 10-Q
May 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2012
or

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

For the transition period from to
Commission File Number: 001-34516
Cowen Group, Inc.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or Other Jurisdiction of Incorporation or Organization) | 27-0423711<br>(I.R.S. Employer Identification No.) |
| 599 Lexington Avenue<br>New York, New York<br>(Address of Principal Executive Offices) | 10022<br>(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 Q No o

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 7, 2012 there were 114,058,558 shares of the registrant's common stock outstanding.

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Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in “Management's Discussion and Analysis of Financial Condition and Results of Operations”) that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as “may,” “might,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “believe,” “ “predict,” “project,” “possible,” “potential,” “intend,” “seek” or “continue,” the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three months ended March 31, 2012 and 2011. The Consolidated Financial Statements as of December 31, 2011 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)

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $66,218 | $126,889 |
| Cash collateral pledged | 9,738 | 9,785 |
| Securities owned, at fair value | 790,665 | 744,914 |
| Securities purchased under agreement to resell | 131,007 | 166,260 |
| Other investments | 66,351 | 61,929 |
| Receivable from brokers | 66,824 | 62,046 |
| Fees receivable | 18,980 | 22,297 |
| Due from related parties | 17,278 | 16,554 |
| Fixed assets, net of accumulated depreciation and amortization of $25,466 and $23,852, respectively | 35,829 | 37,042 |
| Goodwill | 20,028 | 20,028 |
| Intangible assets, net of accumulated amortization of $20,718 and $20,220, respectively | 5,262 | 5,760 |
| Other assets | 26,241 | 26,620 |
| Consolidated Funds | | |
| Cash and cash equivalents | 2,555 | 297 |
| Securities owned, at fair value | 2,574 | 6,334 |
| Other investments, at fair value | 231,478 | 228,820 |
| Other assets | 464 | 263 |
| Total Assets | $1,491,492 | $1,535,838 |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Securities sold, not yet purchased, at fair value | $319,667 | $334,251 |
| Securities sold under agreement to repurchase | 294,191 | 228,783 |
| Payable to brokers | 165,046 | 213,360 |
| Compensation payable | 19,349 | 71,223 |
| Short-term borrowings and other debt | 5,275 | 5,650 |
| Fees payable | 8,637 | 5,503 |
| Due to related parties | 987 | 1,914 |
| Accounts payable, accrued expenses and other liabilities | 57,095 | 61,462 |
| Consolidated Funds | | |
| Capital withdrawals payable | 67 | 394 |
| Accounts payable, accrued expenses and other liabilities | 253 | 246 |
| Total Liabilities | 870,567 | 922,786 |
| Commitments and Contingencies (Note 12) | | |
| Redeemable non-controlling interests | 103,429 | 104,587 |
| Stockholders' equity | | |
| Preferred stock, par value $0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding | — | — |
| | 1,135 | 1,135 |

| | | |
|---|---|---|
| Class A common stock, par value $0.01 per share: 250,000,000 shares authorized, 119,672,938 shares issued and 113,976,466 outstanding as of March 31, 2012 and 119,393,640 shares issued and 114,047,637 outstanding as of December 31, 2011, respectively (including 461,359 and 576,892 restricted shares, respectively) | | |
| Class B common stock, par value $0.01 per share: 250,000,000 authorized, no shares issued and outstanding | — | — |
| Additional paid-in capital | 694,371 | 688,427 |
| (Accumulated deficit) retained earnings | (159,985) | (163,980) |
| Accumulated other comprehensive income (loss) | (175) | (215) |
| Less: Class A common stock held in treasury, at cost, 5,696,472 and 5,346,003 shares as of March 31, 2012 and December 31, 2011, respectively. | (17,850) | (16,902) |
| Total Stockholders' Equity | 517,496 | 508,465 |
| Total Liabilities and Stockholders' Equity | $1,491,492 | $1,535,838 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| Revenues | | |
| Investment banking | $15,630 | $14,682 |
| Brokerage | 24,013 | 27,591 |
| Management fees | 9,717 | 11,164 |
| Incentive income | 691 | 4,381 |
| Interest and dividends | 5,372 | 4,559 |
| Reimbursement from affiliates | 1,045 | 1,009 |
| Other revenues | 867 | 690 |
| Consolidated Funds | | |
| Interest and dividends | 61 | 169 |
| Other revenues | 84 | — |
| Total revenues | 57,480 | 64,245 |
| Expenses | | |
| Employee compensation and benefits | 46,683 | 45,087 |
| Floor brokerage and trade execution | 3,752 | 4,110 |
| Interest and dividends | 1,724 | 2,609 |
| Professional, advisory and other fees | 3,925 | 7,140 |
| Service fees | 2,237 | 3,612 |
| Communications | 3,401 | 2,893 |
| Occupancy and equipment | 5,242 | 5,707 |
| Depreciation and amortization | 2,155 | 2,058 |
| Client services and business development | 3,826 | 4,677 |
| Other | 3,419 | 3,710 |
| Consolidated Funds | | |
| Interest and dividends | 16 | 46 |
| Professional, advisory and other fees | 288 | 460 |
| Other | 71 | 122 |
| Total expenses | 76,739 | 82,231 |
| Other income (loss) | | |
| Net gains (losses) on securities, derivatives and other investments | 19,671 | 17,283 |

| | | |
|---|---|---|
| Consolidated Funds | | |
| Net realized and unrealized gains (losses) on investments and other transactions | 5,964 | 2,343 |
| Net realized and unrealized gains (losses) on derivatives | 40 | (441) |
| Net gains (losses) on foreign currency transactions | (38) | (156) |
| Total other income (loss) | 25,637 | 19,029 |
| Income (loss) before income taxes | 6,378 | 1,043 |
| Income tax expense (benefit) | 142 | 163 |
| Net income (loss) | 6,236 | 880 |
| Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries | 2,241 | 798 |
| Net income (loss) attributable to Cowen Group, Inc. stockholders | $3,995 | $82 |
| Weighted average common shares outstanding: | | |
| Basic | 114,281 | 74,160 |
| Diluted | 115,663 | 76,083 |
| Earnings (loss) per share: | | |
| Basic | $0.03 | $0.00 |
| Diluted | $0.03 | $0.00 |

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

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

| | Three Months Ended March 31, 2012 | | | Three Months Ended March 31, 2011 | | |
|---|---|---|---|---|---|---|
| Net income (loss) | | | $6,236 | | | $880 |
| Other comprehensive income, net of tax: | | | | | | |
| Foreign currency translation | | (67) | | | 40 | |
| Defined benefit pension plans: | | | | | | |
| Prior service cost arising during period | — | | | — | | |
| Net gain/(loss) arising during period | 102 | | | 80 | | |
| Add: amortization of prior service cost included in net periodic pension cost | 5 | 107 | | 17 | 97 | |
| Total other comprehensive income, net of tax | | | 40 | | | 137 |
| Comprehensive income (loss) | | | $6,276 | | | $1,017 |

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

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

| | Common Shares Outstanding | Common Stock | Treasury Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings/ (Accumulated deficit) | Total Stockholders Equity | Redeemable Non-controlling Interest |
|---|---|---|---|---|---|---|---|---|

| | | | | | (Loss) | | | |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2011 | 114,047,637 | $ 1,135 | $ (16,902 ) | $ 688,427 | $ (215 ) | $ (163,980 ) | $ 508,465 | $ 104,587 |
| Net income (loss) | — | — | — | — | — | 3,995 | 3,995 | 2,241 |
| Defined benefit plans | — | — | — | — | 107 | — | 107 | — |
| Foreign currency translation | — | — | — | — | (67 ) | — | (67 ) | — |
| Deconsolidation of funds | — | — | — | — | — | — | — | (17,104 ) |
| Consolidation of funds | — | — | — | — | — | — | — | 19,073 |
| Capital withdrawals | — | — | — | — | — | — | — | (5,368 ) |
| Restricted stock awards issued | 279,298 | — | — | — | — | — | — | — |
| Purchase of treasury stock, at cost | (350,469 ) | — | (948 ) | — | — | — | (948 ) | — |
| Amortization of share based compensation | — | — | — | 5,944 | — | — | 5,944 | — |
| Balance, March 31, 2012 | 113,976,466 | $ 1,135 | $ (17,850 ) | $ 694,371 | $ (175 ) | $ (159,985 ) | $ 517,496 | $ 103,429 |

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

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

| | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $6,236 | $880 |
| Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities: | | |
| Depreciation and amortization | 2,155 | 2,058 |
| Share-based compensation | 5,944 | 7,148 |
| Deferred rent obligations | (664) | 44 |
| Purchases of securities owned, at fair value | (1,643,802) | (3,709,677) |
| Proceeds from sales of securities owned, at fair value | 1,579,427 | 3,693,913 |
| Proceeds from sales of securities sold, not yet purchased, at fair value | 967,861 | 1,276,363 |
| Payments to cover securities sold, not yet purchased, at fair value | (994,775) | (1,275,464) |
| Net (gains) losses on securities, derivatives and other investments | (17,866) | (16,200) |
| Consolidated Funds | | |
| Purchases of securities owned, at fair value | (108,768) | (148,429) |
| Proceeds from sales of securities owned, at fair value | 112,522 | 149,665 |
| Purchases of other investments | (4,279) | (8,100) |
| Proceeds from sales of other investments | 7,580 | 58,982 |
| Net realized and unrealized (gains) losses on investments and other transactions | (6,323) | (883) |
| (Increase) decrease in operating assets: | | |
| Cash collateral pledged | 47 | (19) |
| Securities owned, at fair value, held at broker dealer | 26,836 | (11,835) |
| Receivable from brokers | (4,778) | 42,843 |
| Fees receivable | 3,317 | (1,482) |
| Due from related parties | (724) | 5,841 |
| Other assets | 304 | (6,312) |
| Consolidated Funds | | |
| Cash and cash equivalents | (1,322) | 5,162 |
| Other assets | 1,206 | (26) |
| Increase (decrease) in operating liabilities: | | |
| Securities sold, not yet purchased, at fair value, held at broker dealer | 14,748 | (5,644) |
| Payable to brokers | (48,314) | 33,269 |
| Compensation payable | (51,810) | (57,821) |
| Fees payable | 3,134 | (666) |
| Due to related parties | (927) | (1,806) |
| Accounts payable, accrued expenses and other liabilities | (3,703) | 2,695 |
| Consolidated Funds | | |
| Due to related parties | 25 | — |
| Accounts payable, accrued expenses and other liabilities | (11) | (1,070) |
| Net cash provided by / (used in) operating activities | $(156,724) | $33,429 |

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

| (continued) | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| Cash flows from investing activities: | | |
| Securities purchased under agreement to resell | $35,253 | $25,635 |
| Purchases of other investments | (6,441) | (35,683) |
| Proceeds from sales of other investments | 9,253 | 35,577 |
| Purchase of fixed assets | (445) | (2,543) |
| Net cash provided by / (used in) investing activities | 37,620 | 22,986 |
| Cash flows from financing activities: | | |
| Securities sold under agreement to repurchase | 65,408 | (36,493) |
| Repayments on short-term borrowings and other debt | (375) | (1,521) |
| Purchase of treasury stock | (905) | — |
| Capital withdrawals to non-controlling interests in operating entities | (2,042) | — |
| Consolidated Funds | | |
| Capital contributions by non-controlling interests in Consolidated Funds | — | 3,504 |
| Capital withdrawals to non-controlling interests in Consolidated Funds | (3,653) | (32,008) |
| Net cash provided by / (used in) financing activities | 58,433 | (66,518) |
| Change in cash and cash equivalents | (60,671) | (10,103) |
| Cash and cash equivalents at beginning of year | 126,889 | 36,354 |
| Cash and cash equivalents at end of year | $66,218 | $26,251 |
| | | |
| Supplemental non-cash information | | |
| Net assets of consolidated funds | $19,073 | $— |
| Net assets of deconsolidated funds | $17,104 | $— |

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

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Cowen Group, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Organization and Business

Cowen Group, Inc., a Delaware corporation formed on June 1, 2009, is a diversified financial services firm and, together with its consolidated subsidiaries (collectively, “Cowen,” “Cowen Group” or the “Company”), provides alternative investment management, investment banking, research, market-making and sales and trading services through its two business segments: alternative investment and broker-dealer. The Company's alternative investment segment includes hedge funds, replication products, mutual funds, managed futures funds, funds of funds, real estate, healthcare royalty funds, cash management services and mortgage advisory services offered primarily under the Ramius name. The broker-dealer segment offers research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs") and alternative energy sectors, primarily under the Cowen name.

2. Significant Accounting Policies

a. Basis of presentation

These unaudited condensed consolidated financial statements and related notes have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) related to interim financial statements. Results for interim periods should not be considered indicative of results for any other interim period or for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010, and 2009, included in the Form 10-K of Cowen Group as filed with the SEC on March 9, 2012. The financial information contained herein is unaudited; however, management believes all adjustments have been made that are necessary for a fair presentation of the results for the interim periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these condensed consolidated financial statements, as further discussed below, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

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

b. Principles of consolidation

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

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

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

for which it acts as the general partner and investment manager.
As of March 31, 2012, the Company consolidates the following funds (the “2012 Consolidated Funds”): Ramius Enterprise LP (“Enterprise LP”), Ramius Multi Strategy Master FOF LP (“Multi Strat Master FOF”), Ramius Vintage Multi Strategy Master FOF LP (“Vintage Master FOF”), Ramius Levered Multi Strategy FOF LP (“Levered FOF”), and RTS Global 3X Fund LP (“RTS Global 3X”). As of December 31, 2011, the Company consolidated the following funds (the “2011 Consolidated Funds”): Enterprise LP, Ramius Multi Strategy FOF LP (“Multi Strat FOF”), Ramius Vintage Multi Strategy FOF LP (“Vintage FOF”), Levered FOF and RTS Global 3X. Effective January 1, 2012, Multi-Strat FOF and Vintage FOF collapsed their operations into their respective master funds, Multi-Strat Master FOF and Vintage Master FOF due to a winding down decision earlier adopted by the Boards of Directors of the respective funds. This resulted in the Company's voting shares or units being held directly at the master funds level and thus consolidating them. Collectively the 2012 Consolidated Funds and the 2011 Consolidated Funds are referred to as the Consolidated Funds.
The Company also consolidates RCG Linkem II LLC, an investment company that was formed to make an investment in a wireless broadband communication provider in Italy. The Company determined that RCG Linkem II LLC is a VOE due to its equity interests held through the managing member and affiliates, and control exercised by the managing member who is not subject to substantive removal rights.
Variable Interest Entities—VIEs are entities that lack one or more of the characteristics of a VOE. In accordance with US GAAP, an enterprise must consolidate all VIEs of which it is the primary beneficiary. Under the US GAAP consolidation model for VIEs, an enterprise that (1) has the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance, and (2) has an obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE, is considered to be the primary beneficiary of the VIE and thus is required to consolidate it.
However, the Financial Accounting Standards Board ("FASB") has deferred the application of the revised consolidation model for VIEs that meet the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with investment companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset backed financing entity or an entity that was formerly considered a qualifying special purpose entity. The Company's involvement with its funds is such that all three of the above conditions are met. Where the VIEs have qualified for the deferral, the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Company holds a variable interest is a variable interest entity and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIEs expected residual returns, or both. If these conditions are met, the Company is considered to be the primary beneficiary of the VIE and thus is required to consolidate it. Under both guidelines, the Company determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a variable interest entity and reconsiders that conclusion on a periodic basis.
The Company determines whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of March 31, 2012, and December 31, 2011, the Company does not consolidate any VIEs.
As of March 31, 2012, the Company holds a variable interest in Ramius Enterprise Master Fund Ltd (“Enterprise Master”) (the “2012 Unconsolidated Master Fund”) through one of its Consolidated Funds, Enterprise LP. As of December 31, 2011, the Company held a variable interest in Enterprise Master, Multi Strat Master FOF and Vintage Master FOF (the “2011 Unconsolidated Master Funds”) through three of its Consolidated Funds: Enterprise LP, Multi Strat FOF and Vintage FOF (the “2011 Consolidated Feeder Funds”), respectively. Investment companies, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under US GAAP, are not subject to the consolidation provisions for their investments. Therefore, the Company has not consolidated the 2012 or 2011 Unconsolidated Master Funds. Collectively the 2012 Unconsolidated Master Funds

and the 2011 Unconsolidated Master Funds are referred to as the Unconsolidated Master Funds.
In the ordinary course of business, the Company also sponsors various other entities that it has determined to be VIEs. These VIEs are primarily funds and real estate entities for which the Company serves as the general partner, managing member and/or investment manager with decision-making rights.
The Company does not consolidate any of these funds or real estate entities that are VIEs as it has concluded that it is not the primary beneficiary in each instance. Fund investors are entitled to all of the economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company's involvement with funds and real estate entities that are unconsolidated VIEs is limited to providing investment management services in exchange for management fees and incentive income. Although the Company may advance amounts and pay certain expenses on behalf of the funds and real estate entities that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services.
The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $245.8 million and $2.1 million as of March 31, 2012 and $259.2 million and $2.1 million as of December 31, 2011, respectively. In addition, the maximum exposure relating to these variable interest entities as of March 31, 2012 was $198.6 million, and as of December 31, 2011 was $211.0 million, all of which is included in other investments, at fair value in the Company's condensed consolidated statements of financial condition. The exposure to loss primarily relates to the respective 2012 or 2011 Consolidated Feeder Funds' investment in their respective 2012 or 2011 Unconsolidated Master Funds as of March 31, 2012 and December 31, 2011. See Note 4 for further information regarding the Company's investments.
Equity Method Investments—For operating entities over which the Company exercises significant influence but which do not meet the requirements for consolidation as outlined above, the Company uses the equity method of accounting. The Company's investments in equity method investees are recorded in other investments in the condensed consolidated statements of financial condition. The Company's share of earnings or losses from equity method investees is included in net gains (losses) on securities, derivatives and other investments in the condensed consolidated statements of operations.
The Company evaluates for impairment its equity method investments whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable. The difference between the carrying value of the equity method investment and its estimated fair value is recognized as an impairment charge when the loss in value is deemed other than temporary.
Other—If the Company does not consolidate an entity, apply the equity method of accounting or account for an investment under the cost method, the Company accounts for all securities which are bought and held principally for the purpose of selling them in the near term as trading securities in accordance with US GAAP, at fair value with unrealized gains (losses) resulting from changes in fair value reflected within net gains (losses) on securities, derivatives and other investments in the condensed consolidated statements of operations.
Retention of Specialized Accounting—The Consolidated Funds are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these funds pursuant to US GAAP. The Consolidated Funds report their investments on the condensed consolidated statements of financial condition at their estimated fair value, with unrealized gains (losses) resulting from changes in fair value reflected within net realized and unrealized gains (losses) on investments and other transactions. Accordingly, the accompanying condensed consolidated financial statements reflect different accounting policies for investments depending on whether or not they are held through a consolidated investment company. In addition, the Company's broker dealer subsidiaries, Cowen and Company, LLC ("Cowen and Company"), Cowen Capital LLC, Cowen International Limited ("CIL"), Cowen International Trading Limited ("CITL"), Cowen and Company (Asia) Limited ("CCAL"), and Cowen Structured Products Hong Kong Limited ("CSPH"), apply the specialized industry accounting for brokers and dealers in securities also prescribed under US GAAP. The Company also has retained this specialized accounting in consolidation.
c. Use of estimates
The preparation of the condensed consolidated financial statements in conformity with US GAAP requires the management of the Company to make estimates and assumptions that affect the fair value of securities and other investments, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of

the condensed consolidated financial statements, the accounting for goodwill and identifiable intangible assets and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

d. Valuation of investments and derivative contracts

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

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

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

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

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

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

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

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

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

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

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

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

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on its ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a level 2 investment within the fair value hierarchy. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a level 3 investment within the fair value hierarchy. See Notes 4 and 5 for further details of the Company's investments in Portfolio Funds.

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

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

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

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

See Notes 4 and 5 for further information regarding the Company's investments, including equity method investments, and fair value measurements.

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

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase ("Repurchase Agreements") as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of March 31, 2012 and December 31, 2011 Repurchase Agreements are secured predominantly by liquid corporate credit and/or government issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with multiple counterparties as of March 31, 2012 and December 31, 2011.

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

f. Deferred Rent

Deferred rent primarily consists of step rent, allowances from landlords and valuing the Company's lease properties in accordance with US GAAP. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received and/or promised to the Company by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. The Company recorded a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition, as of March 31, 2012 and December 31, 2011 is $14.7 million and $15.3 million, respectively.

g. New accounting pronouncements

Recently issued accounting pronouncements

In December 2011, the FASB issued amended guidance which will enhance disclosures required by US GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset.

This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company already discloses the derivative transactions and repurchase / resale agreements on a gross basis on the condensed consolidated statements of financial condition and is currently evaluating the impact of the other disclosure requirements required under the amended guidance.

Recently adopted accounting pronouncements

In May 2011, the FASB issued amended guidance clarifying how to measure fair value and requires additional disclosures regarding fair value measurements. The amendments, among other things, prohibit the use of blockage factors at all levels of the fair value hierarchy, provide guidance on measuring financial instruments that are managed on a net portfolio basis, and clarify guidance on the application of premiums and discounts in measuring fair value. Additional disclosure requirements include the disclosure of transfers between Level 1 and Level 2, a description of the valuation processes for Level 3 fair value measurements, as well as additional information regarding unobservable inputs affecting Level 3 measurements. The amendments were effective for the Company beginning in the first quarter of 2012. The adoption of the new requirements did not have a material impact on the Company's financial position or results of operations.

In June 2011, the FASB issued guidance requiring entities to present the components of net income, the components of other comprehensive income and the total of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, in December 2011, the FASB issued additional guidance which indefinitely deferred the provision that requires the entity to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. The adoption of these amendments did not have any impact on the Company's financial position or results of operations since the changes are limited to presentation of other comprehensive income and total comprehensive income.

In September 2011, the FASB issued guidance simplifying how entities test goodwill for impairment by permitting an entity to assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required under US GAAP. This was effective for the Company beginning in the first quarter of 2012. Adoption did not have any impact on the Company's financial position or results of operations.

3. Cash collateral pledged

As of March 31, 2012 and December 31, 2011, cash collateral pledged in the amount of $9.7 million and $9.8 million, respectively, primarily relates to (a) a bond held as collateral on a letter of credit and (b) letters of credit issued to the landlord of the Company's premises in New York City (see Note 13). Also included in cash collateral pledged as of March 31, 2012 and December 31, 2011 is $0.5 million, respectively, relating to an agreement that the Company has with Société Générale to cover the costs of litigation matters included in the agreement.

4. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

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

As of March 31, 2012 and December 31, 2011, securities owned, at fair value consisted of the following:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| U.S. Government securities (a) | $237,114 | $182,868 |
| Common stocks | 253,538 | 250,380 |
| Convertible bonds (b) | 18,285 | 18,130 |
| Corporate bonds (c) | 235,512 | 231,864 |

| | | |
|---|---|---|
| Options | 38,482 | 55,768 |
| Warrants and rights | 4,888 | 2,690 |
| Mutual funds | 2,846 | 3,214 |
| | $790,665 | $744,914 |

(a) As of March 31, 2012 and December 31, 2011, maturities ranged from November 2013 to November 2021 and interest rates ranged between 0.25% and 8%.

(b) As of March 31, 2012, maturities ranged from March 2013 to December 2017 and interest rates ranged between 0.25% and 7%. As of December 31, 2011, the maturity was August 2027 with an interest rate of 2.75%.

(c) As of March 31, 2012, maturities ranged from May 2012 to February 2041 and interest rates ranged between 3.13% and 13.50%. As of December 31, 2011, maturities ranged from January 2012 to February 2041 and interest rates ranged between 3.13% and 13.50%.

The Company's direct involvement with derivative financial instruments includes credit default swaps, futures, equity swaps, options and warrants and rights. Open equity positions in futures transactions are recorded as receivables from and payables to broker dealers or clearing brokers as applicable. The Company's derivatives trading activities exposes the Company to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, counterparty risk, foreign currency movements and changes in the liquidity of markets. The Company's overall exposure to financial derivatives is limited. The Company's long exposure to credit default swaps, futures and equity swap derivative contracts, at fair value, as of March 31, 2012 and December 31, 2011 of $0.3 million and $0.8 million, respectively, is included in other assets in the accompanying condensed consolidated statements of financial condition. The Company's short exposure to futures and equity swap derivative contracts, at fair value, as of March 31, 2012 and December 31, 2011 of $0.2 million and $0.8 million, respectively, is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. The realized and unrealized gains/(losses) related to derivatives trading activities for the three months ended March 31, 2012, and 2011 were not significant and are included in other income in the condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, the Company is required to post collateral for its obligations or potential obligations. As of March 31, 2012 and December 31, 2011, collateral consisting of $5.0 million and $8.1 million of cash, respectively, is included in receivable from brokers on the condensed consolidated statements of financial condition. As of March 31, 2012 and December 31, 2011 all derivative contracts were with multiple major financial institutions.

Other investments

As of March 31, 2012 and December 31, 2011, other investments consisted of the following:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| (1) Portfolio Funds, at fair value | $46,497 | $42,336 |
| (2) Real estate investments, at fair value | 2,579 | 2,353 |
| (3) Equity method investments | 16,701 | 16,687 |
| (4) Lehman claims, at fair value | 574 | 553 |
| | $66,351 | $61,929 |

(1) Portfolio Funds, at fair value

The Portfolio Funds, at fair value as of March 31, 2012 and December 31, 2011, included the following:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Cowen Healthcare Royalty Partners (a)(*) | $6,764 | $6,297 |
| Cowen Healthcare Royalty Partners II (a)(*) | 2,116 | 1,521 |
| Ramius Global Credit Fund LP (b)(*) | 12,702 | 11,790 |
| Ramius Alternative Replication Ltd (c)(*) | 851 | 837 |
| Tapestry Investment Co PCC Ltd (d) | 191 | 185 |
| Ramius Enhanced Replication Fund LLC (e)(*) | 733 | 337 |
| Starboard Value and Opportunity Fund LP (f)(*) | 11,880 | 11,123 |

| | | |
|---|---|---|
| Other private investment (g) | 7,693 | 7,415 |
| Vreeland Partners II, L.P. (h) | 1,991 | 1,986 |
| RCG LV Park Lane LLC (i) | 700 | — |
| Other affiliated funds (j)(*) | 876 | 845 |
| | $46,497 | $42,336 |

* These portfolio funds are affiliates of the Company

The Company has no unfunded commitments regarding the portfolio funds held by the Company except as noted for Cowen Healthcare Royalty Partners, Cowen Healthcare Royalty Partners II and Starboard Value and Opportunity Fund LP in Note 12.

(a) Cowen Healthcare Royalty Partners and Cowen Healthcare Royalty Partners II are private equity funds and therefore redemptions will be made when the underlying investments are liquidated.

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

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

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

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

(f) Starboard Value and Opportunity Fund LP permits quarterly withdrawals upon ninety days notice.

(g) Other private investment represents the Company's closed end investment in an investment company, which was formed to make an investment in a wireless broadband communication provider in Italy.

(h) Vreeland Partners II, L.P. is a wholly owned externally managed fund that seeks to provide short-term financing to public companies. The Company can redeem from this fund as positions are sold on an average of 30 days or less notice.

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

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

(2) Real estate investments, at fair value

Real estate investments as of March 31, 2012 and December 31, 2011 are carried at fair value and include real estate equity investments held by RCG RE Manager, LLC (“RE Manager”), a real estate operating subsidiary of the Company, of $1.8 million and $1.6 million, respectively, and real estate debt investments held by the Company of $0.8 million and $0.8 million, respectively.

(3) Equity method investments

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

Partners, (b) an investment in the CBOE (Chicago Board Options Exchange) Stock Exchange LLC representing a 9.7% stake in the exchange service provider for which the Company exercises significant influence over through representation on the CBOE Board of Directors, and (c) Starboard Value LP (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of a deep value small cap hedge fund and related managed accounts. The following table summarizes equity method investments held by the Company:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| RCG Longview Debt Fund IV Management, LLC | $1,018 | $1,980 |
| Cowen Healthcare Royalty GP, LLC | 552 | 513 |
| Cowen Healthcare Royalty GP II, LLC | 358 | 258 |
| CBOE Stock Exchange, LLC | 2,358 | 2,423 |
| Starboard Value LP | 5,145 | 3,693 |
| RCG Longview Partners, LLC | 1,679 | 1,569 |
| RCG Longview Louisiana Manager, LLC | 1,430 | 1,140 |
| RCG Urban American, LLC | 1,289 | 1,258 |
| RCG Urban American Management, LLC | 525 | 1,096 |
| RCG Longview Equity Management, LLC | 167 | 557 |
| Urban American Real Estate Fund II, L.P. | 1,423 | 1,541 |
| RCG Kennedy House, LLC | 420 | 323 |
| Other | 337 | 336 |
| | $16,701 | $16,687 |

As of March 31, 2012 and December 31, 2011, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million. All such amounts are included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition.

The Company's income (loss) from equity method investments was $4.2 million and $1.2 million, for the three months ended March 31, 2012 and 2011, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations. In addition, the Company recorded no impairment charges in relation to its equity method investments for the three months ended March 31, 2012 and 2011, respectively.

For the period ended March 31, 2012 an equity method investment held by the Company has exceeded the 20% threshold for the income test. As such, the Company is required to present summarized income statement information for this significant investee for the current period. There is no comparative prior year-to-date information to disclose. The summarized income statement information for the individually significant investee is as follows:

| | For the three months ended March 31, 2012 | |
|---|---|---|
| | (dollars in thousands) | |
| Revenues | $3,268 | |
| Expenses | (328 | ) |
| Net realized and unrealized gains (losses) | 37 | |
| Net Income | $2,977 | |

(4) Lehman Claims, at fair value

Lehman Brothers International (Europe) ("LBIE"), through certain affiliates, was a prime broker to the Company, and the Company held cash and cash equivalent balances with LBIE. On September 15, 2008, LBIE was placed into administration (the "Administration") in the United Kingdom and, as a result, the assets held by the Company in its LBIE accounts were frozen at LBIE. The status and ultimate resolution of the assets under LBIE's Administration proceedings is uncertain. The assets of the Company at LBIE at the time of Administration (the "Total Net Equity Claim") consist of $1.0 million, which the Company believes will represent an unsecured claim against LBIE. This does not include claims held by the Company against LBIE through its investment in Enterprise Master discussed in Note 4b(2). There can be no assurance that the Total Net Equity Claim value, as determined by the Company, will be accepted by the Administrators, nor does the Company know the manner and timing in which such claim will be satisfied and the ultimate value that will be received.

Given the great degree of uncertainty as to the status of the assets held at LBIE and the process and prospects of the return of those assets, the Company has decided to record the estimated fair value of the Total Net Equity Claim at an approximately 45% discount as of March 31, 2012 and a 47% discount as of December 31, 2011, which represents management's best estimate at the respective dates of the value that ultimately may be recovered with respect to the Total Net Equity Claim (the "Estimated Recoverable Lehman Claim"). The Estimated Recoverable Lehman Claim was recorded at estimated fair value considering a number of factors including the status of the assets under U.K. insolvency laws and the trading levels of LBIE unsecured debt. In determining the estimated value of the Total Net Equity Claim, the Company was required to use considerable judgment and is based on the facts currently available. As additional information on the LBIE proceeding becomes available, the Company may need to adjust the valuation of the Estimated Recoverable Lehman Claim. The actual loss that may ultimately be incurred by the Company with respect to the pending LBIE claim is not known and could be materially different from the estimated value assigned by the Company. (See Note 4b(2)).

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the condensed consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of March 31, 2012 and December 31, 2011 securities sold, not yet purchased, at fair value consisted of the following:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| U.S. Government securities (a) | $130,540 | $165,197 |
| Common stocks | 162,291 | 123,877 |
| Corporate bonds (b) | 52 | 1,529 |
| Options | 26,784 | 43,648 |
| | $319,667 | $334,251 |

(a) As of March 31, 2012, maturities ranged from February 2015 to January 2040 and interest rates ranged between 0.25% and 7.41%. As of December 31, 2011, maturities ranged from September 2013 to January 2040 and interest rates ranged between 0.13% and 7.41%.

(b) As of March 31, 2012, the maturity was January 2026 with an interest rate of 5.55%. As of December 31, 2011, maturities ranged from December 2016 to January 2026 and interest rates ranged between 5.55% and 9.50%.

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

The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of March 31, 2012 and December 31, 2011:

As of March 31, 2012

| | (dollars in thousands) |
|---|---|
| Securities purchased under agreements to resell | |
| Agreements with Barclays Capital Inc bearing interest of 0.03% - 0.07% due on April 2, 2012 | $131,007 |
| Securities sold under agreements to repurchase | |
| Agreements with Royal Bank of Canada bearing interest of 1.53% - 2.2% due on April 4, 2012 to January 31, 2013 | 48,990 |
| Agreements with Barclays Capital Inc bearing interest of 0.13% - 1.15% due on April 2, 2012 to May 9, 2012 | 245,201 |
| | $294,191 |

| | As of December 31, 2011 |
|---|---|
| | (dollars in thousands) |
| Securities purchased under agreements to resell | |
| Agreements with Barclays Capital Inc bearing interest of (0.38%) - 0.25% due on January 3, 2012 | $166,260 |
| Securities sold under agreements to repurchase | |
| Agreements with Royal Bank of Canada bearing interest of 1.53% - 1.58% due on January 3, 2012 to June 25, 2012 | 49,450 |
| Agreements with Barclays Capital Inc bearing interest of 0.03% - 0.08% due on January 3, 2012 | 179,333 |
| | $228,783 |

For all of the Company's holdings of Repurchase Agreements as of March 31, 2012, the repurchase dates are open and the agreement can be terminated by either party at any time. The agreements rolls over on a day-to-day basis.
Transactions involving purchases of securities under agreements to resell are carried at their contract value which approximates fair value. These fair value measurement would be categorized as Level 1 within the fair value hierarchy. As of March 31, 2012 and December 31, 2011, the fair value of the collateral received by the Company, consisting of government and corporate bonds, was $130.5 million and $166.7 million, respectively.
Transactions involving the sale of securities under Repurchase Agreements are carried at their contract value, which approximates fair value, and are accounted for as collateralized financings. In connection with these financings, as of March 31, 2012 and December 31, 2011, the Company had pledged collateral, consisting of government and corporate bonds, in the amount of $308.1 million and $243.1 million, respectively, which is included in securities owned, at fair value in the condensed consolidated statements of financial condition.

Other

During the second and fourth quarters of 2011, the Company acquired two Luxembourg reinsurance companies from third parties through a wholly-owned local subsidiary, which, upon acquisition, recorded deferred assets and subsequently deferred tax benefits. The purchase price of the reinsurance companies totaled EUR 234.8 million (USD $331.8 million). The acquisitions were not accounted for as business combinations as after separation from the transferor, the reinsurance companies do not meet the definition of a business and did not continue any normal revenue producing or cost generating activities.

b. Consolidated Funds

Securities owned, at fair value

As of March 31, 2012 and December 31, 2011 securities owned, at fair value, held by the Consolidated Funds are comprised of:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Government sponsored securities (a) | $1,500 | $2,006 |
| Commercial paper (b) | 673 | 3,927 |
| Corporate bond (c) | 401 | 401 |
| | $2,574 | $6,334 |

(a) As of March 31, 2012, maturities ranged from October 2012 to February 2014 and interest rates ranged between 0.32% and 1.74%. As of December 31, 2011, maturities ranged from October 2012 to October 2013 and interest rates ranged between 0.32% and 1.74%.

(b) Commercial paper was purchased at a discount and matures on April 2, 2012.

(c) As of March 31, 2012 and December 31, 2011, the maturity was April 2012 with an interest rate of 0.58%.

Other investments, at fair value

As of March 31, 2012 and December 31, 2011 other investments, at fair value, held by the Consolidated Funds are comprised of:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| (1) Portfolio Funds | $226,132 | $221,480 |
| (2) Lehman claims | 5,346 | 7,340 |
| | $231,478 | $228,820 |

(1) Investments in Portfolio Funds, at fair value

As of March 31, 2012 and December 31, 2011, investments in Portfolio Funds, at fair value, included the following:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Investments of Enterprise LP | $197,712 | $193,012 |
| Investments of consolidated fund of funds | 28,420 | 28,468 |
| | $226,132 | $221,480 |

Consolidated investments of Enterprise LP

Enterprise LP operates under a “master feeder” structure with Enterprise Master, whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate Fund, L.P. The consolidated investments in Portfolio Funds recorded in other investments on the condensed consolidated statements of financial condition include Enterprise LP's investment of $197.7 million and $193.0 million in Enterprise Master as of March 31, 2012 and December 31, 2011, respectively. On May 12, 2010, the Company announced its intention to close Enterprise Master. Prior to this announcement, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. Enterprise Master has been selling, and will continue to sell, its positions and return capital to its investors. There are no unfunded commitments at Enterprise LP.

Investments of consolidated fund of funds investment companies

The investments of consolidated fund of funds investment companies of $28.4 million and $28.5 million as of March 31, 2012 and December 31, 2011, respectively, include the investments of Levered FOF, Multi Strat Master FOF and Vintage Master FOF as of March 31, 2012 and Levered FOF, Multi Strat FOF and Vintage FOF as of December 31, 2011 (see Note 2b), all of which are investment companies managed by Ramius Alternative Solutions LLC. RTS Global 3X is consolidated as of March 31, 2012 and December 31, 2011, which is managed by Ramius Trading Strategies LLC. Multi Strat Master FOF's investment objectives (as was Multi-Strat FOF's objective) is to invest discrete pools of their capital among portfolio managers that invest through Portfolio Funds, forming a multi strategy, diversified investment portfolio designed to achieve returns with low to moderate volatility. Levered

FOF had a similar strategy, but on a levered basis, prior to the fund winding down. Levered FOF is no longer levered. Vintage Master FOF's investment objective (as was Vintage FOF's objective) is to allocate its capital among portfolio managers that invest through investment pools or managed accounts thereby forming concentrated investments in high conviction managers designed to achieve attractive risk adjusted returns with moderate relative volatility. Levered FOF, Multi Strat Master FOF and Vintage Master FOF are all in liquidation. RTS Global 3X's investment objective is to achieve attractive investment returns on a risk-adjusted basis that are non-correlated with the traditional equity and bond markets by investing substantially all of its capital in managed futures and global macro based investment strategies. RTS Global 3X seeks to achieve its objective through a multi advisor investment approach by allocating its capital among third party trading advisors that are unaffiliated with RTS Global 3X. However, unlike a traditional "fund of funds" that invests with advisors through entities controlled by third parties, RTS Global 3X will allocate its capital among a number of different trading accounts organized and managed by the general partner.

The following is a summary of the investments held by the four consolidated fund of funds, at fair value, as of March 31, 2012 and December 31, 2011:

| | | Fair Value as of March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|---|
| Description | Strategy | Ramius Levered Multi-Strategy FOF LP | Ramius Multi-Strategy Master FOF LP | Ramius Vintage Multi-Strategy Master FOF LP | RTS Global 3X Fund LP | Total | |
| | | | (dollars in thousands) | | | | |
| Tapestry Pooled Account V LLC* | Credit-Based | $458 | $943 | $ 1,007 | $— | $2,408 | (b) |
| Independently Advised Portfolio Funds* | Futures & Global Macro | — | — | — | 9,775 | 9,775 | (c) |
| Externally Managed Portfolio Funds | Credit-Based | 272 | 75 | 419 | — | 766 | (b) |
| Externally Managed Portfolio Funds | Event Driven | 1,840 | 2,830 | 4,798 | — | 9,468 | (d) |
| Externally Managed Portfolio Funds | Hedged Equity | 36 | 501 | 1,137 | | 1,674 | (e) |
| Externally Managed Portfolio Funds | Multi-Strategy | 493 | 1,854 | 1,417 | — | 3,764 | (f) |
| Externally Managed Portfolio Funds | Fixed Income Arbitrage | 58 | 84 | — | — | 142 | (g) |
| Externally Managed Portfolio Funds | Opportunistic Equity | — | 199 | 224 | — | 423 | (h) |
| | | $3,157 | $6,486 | $ 9,002 | $9,775 | $28,420 | |

| | | Fair value as of December 31, 2011 | | | | | |
|---|---|---|---|---|---|---|---|
| Description | Strategy | Ramius Levered Multi-Strategy FOF LP | Ramius Multi-Strategy FOF LP | Ramius Vintage Multi-Strategy FOF LP | RTS Global 3X Fund LP | Total | |
| | | | (dollars in thousands) | | | | |
| Ramius Multi-Strategy Master FOF LP* | Multi-Strategy | $— | $8,269 | $— | $— | $8,269 | (a) |
| Ramius Vintage Multi-Strategy Master FOF LP* | Multi-Strategy | — | — | 8,883 | — | 8,883 | (a) |
| Tapestry Pooled Account V LLC* | Credit-Based | 438 | — | — | — | 438 | (b) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Independently Advised Portfolio Funds* | Futures & Global Macro | — | — | — | 8,078 | 8,078 | (c) |
| Externally Managed Portfolio Funds | Credit-Based | 260 | — | — | — | 260 | (b) |
| Externally Managed Portfolio Funds | Event Driven | 1,992 | — | — | — | 1,992 | (d) |
| Externally Managed Portfolio Funds | Hedged Equity | 35 | — | — | — | 35 | (e) |
| Externally Managed Portfolio Funds | Multi-Strategy | 459 | — | — | — | 459 | (f) |
| Externally Managed Portfolio Funds | Fixed Income Arbitrage | 54 | — | — | — | 54 | (g) |
| | | $3,238 | $8,269 | $8,883 | $8,078 | $28,468 | |

* These Portfolio Funds are affiliates of the Company.

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

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

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

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

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

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

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

(g) The Fixed Income Arbitrage strategy seeks to achieve long term capital appreciation by employing a variety of strategies to generate returns without significant exposure to credit spread, interest rate changes or duration. As of March 31, 2012, the investment manager has gated investments.

(h) The Opportunistic Equity investment style seeks to profit from higher levels of realized market volatility giving to shorter term price momentum and mean reversion trading opportunities. The investee fund manager has side-pocketed investments with undetermined payout dates.

(2) Lehman Claims, at fair value

With respect to the aforementioned Lehman claims, the Total Net Equity Claim of Enterprise Master consists of $24.3 million. Included in this claim were assets with a value of $9.5 million at the time LBIE entered Administration, that were returned to Enterprise Master and its affiliated funds in June 2010. Enterprise Master and its affiliated funds sold the returned assets for an aggregate $10.7 million, and distributed this amount to Enterprise Master's investors in July 2010. In December 2011, Enterprise Master received an aggregate of approximately $2.4 million relating to securities, interest and dividends earned with respect to securities held by LBIE on behalf of Enterprise Master. A distribution of $2.9 million occurred in February of 2012. Post-distribution, the remaining Net Equity Claim for Enterprise Master is $12.4 million. Enterprise Master is valuing this claim at $6.7 million as of March 31, 2012. Of this amount, $5.3 million was attributable to Enterprise LP based on its ownership percentage in Enterprise Master at the time of the Administration. As discussed in Note 4a, the Company has an additional $1.0 million claim against LBIE as a result of certain cash and cash equivalent balances held at LBIE. LBIE claims consist of several components, valued as follows: (a) the trust assets that the Company was informed were within the control of LBIE and were expected to be returned in the relatively near term were valued at market less a 1% discount that corresponds to the fee to be charged under the Claim Resolution Agreement (“CRA”), (b) the trust assets that are not within the control of LBIE and are not believed to be held through Lehman Brothers, Inc. (“LBI”) were valued at 57% with respect to US denominated Assets and 55% with respect to foreign denominated Assets, which represented the Company's estimate of potential recovery rates and (c) the remaining unsecured claims against LBIE were valued at 55%, which represented the Company's estimate of potential recovery rates with respect to this exposure using available market quotes. The estimated final recoverable amount by Enterprise Master may differ from the actual recoverable amount of the pending LBIE and LBI claims, and the differences may be significant.
As a result of Enterprise Master and certain of the funds managed by the Company having assets held at LBIE frozen in their LBIE prime brokerage account and the degree of uncertainty as to the status of those assets and the process and prospects of the return of those assets, Enterprise Master and the funds managed by the Company decided that only the investors who were invested at the time of the Administration should participate in any profit or loss relating to the Estimated Recoverable Lehman Claim. As a result, Enterprise Master and certain of the funds managed by the Company with assets held at LBIE granted a 100% participation in the Estimated Recoverable Lehman Claims to Special Purpose Vehicles (the “SPVs” or “Lehman Segregated Funds”) incorporated under the laws of the Cayman Islands on September 29, 2008, whose shares were distributed to each of their investor funds. Fully redeeming investors of Enterprise LP will not be paid out on the balance invested in the SPV until the claim with LBIE is settled and assets are returned by LBIE.

In addition to Enterprise Master's claims against LBIE, LBI was a prime broker to Enterprise Master and Enterprise Master holds cash balances of $5.3 million at LBI. On September 19, 2008, LBI was placed in a Securities Investor Protection Corporation (“SIPC”) liquidation proceeding after the filing for bankruptcy of its parent Lehman Brothers Holdings, Inc. The status of the assets under LBI's bankruptcy proceedings has not been determined. The amount that will ultimately be recovered from LBI will depend on the amount of assets available in the fund of customer property to be established by the trustee appointed under the Securities Investor Protection Act (the “SIPA Trustee”) as approved by the bankruptcy court as well as the total amount of customer claims that seek recovery from the fund of customer property. Based on court filings by the SIPA Trustee, the total amount of customer claims exceeds the assets that are likely to be in the fund of customer property. In addition, while there has been an initial ruling with respect to the claims asserted by Barclays plc against LBI relating to an asset purchase agreement entered into by Barclays plc with LBIE near the time of the SIPC liquidation proceeding, there is still uncertainty regarding the ultimate resolution of these claims that could affect the amount of assets that are included in the fund of customer property. As a result of these uncertainties and the timing of any distributions from LBI in respect of the Company's customer claims, management has estimated recovery with respect to the Company's exposure to LBI at 57% or $3.0 million as of March 31, 2012, which represents the present value of the mid point between what management believes are reasonable estimates of the low side and high side potential recovery rates with respect to the Company's exposure. The estimated recoverable amount by the Company may differ from the actual recoverable amount of the pending LBI claim, and the differences may be significant.(See Note 4a(4)).
Indirect Concentration of the Underlying Investments Held by Consolidated Funds

From time to time, through its investments in the Consolidated Funds, the Company may indirectly maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Consolidated Funds' net assets (on an aggregated basis). Based on information that is available to the Company as of March 31, 2012 and December 31, 2011, the Company assessed whether or not its Consolidated Funds had interests in an issuer for which the Company's pro-rata share exceeds 5% of the Consolidated Funds' net assets (on an aggregated basis). There were no indirect concentrations that exceed 5% of the Consolidated Funds' net assets held by the Company as of March 31, 2012 or December 31, 2011.

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

Enterprise Master

Enterprise LP's investment in Enterprise Master represents Enterprise LP's proportionate share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master as of March 31, 2012 and December 31, 2011:

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

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | Securities owned | Securities owned |
| | (dollars in thousands) | |
| Common stock | $2,144 | $2,173 |
| Preferred stock | 1,022 | 1,027 |
| Private equity | 293 | 276 |
| Restricted stock | 61 | 47 |
| Rights | 2,245 | 2,173 |
| Trade claims | 128 | 128 |
| Warrants | 2 | 3 |
| | $5,895 | $5,827 |

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

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Currency forwards | $(2) | $53 |
| | $(2) | $53 |

Portfolio Funds, owned by Enterprise Master, at fair value

| | Strategy | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|---|
| | | Fair Value | |
| | | (dollars in thousands) | |
| 624 Art Holdings, LLC* | Artwork | $37 | $38 |
| RCG Longview Equity Fund, LP* | Real Estate | 15,678 | 14,460 |
| RCG Longview II, LP* | Real Estate | 1,596 | 1,592 |
| RCG Longview Debt Fund IV, LP* | Real Estate | 30,540 | 23,594 |
| RCG Longview, LP* | Real Estate | 290 | 271 |
| RCG Soundview, LLC* | Real Estate | 2,952 | 2,748 |
| RCG Urban American Real Estate Fund, L.P.* | Real Estate | 3,229 | 3,142 |
| RCG International Sarl* | Multi-Strategy | 897 | 870 |
| Ramius Navigation Fund Ltd* | Multi-Strategy | — | 1,106 |
| Portside Growth & Opportunity Fund * | Multi-Strategy | 226 | — |
| RCG Special Opportunities Fund, Ltd* | Multi-Strategy | 96,842 | 97,144 |

| | | | |
|---|---|---|---|
| Ramius Credit Opportunities Fund Ltd* | Distressed | 77 | 121 |
| RCG Endeavour, LLC* | Multi-Strategy | 52 | 47 |
| RCG Energy, LLC * | Energy | 19,219 | 16,560 |
| RCG Renergys, LLC* | Energy | 2 | 2 |
| Other Private Investments | Various | 16,849 | 16,580 |
| Real Estate Investments | Real Estate | 17,320 | 15,795 |
| | | $205,806 | $194,070 |

*These Portfolio Funds are affiliates of the Company.

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

Multi Strat FOF's and Vintage FOF's investments in their respective master funds, when Multi Strat FOF's and Vintage FOF were consolidated as of December 31, 2011, represented their proportionate share of their master fund's net assets; as a result, the master funds investments in Portfolio Funds reflected below may have exceeded the net investments which Multi Strat FOF and Vintage FOF have recorded. Due to a restructuring related to the liquidation of the funds, Multi Strat Master FOF and Vintage Master FOF were consolidated during the three months ended March 31, 2012 (see Note 2b). The following table presents summarized investment information for the underlying Portfolio Funds held by Multi Strat Master FOF and Vintage Master FOF, at estimated fair value, as of December 31, 2011:

| | | As of December 31, 2011 | |
|---|---|---|---|
| | Strategy | Ramius Multi-Strategy Master FOF LP | Ramius Vintage Multi-Strategy Master FOF LP |
| | | (dollars in thousands) | |
| Ramius Vintage Multi-Strategy Master FOF LP* | Multi Strategy | $552 | $— |
| Tapestry Pooled Account V, LLC* | Credit-Based | 901 | 962 |
| Externally Managed Funds | Credit-Based | 40 | 399 |
| Externally Managed Funds | Event Driven | 3,015 | 5,044 |
| Externally Managed Funds | Fixed Income Arbitrage | 79 | — |
| Externally Managed Funds | Hedged Equity | 1,272 | 1,753 |
| Externally Managed Funds | Multi Strategy | 1,319 | 1,442 |
| | | $7,178 | $9,600 |

*These Portfolio Funds are affiliates of the Company.

RTS Global 3X Fund LP's Portfolio Fund investments

RTS Global 3X, which commenced operations in March 2010, invests over half of its equity in six externally managed portfolio funds which primarily concentrate on futures and global macro strategies. RTS Global 3X's investments in the portfolio funds represent its proportionate share of the portfolio funds net assets; as a result, the portfolio funds' investments reflected below may exceed the net investment which RTS Global 3X has recorded. The following table presents the summarized investment information, which primarily consists of receivables/(payables) on derivatives, for the underlying Portfolio Funds held by RTS Global 3X, at fair value, as of March 31, 2012 and December 31, 2011:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Bond futures | $113 | $(2) |
| Commodity options | — | 181 |
| Currency options | — | 487 |
| Commodity forwards | 4 | 51 |
| Commodity futures | 97 | 756 |
| Currency forwards | (19) | 157 |
| Currency futures | (339) | 418 |
| Energy futures | 102 | 2 |
| Equity future | 1 | — |

| | | |
|---|---|---|
| Foreign currency option | — | 358 |
| Index options | (3) | 80 |
| Index futures | 68 | 80 |
| Interest rate futures | 8 | 20 |
| Interest rate options | — | (25) |
| | $32 | $2,563 |

5. Fair Value Measurements for Operating Entities and Consolidated Funds
The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of March 31, 2012 and December 31, 2011:
Operating Entities

| | Assets at Fair Value as of March 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (dollars in thousands) | | |
| Securities owned and derivatives | | | | |
| US Government securities | $237,114 | $— | $— | $237,114 |
| Common stocks | 250,842 | 1,617 | 1,079 | 253,538 |
| Convertible bonds | — | 18,285 | — | 18,285 |
| Corporate bonds | — | 235,512 | — | 235,512 |
| Futures | 263 | — | — | 263 |
| Options | 38,481 | 1 | — | 38,482 |
| Warrants and rights | 1,572 | — | 3,316 | 4,888 |
| Mutual funds | 2,846 | — | — | 2,846 |
| Other investments | | | | |
| Portfolio Funds | — | 25,494 | 21,003 | 46,497 |
| Real estate investments | — | — | 2,579 | 2,579 |
| Lehman claim | — | — | 574 | 574 |
| | $531,118 | $280,909 | $28,551 | $840,578 |

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| | Liabilities at Fair Value as of March 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (dollars in thousands) | | | |
| Securities sold, not yet purchased and derivatives | | | | |
| US Government securities | $130,540 | $— | $— | $130,540 |
| Common stocks | 162,291 | — | — | 162,291 |
| Corporate bonds | — | 52 | — | 52 |
| Futures | 158 | — | — | 158 |
| Equity swaps—short exposure | — | 4 | — | 4 |
| Options | 26,738 | 46 | — | 26,784 |
| | $319,727 | $102 | $— | $319,829 |

| | Assets at Fair Value as of December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (dollars in thousands) | | |
| Securities owned and derivatives | | | | |
| US Government securities | $182,868 | $— | $— | $182,868 |
| Common stocks | 248,598 | 713 | 1,069 | 250,380 |
| Convertible bonds | — | 18,130 | — | 18,130 |
| Corporate bonds | — | 231,864 | — | 231,864 |
| Futures | 172 | — | — | 172 |
| Equity swaps | — | 635 | — | 635 |
| Options | 55,530 | 169 | 69 | 55,768 |
| Warrants and rights | 1,225 | — | 1,465 | 2,690 |
| Mutual funds | 3,214 | — | — | 3,214 |
| Other investments | | | | |
| Portfolio Funds | — | 23,431 | 18,905 | 42,336 |
| Real estate investments | — | — | 2,353 | 2,353 |
| Lehman claim | — | — | 553 | 553 |
| | $491,607 | $274,942 | $24,414 | $790,963 |

| | Liabilities at Fair Value as of December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (dollars in thousands) | | | |
| Securities sold, not yet purchased and derivatives | | | | |
| US Government securities | $165,197 | $— | $— | $165,197 |
| Common stocks | 123,875 | 2 | — | 123,877 |
| Corporate bonds | — | 1,529 | — | 1,529 |
| Futures | 617 | — | — | 617 |
| Equity swaps—short exposure | — | 140 | — | 140 |
| Options | 43,648 | — | — | 43,648 |
| | $333,337 | $1,671 | $— | $335,008 |

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Consolidated Funds' investments

| | Assets at Fair Value as of March 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (dollars in thousands) | | |
| Securities owned | | | | |
| US Government securities | $1,500 | $— | $— | $1,500 |
| Commercial paper | — | 673 | — | 673 |
| Corporate bonds | — | 401 | — | 401 |
| Other investments | | | | |
| Portfolio Funds | — | 9,775 | 216,357 | 226,132 |
| Lehman claims | — | — | 5,346 | 5,346 |
| | $1,500 | $10,849 | $221,703 | $234,052 |

| | Assets at Fair Value as of December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (dollars in thousands) | | |
| Securities owned | | | | |
| US Government securities | $2,006 | $— | $— | $2,006 |
| Commercial paper | — | 3,927 | — | 3,927 |
| Corporate bonds | — | 401 | — | 401 |
| Other investments | | | | |
| Portfolio Funds | — | 8,078 | 213,402 | 221,480 |
| Lehman claims | — | — | 7,340 | 7,340 |
| | $2,006 | $12,406 | $220,742 | $235,154 |

The following table includes a rollforward of the amounts for the three months ended March 31, 2012 and 2011 for financial instruments classified within level 3. The classification of a financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

| | Operating Entities | | | | | | | | Consolidated Funds | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common stocks | Common stocks, sold not yet purchased | Restricted Common Stock | Options, sold not yet purchased | Warrants and Rights | Portfolio Funds | Real estate | Lehman claim | Portfolio Funds | Lehman claim |
| | (dollars in thousands) | | | | | | | | | |
| Balance at December 31, 2011 | $1,069 | $— | $— | $— | $1,534 | $18,905 | $2,353 | $553 | $213,402 | $7,340 |
| Transfers in | — | — | — | — | — | — | — | — | 16,769 (b) | — |
| Transfers out | — | — | — | (1,004) (a) | (88) (c) | — | — | — | (17,151) (b) | — |
| Purchases/(covers) | — | — | — | (302) | 257 | 5,533 | 152 | — | 415 | — |
| (Sales)/short buys | (6) | — | — | 973 | (65) | (4,433) | — | — | (2,888) | (2,291) |
| Realized gains (losses) | 6 | — | — | (35) | 56 | 3 | — | — | 214 | 1,914 |
| Unrealized gains (losses) | 10 | — | — | 368 | 1,622 | 995 | 74 | 21 | 5,596 | (1,617) |
| Balance at March 31, 2012 | $1,079 | $— | $— | $— | $3,316 | $21,003 | $2,579 | $574 | $216,357 | $5,346 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2010 | $334 | $— | $5,000 | $— | $1,977 | $17,081 | $1,882 | $313 | $311,242 | $6,243 |
| Transfers in | — | — | — | — | — | — | — | — | — | — |
| Transfers out | — | — | — | — | — | — | — | — | — | — |
| Purchases/(covers) | — | (152) | — | — | 64 | 34,251 | 96 | — | 1 | — |
| (Sales)/short buys | — | 416 | — | — | — | (34,142) | (5) | — | (52,624) | — |
| Realized gains (losses) | — | 152 | — | — | — | 96 | — | — | 1,533 | — |
| Unrealized gains (losses) | 156 | (15) | — | — | 861 | 374 | 129 | 188 | 291 | 950 |
| Balance at March 31, 2011 | $490 | $401 | $5,000 | $— | $2,902 | $17,660 | $2,102 | $501 | $260,443 | $7,193 |

(a) The security began trading on an exchange due to a business combination.
(b) Change in consolidated funds (see Note 2b).
(c) The security was listed on an exchange subsequent to a private funding.

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

All realized and unrealized gains (losses) in the table above are reflected in other income (loss) in the accompanying condensed consolidated statements of operations.
Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above. These include assets such as goodwill and intangibles.
During the three months ended March 31, 2012 and 2011, there were no transfers between level 1 and level 2 assets and liabilities.
The following table includes quantitative information as of March 31, 2012 for financial instruments classified within level 3. The table below quantifies information about the significant unobservable inputs used in the fair value measurement of the Company's level 3 financial instruments.

| | Quantitative Information about Level 3 Fair Value Measurements | | | |
|---|---|---|---|---|
| | Fair Value at March 31, 2012 | Valuation techniques | Unobservable Inputs | Range (weighted average) |
| Common stocks | $1,079 | Discounted cash flows, market multiples, recent transactions, bid levels, and comparable transactions. | Market multiples, valuation metric weights, and DCF discount rate. | Valuation metric: 25%-100%. DCF discount rates: 25%, Market multiples: 9x-10x |
| Warrants and rights | 3,316 | Model based | Volatility | Volatility: 20 to 40 |
| Real estate | 777 | Market approach, income approach, and replacement cost. | Capital rate, DCF discount rate, net operating income, and replacement cost assumptions. | Capital rate: 4.75% to 8.75% |
| Lehman claim | 574 | Discounted cash flows and market quotes. | Projected cash flows and DCF discount rate. | Timing of projected cash flow: 1.25 years. DCF discount rate: 15% |
| | $5,746 | | | |
| Other level 3 assets and liabilities (a) | 244,508 | | | |
| Total level 3 assets and liabilities | $250,254 | | | |

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

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

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

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

## 6. Receivables from and Payable to Brokers

Receivables from and payable to brokers includes cash held at the clearing brokers, amounts receivable or payable for unsettled transactions, monies borrowed and proceeds from short sales (including commissions and fees related to securities transactions) equal to the fair value of securities sold, not yet purchased, which are restricted until the Company purchases the securities sold short. Pursuant to the master netting agreements the Company entered into with its brokers, these balances are presented net (assets less liabilities) across balances with the same broker. As of March 31, 2012 and December 31, 2011, receivable from brokers was $66.8 million and $62.0 million, respectively. Payable to brokers was $165.0 million and $213.4 million as of March 31, 2012 and December 31, 2011, respectively. The Company's receivables from and payable to brokers balances are concentrated with three reputable financial institutions.

## 7. Goodwill

In accordance with US GAAP, the Company tests goodwill for impairment on an annual basis or at an interim period if events or changed circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under US GAAP, the Company first assesses the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amounts as a basis for determining if it is necessary to perform the two-step approach.  Periodically estimating the fair value of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. There were no additions or impairment losses for goodwill during the three months ended March 31, 2012.

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

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

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Redeemable non-controlling interests in consolidated subsidiaries | | |
| Operating companies | $4,724 | $6,472 |
| Consolidated funds | 98,705 | 98,115 |
| | $103,429 | $104,587 |

| | Three Months Ended March 31, 2012 | 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries | | |
| Operating companies | $293 | $475 |
| Consolidated funds and certain real estate entities | 1,948 | 323 |

| | |
|---|---|
| $2,241 | $798 |

9. Share-Based Compensation and Employee Ownership Plans

The Company issues share based compensation under Cowen Holdings' previously established 2006 Equity and Incentive Plan, the 2007 Equity and Incentive Plan and the Cowen Group, Inc. 2010 Equity and Incentive Plan (collectively, the “Equity Plans”). The Equity Plans permit the grant of options, restricted shares, restricted stock units and other equity based awards to the Company's employees, consultants and directors for up to 17,725,000 shares of common stock plus any approved additional shares in accordance with the Equity Plans. Stock options granted generally vest over two-to-five-year periods and expire seven years from the date of grant. Restricted shares and restricted share units issued may be immediately vested or may generally vest over a two-to-five-year period. As of March 31, 2012, there were approximately 1.7 million shares available for future issuance under the Equity Plans. On January 1, 2012, 8.2 million shares were added to the shares available under the 2010 Equity and Incentive Plan to bring the total equal to 7.5% of the Company's outstanding shares of stock.

Under the 2010 Equity Plan, the Company awarded $16.5 million of deferred cash awards to its employees in February 2012. These awards vest over a period of five years and accrue interest at 0.75% per year. As of March 31, 2012, the Company had unrecognized compensation expense related to these awards of $16.0 million.

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

The Company measures compensation cost for share based awards according to the equity method. In accordance with the expense recognition provisions of those standards, the Company amortizes unearned compensation associated with share based awards on a straight-line basis over the vesting period of the option or award. In relation to awards under the Equity Plans, the Company recognized expense of $4.2 million and $5.7 million for the three months ended March 31, 2012, and 2011, respectively. The income tax effect recognized for the Equity Plans was a benefit of $2.2 million and $2.6 million for the three months ended March 31, 2012, and 2011, respectively.

In relation to awards under the RCG Grants, the Company recognized expense of $1.3 million and $1.5 million for the three months ended March 31, 2012, and 2011, respectively. The income tax effect recognized for the RCG Grants was a benefit of $0.5 million and $0.6 million for the three months ended March 31, 2012, and 2011, respectively.

Stock Options

The following table summarizes the Company's stock option activity for the three months ended March 31, 2012:

| | Shares Subject to Option | Weighted Average Exercise Price/Share | Weighted Average Remaining Term (in years) | Aggregate Intrinsic Value(1) (dollars in thousands) |
|---|---|---|---|---|
| Balance outstanding at December 31, 2011 | 866,428 | $12.95 | 2.53 | $— |
| Options granted | — | — | — | — |
| Options acquired | — | — | — | — |
| Options expired | (77,209) | 16 | — | — |
| Balance outstanding at March 31, 2012 | 789,219 | $12.65 | 2.37 | — |
| Options exercisable at March 31, 2012 | 639,216 | $14.69 | 1.68 | $— |

(1) Based on the Company's closing stock price of $2.71 on March 31, 2012 and $2.59 on December 31, 2011.

As of March 31, 2012, the unrecognized compensation expense related to the Company's grant of stock options was insignificant.

Restricted Shares and Restricted Stock Units Granted to Employees

Restricted shares and restricted stock units are referred to collectively as restricted stock. The following table summarizes the Company's restricted share and restricted stock unit activity for the three months ended March 31, 2012:

| | Nonvested Restricted Shares and Restricted Stock Units | | Weighted-Average Grant Date Fair Value |
|---|---|---|---|
| Balance outstanding at December 31, 2011 | 7,517,682 | | $5.57 |
| Granted | 7,406,325 | | 2.86 |
| Vested | (465,939 | ) | 4.72 |
| Cancelled | — | | — |
| Forfeited | (74,455 | ) | 3.52 |
| Balance outstanding at March 31, 2012 | 14,383,613 | | $4.21 |

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

As of March 31, 2012, there was $38.9 million of unrecognized compensation expense related to the Company's grant of nonvested restricted shares and restricted stock units to employees. Unrecognized compensation expense related to nonvested restricted shares and restricted stock units granted to employees is expected to be recognized over a weighted-average period of 1.67 years.

RCG Grants

The following table summarizes the Company's RCG Grants activity for the three months ended March 31, 2012:

| | Nonvested RCG Grants | | Weighted-Average Grant Date Fair Value |
|---|---|---|---|
| Balance outstanding at December 31, 2011 | 1,298,213 | | $7.30 |
| Granted | — | | — |
| Vested | — | | — |
| Forfeited | (13,613 | )* | 7.30 |
| Balance outstanding at March 31, 2012 | 1,284,600 | | $7.30 |

* Forfeitures of non vested RCG Grants are reallocated to other members within RCG Holdings, LLC.

The fair value of the RCG Grants was determined based on the number of the Company's shares underlying the RCG membership interest and the quoted price of the Company's common stock on the date of the 2009 transactions between Ramius and Cowen.

As of March 31, 2012, there was $3.6 million of unrecognized compensation expense related to the Company's RCG Grants. Unrecognized compensation expense related to RCG Grants is expected to be recognized over a weighted-average period of 0.58 years.

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

There were 7,002 restricted stock units awarded, which were immediately vested and expensed upon grant, during the three months ended March 31, 2012. As of March 31, 2012 there were 195,130 restricted stock units outstanding for awards to non-employee members of the Company's Board of Directors.

10. Defined Benefit Plans

The following amounts relate to the above plans in aggregate for the three months ended March 31, 2012, and 2011:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (dollars in thousands) | |
| Components of net periodic benefit cost included in employee compensation and benefits | | |
| Service cost | $— | $— |
| Interest cost | 53 | 72 |
| Expected return on plan assets | (57) | (71) |
| Amortization of (loss) / gain | — | — |
| Amortization of prior service cost | 5 | 5 |
| Effect of settlement | (2) | (13) |
| Net periodic benefit cost | $(1) | $(7) |

11. Income Taxes

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

The Company calculates its U.S. tax provision using the estimated annual effective tax rate methodology. The tax expense or benefit caused by an unusual or infrequent item is recorded in the quarter in which it occurs. The Company uses the discrete methodology to calculate its income tax provision for its foreign subsidiaries. Based on these methodologies, the Company's effective income tax rate was 2.22% and 15.60% for the three months ended March 31, 2012 and 2011, respectively. During the three months ended March 31, 2012, the unusual or infrequent item whose tax impact was recorded discretely was primarily related to the tax provisions of the Company's foreign subsidiaries. For the three months ended March 31, 2012 and 2011, the effective tax rate differs from the statutory rate of 35% primarily due to an increase in the Company's valuation allowance, stock compensation and other nondeductible expenses.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating or capital loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that, in management's view, is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. As of March 31, 2012 the Company recorded a valuation allowance against substantially all of its net deferred tax assets.

The Company is subject to examination by the United States Internal Revenue Service (IRS), the United Kingdom Inland Revenue Service and state and local and foreign tax authorities in jurisdictions where the Company has significant business operations, such as New York. In 2011, the Company concluded the IRS audit for the tax years 2006 through 2009 with no proposed changes by the IRS.

The Company intends to permanently reinvest the capital and accumulated earnings of its foreign subsidiaries in the respective subsidiary, but repatriates the current earnings of its foreign subsidiaries to the United States to the extent such repatriation is permissible under local regulatory rules. The undistributed earnings of the Company's foreign subsidiaries totaled $3.7 million as of March 31, 2012. The tax liability that would arise if these earnings were remitted to the United States is approximately $0.3 million.

12. Commitments and Contingencies

Lease Obligations

The Company has entered into non-cancellable leases for office space and equipment. These leases contain rent escalation clauses. The Company records rent expense on a straight-line basis over the lease term, including any rent holiday periods. Net rent expense was $3.7 million and $3.6 million, for the three months ended March 31, 2012, and 2011, respectively.

The liability relating to future rent payments and other monthly amounts associated with vacating the remaining portion of the Company's leased premises, located at 1221 Avenue of Americas, was $5.5 million and $5.7 million as of March 31, 2012 and December 31, 2011, respectively.

As of March 31, 2012, future minimum annual lease and service payments for the Company were as follows:

| | Equipment Leases(a) | Service Payments | Facility Leases (b) |
|---|---|---|---|
| | (dollars in thousands) | | |
| 2012 | $2,476 | $8,418 | $12,748 |
| 2013 | 3,301 | 9,305 | 17,304 |
| 2014 | 1,548 | 8,188 | 15,160 |
| 2015 | 1,051 | 3,058 | 12,235 |
| 2016 | 194 | 193 | 11,413 |
| Thereafter | — | — | 53,289 |
| | $8,570 | $29,162 | $122,149 |

(a) Equipment Leases include the Company's commitments relating to operating and capital leases. See Note 13 for further information on capital lease minimum payments.

(b) The Company has entered into various agreements to sublease certain of its premises. The Company recorded sublease income related to these leases of $0.5 million and $0.1 million for the three months ended March 31, 2012 and 2011, respectively.

Clawback Obligations

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

The actual clawback liability, however, does not become realized until the end of a fund's life. The life of the real estate funds with a potential clawback obligation, including available contemplated extensions, are currently anticipated to expire at the end of 2013. Further extensions of such terms may be implemented under certain circumstances. As of March 31, 2012, the clawback obligations were $6.2 million. (See Note 18).

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

Unfunded Commitments

As of March 31, 2012, the Company had unfunded commitments of $6.3 million pertaining to capital commitments in three real estate investments held by the Company, all of which pertain to related party investments. Such commitments can be called at any time, subject to advance notice. The Company, as a limited partner of the Cowen Healthcare Royalty Partners funds and also as a member of Cowen Healthcare Royalty Partners General Partner, also has committed to invest $42.2 million in the Cowen Healthcare Royalty Partners funds which are managed by Cowen Healthcare Royalty Management. This commitment is expected to be called over a two to five-year period. The Company will make its pro-rata investment in the Cowen Healthcare Royalty Partners funds along with the other limited partners. Through March 31, 2012, the Company has funded $24.5 million towards these commitments. In April 2011, the Company committed $15.0 million to Starboard Value and Opportunity Fund LP, which may increase

or decrease over time with the performance of Starboard Value and Opportunity Fund LP. As of March 31, 2012, the Company's unfunded commitment to Starboard Value and Opportunity Fund LP is $2.9 million.
Litigation
In the ordinary course of business, the Company and its affiliates and subsidiaries and current and former officers, directors and employees (the "Company and Related Parties") are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of securities, banking, anti-fraud, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.
In the ordinary course of business, the Company and Related Parties are also subject to governmental and regulatory examinations, information gathering requests (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Certain affiliates and subsidiaries of the Company are investment banks, registered broker-dealers, futures commission merchants, investment advisers or other regulated entities and, in those capacities, are subject to regulation by various U.S., state and foreign securities, commodity futures and other regulators. In connection with formal and informal inquiries by these regulators, the Company and such affiliates and subsidiaries receive requests, and orders seeking documents and other information in connection with various aspects of their regulated activities.
Due to the global scope of the Company's operations, and its presence in countries around the world, the Company and Related Parties may be subject to litigation, and governmental and regulatory examinations, information gathering requests, investigations and proceedings (both formal and informal), in multiple jurisdictions with legal and regulatory regimes that may differ substantially, and present substantially different risks, from those the Company and Related Parties are subject to in the United States.
The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.
In accordance with the US GAAP, the Company establishes reserves for contingencies when the Company believes that it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. The Company discloses a contingency if there is at least a reasonable possibility that a loss may have been incurred and there is no reserve for the loss because the conditions above are not met. The Company's disclosure includes an estimate of the reasonably possible loss or range of loss for those matters, for which an estimate can be made. Neither reserve nor disclosure is required for losses that are deemed remote.
The Company appropriately reserves for certain matters where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Such amounts are included within accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters.
In connection with Cowen Holdings' previous initial public offering (“IPO”) and separation from Société Générale (“SG”) in 2006, Cowen Holdings entered into an indemnification agreement with SG under which (1) SG will indemnify, and will defend and hold harmless Cowen Holdings and each of the Cowen Holdings' subsidiaries from and against certain liabilities assumed or retained by SG; and (2) SG will indemnify Cowen Holdings for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the Cowen Holdings' IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters (the “Indemnification Agreement”). To the extent that the Company is indemnified by SG, indemnified legal expenses and liabilities will be paid out of escrow pursuant to an escrow agreement with SG. As of March 31, 2012 and December 31, 2011, the total amount reserved in relation to the Indemnification Agreement was $0.5 million, respectively, and is included in accounts payable, accrued expenses and other liabilities in the condensed consolidated statement of financial condition. In April 2012, the escrowed amount

was released to SG and used by SG in connection with the settlement of the matter to which the escrow related.
In view of the inherent difficulty of predicting the outcome of various claims against the Company, particularly where the matters are in early stages of discovery or claimants seek indeterminate damages, the Company cannot reasonably determine the possible outcome, the timing of ultimate resolution or estimate a range of possible loss, or impact related to each currently pending matter. Based on information currently available, the Company believes that the amount of reasonably possible losses will not have a material adverse effect on the Company's condensed consolidated statements of financial condition or cash flows. However, in light of the uncertainties involved in such proceedings, 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 size of the loss or liability imposed.
13. Short-Term Borrowings and Other Debt
As of March 31, 2012 and December 31, 2011, short term borrowings and other debt of the Company were as follows:

| | As of March 31, 2012 | As of December 31, 2011 |
|---|---|---|
| | (dollars in thousands) | |
| Notes payable | $329 | $370 |
| Capital lease obligations | 4,946 | 5,280 |
| | $5,275 | $5,650 |

In November 2010, the Company borrowed $0.6 million and $1.5 million to fund insurance premium payments. As of March 31, 2012, these notes payable were paid in full. The interest rates on these notes were 5.05% and 4.95%, respectively. Interest expense for the three months ended March 31, 2012 and 2011 was not significant.
The Company entered into several capital leases for computer equipment during the fourth quarter of 2010. These leases amount to $6.3 million and are recorded in fixed assets and as capital lease obligations, which is included in short-term borrowings and other debt in the accompanying condensed consolidated statements of financial condition, and have lease terms that range from 48 to 60 months and interest rates that range from 0.60% to 6.14%. As of March 31, 2012, the remaining balance on these capital leases was $4.9 million. Interest expense for the three months ended March 31, 2012 and 2011 was $0.1 million and nil.
As of March 31, 2012, the Company has six irrevocable letters of credit, for which there is cash or bond collateral pledged, including (i) $50,000, which expires on July 12, 2012, supporting workers' compensation insurance with Safety National Casualty Corporation, (ii) $57,000, which expires on May 12, 2012, supporting Cowen Healthcare Royalty Management, LLC's Stamford office lease, (iii) $82,000, which expires on May 12, 2012, supporting the Company's San Francisco office, (iv) $1.2 million which expires on August 31, 2012, supporting the Company's lease of additional office space in New York, (v) $6.7 million, which expires December 12, 2012, supporting the lease of office space in New York which the Company pays a fee on the stated amount of the letter of credit at a rate equal to 0.5% and (vi) $1 million which expires February 22, 2013, supporting the lease of additional office space in New York.
To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of March 31, 2012 and December 31, 2011, there were no amounts due related to these letters of credit.
Annual scheduled maturities of debt and minimum lease payments for capital lease obligation and short term borrowings and other debt outstanding as of March 31, 2012, are as follows:

| | Capital Lease Obligation | Short Term Borrowings |
|---|---|---|
| | (dollars in thousands) | |
| 2012 | $1,156 | $137 |
| 2013 | 1,541 | 183 |
| 2014 | 1,402 | 46 |
| 2015 | 1,051 | — |
| 2016 | 194 | — |
| Thereafter | — | — |
| Subtotal | 5,344 | 366 |
| Less: Amount representing interest (a) | (398) | (37) |
| Total | $4,946 | $329 |

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

14. Treasury stock

Treasury stock

Treasury stock of $17.9 million as of March 31, 2012 resulted from $0.04 million acquired through repurchases of shares to cover employee minimum tax withholding obligations related to stock compensation vesting events under the Company's Equity Plan and $0.9 million purchased in connection with a share repurchase program, authorizing the Company to purchase up to $20.0 million of the Company's Class A common stock. The following represents the activity relating to the treasury stock held by the Company during the three months ended March 31, 2012:

| | Treasury stock shares | Cost (in thousands) | Average cost per share |
|---|---|---|---|
| Balance outstanding at December 31, 2011 | 5,346,003 | $16,902 | $3.16 |
| Shares purchased for minimum tax withholding under the Equity Plan | 15,840 | 43 | 2.70 |
| Purchase of treasury stock | 334,629 | 905 | 2.70 |
| Balance outstanding at March 31, 2012 | 5,696,472 | $17,850 | $3.13 |

15. Earnings Per Share

The Company calculates its basic and diluted earnings per share in accordance with US GAAP. Basic earnings per common share is calculated by dividing net income attributable to Cowen Group, Inc. stockholders by the weighted average number of common shares outstanding for the period. As of March 31, 2012, there were 113,976,466 shares outstanding, of which 461,359 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 195,130 fully vested, unissued restricted stock units in its calculation of basic earnings per share.

Diluted earnings per common share are calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive nonvested restricted stock and stock options. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares, restricted stock units and unexercised stock options. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares and restricted stock units are assumed to have been delivered, and options are assumed to have been exercised, on the grant date. The assumed proceeds from the assumed vesting, delivery and exercising were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized and (b) the amount of tax benefit that would be credited to additional paid-in capital assuming vesting and delivery of the restricted stock. The tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense recognized for financial statement reporting purposes. All outstanding stock options were not included in the computation of diluted net income per common share for the three months ended March 31, 2012 and 2011, respectively, as their inclusion would have been anti-dilutive.

The computation of earnings per share is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (dollars in thousands, except per share data) | |
| Net income (loss) attributable to Cowen Group, Inc. stockholders | $3,995 | $82 |
| Shares for basic and diluted calculations: | | |
| Weighted average shares used in basic computation | 114,281 | 74,160 |
| Stock options | — | — |
| Restricted stock | 1,382 | 1,923 |
| Weighted average shares used in diluted computation | 115,663 | 76,083 |
| Earnings (loss) per share: | | |
| Basic | $0.03 | $0.00 |
| Diluted | $0.03 | $0.00 |

16. Segment Reporting

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

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

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

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

| | Three Months Ended March 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Adjustments | | | |
| | Alternative Investment | Broker-Dealer (1) | Total Economic Income/(Loss) | Funds Consolidation | Other Adjustments | | US GAAP |
| | (dollars in thousands) | | | | | | |
| Revenues | | | | | | | |
| Investment banking | $— | $ 15,630 | $ 15,630 | $— | $— | | $15,630 |
| Brokerage | — | 24,013 | 24,013 | — | — | | 24,013 |
| Management fees | 14,020 | — | 14,020 | (393) | (3,910) | (a) | 9,717 |
| Incentive income | 4,022 | — | 4,022 | — | (3,331) | (a) | 691 |
| Investment Income | 16,803 | 4,302 | 21,105 | — | (21,105) | (c) | — |
| Interest and dividends | — | — | — | — | 5,372 | (c) | 5,372 |
| Reimbursement from affiliates | — | — | — | (71) | 1,116 | (b) | 1,045 |
| Other revenue | 124 | 260 | 384 | — | 483 | (c) | |