

COWEN GROUP, INC.
Form 10-Q
May 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2013

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

For the transition period from to

Commission File Number: 001-34516

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

27-0423711

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

599 Lexington Avenue

10022

New York, New York

(Zip Code)

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 6, 2013 there were 116,058,284 shares of the registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

Item No.	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
<u>1. Unaudited Condensed Consolidated Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Statements of Financial Condition</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Changes in Equity</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>67</u>
<u>4. Controls and Procedures</u>	<u>67</u>
<u>PART II. OTHER INFORMATION</u>	<u>67</u>
<u>1. Legal Proceedings</u>	<u>67</u>
<u>1A. Risk Factors</u>	<u>68</u>
<u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>68</u>
<u>3. Defaults Upon Senior Securities</u>	<u>69</u>
<u>4. Mine Safety Disclosures</u>	<u>69</u>
<u>5. Other Information</u>	<u>69</u>
<u>6. Exhibits</u>	<u>69</u>
<u>SIGNATURES</u>	<u>70</u>
<u>EXHIBIT INDEX</u>	<u>E- 1</u>

Special Note Regarding Forward-Looking Statements

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.

Condensed Consolidated Statements of Financial Condition

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

(unaudited)

	As of March 31, 2013	As of December 31, 2012
Assets		
Cash and cash equivalents	\$36,951	\$83,538
Cash collateral pledged	10,905	9,160
Securities owned, at fair value	472,798	624,127
Securities borrowed	459,719	408,096
Other investments	80,452	84,930
Receivable from brokers	53,310	71,306
Fees receivable, net of allowance	36,581	34,707
Due from related parties	20,045	21,022
Fixed assets, net of accumulated depreciation and amortization of \$31,443 and \$30,003, respectively	31,525	32,202
Goodwill	36,207	28,545
Intangible assets, net of accumulated amortization of \$23,790 and \$22,945, respectively	14,915	12,984
Other assets	23,538	16,278
Consolidated Funds		
Cash and cash equivalents	3,820	3,559
Securities owned, at fair value	—	3,525
Other investments, at fair value	193,497	204,205
Other assets	6,699	292
Total Assets	\$1,480,962	\$1,638,476
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$228,833	\$177,937
Securities sold under agreement to repurchase	29,241	165,945
Securities loaned	459,336	410,441
Payable to brokers	88,706	188,788
Compensation payable	14,898	45,752
Short-term borrowings and other debt	5,379	4,132
Fees payable	3,448	5,277
Due to related parties	618	662
Accounts payable, accrued expenses and other liabilities	60,239	55,425
Consolidated Funds		
Capital withdrawals payable	5,782	2,891
Accounts payable, accrued expenses and other liabilities	302	414
Total Liabilities	896,782	1,057,664
Commitments and Contingencies (Note 13)		
Redeemable non-controlling interests	81,031	85,703
Stockholders' equity		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—

Edgar Filing: COWEN GROUP, INC. - Form 10-Q

Class A common stock, par value \$0.01 per share: 250,000,000 shares authorized, 127,426,493 shares issued and 115,651,799 outstanding as of March 31, 2013 and 123,740,112 shares issued and 112,447,892 outstanding as of December 31, 2012, respectively (including 336,895 and 336,895 restricted shares, respectively)	1,160	1,135
Class B common stock, par value \$0.01 per share: 250,000,000 authorized, no shares issued and outstanding	—	—
Additional paid-in capital	724,235	713,211
(Accumulated deficit) retained earnings	(190,441	) (187,865)
Accumulated other comprehensive income (loss)	335	356
Less: Class A common stock held in treasury, at cost, 11,447,516 and 11,292,220 shares as of March 31, 2013 and December 31, 2012, respectively.	(32,140	) (31,728)
Total Stockholders' Equity	503,149	495,109
Total Liabilities and Stockholders' Equity	\$1,480,962	\$1,638,476

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

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Operations

(dollars in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
Revenues		
Investment banking	\$17,166	\$15,630
Brokerage	26,600	24,013
Management fees	9,493	9,717
Incentive income	2,611	691
Interest and dividends	9,321	5,372
Reimbursement from affiliates	1,485	1,045
Other revenues	478	867
Consolidated Funds		
Interest and dividends	12	61
Other revenues	75	84
Total revenues	67,241	57,480
Expenses		
Employee compensation and benefits	44,223	46,683
Floor brokerage and trade execution	4,478	3,752
Interest and dividends	6,418	1,724
Professional, advisory and other fees	3,853	3,925
Service fees	2,577	2,237
Communications	4,774	3,401
Occupancy and equipment	5,719	5,242
Depreciation and amortization	2,553	2,155
Client services and business development	4,099	3,826
Other expenses	3,984	3,419
Consolidated Funds		
Interest and dividends	—	16
Professional, advisory and other fees	396	288
Other expenses	38	71
Total expenses	83,112	76,739
Other income (loss)		
Net gains (losses) on securities, derivatives and other investments	11,807	19,671
Consolidated Funds		
Net realized and unrealized gains (losses) on investments and other transactions	5,070	5,964
Net realized and unrealized gains (losses) on derivatives	304	40
Net gains (losses) on foreign currency transactions	(215)	(38)
Total other income (loss)	16,966	25,637
Income (loss) before income taxes	1,095	6,378
Income tax expense (benefit)	176	142
Net income (loss)	919	6,236
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	3,495	2,241
Net income (loss) attributable to Cowen Group, Inc. stockholders	\$(2,576)	\$3,995
Weighted average common shares outstanding:		

Basic	113,798	114,281
Diluted	113,798	115,663
Earnings (loss) per share:		
Basic	\$(0.02)	\$0.03
Diluted	\$(0.02)	\$0.03

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

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(dollars in thousands)

(unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income (loss)	\$919	\$6,236
Other comprehensive income (loss), net of tax:		
Foreign currency translation	(4)	(67)
Defined benefit pension plans:		
Prior service cost arising during the period	—	—
Net gain/(loss) arising during the period	(22)	102
Add: amortization of prior service cost included in net periodic pension cost	5 (17)	5 107
Total other comprehensive income, net of tax	(21)	40
Comprehensive income (loss)	\$898	\$6,276

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

Table of Contents

Cowen Group, Inc.

Condensed Consolidated Statements of Changes in Equity

(dollars in thousands, except share data)

(unaudited)

	Common Shares Outstanding	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders' Equity	Redeemable Non-controlling Interest
Balance, December 31, 2012	112,447,892	1,135	(31,728)	713,211	356	(187,865)	495,109	85,703
Net income (loss)	—	—	—	—	—	(2,576)	(2,576)	3,495
Defined benefit plans	—	—	—	—	(17)	—	(17)	—
Foreign currency translation	—	—	—	—	(4)	—	(4)	—
Capital contributions	—	—	—	—	—	—	—	801
Capital withdrawals	—	—	—	—	—	—	—	(8,968)
Restricted stock awards issued	689,594	—	—	—	—	—	—	—
Common stock issued upon acquisition (See Note 2)	2,514,468	25	—	6,272	—	—	6,297	—
Purchase of treasury stock, at cost	(155)	—	(412)	—	—	—	(412)	—
Amortization of share based compensation	—	—	—	4,752	—	—	4,752	—
Balance, March 31, 2013	115,651,799	\$ 1,160	\$(32,140)	\$ 724,235	\$ 335	\$(190,441)	\$ 503,149	\$ 81,031

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

Table of Contents

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$919	\$6,236
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Depreciation and amortization	2,553	2,155
Share-based compensation	4,752	5,944
Deferred rent obligations	(4,159)	(664)
Net loss on disposal of fixed assets	97	—
Purchases of securities owned, at fair value	(1,298,853)	(1,643,802)
Proceeds from sales of securities owned, at fair value	1,472,056	1,579,427
Proceeds from sales of securities sold, not yet purchased, at fair value	708,168	967,861
Payments to cover securities sold, not yet purchased, at fair value	(651,829)	(994,775)
Net (gains) losses on securities, derivatives and other investments	(9,129)	(17,866)
Consolidated Funds		
Purchases of securities owned, at fair value	(78,792)	(108,768)
Proceeds from sales of securities owned, at fair value	82,320	112,522
Purchases of other investments	(973)	(4,279)
Proceeds from sales of other investments	18,352	7,580
Net realized and unrealized (gains) losses on investments and other transactions	(6,675)	(6,323)
(Increase) decrease in operating assets:		
Cash acquired upon transaction	10,747	—
Cash collateral pledged	137	47
Securities owned, at fair value, held at broker dealer	(14,882)	26,836
Securities borrowed	(51,623)	—
Receivable from brokers	19,284	(4,778)
Fees receivable, net of allowance	(1,644)	3,317
Due from related parties	1,478	(724)
Other assets	(5,341)	304
Consolidated Funds		
Cash and cash equivalents	(261)	(1,322)
Other assets	(6,407)	1,206
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker dealer	(8,845)	14,748
Securities loaned	48,895	—
Payable to brokers	(100,082)	(48,314)
Compensation payable	(46,014)	(51,810)
Fees payable	(1,829)	3,134
Due to related parties	(44)	(927)
Accounts payable, accrued expenses and other liabilities	2,482	(3,703)
Consolidated Funds		
Due to related parties	—	25

Edgar Filing: COWEN GROUP, INC. - Form 10-Q

Accounts payable, accrued expenses and other liabilities	(112	) (11	)
Net cash provided by / (used in) operating activities	\$84,746		\$(156,724)

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

(continued)	Three Months Ended March 31,	
	2013	2012
Cash flows from investing activities:		
Securities purchased under agreement to resell	\$—	\$35,253
Purchases of other investments	(5,161	) (6,441)
Proceeds from sales of other investments	15,534	9,253
Purchase of fixed assets	(237	) (445)
Net cash provided by / (used in) investing activities	10,136	37,620
Cash flows from financing activities:		
Securities sold under agreement to repurchase	(136,704	) 65,408
Borrowings on short-term borrowings and other debt	2,044	—
Repayments on short-term borrowings and other debt	(797	) (375)
Purchase of treasury stock	(235	) (905)
Capital withdrawals to non-controlling interests in operating entities	(432	) (2,042)
Consolidated Funds		
Capital contributions by non-controlling interests in Consolidated Funds	300	—
Capital withdrawals to non-controlling interests in Consolidated Funds	(5,645	) (3,653)
Net cash provided by / (used in) financing activities	(141,469	) 58,433
Change in cash and cash equivalents	(46,587	) (60,671)
Cash and cash equivalents at beginning of period	83,538	126,889
Cash and cash equivalents at end of period	\$36,951	\$66,218
Supplemental non-cash information		
Non compete agreements and covenants with limiting conditions acquired (see Note 2)	\$460	\$—
Common stock issuance upon close of acquisition (see Note 2)	\$6,297	\$—
Purchase of treasury stock, at cost, through net settlement (see Note 15)	177	\$—
Net assets of consolidated entities	\$—	\$19,073
Net assets of deconsolidated entities	\$—	\$17,104

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Organization and Business

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

2. Acquisitions

On March 11, 2013, the Company completed its acquisition of Dahlman Rose & Company, LLC, a privately-held investment bank specializing in the energy, metals and mining, transportation, chemicals and agriculture sectors. This acquisition was an all-stock transaction. In the aggregate, the purchase price, assets acquired and liabilities assumed were not significant and the near term impact to the Company and its consolidated results of operations and cash flows is not expected to be significant. Dahlman Rose & Company, LLC was subsequently renamed to Cowen Securities LLC ("Cowen Securities"). Post acquisition, Cowen Securities is included in the broker-dealer segment.

The Company is in discussions with the sellers regarding certain items, resolution of which will potentially impact the purchase price, assets and liabilities recognized and the resulting goodwill. The Company does not believe the impact will be material. The preliminary purchase price allocation of Cowen Securities is based upon all information available to us at the present time, and is based upon management's preliminary estimates of the fair values using valuation techniques including income, cost and market approaches. The purchase price allocation is preliminary pending the Company's final determination of the fair values of the assets and liabilities, which the Company expects will occur within twelve months following the acquisition. Upon the completion of the final purchase price allocation, any reallocation of fair values to the assets acquired and liabilities assumed in the acquisitions could have an impact on the amounts recognized on the condensed consolidated statements of operations.

The acquisition was accounted for under the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). As such, results of operations for the Cowen Securities are included in the accompanying condensed consolidated statements of operations since the date of the acquisition, and the assets acquired, liabilities assumed and the resulting goodwill were recorded at their fair values within their respective line items on the accompanying condensed consolidated statement of financial condition. Accordingly, the Company recognized goodwill in the amount of \$7.7 million (See Note 8) which is deductible for tax purposes.

The Company recognized approximately \$1.2 million of acquisition-related costs, including legal, accounting, and valuation services for the three months ended March 31, 2013. These costs are included in professional, advisory and other fees and other expenses in the condensed consolidated statements of operations.

3. Significant Accounting Policies

a. Basis of presentation

These unaudited condensed consolidated financial statements and related notes have been prepared in accordance with US GAAP and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to interim financial statements. Results for interim periods should not be considered indicative of results for any other interim period or for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010, included in the Form 10-K of Cowen Group as filed with the SEC on March 7, 2013. The financial information contained herein is unaudited; however, management believes all adjustments have been made that are necessary for a

fair presentation of the results for the interim periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these condensed consolidated financial statements, as further discussed below, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 eight funds deemed to be VOEs for which it acts as the general partner and investment manager.

As of March 31, 2013 and December 31, 2012, the Company consolidates the following funds: Ramius Enterprise LP ("Enterprise LP"), Ramius Multi Strategy Master FOF LP ("Multi Strat Master FOF"), Ramius Vintage Multi Strategy Master FOF LP ("Vintage Master FOF"), Ramius Levered Multi Strategy FOF LP ("Levered FOF"), and RTS Global 3X Fund LP ("RTS Global 3X"). RTS Global 3X was liquidated on March 31, 2013.

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

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

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

managed by the Company. Where the VIEs have qualified for the deferral, the analysis is based on previous consolidation rules. These rules require an analysis to (a) determine whether an entity in which the Company holds a variable interest is a variable interest entity and (b) whether the Company's involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., management and performance related fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIEs expected residual

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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

The Company reconsiders whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of March 31, 2013, and December 31, 2012, the Company does not consolidate any VIEs.

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

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

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

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

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

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

Retention of Specialized Accounting—The Consolidated Funds are investment companies and apply specialized industry accounting for investment companies. The Company has retained this specialized accounting for these funds pursuant to US GAAP. The Company reports its investments on the condensed consolidated statements of financial condition at their estimated fair value, with unrealized gains (losses) resulting from changes in fair value reflected within net realized and unrealized gains (losses) on investments and other transactions. Accordingly, the accompanying condensed consolidated financial statements reflect different accounting policies for investments depending on whether or not they are held through a consolidated investment company. In addition, the Company's broker-dealer subsidiaries, Cowen and Company, LLC (“Cowen and Company”), Cowen Capital LLC, ATM USA, LLC, Cowen Equity Finance LP and Cowen Securities, apply the specialized industry accounting for brokers and dealers in

securities also prescribed under US GAAP. The Company also retains specialized accounting in consolidation.

c. Use of estimates

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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

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

into three categories: securities, derivative contracts and other investments. To the extent applicable, each of these categories can further be divided between those held long or sold short.

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

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 trading activity may not be readily visible, consisting primarily of convertible debt, corporate debt and loans, are stated at fair value and classified within level 2. The estimated fair values assigned by management are determined in good faith and are based on available information considering, trading activity, broker quotes, quotations provided by published pricing services, counterparties and other market participants, and pricing models using quoted inputs, and do not necessarily represent the amounts which might ultimately be realized. As level 2 investments include positions that are not always traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability.

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

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

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

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

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

impact the value of the real estate investment resulting in unrealized appreciation or depreciation. The Company also reflects its real estate equity investments net of investment level financing. Valuation adjustments attributable to underlying financing arrangements are considered in the real estate equity valuation based on amounts at which the financing liabilities could be transferred to market participants at the measurement date. Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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

e. Securities borrowed and securities loaned

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

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

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase ("Repurchase Agreements") as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of March 31, 2013 and December 31, 2012, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with multiple counterparties as of March 31, 2013 and December 31, 2012.

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

g. Deferred rent

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

liabilities in the accompanying condensed consolidated statements of financial condition, as of March 31, 2013 and December 31, 2012 is \$18.0 million and \$13.8 million, respectively.

h. New accounting pronouncements

Recently adopted accounting pronouncements

In February 2013, the FASB issued amended guidance which requires the entity to present amounts reclassified out of accumulated other comprehensive income by component. The amendment does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The guidance further requires the entity to

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

disclose the effect of these reclassifications on net income. The guidance is effective prospectively for reporting periods beginning after December 15, 2012. The adoption of these amendments did not have any impact on the Company's financial condition, results of operations, or cash flows since the changes are limited to presentation reclassifications out of accumulated other comprehensive income.

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. In January 2013, the FASB issued amended guidance to clarify the specific instruments that should be considered in these disclosures. 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 adoption of this amended guidance did not have a material impact as the Company already discloses the derivative transactions and repurchase / resale agreements on a gross basis on the accompanying condensed consolidated statements of financial condition.

4. Cash collateral pledged

As of March 31, 2013 and December 31, 2012, the Company pledged cash collateral in the amount of \$10.9 million and \$9.2 million, respectively, which 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 14).

5. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

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

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

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
U.S. Government securities (a)	\$ 134	\$ 137,478
Preferred stock	2,332	2,332
Common stocks	293,067	259,292
Convertible bonds (b)	8,615	6,202
Corporate bonds (c)	143,446	193,078
Options	18,908	20,546
Warrants and rights	3,343	2,354
Mutual funds	2,953	2,845
	\$472,798	\$624,127

As of March 31, 2013, maturities ranged from September 2013 to April 2016 and interest rates ranged between (a) 0.11% and 5.95%. As of December 31, 2012, maturities ranged from November 2013 to November 2022 and interest rates ranged between 0.25% and 5.95%.

(b) As of March 31, 2013, maturities ranged from May 2014 to October 2014 with an interest rate of 5.00% to 6.25%. As of December 31, 2012, maturities ranged from May 2014 to July 2014 with an interest rate of 5.00%.

As of March 31, 2013, maturities ranged from April 2013 to February 2041 and interest rates ranged between (c) 2.47% and 12.50%. As of December 31, 2012, maturities ranged from January 2013 to February 2041 and interest rates ranged between 3.09% and 12.50%.

The Company's direct involvement with derivative financial instruments includes futures, currency forwards 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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

price and interest rate fluctuations, volatility risk, credit risk, counterparty risk, foreign currency movements and changes in the liquidity of markets. The Company's overall exposure to financial derivatives is limited. The Company's long exposure to futures and currency forward derivative contracts, at fair value, as of March 31, 2013 and December 31, 2012 of \$0.3 million and \$0.2 million, respectively, is included in other assets in the accompanying condensed consolidated statements of financial condition. The Company's short exposure to futures and currency forward derivative contracts, at fair value, as of March 31, 2013 and December 31, 2012 of \$0.2 million and \$1.0 million, respectively, is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. The realized and unrealized gains/(losses) related to derivatives trading activities for the three months ended March 31, 2013, and 2012, were \$1.6 million, and \$0.6 million, respectively, and are included in other income in the accompanying condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, the Company is required to post collateral for its obligations or potential obligations. As of March 31, 2013 and December 31, 2012, collateral consisting of \$3.4 million and \$6.7 million of cash, respectively, is included in receivable from brokers on the accompanying condensed consolidated statements of financial condition. As of March 31, 2013 and December 31, 2012 all derivative contracts were with multiple major financial institutions.

Other investments

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

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
(1) Portfolio Funds, at fair value	\$57,549	\$55,898
(2) Real estate investments, at fair value	1,875	1,864
(3) Equity method investments	20,368	26,462
(4) Lehman claims, at fair value	660	706
	\$80,452	\$84,930

(1) Portfolio Funds, at fair value

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

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
HealthCare Royalty Partners (a)(*)	\$8,182	\$7,866
HealthCare Royalty Partners II (a)(*)	3,361	6,415
OSP Credit Fund LP (formerly known as Ramius Global Credit Fund LP) (b)(*)	15,249	14,196
Tapestry Investment Co PCC Ltd (c)	81	194
Starboard Value and Opportunity Fund LP (d)(*)	16,395	15,706
Formation 8 Partners Fund I (e)	1,500	1,500
RCG LV Park Lane LLC (f)	705	708
RCGL 12E13th LLC (g)	400	—
RCG Longview Debt Fund V, L.P. (g)	2,301	—
Other private investment (h)	7,593	7,826
Other affiliated funds (i)(*)	1,782	1,487
	\$57,549	\$55,898

* These portfolio funds are affiliates of the Company

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

- (a) HealthCare Royalty Partners and HealthCare Royalty Partners II are private equity funds and therefore distributions will be made when the underlying investments are liquidated.
- (b) OSP Credit Fund LP (formerly known as Ramius Global Credit Fund LP) has a quarterly redemption policy with a 60 day notice period and a 4% penalty on redemptions of investments of less than a year in duration.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

- (c) 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.
- (d) Starboard Value and Opportunity Fund LP permits quarterly withdrawals upon ninety days notice.
Formation 8 Partners Fund I is a private equity fund which invests in equity of early stage and growth
- (e) transformational IT and energy technology companies. Distributions will be made when the underlying investments are liquidated.
RCG LV Park Lane LLC is a single purpose entity formed to participate in a joint venture which acquired, at a discount, the mortgage notes on a portfolio of multifamily real estate properties located in Birmingham, Alabama.
- (f) RCG LV Park Lane LLC is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.
- (g) RCGL 12E13th LLC and RCG Longview Debt Fund V, L.P. are real estate private equity structures and therefore distributions will be made when the underlying investments are liquidated.
- (h) Other private investment represents the Company's closed end investment in a wireless broadband communication provider in Italy.
- (i) The majority of these funds are 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, 2013 and December 31, 2012 are carried at fair value and include real estate equity investments held by RCG RE Manager, LLC ("RE Manager"), a real estate operating subsidiary of the Company, of \$1.9 million and \$1.9 million, respectively.

(3) Equity method investments

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
RCG Longview Debt Fund IV Management, LLC	\$ 1,079	\$ 1,954
HealthCare Royalty GP, LLC	667	642
HealthCare Royalty GP II, LLC	569	1,086
CBOE Stock Exchange, LLC	2,015	2,058
Starboard Value LP	7,398	12,757
RCG Longview Partners, LLC	1,826	1,535
RCG Longview Louisiana Manager, LLC	1,883	1,866
RCG Urban American, LLC	1,414	1,380
RCG Urban American Management, LLC	642	545
RCG Longview Equity Management, LLC	192	285
Urban American Real Estate Fund II, L.P.	1,736	1,636
RCG Kennedy House, LLC	309	377
Other	638	341
	\$20,368	\$26,462

As of March 31, 2013 and December 31, 2012, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of \$6.2 million.

The Company's income (loss) from equity method investments was \$4.2 million and \$4.2 million, for the three months ended March 31, 2013 and 2012, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations. In addition, the Company recorded no impairment charges in relation to its equity method investments for the three months ended March 31, 2013 and 2012, respectively.

For the period ended March 31, 2013, certain of the Company's equity method investments have met the significance criteria as defined under SEC guidance. As such, the Company is required to present summarized income statement information for the significant investees for the three months ended March 31, 2013 and 2012. The summarized income statement information for the Company's investments in the individually significant investees is as follows:

	Three months ended March 31,	
	2013	2012
	(dollars in thousands)	
Revenues	\$4,865	\$4,997
Less: Expenses	1,327	1,374
Net realized and unrealized gains (losses)	107	37
Net Income	\$3,645	\$3,660

(4) Lehman Claims, at fair value

Lehman Brothers International (Europe) ("LBIE"), through certain affiliates, was a prime broker to the Company, and the Company held cash and cash equivalent balances with LBIE. On September 15, 2008, LBIE was placed into administration (the "Administration") in the United Kingdom and, as a result, the assets held by the Company in its

LBIE accounts were frozen at LBIE. The status and ultimate resolution of the assets under LBIE's Administration proceedings is uncertain. The assets which the Company believed were held at LBIE at the time of Administration (the "Total Net Equity Claim") consisted of \$1.0 million, which the Company believed would represent an unsecured claim against LBIE. On November 2, 2012, the Company executed a Claims Determination Deed with respect to this claim. By entering into this deed, the Company and LBIE reached agreement on the amount of the Company's unsecured claim, which was agreed to be approximately \$0.9

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

million. As a result of entering into this deed, the Company is entitled to participate in dividends to unsecured creditors of LBIE and at the end of November 2012 the Company received its first dividend in an amount equal to 25.2% of its agreed claim, or approximately \$0.2 million. This does not include claims held by the Company against LBIE through its investment in Enterprise Master discussed in Note 5b(2). The Company does not know the timing with respect to future dividends to unsecured creditors or the ultimate value that will be received.

Given the fact that LBIE has begun to make distributions to unsecured creditors and the increased trading levels for unsecured claims of LBIE, the Company decided to record the estimated fair value of the Total Net Equity Claim at par as of March 31, 2013 and December 31, 2012, which represented management's best estimate at the respective dates of the value that ultimately may be recovered with respect to the Total Net Equity Claim (the "Estimated Recoverable Lehman Claim"). The Estimated Recoverable Lehman Claim was recorded at estimated fair value considering a number of factors including the status of the assets under U.K. insolvency laws and the trading levels of LBIE unsecured debt. In determining the estimated value of the Total Net Equity Claim, the Company was required to use considerable judgment and is based on the facts currently available. As additional information on the LBIE proceeding becomes available, the Company may need to adjust the valuation of the Estimated Recoverable Lehman Claim. The actual recovery that may ultimately be received by the Company with respect to the pending LBIE claim is not known and could be different from the estimated value assigned by the Company. (See Note 5b(2)).

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the accompanying condensed consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of March 31, 2013 and December 31, 2012 securities sold, not yet purchased, at fair value consisted of the following:

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
Common stocks	215,863	168,797
Corporate bonds (a)	60	61
Options	12,907	9,076
Warrants and rights	3	3
	\$228,833	\$177,937

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

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

The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of March 31, 2013 and 2012:

	As of March 31, 2013 (dollars in thousands)
Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 1.74% - 2.1% due on December 2013 to July 2017	29,241
	\$29,241
	As of December 31, 2012

(dollars in thousands)

Securities sold under agreements to repurchase

Agreements with Royal Bank of Canada bearing interest of 2.12% - 2.2% due on January 31, 2013 to June 25, 2013 29,039

Agreements with Barclays Capital Inc bearing interest of (0.05%) - 0.23% due on January 1, 2013 136,906

\$165,945

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

For all of the Company's holdings of repurchase agreements as of March 31, 2013, the repurchase dates are open and the agreement can be terminated by either party at any time. The agreements rolls over on a day-to-day basis. Transactions involving the sale of securities under repurchase agreements are carried at their contract value, which approximates fair value, and are accounted for as collateralized financings. In connection with these financings, as of March 31, 2013 and December 31, 2012, the Company had pledged collateral, consisting of government and corporate bonds, in the amount of \$36.2 million and \$173.7 million, respectively, which is included in securities owned, at fair value in the accompanying condensed consolidated statements of financial condition.

Securities lending and borrowing transactions

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary. Fees and interest received or paid are recorded in interest and dividend income and interest expense, respectively, on an accrual basis. In the case where the fair value basis of accounting is elected, any resulting change in fair value is reported in trading revenues. Accrued interest income and expense are recorded in the same manner as under the accrual method. At December 31, 2012, the Company does not have any securities lending transactions for which fair value basis of accounting was elected.

As of March 31, 2013, the Company has loaned to brokers and dealers, securities having a market value of \$435.9 million. In addition, as of March 31, 2013, the Company has borrowed from brokers and dealers, securities having a market value of \$438.2 million.

Variable Interest Entities

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are \$1.4 billion and \$214.4 million as of March 31, 2013 and \$1.4 billion and \$22.8 million as of December 31, 2012, respectively. In addition, the maximum exposure relating to these variable interest entities as of March 31, 2013 was \$207.2 million, and as of December 31, 2012 was \$220.9 million, all of which is included in other investments, at fair value in the Company's condensed consolidated statements of financial condition. The exposure to loss primarily relates to the Consolidated Feeder Funds' investment in their Unconsolidated Master Funds as of March 31, 2013 and December 31, 2012.

b. Consolidated Funds

Securities owned, at fair value

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

	As of December 31, 2012 (dollars in thousands)
Government sponsored securities (a)	\$1,911
Commercial paper (b)	1,614
	\$3,525

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

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

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Other investments, at fair value

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

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
(1) Portfolio Funds	\$178,357	\$190,081
(2) Lehman claims	15,140	14,124
	\$193,497	\$204,205

(1) Investments in Portfolio Funds, at fair value

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

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
Investments of Enterprise LP	\$170,250	\$173,348
Investments of consolidated fund of funds	8,107	16,733
	\$178,357	\$190,081

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 are recorded in other investments on the accompanying condensed consolidated statements of financial condition and include Enterprise LP's investment of \$170.3 million and \$173.3 million in Enterprise Master as of March 31, 2013 and December 31, 2012, respectively. On May 12, 2010, the Company announced its intention to close Enterprise Master. Prior to this announcement, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. Enterprise Master has been selling, and will continue to sell, its positions and return capital to its investors. There are no unfunded commitments at Enterprise LP.

Investments of consolidated fund of funds investment companies

The investments of the consolidated fund of funds investment companies are \$8.1 million and \$16.7 million as of March 31, 2013 and December 31, 2012, respectively. These investments include the investments of Levered FOF, Multi Strat Master FOF and Vintage Master FOF, all of which are investment companies managed by Ramius Alternative Solutions LLC and RTS Global 3X, which is managed by Ramius Trading Strategies LLC. Multi Strat Master FOF's investment objective is to invest discrete pools of their capital among portfolio managers that invest through Portfolio Funds, forming a multi strategy, diversified investment portfolio designed to achieve returns with low to moderate volatility. Levered FOF had a similar strategy, but on a levered basis, prior to the fund winding down. Levered FOF is no longer levered. Vintage Master FOF's investment objective is to allocate its capital among portfolio managers that invest through investment pools or managed accounts thereby forming concentrated investments in high conviction managers designed to achieve attractive risk adjusted returns with moderate relative volatility. Levered FOF, Multi Strat Master FOF and Vintage Master FOF are all in liquidation. RTS Global 3X was liquidated on March 31, 2013. As such it holds no investments as of March 31, 2013. RTS Global 3X's investment objective was to achieve attractive investment returns on a risk-adjusted basis that are non-correlated with the traditional equity and bond markets by investing substantially all of its capital in managed futures and global

macro based investment strategies. RTS Global 3X sought to achieve its objective through a multi advisor investment approach by allocating its capital among third party trading advisors that are unaffiliated with RTS Global 3X. However, unlike a traditional “fund of funds” that invests with advisors through entities controlled by third parties, RTS Global 3X allocated its capital among a number of different trading accounts organized and managed by the general partner.

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

The following is a summary of the investments held by the four consolidated fund of funds, at fair value, as of March 31, 2013 and December 31, 2012:

			Fair Value as of March 31, 2013					
		Strategy	Ramius Levered Multi-Strategy FOF LP	Ramius Multi-Strategy Master FOF LP	Ramius Vintage Multi-Strategy Master FOF LP	Total		
			(dollars in thousands)					
Tapestry Pooled Account V LLC*		Credit-Based	\$260	\$ 534	\$ 571	\$1,365	(a)	
Externally Managed Portfolio Funds		Event Driven	1,295	1,942	2,737	5,974	(c)	
Externally Managed Portfolio Funds		Hedged Equity	—	—	768	768	(d)	
			\$1,555	\$ 2,476	\$ 4,076	\$8,107		
			Fair value as of December 31, 2012					
		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	315	649	693	—	1,657	(a)
Independently Advised Portfolio Funds*		Futures & Global Macro	—	—	—	7,161	7,161	(b)
Externally Managed Portfolio Funds		Event Driven	1,545	2,316	3,264	—	7,125	(c)
Externally Managed Portfolio Funds		Hedged Equity	—	—	790	—	790	(d)
			\$1,860	\$ 2,965	\$4,747	\$7,161	\$16,733	

* These Portfolio Funds are affiliates of the Company.

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

The Credit Based strategy aims to generate returns via positions in the credit sensitive sphere of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of the interest exposure.

- (a) The investments held in Tapestry Pooled Account V LLC, a related fund, are held solely in a credit based fund which the underlying fund's manager has placed in a side-pocket. The remaining amount of the investments within this category represents an investment in a fund that is in the process of liquidating. Distributions from this fund will be received as underlying investments are liquidated.

- (b) 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 month for a \$10,000 fee) and the notification period for redemptions is 5 business days (or 3 business days for intra month redemptions).

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

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

(2)Lehman Claims, at fair value

With respect to the aforementioned Lehman claims, the Total Net Equity Claim of Enterprise Master based on the value of assets at the time of Lehman's insolvency held directly by Enterprise Master and through Enterprise Master's ownership interest in affiliated funds consisted of \$24.3 million. Included in this claim were assets with a value of \$9.5 million at the time

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

LBIE entered Administration that were returned to Enterprise Master and its affiliated funds in June 2010. Enterprise Master and its affiliated funds sold the returned assets for an aggregate \$10.7 million, and distributed this amount to Enterprise Master's investors in July 2010. In December 2011, Enterprise Master received an aggregate of approximately \$2.4 million relating to securities, interest and dividends earned with respect to securities held by LBIE on behalf of Enterprise Master and its affiliated funds. A distribution of \$2.9 million occurred in February of 2012. After giving effect of these distributions, the remaining Net Equity Claim for Enterprise Master held directly and through its ownership interest in affiliated funds is \$12.4 million. On November 2, 2012, Enterprise Master executed a Claims Determination Deed with respect to the unsecured portion of its direct claim against LBIE. By entering into this deed, Enterprise Master and LBIE reached agreement on the amount of Enterprise Master's unsecured claim, which was agreed to be approximately \$1.3 million. As a result of entering into this deed, Enterprise Master is entitled to participate in dividends to unsecured creditors of LBIE and at the end of November 2012 Enterprise Master received its first dividend in an amount equal to 25.2% of its agreed claim, or approximately \$0.3 million. In February 2013, Enterprise Master sold its unsecured claim, including the amount received in connection with the first dividend, for \$1.3 million, or par. Enterprise Master distributed the proceeds of the sale to the Company in March 2013. Enterprise Master is valuing the \$11.7 million claim at \$19.0 million as of March 31, 2013. Of the \$19.0 million current valuation of Enterprise Master's claim, \$15.1 million was attributable to Enterprise LP based on its ownership percentage in Enterprise Master at the time of the Administration. Of the \$11.7 million net equity claim, \$10.6 million represents claims to trust assets that the Company believes were held by LBIE through Lehman Brothers, Inc. ("LBI"). LBIE has made a corresponding claim for these assets and other trust assets held at LBI by LBIE on behalf of other prime brokerage clients pursuant to an omnibus customer claim (the "LBIE Omnibus Customer Claim"). LBIE will only be able to return trust assets held at LBI to Enterprise Master once LBIE receives a distribution from LBI in respect of the LBIE Omnibus Customer Claim. In February 2013, LBIE, Lehman Brothers Holdings, Inc. and LBI announced that they entered into two separate agreements settling all intercompany claims between LBI on the one part, and LBHI and LBIE on the other part. The settlement agreements are subject to the approval by the U.S. Bankruptcy Judge in the LBI Securities Investor Protection Act (SIPA) proceeding and, in the case of the agreement between LBI and LBIE, an order of the English High Court. The U.S. Banking Judge approved the settlement agreement in April 2013. Upon receipt of these approvals, the settlements will allow the trustee appointed under SIPA (the "SIPA Trustee") to proceed with plans to allocate and distribute sufficient cash and securities to LBI's customer claimants, including LBIE with respect to the LBIE Omnibus Customer Claim, to enable the SIPA Trustee to satisfy valid customer claims in full. In March 2013, LBIE made a consensual proposal to the clients holding trust assets pursuant to the LBIE Omnibus Customer Claim to facilitate the return of the amounts recovered from LBI with respect to the LBIE Omnibus Customer Claim. Under the consensual proposal, LBIE indicated that it intends to liquidate any securities received from LBI with respect to the LBIE Omnibus Customer Claim and will then allocate the value received from LBI among all of the LBIE clients who had trust assets held at LBI under the LBIE Omnibus Customer Claim. In allocating the amounts received from LBI, LBIE has indicated that it intends to allow clients to determine their entitlements on a portfolio basis based on the higher of (i) the market value of the portfolio as of September 19, 2008 or (ii) the market value of the portfolio together with accrued income thereon as of November 30, 2012 (the "Best Claim"). LBIE's purpose in seeking a consensual arrangement with its clients relating to the liquidation and allocation described above was to ensure that a distribution could be made without having to seek UK court direction on these issues, which would otherwise substantially delay any distribution. LBIE has indicated that based on the value of the assets it expects to receive from LBI and the Best Claims of its clients, all valued as at November 30, 2012, it expects to be able to make distributions to its clients in excess of 90% of a client's Best Claim. On April 2, 2013, LBIE announced that the consensual proposal had been accepted by a sufficient number of clients to satisfy the acceptance threshold and would therefore become effective. As of March 31, 2013, the Company is valuing the trust assets of Enterprise Master believed to be held at LBI at 90% of its Best Claim, or \$14.8 million. The remaining components of the LBIE claims included within the \$19.0 million value as of March 31, 2013 consist of several components valued as follows: (a) the trust assets that the Company was informed were within the control of

LBIE and were expected to be returned in the relatively near term were valued at market less a 1% discount that corresponds to the fee to be charged under the Claim Resolution Agreement (“CRA”) and (b) the foreign denominated trust assets that are not within the control of LBIE (which the Company does not believe are held through LBI), were valued at \$5.2 million, which represents the market value of those assets less a 1% discount that corresponds to the fee charged under the CRA, which represented the Company's estimate of potential recovery rates. The estimated final recoverable amount by Enterprise Master may differ from the actual recoverable amount of the pending LBIE and LBI claims, and the differences may be significant.

As a result of Enterprise Master and certain of the funds managed by the Company having assets held at LBIE frozen in their LBIE prime brokerage account and the degree of uncertainty as to the status of those assets and the process and prospects of the return of those assets, Enterprise Master and the funds managed by the Company decided that only the investors who were invested at the time of the Administration should participate in any profit or loss relating to the Estimated Recoverable

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

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 \$4.2 million at LBI. These are not part of the LBIE Omnibus Customer Claim. On September 19, 2008, LBI was placed in a Securities Investor Protection Corporation (“SIPC”) liquidation proceeding after the filing for bankruptcy of its parent LBHI. 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 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. As discussed above, approval of the settlement agreements between LBI, LBHI and LBIE should allow the SIPA Trustee to proceed with plans to allocate and distribute sufficient cash and securities to LBI's customer claimants to enable the SIPA Trustee to satisfy valid customer claims in full. The timing of distributions from LBI to its customers remains uncertain. As a result, management has estimated recovery with respect to the Company's exposure to LBI at 86% or \$3.6 million as of March 31, 2013, which represents a full recovery with respect to the Company's exposure discounted to take into account the uncertainty regarding when the assets will actually be returned. 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 5a(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, 2013 and December 31, 2012, the Company assessed whether or not its Consolidated Funds had interests in an issuer for which the Company's pro-rata share exceeds 5% of the Consolidated Funds' net assets (on an aggregated basis). There were no indirect concentrations that exceed 5% of the Consolidated Funds' net assets held by the Company as of March 31, 2013 or December 31, 2012.

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

Enterprise Master

Enterprise LP's investment in Enterprise Master represents Enterprise LP's proportionate share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master as of March 31, 2013 and December 31, 2012: Securities owned and securities sold, but not yet purchased by Enterprise Master, at fair value

	As of March 31, 2013	As of December 31, 2012
	(dollars in thousands)	
Bank debt	\$106	\$79
Common stock	2,682	2,680
Preferred stock	997	997
Private equity	297	297
Restricted stock	110	26
Rights	1,665	1,714
Trade claims	128	128
Warrants	2	2
	\$5,987	\$5,923

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

Description	As of March 31, 2013	As of December 31, 2012
(dollars in thousands)		
Currency forwards	\$5	\$6
	\$5	\$6

24

Table of Contents

Cowen Group, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

Portfolio Funds, owned by Enterprise Master, at fair value

		As of March 31, 2013	As of December 31, 2012
	Strategy	(dollars in thousands)	
RCG Longview Equity Fund, LP*	Real Estate	\$10,493	\$11,027
RCG Longview II, LP*	Real Estate	860	970
RCG Longview Debt Fund IV, LP*	Real Estate	29,440	30,572
RCG Longview, LP*	Real Estate	316	265
RCG Soundview, LLC*	Real Estate	445	2,374
RCG Urban American Real Estate Fund, L.P.*	Real Estate	1,962	1,987
RCG International Sarl*	Multi-Strategy	1,492	752
RCG Special Opportunities Fund, Ltd*	Multi-Strategy	80,067	80,166
RCG Endeavour, LLC*	Multi-Strategy	41	43
RCG Energy, LLC *	Energy	14,941	14,239
RCG Renergys, LLC*	Energy	1	1
Other Private Investments	Various	12,071	12,430
Real Estate Investments	Real Estate	12,502	12,321
		\$164,631	\$167,147

*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. RTS Global 3X was liquidated on March 31, 2013. As such it holds no investments as of March 31, 2013. 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 December 31, 2012:

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

6. Fair Value Measurements for Operating Entities and Consolidated Funds

The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the accompanying condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of March 31, 2013 and