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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013
or

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

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

Delaware	27-0423711
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
599 Lexington Avenue New York, New York	10022
(Address of Principal Executive Offices)	(Zip Code)

(646) 562-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes Q No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No Q
APPLICABLE ONLY TO CORPORATE ISSUERS:
As of November 6, 2013 there were 117,849,034 shares of the registrant's common stock outstanding.

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Special Note Regarding Forward-Looking Statements

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

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

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

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

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

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

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

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

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

Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries				
Net income (loss) attributable to Cowen Group, Inc. stockholders	$3,611	$(10,585)	$2,128	$(14,536)
Weighted average common shares outstanding:				
Basic	118,359	114,989	116,012	114,587
Diluted	122,708	114,989	119,891	114,587
Earnings (loss) per share:				
Basic	$0.03	$(0.09)	$0.02	$(0.13)
Diluted	$0.03	$(0.09)	$0.02	$(0.13)

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

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

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

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

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

	Common 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)	—	—	—	—	—	2,128	2,128	10,509
Defined benefit plans	—	—	—	—	(207)	—	(207)	—
Foreign currency translation	—	—	—	—	(10)	—	(10)	—
Capital contributions	—	—	—	—	—	—	—	11,656
Capital withdrawals	—	—	—	—	—	—	—	(17,689)
Restricted stock awards issued	4,288,108	—	—	—	—	—	—	—
Common stock issued upon acquisition (See Note 2)	2,514,468	25	—	6,272	—	—	6,297	—
Purchase of treasury stock, at cost	(1,863,684)	—	(5,879)	—	—	—	(5,879)	—
Treasury stock re-issuance	24,744	—	90	—	—	(25)	65	—
Amortization of share based compensation	—	—	—	13,803	—	—	13,803	—
Balance, September 30, 2013	117,411,528	$ 1,160	$ (37,517)	$ 733,286	$ 139	$ (185,762)	$ 511,306	$ 90,179

	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, 2011	114,047,637	$ 1,135	$ (16,902)	$ 688,427	$ (215)	$ (163,980)	$ 508,465	$ 104,587
Net income (loss)	—	—	—	—	—	(14,536)	(14,536)	(1,225)
Defined benefit plans	—	—	—	—	250	—	250	—
Foreign currency translation	—	—	—	—	126	—	126	—
Deconsolidation of funds	—	—	—	—	—		—	(17,104)

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

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

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

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

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

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

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

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

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

1. Organization and Business

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

2. Acquisitions

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

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

3. Significant Accounting Policies

a. Basis of presentation

These unaudited condensed consolidated financial statements and related notes have been prepared in accordance with US GAAP and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) related to interim financial statements. Results for interim periods should not be considered indicative of results for any other interim period or for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010, included in the Form 10-K of Cowen Group as filed with the SEC on March 7, 2013. The financial information contained herein is unaudited; however, management believes all adjustments have been made that are necessary for a fair presentation of the results for the interim periods. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in these

condensed consolidated financial statements, as further discussed below, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

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

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

b. Principles of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

c. Use of estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with US GAAP requires the management of the Company to make estimates and assumptions that affect the fair value of securities and other investments, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accompanying condensed consolidated financial statements, the accounting for goodwill and identifiable intangible assets and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those

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 though its operating companies. This option has been elected because the Company believes that it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded.

Securities—Securities whose values are based on quoted market prices in active markets for identical assets, and are therefore classified in level 1 of the fair value hierarchy, include active listed equities, certain U.S. government and sovereign

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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:

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

The Company categorizes its investments in Portfolio Funds within the fair value hierarchy dependent on its ability to redeem the investment. If the Company has the ability to redeem its investment at NAV at the measurement date or within the near term, the Portfolio Fund is categorized as a level 2 investment within the fair value hierarchy. If the Company does not know when it will have the ability to redeem its investment or cannot do so in the near term, the Portfolio Fund is categorized as a level 3 investment within the fair value hierarchy. See Notes 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 Company invests in real estate and real estate related investments for which no liquid market exists. The market prices

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

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

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

e. Securities borrowed and securities loaned

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

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

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase (“Repurchase Agreements”) as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of September 30, 2013 and December 31, 2012, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with one counterparty as of September 30, 2013 and multiple counterparties as of December 31, 2012. Collateral is valued daily and the Company and its counterparties may adjust the collateral or require additional collateral to be deposited when appropriate. Collateral held by counterparties may be sold or re-hypothecated by such counterparties, subject to certain limitations sometimes imposed by the Company and in accordance with the master netting agreements in place with the counter party. Collateralized Repurchase Agreements may result in credit exposure in the event the counterparties to the transactions are unable to fulfill their contractual obligations. The Company minimizes the credit risk associated with this activity by monitoring credit exposure and collateral values, and by requiring additional collateral to be promptly deposited with or returned to the Company when deemed necessary.

g. Deferred rent

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

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

h. New accounting pronouncements

Recently issued accounting pronouncements

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

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

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

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

4. Cash collateral pledged

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

5. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

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

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

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

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

(b)

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

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

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

Pursuant to the various derivatives transactions discussed above, the Company is required to post collateral for its obligations or potential obligations. As of September 30, 2013 and December 31, 2012, collateral consisting of $8.9 million and $6.7 million of cash, respectively, is included in receivable from brokers on the accompanying condensed consolidated statements of financial condition. As of September 30, 2013 and December 31, 2012 all derivative contracts were with multiple major financial institutions.

Other investments

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

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

(1) Portfolio Funds, at fair value

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

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

	$70,813	$55,898

* These portfolio funds are affiliates of the Company

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

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

(b) Orchard Square Partners 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.

(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 90 days notice.

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

(f) 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. RCG LV Park Lane LLC is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.

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

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

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

(2) Real estate investments, at fair value

Real estate investments as of September 30, 2013 and December 31, 2012 are carried at fair value and include real estate equity investments held by RCG RE Manager, LLC (“RE Manager”), a real estate operating subsidiary of the Company, of $2.1 million and $1.9 million, respectively.

(3) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 20% to 55%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in three of these entities: RCG Longview Debt Fund IV Management, LLC, RCG Longview Debt Fund IV Partners, LLC and RCG Longview Partners II, LLC. The operating agreements that govern the management of day-to-day operations and affairs of each of these three entities stipulate that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these three entities require the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) the three HealthCare Royalty Partners General Partners, which serve as the general partners for the Healthcare Royalty Funds, (b) an investment in the CBOE (Chicago Board Options Exchange) Stock Exchange LLC representing a 9.6% stake in the exchange service provider for which the Company exercises significant influence over through representation on the CBOE Board of Directors, and (c) Starboard Value LP (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of a deep value small cap hedge fund and related managed

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

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

As of September 30, 2013 and December 31, 2012, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million.

The Company's income (loss) from equity method investments was $5.2 million and $1.5 million, for the three months ended September 30, 2013 and 2012, respectively, and was $12.6 million and $9.4 million for the nine months ended September 30, 2013 and 2012, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations. In addition, the Company recorded no impairment charges in relation to its equity method investments for the three and nine months ended September 30, 2013 and 2012, respectively.

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

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

Net Income	$4,539	$1,150	$10,685	$8,475

(4) Lehman Claims, at fair value

Lehman Brothers International (Europe) ("LBIE"), through certain affiliates, was a prime broker to the Company, and the Company held cash and cash equivalent balances with LBIE. On September 15, 2008, LBIE was placed into administration (the "Administration") in the United Kingdom and, as a result, the assets held by the Company in its LBIE accounts were frozen at LBIE. The status and ultimate resolution of the assets under LBIE's Administration proceedings is uncertain. The assets which the Company believed were held at LBIE at the time of Administration (the "Total Net Equity Claim") consisted

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

Given the fact that LBIE has begun to make distributions to unsecured creditors and the increased trading levels for unsecured claims of LBIE, the Company decided to record the estimated fair value of the Total Net Equity Claim at 127.5% as of September 30, 2013 and at par as of December 31, 2012, which represented management's best estimate at the respective dates of the value that ultimately may be recovered with respect to the Total Net Equity Claim (the "Estimated Recoverable Lehman Claim"). The Estimated Recoverable Lehman Claim was recorded at estimated fair value considering a number of factors including the status of the assets under U.K. insolvency laws and the trading levels of LBIE unsecured debt. In determining the estimated value of the Total Net Equity Claim, the Company was required to use considerable judgment and is based on the facts currently available. As additional information on the LBIE proceeding becomes available, the Company may need to adjust the valuation of the Estimated Recoverable Lehman Claim. The actual recovery that may ultimately be received by the Company with respect to the pending LBIE claim is not known and could be different from the estimated value assigned by the Company. (See Note 5b(2)).

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the accompanying condensed consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of September 30, 2013 and December 31, 2012 securities sold, not yet purchased, at fair value consisted of the following:

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

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

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

The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of September 30, 2013 and December 31, 2012:

	As of September 30, 2013
	(dollars in thousands)

Securities sold under agreements to repurchase	
Agreements with Royal Bank of Canada bearing interest of 1.75% due June 2015 to January 2016	$6,311
	$6,311

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	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 January 31, 2013 to June 25, 2013	$29,039
Agreements with Barclays Capital Inc bearing interest of (0.05%) - 0.23% due January 1, 2013	136,906
	$165,945

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

Securities lending and borrowing transactions

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

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

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

Variable Interest Entities

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $1.6 billion and $228.3 million as of September 30, 2013 and $1.4 billion and $22.8 million as of December 31, 2012, respectively. In addition, the maximum exposure relating to these variable interest entities as of September 30, 2013 was $205.8 million, and as of December 31, 2012 was $220.9 million, all of which is included in other investments, at fair value in the Company's condensed consolidated statements of financial condition. The exposure to loss primarily relates to the Consolidated Feeder Funds' investment in their Unconsolidated Master Funds as of September 30, 2013 and December 31, 2012.

b. Consolidated Funds

Securities owned, at fair value

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

	As of December 31, 2012 (dollars in thousands)
Government sponsored securities (a)	$1,911

Commercial paper (b)	1,614
	$3,525

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Notes to Condensed Consolidated Financial Statements (Continued)

(a) As of December 31, 2012, maturities ranged from August 2013 to December 2014 and interest rates ranged between 0.28% and 4.00%.
(b) As of December 31, 2012, commercial paper was purchased at a discount and matures on January 2, 2013.

Other investments, at fair value

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

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

(1) Investments in Portfolio Funds, at fair value

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

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

Consolidated investments of Enterprise LP

Enterprise LP operates under a “master-feeder” structure, whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate Fund, L.P. The consolidated investments in Portfolio Funds include Enterprise LP's investment of $154.4 million and $173.3 million in Enterprise Master as of September 30, 2013 and December 31, 2012, respectively. On May 12, 2010, the Company announced its intention to close Enterprise Master. Prior to this announcement, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. Enterprise Master has been selling, and will continue to sell, its positions and return capital to its investors. There are no unfunded commitments at Enterprise LP.

Consolidated investments of Merger Fund

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

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

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

Investments of consolidated fund of funds investment companies

The investments of the consolidated fund of funds investment companies are $6.7 million and $16.7 million as of September 30, 2013 and December 31, 2012, respectively. These investments include the investments of Levered FOF, Multi-Strat Master FOF and Vintage Master FOF, all of which are investment companies managed by Ramius Alternative Solutions LLC and RTS Global 3X, which was managed by Ramius Trading Strategies LLC. Multi-Strat Master FOF's investment objective is to invest discrete pools of their capital among portfolio managers that invest through Portfolio Funds, forming a multi-strategy, diversified investment portfolio designed to achieve returns with low to moderate volatility. Levered FOF had a similar strategy, but on a levered basis, prior to the fund winding down. Levered FOF is no longer levered. Vintage Master FOF's investment objective is to allocate its capital among portfolio managers that invest through investment pools or managed accounts thereby forming concentrated investments in high conviction managers designed to achieve attractive risk adjusted returns with moderate relative volatility. Levered FOF, Multi-Strat Master FOF and Vintage Master FOF are all in liquidation. RTS Global 3X was consolidated as of December 31, 2012 but was liquidated on March 31, 2013. As such it holds no investments as of September 30, 2013. RTS Global 3X's investment objective was to achieve attractive investment returns on a risk-adjusted basis that are non-correlated with the traditional equity and bond markets by investing substantially all of its capital in managed futures and global macro based investment strategies. RTS Global 3X sought to achieve its objective through a multi advisor investment approach by allocating its capital among third party trading advisors that are unaffiliated with RTS Global 3X. However, unlike a traditional "fund of funds" that invests with advisors through entities controlled by third parties, RTS Global 3X allocated its capital among a number of different trading accounts organized and managed by the general partner.

The following is a summary of the investments held by the consolidated fund of funds, at fair value, as of September 30, 2013 and December 31, 2012:

		Fair Value as of September 30, 2013				
	Strategy	Ramius 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	$254	$ 524	$ 559	$1,337	(a)
Externally Managed Portfolio Funds	Event Driven	1,015	1,522	2,145	4,682	(c)
Externally Managed Portfolio Funds	Hedged Equity	—	—	704	704	(d)
		$1,269	$ 2,046	$ 3,408	$6,723	

		Fair value as of December 31, 2012					
	Strategy	Ramius 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.

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

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(a) The Credit-Based strategy aims to generate returns via positions in the credit sensitive sphere of the fixed income markets. The strategy generally involves the purchase of corporate bonds with hedging of the interest exposure. The investments held in Tapestry Pooled Account V LLC, a related fund, are held solely in a credit based fund which the 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 was comprised of several portfolio accounts, each of which was advised independently by a commodity trading advisor implementing primarily managed futures or global macro-based investment strategies. The trading advisors (through their respective portfolio accounts) traded independently of each other and, as a group, employed a wide variety of systematic, relative value and discretionary trading programs in the global currency, fixed income, commodities and equity futures markets. In implementing their trading programs, the trading advisors traded primarily in the futures and forward markets (as well as in related options). Although certain trading advisors were permitted to use total return swaps and trade other financial instruments from time to time on an interim basis, the primary focus was on the futures and forward markets. Redemption frequency of these portfolio accounts were monthly (and intra month for a $10,000 fee) and the notification period for redemptions was 5 business days (or 3 business days for intra month redemptions).

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

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

(2) Lehman Claims, at fair value

With respect to the aforementioned Lehman claims, the Total Net Equity Claim of Enterprise Master based on the value of assets at the time of Lehman's insolvency held directly by Enterprise Master and through Enterprise Master's ownership interest in affiliated funds consisted of $24.3 million. Included in this claim were assets with a value of $9.5 million at the time LBIE entered Administration that were returned to Enterprise Master and its affiliated funds in June 2010. Enterprise Master and its affiliated funds sold the returned assets for an aggregate $10.7 million, and distributed this amount to Enterprise Master's investors in July 2010. In December 2011, Enterprise Master received an aggregate of approximately $2.4 million relating to securities, interest and dividends earned with respect to securities held by LBIE on behalf of Enterprise Master Master and its affiliated funds. A distribution of $2.9 million occurred in February of 2012. After giving effect of these distributions, the remaining Net Equity Claim for Enterprise Master held directly and through its ownership interest in affiliated funds is $12.4 million. On November 2, 2012, Enterprise Master executed a Claims Determination Deed with respect to the unsecured portion of its direct claim against LBIE. By entering into this deed, Enterprise Master and LBIE reached agreement on the amount of Enterprise Master's unsecured claim, which was agreed to be approximately $1.3 million. As a result of entering into this deed, Enterprise Master is entitled to participate in dividends to unsecured creditors of LBIE and at the end of November 2012 Enterprise Master received its first dividend in an amount equal to 25.2% of its agreed claim, or approximately $0.3 million. In February 2013, Enterprise Master sold its unsecured claim, including the amount received in connection with the first dividend, for $1.3 million, or par. Enterprise Master distributed the proceeds of the sale to the Company in March 2013. Enterprise Master is valuing the $11.7 million claim at $20.7 million as of September 30, 2013. Of the $20.7 million current valuation of Enterprise Master's claim, $16.5 million was attributable to Enterprise LP based on its ownership percentage in Enterprise Master at the time of the Administration. Of the $11.7 million net equity claim, $10.6 million represents claims to trust assets that the Company believes were held by LBIE through Lehman Brothers, Inc. (“LBI”). LBIE has made a corresponding claim for these assets and other trust assets held at LBI by LBIE on behalf of other prime brokerage clients pursuant to an omnibus customer claim (the “LBIE Omnibus Customer Claim”). LBIE was only going to be able to return trust assets held at LBI to Enterprise Master

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

consensual proposal to the clients holding trust assets pursuant to the LBIE Omnibus Customer Claim to facilitate the return of the amounts recovered from LBI with respect to the LBIE Omnibus Customer Claim. Under the consensual proposal, LBIE indicated that it intended to liquidate any securities received from LBI with respect to the LBIE Omnibus Customer Claim and then allocate the value received from LBI among all of the LBIE clients who had trust assets held at LBI under the LBIE Omnibus Customer Claim. In allocating the amounts received from LBI, LBIE indicated that it intended to allow clients to determine their entitlements on a portfolio basis based on the higher of (i) the market value of the portfolio as of September 19, 2008 or (ii) the market value of the portfolio together with accrued income thereon as of November 30, 2012 (the “Best Claim”). LBIE's purpose in seeking a consensual arrangement with its clients relating to the liquidation and allocation described above was to ensure that a distribution could be made without having to seek UK court direction on these issues, which would otherwise have substantially delayed any distribution. On April 2, 2013, LBIE announced that the consensual proposal had been accepted by a sufficient number of clients to satisfy the acceptance threshold and would therefore become effective. The settlement agreement between LBI and LBIE also became effective and LBIE announced in June 2013 that it had recovered the majority of the cash and securities from LBI and that it has liquidated approximately 90% of the aggregate value of securities received or to be received from LBI and that it intends to make its first distribution to trust asset claimants at the end of September 2013. On September 26, 2013, LBIE announced that it had made a first interim distribution to trust claimants of 100% of the claimant's Best Claim amount. As previously announced by LBIE, LBIE has requested guidance from the US Internal Revenue Service ("IRS") with regard to the character and source of the settlement payments. In order to balance LBIE's objective of making a significant distribution to claimants with the requirement to pay the appropriate US withholding tax in respect of distributions, as an interim solution LBIE deposited 30% of the gross distribution to claimants with the IRS as a reserve, except with respect to claimants who provided LBIE with validly executed Form W-9. Once the appropriate US withholding tax treatment of the distributions is finally determined by the IRS, LBIE expects to be in a position to promptly receive back funds and release any excess reserves back to the appropriate claimants. The amount of the distribution received by Enterprise Master on September 26, 2013 was $14.9 million, with $1 million reserved by LBIE in respect of the withholding described above. As of September 30, 2013, after giving effect to the receipt of the distribution described above, the Company is valuing Enterprise Master's remaining trust asset claim at 105% of its Best Claim, or $0.8 million.

In addition to Enterprise Master's claims against LBIE, LBI was a prime broker to Enterprise Master and Enterprise Master held cash balances of $4.9 million at LBI. These are not part of the LBIE Omnibus Customer Claim. On September 19, 2008, LBI was placed in a Securities Investor Protection Corporation (“SIPC”) liquidation proceeding after the filing for bankruptcy of its parent Lehman Brothers Holdings, Inc. The settlement agreements between LBI, LBHI and LBIE discussed above have permitted the trustee appointed under the Securities Investor Protection Act (the “SIPA Trustee”) to make distributions to LBI customers and the SIPA Trustee announced that it expected to be able to make 100% distributions to its customers. In July 2013, Enterprise Master received a distribution of $4.9 million from LBI in respect of this claim.

The remaining components of the LBIE claims included within the $20.7 million value as of September 30, 2013 consist of several components valued as follows: (a) the trust assets that the Company was informed were within the control of LBIE and were expected to be returned in the relatively near term were valued at market less a 1% discount that corresponds to the fee to be charged under the Claim Resolution Agreement (“CRA”) and (b) the foreign denominated trust assets that are not within the control of LBIE (which the Company does not believe are held through LBI), were valued at $4.7 million, which represents the market value of those assets less a 1% discount that corresponds to the fee charged under the CRA, which represented the Company's estimate of potential recovery rates. The estimated final recoverable amount by Enterprise Master may differ from the actual recoverable amount of the pending LBIE and LBI claims, and the differences may be significant.

As a result of Enterprise Master and certain of the funds managed by the Company having assets held at LBIE frozen in their LBIE prime brokerage account and the degree of uncertainty as to the status of those assets and the process and prospects of the return of those assets, Enterprise Master and the funds managed by the Company decided that

only the investors who were invested at the time of the Administration should participate in any profit or loss relating to the Estimated Recoverable Lehman Claim. As a result, Enterprise Master and certain of the funds managed by the Company with assets held at LBIE granted a 100% participation in the Estimated Recoverable Lehman Claims to Special Purpose Vehicles (the "SPVs" or "Lehman Segregated Funds") incorporated under the laws of the Cayman Islands on September 29, 2008, whose shares were distributed to each of their investor funds. Fully redeeming investors of Enterprise LP will not be paid out on the balance invested in the SPV until the claim with LBIE is settled and assets are returned by LBIE.

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Indirect Concentration of the Underlying Investments Held by Consolidated Funds

From time to time, through its investments in the Consolidated Funds, the Company may indirectly maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Consolidated Funds' net assets (on an aggregated basis). Based on information that is available to the Company as of September 30, 2013 and December 31, 2012, the Company assessed whether or not its Consolidated Funds had interests in an issuer for which the Company's pro-rata share exceeds 5% of the Consolidated Funds' net assets (on an aggregated basis). There were no indirect concentrations that exceed 5% of the Consolidated Funds' net assets held by the Company as of September 30, 2013 or December 31, 2012.

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

Enterprise Master

Enterprise LP's investment in Enterprise Master represents Enterprise LP's proportionate share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master as of September 30, 2013 and December 31, 2012:

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

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

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

	As of September 30, 2013	As of December 31, 2012
Description	(dollars in thousands)	
Currency forwards	$(7)	$6
	$(7)	$6

Portfolio Funds, owned by Enterprise Master, at fair value

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

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

*These Portfolio Funds are affiliates of the Company.

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

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

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

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

Description	As of September 30, 2013 (dollars in thousands)
Equity swap	$43
Cross rate	(3)
	$40

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

	As of December 31, 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

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6. Fair Value Measurements for Operating Entities and Consolidated Funds
The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the accompanying condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of September 30, 2013 and 2012:
Operating Entities

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

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Notes to Condensed Consolidated Financial Statements (Continued)

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Securities owned and derivatives				
US Government securities	$137,478	$—	$—	$137,478
Preferred stock	—	—	2,332	2,332
Common stocks	254,606	2,137	2,549	259,292
Convertible bonds	—	6,202	—	6,202
Corporate bonds	—	192,563	515	193,078
Currency forwards	—	202	—	202
Options	18,273	2,273	—	20,546
Warrants and rights	641	—	1,713	2,354
Mutual funds	2,845	—	—	2,845
Other investments				
Portfolio Funds	—	30,228	25,670	55,898
Real estate investments	—	—	1,864	1,864
Lehman claim	—	—	706	706
	$413,843	$233,605	$35,349	$682,797

	Liabilities at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Securities sold, not yet purchased and derivatives				
Common stocks	$168,797	$—	$—	$168,797
Corporate bonds	—	61	—	61
Futures	370	—	—	370
Currency forwards	—	603	—	603
Options	8,990	86	—	9,076
Warrants and rights	—	—	3	3
	$178,157	$750	$3	$178,910

Consolidated Funds' investments

	Assets at Fair Value as of September 30, 2013			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Other investments				
Portfolio Funds	$—	$22,641	$161,086	$183,727
Lehman claims	—	—	16,483	16,483
	$—	$22,641	$177,569	$200,210

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

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

	Three Months Ended September 30, 2013							
	Balance at June 30, 2013	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized gains (losses)	Unrealized gains (losses)	Balance at September 30, 2013
	(dollars in thousands)							
Operating Entities								
Preferred stock	$333	$—	$—	$ —	$ —	$—	$—	$ 333
Common stocks	2,273	—	—	—	(2)	—	(162)	2,109
Warrants and Rights	2,136	—	—	—	—	—	531	2,667
Portfolio Funds	43,343	—	—	6,491	(289)	712	1,446	51,703
Real estate	2,158	—	—	—	—	—	(31)	2,127
Lehman claim	278	—	—	—	—	—	280	558
Consolidated Funds								
Portfolio Funds	177,848	—	—	—	(17,886)	185	939	161,086
Lehman claim	15,434	—	—	—	—	—	1,049	16,483

	Three Months Ended September 30, 2012							
	Balance at June 30, 2012	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized gains (losses)	Unrealized gains (losses)	Balance at September 30, 2012
	(dollars in thousands)							
Operating Entities								
Preferred stock	$240	$—	$—	$ 2,000	$ —	$—	$34	$ 2,274
Common stocks	719	—	—	—	—	—	(33)	686
Warrants and Rights	2,844	—	—	341	—	—	877	4,062
Warrants and Rights, sold not yet purchased	3	—	—	—	—	(3)	—	—
Portfolio Funds	19,876	—	—	320	(361)	(48)	706	20,493
Real estate	2,079	—	—	—	—	—	23	2,102
Lehman claim	731	—	—	—	—	—	30	761
Consolidated Funds								
Portfolio Funds	209,507	—	—	—	(19,233)	182	(2,659)	187,797
Lehman claim	6,538	—	—	—	—	—	322	6,860

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

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

(a) Change in consolidated funds (from master-feeder to stand alone funds).
(b) The security was listed on an exchange subsequent to a private funding.
(c) The security was acquired through an acquisition (See Note 2).
(d) The security began trading on an exchange due to a business combination.
(e) The company completed an initial public offering.
(f) The investment was transferred into level 3 due to Company's commitment as part of its long term extension of its partnership with credit funds.

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

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

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

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

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

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

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

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

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

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

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

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7. Receivables from and Payable to Brokers

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

8. Goodwill

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

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

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

9. Redeemable Non-Controlling Interests in Consolidated Subsidiaries

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

	As of September 30, 2013	As of December 31, 2012
	(dollars in thousands)	
Redeemable non-controlling interests in consolidated subsidiaries		
Operating companies	$9,606	$4,106
Consolidated funds	80,573	81,597
	$90,179	$85,703

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries				
Operating companies	$3,884	$298	$7,280	$893
Consolidated funds	875	(1,331)	3,229	(2,118)
	$4,759	$(1,033)	$10,509	$(1,225)

10. Share-Based Compensation and Employee Ownership Plans

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

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

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

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

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

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

Stock Options and Stock Appreciation Rights

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

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

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

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

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

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

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

	Shares Subject to Option	Weighted Average Exercise Price/Share	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value(1) (dollars in thousands)
Balance outstanding at December 31, 2012	773,763	$12.58	1.6	$—
Options granted	—	—	—	—
Options acquired	—	—	—	—
Options expired	(473.757)	16.00	—	—
Balance outstanding at September 30, 2013	300.006	$7.18	2.66	$—
Options exercisable at September 30, 2013	200.004	$9.04	1.94	$—

(1) Based on the Company's closing stock price of $3.44 on September 30, 2013 and $2.45 on December 31, 2012.

As of September 30, 2013, the unrecognized compensation expense related to the Company's grant of stock options was insignificant.

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

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

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

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

Restricted Shares and Restricted Stock Units Granted to Employees

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

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

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

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

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

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Restricted Shares and Restricted Stock Units Granted to Non-employee Board Members
There were 257,947 restricted stock units awarded, which were immediately vested and expensed, during the three and nine months ended September 30, 2013. Vested awards of 112,320 were delivered during the three and nine months ended September 30, 2013. As of September 30, 2013 there were 482,522 restricted stock units outstanding.

11. Defined Benefit Plan

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

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

12. Income Taxes

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

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

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

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

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

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

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

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

13. Commitments and Contingencies

Lease Obligations

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

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

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

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

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

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

Clawback Obligations

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

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

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

Unfunded Commitments

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

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

Litigation

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

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

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

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

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

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

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

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

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14. Short-Term Borrowings and Other Debt

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

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

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

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

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

15. Treasury stock

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

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

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

16. Earnings Per Share

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

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

The computation of earnings per share is as follows:

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

Shares for basic and diluted calculations:

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

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

17. Segment Reporting

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

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)

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

subsidiaries						
Economic Income (Loss) / Net Income (loss) attributable to Cowen Group, Inc. stockholders	$3,662	$ 4	$ 3,666	$—	$(55)	$3,611

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

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

	Three Months Ended September 30, 2012						
				Adjustments			
	Alternative Investment	Broker-Dealer (1)	Total Economic Income/(Loss)	Funds Consolidation	Other Adjustments		US GAAP
	(dollars in thousands)						
Revenues							
Investment banking	$—	$ 18,666	$ 18,666	$—	$—		$18,666
Brokerage	—	22,701	22,701	—	—		22,701
Management fees	13,426	—	13,426	(362)	(4,198)	(a)	8,866
Incentive income	1,699	—	1,699	—	(283)	(a)	1,416
Investment Income	6,864	2,288	9,152	—	(9,152)	(c)	—
Interest and dividends	—	—	—	—	3,605	(c)	3,605
Reimbursement from affiliates	—	—	—	(97)	1,467	(b)	1,370
Other revenue	168	213	381	—	320	(c)	701
Consolidated Funds revenues	—	—	—	273	—		273
Total revenues	22,157	43,868	66,025	(186)	(8,241)		57,598
Expenses							
Employee compensation and benefits	11,759	34,490	46,249	—	1,073		47,322
Interest and dividends	93	38	131	—	1,925	(c)	2,056
Non-compensation expenses—Fixed	8,564	15,452	24,016	—	(24,016)	(c)(d)	—
Non-compensation expenses—Variable	1,433	4,287	5,720	—	(5,720)	(c)(d)	—
Non-compensation expenses	—	—	—	—	29,346	(c)(d)	29,346
Reimbursement from affiliates	(1,467)	—	(1,467)	—	1,467	(b)	—
Consolidated Funds expenses	—	—	—	330	—		330
Total expenses	20,382	54,267	74,649	330	4,075		79,054
Other income (loss)							
Net gains (losses) on securities, derivatives and other investments	—	—	—	—	12,510	(c)	12,510
Consolidated Funds net gains (losses)	—	—	—	(815)	(1,694)		(2,509)
Total other income (loss)	—	—	—	(815)	10,816		10,001
Income (loss) before income taxes and non-controlling interests	1,775	(10,399)	(8,624)	(1,331)	(1,500)		(11,455)
Income taxes expense / (benefit)	—	—	—	—	163	(b)	163
Economic Income (Loss) / Net income (loss) before non-controlling interests	1,775	(10,399)	(8,624)	(1,331)	(1,663)		(11,618)
	(301)	—	(301)	1,331	3		1,033

(Income) loss attributable to redeemable non-controlling interests in consolidated subsidiaries						
Economic Income (Loss) / Net income (loss) attributable to Cowen Group, Inc. stockholders	$1,474	$ (10,399)	$ (8,925)	$—	$(1,660)	$(10,585)

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

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

	Nine Months Ended September 30, 2013						
				Adjustments			
	Alternative Investment	Broker-Dealer (1)	Total Economic Income/(Loss)	Funds Consolidation	Other Adjustments		US GAAP
	(dollars in thousands)						
Revenues							
Investment banking	$—	$ 70,431	$ 70,431	$—	$ —		$ 70,431
Brokerage	—	93,352	93,352	—	(6,769)	(e)	86,583
Management fees	43,050	—	43,050	(871)	(13,661)	(a)	28,518
Incentive income	14,558	—	14,558	—	(7,472)	(a)	7,086
Investment Income	22,169	4,593	26,762	—	(26,762)	(c)	—
Interest and dividends	—	—	—	—	30,905	(c)	30,905
Reimbursement from affiliates	—	—	—	(206)	4,291	(b)	4,085
Other revenue	381	(427)	(46)	—	1,565	(c)	1,519
Consolidated Funds revenues	—	—	—	681	—		681
Total revenues	80,158	167,949	248,107	(396)	(17,903)		229,808
Expenses							
Employee compensation and benefits	37,863	108,202	146,065	—	(721)		145,344
Interest and dividends	183	88	271	—	20,016	(c)	20,287
Non-compensation expenses—Fixed	26,695	46,197	72,892	—	(72,892)	(c)(d)	—
Non-compensation expenses—Variable	3,594	19,192	22,786	—	(22,786)	(c)(d)	—
Non-compensation expenses	—	—	—	—	94,593	(c)(d)	94,593
Reimbursement from affiliates	(4,291)	—	(4,291)	—	4,291	(b)	—
Consolidated Funds expenses	—	—	—	1,237	—		1,237
Total expenses	64,044	173,679	237,723	1,237	22,501		261,461
Other income (loss)							
Net gains (losses) on securities, derivatives and other investments	—	—	—	—	32,873	(c)	32,873
Consolidated Funds net gains (losses)	—	—	—	4,862	6,843		11,705
Total other income (loss)	—	—	—	4,862	39,716		44,578
Income (loss) before income taxes and non-controlling interests	16,114	(5,730)	10,384	3,229	(688)		12,925
Income taxes expense / (benefit)	—	—	—	—	288	(b)	288
Economic Income (Loss) / Net income (loss) before non-controlling interests	16,114	(5,730)	10,384	3,229	(976)		12,637
(Income) loss attributable to redeemable non-controlling interests in consolidated	(6,517)	—	(6,517)	(3,229)	(763)		(10,509)

subsidiaries						
Economic Income (Loss) / Net Income (loss) attributable to Cowen Group, Inc. stockholders	$9,597	$ (5,730)	$ 3,867	$—	$ (1,739)	$2,128

(1) For the nine months ended September 30, 2013, the Company has reflected $5.6 million of investment income and related compensation expense of $1.8 million within the broker-dealer segment in proportion to its capital.

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

	Nine Months Ended September 30, 2012						
				Adjustments			
	Alternative Investment	Broker-Dealer (1)	Total Economic Income/(Loss)	Funds Consolidation	Other Adjustments		US GAAP
	(dollars in thousands)						
Revenues							
Investment banking	$—	$ 50,550	$ 50,550	$—	$—		$50,550
Brokerage	—	71,282	71,282	—	—		71,282
Management fees	42,032	—	42,032	(1,150)	(12,367)	(a)	28,515
Incentive income	8,303	—	8,303	—	(5,616)	(a)	2,687
Investment Income	30,361	8,182	38,543	—	(38,543)	(c)	—
Interest and dividends	—	—	—	—	14,845	(c)	14,845
Reimbursement from affiliates	—	—	—	(222)	4,018	(b)	3,796
Other revenue	508	186	694	—	1,704	(c)	2,398
Consolidated Funds revenues	—	—	—	474	—		474
Total revenues	81,204	130,200	211,404	(898)	(35,959)		174,547
Expenses							
Employee compensation and benefits	42,705	91,098	133,803	—	3,299		137,102
Interest and dividends	123	155	278	—	6,829	(c)	7,107
Non-compensation expenses—Fixed	24,093	45,655	69,748	—	(69,748)	(c)(d)	—
Non-compensation expenses—Variable	3,881	15,852	19,733	—	(19,733)	(c)(d)	—
Non-compensation expenses	—	—	—	—	87,670	(c)(d)	87,670
Reimbursement from affiliates	(4,018)	—	(4,018)	—	4,018	(b)	—
Consolidated Funds expenses	—	—	—	1,339	—		1,339
Total expenses	66,784	152,760	219,544	1,339	12,335		233,218
Other income (loss)							
Net gains (losses) on securities, derivatives and other investments	—	—	—	—	41,969	(c)	41,969
Consolidated Funds net gains (losses)	—	—	—	119	1,318		1,437
Total other income (loss)	—	—	—	119	43,287		43,406
Income (loss) before income taxes and non-controlling interests	14,420	(22,560)	(8,140)	(2,118)	(5,007)		(15,265)
Income taxes expense / (benefit)	—	—	—	—	496	(b)	496
Economic Income (Loss) / Net income (loss) before	14,420	(22,560)	(8,140)	(2,118)	(5,503)		(15,761)

non-controlling interests						
(Income) loss attributable to redeemable non-controlling interests in consolidated subsidiaries	(900)	—	(900)	2,118	7	1,225
Economic Income (Loss) / Net Income (loss) attributable to Cowen Group, Inc. stockholders	$13,520	$ (22,560)	$ (9,040)	$—	$(5,496)	$(14,536)

(1) For the nine months ended September 30, 2012, the Company has reflected $8.2 million of investment income and related compensation expense of $2.7 million within the broker-dealer segment in proportion to its capital.

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

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

Other Adjustments:

(a) Economic Income (Loss) recognizes revenues (i) net of distribution fees paid to agents and (ii) our proportionate share

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Notes to Condensed Consolidated Financial Statements (Continued)

of management and incentive fees of certain real estate operating entities and the activist business.
(b) Economic Income (Loss) excludes income taxes as management does not consider this item when evaluating the performance of the segment. Also, reimbursement from affiliates is shown as a reduction of Economic Income expenses, but is included as a part of revenues under US GAAP.
(c) Economic Income (Loss) recognizes Company income from proprietary trading net of related expenses.
(d) Economic Income (Loss) recognizes the Company's proportionate share of expenses for certain real estate and other
operating entities for which the investments are recorded under the equity method of accounting for investments.
(e) Economic Income (Loss) recognizes stock borrow/loan activity and other brokerage dividends as brokerage revenue.
For the three and nine months ended September 30, 2013 and 2012, there was no one fund or other customer which represented more than 10% of the Company's total revenues. Primarily all of the revenues earned by the alternative investment segment were from related parties for the three and nine months ended September 30, 2013 and 2012. There were no revenues earned from related parties by the broker dealer segment in the three and nine months ended September 30, 2013 and 2012.
18. Regulatory Requirements
As registered broker dealers, Cowen and Company, ATM Execution (formerly known as Cowen Capital LLC), ATM USA, and Cowen Equity Finance are subject to the SEC's Uniform Net Capital Rule 15c3-1 (the “Rule”), which requires the maintenance of minimum net capital. Under the alternative method permitted by the Rule, Cowen and Company's minimum net capital requirement, as defined, is $1.0 million. Under the basic method permitted by the Rule, ATM Execution is required to maintain minimum net capital, as defined, equivalent to the greater of $1.0 million or 6.667% of aggregate indebtedness. ATM USA is required to maintain minimum net capital, as defined, equivalent to the greater of $5,000 or 6.667% of aggregate indebtedness. Cowen Equity Finance is required to maintain minimum net capital, as defined, equal to $250,000. The broker-dealers are not permitted to withdraw equity if certain minimum net capital requirements are not met. As of September 30, 2013, Cowen and Company had total net capital of approximately $52.3 million, which was approximately $51.3 million in excess of its minimum net capital requirement of $1.0 million. As of September 30, 2013, ATM Execution had total net capital of approximately $3.5 million, which was approximately $2.5 million in excess of its minimum net capital requirement of $1.0 million. As of September 30, 2013, ATM USA had total net capital of approximately $0.9 million, which was approximately $0.9 million in excess of its minimum net capital requirement of $6,138. As of September 30, 2013, Cowen Equity Finance had total net capital of approximately $11.5 million which was approximately $11.2 million in excess of its minimum net capital requirement of $250,000. As of August 23, 2013, Cowen Securities had been deregistered as a broker dealer and is no longer subject to the SEC's Uniform Net Capital Rule 15c3-1.
Cowen and Company and ATM Execution are exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 as its activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule. Similarly, ATM USA and Cowen Equity Finance are exempt from the provisions of Rule 15c3-3 under (k)(2)(i).
Proprietary accounts of introducing brokers (“PAIB”) held at the clearing broker are considered allowable assets for net capital purposes, pursuant to agreements between Cowen and Company and ATM Execution and the clearing broker, which require, among other things, that the clearing broker performs computations for PAIB and segregates certain balances on behalf of Cowen and Company and ATM Execution, if applicable.
Ramius UK Ltd. ("Ramius UK") and Cowen International Limited ("CIL") are subject to the capital requirements of the Financial Conduct Authority (“FCA”) of the UK. Financial Resources, as defined, must exceed the requirement of the FCA. As of September 30, 2013, Ramius UK's Financial Resources of $0.5 million exceeded its minimum requirement of $0.2 million by $0.3 million. As of September 30, 2013, CIL's Financial Resources of $4.2 million exceeded its minimum requirement of $2.2 million by $2.0 million.

Cowen and Company (Asia) Limited (“CCAL”) is subject to the financial resources requirements of the Securities and Futures Commission (“SFC”) of Hong Kong. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the SFC. As of September 30, 2013, CCAL's Financial Resources of $1.1 million exceeded the minimum requirement of $0.4 million by $0.7 million.

19. Related Party Transactions

The Company acts as managing member, general partner and/or investment manager to the Ramius managed funds, HealthCare Royalty Management, LLC, and the HealthCare Royalty Partners funds, and certain managed accounts. Management fees and incentive income are primarily earned from affiliated entities. Fees receivable primarily represents the management fees and incentive income owed to the Company from these related funds and certain affiliated managed accounts. As of September 30, 2013 and December 31, 2012, $14.3 million and $13.6 million, respectively, included in fees receivable are earned from related parties.

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

The Company may, at its discretion, reimburse certain fees charged to the funds that it manages to avoid duplication of fees when such funds have an underlying investment in another affiliated investment fund. For the three months ended September 30, 2013 and 2012, the Company reimbursed the funds it manages $0.4 million and $0.2 million, respectively, and $1.4 million and $1.2 million for the nine months ended September 30, 2013 and 2012, respectively, which were recorded net in management fees and incentive income in the accompanying condensed consolidated statements of operations. As of September 30, 2013 and December 31, 2012, related amounts still payable were $2.0 million and $1.7 million, respectively, and were reflected in fees payable in the accompanying condensed consolidated statements of financial condition.

The Company may also make loans to employees or other affiliates, excluding executive officers of the Company. These loans are interest bearing and settle pursuant to the agreed-upon terms with such employees or affiliates and are included in due from related parties in the condensed consolidated statements of financial condition. As of September 30, 2013 and December 31, 2012, loans to employees of $7.2 million and $5.1 million, respectively, were included in due from related parties on the condensed consolidated statements of financial condition. Of these amounts $4.6 million and $2.3 million, respectively, are related to forgivable loans. These forgivable loans provide for a cash payment up-front to employees, with the amount due back to the Company forgiven over a vesting period. An employee that voluntarily ceases employment, or is terminated with cause, is generally required to pay back to the Company any unvested forgivable loans granted to them. The forgivable loans are recorded as an asset to the Company on the date of grant and payment, and then amortized to compensation expense on a straight-line basis over the vesting period. The vesting period on forgivable loans is generally one to three years. The Company recorded compensation expense of $1.1 million and $0.6 million, respectively, related to the amortization of forgivable loans for the three months ended September 30, 2013 and 2012, and $2.3 million and $1.3 million for the nine months ended September 30, 2013 and 2012, respectively . This expense is included in employee compensation and benefits in the condensed consolidated statement of operations. For the three and nine months ended September 30, 2013 and 2012 the interest income was insignificant for all loans and advances. The remaining balance included in due from related parties primarily relates to amounts due to the Company from affiliated funds and real estate entities due to expenses paid on their behalf.

In April 2011, the Company entered into a credit agreement with Starboard Value LP (see Note 5), whereby the Company can loan up to $3.0 million to Starboard Value LP at an interest rate of LIBOR plus 3.75% (payable quarterly) with a maturity of March 30, 2014. As of September 30, 2013, $1.5 million is included in due from related parties in the accompanying condensed consolidated statement of financial condition. For the three and nine months ended September 30, 2013 and 2012, interest charged for this loan was insignificant.

Included in due to related parties is approximately $0.6 million and $0.4 million as of September 30, 2013 and December 31, 2012, respectively, related to a subordination agreement with an investor in certain real estate funds. This total is based on a hypothetical liquidation of the real estate funds as of the balance sheet date.

20. Guarantees and Off-Balance Sheet Arrangements

Guarantees

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

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

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

arrangements and has not recorded any contingent liability in the condensed consolidated financial statements for these indemnifications.

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

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

Through the Company's securities lending program (see Note 5(a)), the Company can borrow and lend customers' securities, via custodial and non-custodial arrangements, to third parties. As part of this program, the Company provides a guarantee in an aggregate amount of $150 million to counterparties of the securities lending agreements, which protects the lender against the failure of the third-party borrower to return the lent securities in the event the Company did not obtain sufficient collateral. To minimize its liability under these indemnification agreements, the Company obtains cash collateral with a value exceeding 100% of the market value of the securities on loan from the borrower. Collateral is marked to market daily to assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, the Company would use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof.

In conjunction with the acquisition of Cowen Securities (See Note 2) the Company has agreed to guarantee loans which were issued to employees of Cowen Securities by a third party bank prior to the acquisition. The value of these loans at September 30, 2013 was $2.6 million.

Off-Balance Sheet Arrangements

The Company has no material off-balance sheet arrangements as of September 30, 2013 and December 31, 2012. However, through indemnification provisions in our clearing agreement, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreement, the Company is required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

In addition, during the normal course of business, the Company has exposure to a number of risks including market risk, currency risk, credit risk, operational risk, liquidity risk and legal risk. As part of the Company's risk management process, these risks are monitored on a regular basis throughout the course of the year.

21. Subsequent Events

The Company intends to terminate the defined benefit plan (see Note 11) in standard termination with a proposed termination date of December 31, 2013.

The Company has evaluated events through November 7, 2013 which is the date the condensed consolidated financial statements were available to be issued and has determined that there were no additional subsequent events requiring

adjustment or disclosure in the condensed consolidated financial statements.

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

This discussion contains forward-looking statements, which involve numerous risks and uncertainties, including, but not limited to, those described in the section titled “Risk Factors” in Item 1A of our 2012 Annual Report on Form 10-K. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements and related notes of Cowen Group, Inc. included elsewhere in this quarterly report. Actual results may differ materially from those contained in any forward-looking statements.

Overview

Cowen Group, Inc. (the “Company”) is a diversified financial services firm and, together with its consolidated subsidiaries, 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 alternative investment segment includes hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate and, healthcare royalty funds, offered primarily under the Ramius name. The broker-dealer segment offers industry focused investment banking for growth-oriented companies including advisory and global capital markets origination and domain knowledge-driven research and a sales and trading platform for institutional investors, primarily under the Cowen name.

Our alternative investment business had approximately $9.3 billion of assets under management as of October 1, 2013. The predecessor to this business was founded in 1994 and, through one of its subsidiaries, has been a registered investment adviser under the Investment Advisers Act since 1997. Our alternative investment products, solutions and services include hedge funds, replication products, mutual funds, managed futures funds, funds of funds, real estate and healthcare royalty funds. Our institutional investors include pension funds, insurance companies, banks, foundations and endowments, wealth management organizations and family offices.

Our broker-dealer businesses include research, brokerage and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs"), clean technology, energy, metals and mining, transportation, chemicals and agriculture sectors. We provide research and brokerage services to over 1,000 domestic and international clients seeking to trade securities, principally in our target sectors. Historically, we have focused our investment banking efforts on small to mid-capitalization public companies as well as private companies.

Certain Factors Impacting Our Business

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

- Assets under management. Our revenues from management fees are directly linked to assets under management. As a result, the future performance of our alternative investment business will depend on, among other things, our ability to retain assets under management and to grow assets under management from existing and new products. In addition, positive performance increases assets under management which results in higher management fees. As previously disclosed, redemptions in Ramius Multi-Strategy Fund Ltd triggered certain contractual rights of affiliates of UniCredit S.p.A (“UniCredit S.p.A”), which would have allowed them to withdraw their assets held in that fund upon 30 days notice. Such affiliates of UniCredit S.p.A instead agreed, pursuant to a modification agreement, to extend the time period pursuant to which the Company was required to return the bulk of its assets in our funds by the end of 2010. The Company returned a significant portion of the assets during 2010 and as of September 30, 2013, including redemptions effective on October 1, 2013, we have returned approximately $583 million to affiliates of UniCredit S.p.A with a remaining investment balance of approximately $144 million invested in our investment vehicles, including a fund of funds managed account.
- Investment performance. Our revenues from incentive income are linked to the performance of the funds and accounts that we manage. Performance also affects assets under management because it influences investors' decisions to invest assets in, or withdraw assets from, the funds and accounts managed by us.
- Fee and allocation rates. Our management fee revenues are linked to the management fee rates we charge as a percentage of assets under management. Our incentive income revenues are linked to the incentive allocation rates we charge as a percentage of performance-driven asset growth. Our incentive allocations are generally subject to “high-water marks,” whereby incentive income is generally earned by us only to the extent that the net asset value of a

fund at the end of a measurement period exceeds the highest net asset value as of the end of the earlier measurement period for which we earned incentive income. Our incentive allocations, in some cases, are subject to performance hurdles.

- Investment performance of our own capital. We invest our own capital and the performance of such invested capital affects our revenues. As of October 1, 2013, we had investments of approximately $101.0 million, $162.7 million, $14.4 million and $9.0 million in the Enterprise Fund (an entity which invests its capital in Ramius Enterprise Master

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Fund Ltd), Cowen Overseas Investment LP ("COIL"), Ramius Optimum Investments LLC ("ROIL"), and other private investments, respectively. Enterprise Fund is a fund vehicle that currently has external investors, is closed to new investors and is in liquidation. COIL and ROIL are wholly owned entities managed by Ramius that the Company uses solely for the firm's invested capital.

Our broker-dealer business and results of operations are impacted by the following factors:

- Underwriting, private placement and strategic/financial advisory fees. Our revenues from investment banking are directly linked to the underwriting fees we earn in equity and debt securities offerings in which the Company acts as an underwriter, private placement fees earned in non-underwritten transactions, sales commissions earned in at-the-market offerings and success fees earned in connection with advising both buyers and sellers, principally in mergers and acquisitions. As a result, the future performance of our investment banking business will depend on, among other things, our ability to secure lead manager and co-manager roles in clients capital raising transactions as well as our ability to secure mandates as a client's strategic financial advisor.
- Commissions. Our commission revenues depend for the most part on our customer trading volumes.
- Principal transactions. Principal transactions revenue includes net trading gains and losses from the Company's market-making activities and net trading gains and losses on inventory and other firm positions. Commissions associated with these transactions are also included herein. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk.
- Equity research fees. Equity research fees are paid to the Company for providing equity research. The Company also permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. Our ability to generate revenues relating to our equity research depends on the quality of our research and its relevance to our institutional customers and other clients.

External Factors Impacting Our Business

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

- Our alternative investment business was affected by the conditions impacting the global financial markets and the hedge fund industry during 2008, which was characterized by substantial declines in investment performance and unanticipated levels of requested redemptions. While the environment for investing in alternative investment products has since improved, the variability of redemptions could continue to affect our alternative investment business, and it is possible that we could intermittently experience redemptions above historical levels, regardless of fund performance.
- Our broker-dealer business has been, and may continue to be, adversely affected by market conditions. Increased competition continues to affect our investment banking and capital markets businesses. The same factors also affect trading volumes in secondary financial markets, which affect our brokerage business. Commission rates, market volatility, increased competition from larger financial firms and other factors also affect our brokerage revenues and may cause these revenues to vary from period to period.
- Our broker-dealer business focuses primarily on small to mid-capitalization and private companies in specific industry sectors. These sectors may experience growth or downturns independent of general economic and market conditions, or may face market conditions that are disproportionately better or worse than those impacting the economy and markets generally. In addition, increased government regulation has had, and may continue to have, a disproportionate effect on capital formation by smaller companies. Therefore, our broker-dealer business could be affected differently than overall market trends.

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

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Recent Developments

On September 16, 2013, the Company announced that it has entered into an agreement for the long-term extension of its partnership with the portfolio managers of Ramius Alternative Solutions, LLC.

On September 30, 2013, the Company announced the launch of the Ramius Event Driven Equity Fund, an actively managed alternative mutual fund providing investors with daily liquidity and exposure to a broad spectrum of transformative corporate events. The strategy focuses on publicly listed companies that are targets of shareholder activism, mergers, spin-offs, recapitalizations and restructurings.

Basis of presentation

The unaudited condensed consolidated financial statements of the Company in this Form 10-Q are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification as the source of authoritative accounting principles in the preparation of financial statements and include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest or a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in the condensed consolidated financial statements, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

The Company serves as the managing member/general partner and/or investment manager to affiliated fund entities which it sponsors and manages. Certain of these funds in which the Company has a substantive, controlling general partner interest are consolidated with the Company pursuant to generally accepted accounting principles in the United States of America ("US GAAP") as described below (the “Consolidated Funds”). 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 which are not owned by the Company are reflected as redeemable non-controlling interests in consolidated subsidiaries in the condensed consolidated financial statements appearing elsewhere in this Form 10-Q. The management fees and incentive income earned by the Company from these funds are eliminated in consolidation.

Acquisitions

The March 11, 2013 acquisition of Cowen Securities was accounted for under the acquisition method of accounting in accordance with US GAAP. As such, results of operations for Cowen Securities are included in the accompanying condensed statements of operations since the date of acquisition, and the assets acquired and liabilities assumed and the resulting goodwill were recorded at their estimated fair values.

The Company is in discussions with the sellers regarding certain closing date balance sheet adjustments, resolution of which will potentially impact the purchase price, assets and liabilities recognized and the resulting goodwill. The Company does not believe the impact of these adjustments will be material. The preliminary purchase price allocation of Cowen Securities is based upon all information available to us at the present time, and is based upon management's preliminary estimates of the fair values using valuation techniques including income, cost and market approaches. As of September 30, 2013, the purchase price allocation is preliminary pending the final resolution of the closing date balance sheet adjustments, which the Company expects will occur within twelve months following the acquisition. Upon the completion of the final purchase price allocation, any reallocation of fair values to the assets acquired and liabilities assumed in the acquisitions could have an impact on the amounts recognized on the condensed consolidated statements of financial condition.

Revenue recognition

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

Our alternative investment segment generates revenue through two principal sources: management fees and incentive income.

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

Management fees

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

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

- Hedge Funds. Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income.
- Alternative Solutions. Management fees for the Alternative Solutions business are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income or based on assets under management at the beginning of the month. Management fees earned from the Alternative Solutions business are based and initially calculated on estimated net asset values and actual fees ultimately earned could be impacted to the extent of any changes in these estimates.
- Real Estate Funds. Management fees from the Company's real estate funds are generally charged by their general partners at an annual rate from 1% to 1.5% of total capital commitments during the investment period and of invested capital or net asset value of the applicable fund after the investment period has ended. Management fees are typically paid to the general partners on a quarterly basis, at the beginning of the quarter in arrears, and are prorated for changes in capital commitments throughout the investment period and invested capital after the investment period. The general partners of the Company's real estate funds are owned jointly by the Company and third parties. Accordingly, the management fees (in addition to incentive income and investment income) generated by these real estate funds are split between the Company and the other general partners. Pursuant to US GAAP, these fees and other income received by the general partners that are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the condensed consolidated statements of operations.
- HealthCare Royalty Partners Funds. During the investment period (as defined in the management agreement of the HealthCare Royalty Partners funds), management fees for the HealthCare Royalty Partners funds are generally charged at an annual rate of up to 2% of committed capital. After the investment period, management fees are generally charged at an annual rate of up to 2% of net asset value. Management fees for the HealthCare Royalty Partners funds are calculated on a quarterly basis.
- Ramius Trading Strategies. Management fees for Ramius Trading Strategies Managed Futures Fund, a mutual fund launched in September 2011, are 1.60% per annum (subject to an overall expense cap of 1.85%). Management fees and platform fees for the Company's private commodity trading advisory business are generally charged at an annual rate of up to 1.00%. Management and platform fees are generally calculated monthly based on assets under management at the end of each month.

Incentive income

The Company earns incentive income based on net profits (as defined in the respective investment management agreements) with respect to certain of the Company's funds and managed accounts, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have been carried forward from prior years. For the products we offer, incentive income earned is typically 20% for hedge funds and 10% for fund of funds and alternative solutions products (in certain cases on performance in excess of a benchmark), of the net profits earned for the full year that are attributable to each fee-paying investor. Generally, incentive income on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However, for certain real estate funds, the Company is entitled to receive incentive fees earlier, provided that the investors have received their preferred return on a current basis. These funds are subject to a potential clawback of these incentive fees upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income in the HealthCare Royalty Partners funds is earned only after investors receive a full return of their capital plus a preferred return.

In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to that investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a “high-water mark.” The Company has elected to record incentive income

revenue in accordance with “Method 2” of US GAAP. Under Method 2, the incentive income from the Company's funds and managed accounts for any period is based upon the net profits of those funds and managed accounts at the reporting date. Any incentive income recognized in the condensed consolidated statement of operations may be subject to future reversal based on subsequent negative performance prior to the conclusion of the fiscal year, when all contingencies have been resolved.

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Carried interest in the real estate funds is subject to clawback to the extent that the carried interest actually distributed to date exceeds the amount due to the Company based on cumulative results. As such, the accrual for potential repayment of previously received carried interest, which is a component of accounts payable, accrued expenses and other liabilities, represents all amounts previously distributed to the Company, less an assumed tax liability, that would need to be repaid to certain real estate funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability does not become realized until the end of a fund's life.

Investment Banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small and mid-capitalization companies within the Company's target sectors of healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs"), clean technology, energy, metals and mining, transportation, chemicals and agriculture sectors.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees and private placement fees.

- Underwriting fees. The Company earns underwriting revenues in securities offerings in which the Company acts as an underwriter, such as initial public offerings, follow-on equity offerings, debt offerings, and convertible security offerings. Underwriting revenues include management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting process have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of securities from the issuer; and (iii) the Company has been informed of the number of securities that it has been allotted. When the Company is not the lead manager for an underwriting transaction, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.
- Strategic/financial advisory fees. The Company's strategic advisory revenues include success fees earned in connection with advising companies, principally in mergers and acquisitions and liability management transactions. The Company also earns fees for related advisory work such as providing fairness opinions. The Company records strategic advisory revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.
- Placement and sales agent fees. The Company earns agency placement fees and sales agent commissions in non-underwritten transactions such as private placements of debt and equity and debt securities, including, private investment in public equity transactions (“PIPEs”), and as sales agent in at-the-market offerings of equity securities. The Company records placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. The Company records sales agent commissions on a trade date basis. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

Brokerage

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

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

- Principal Transactions. Principal transaction, net revenue includes net trading gains and losses from the Company's market-making activities in fixed income and over-the-counter equity securities, listed options trading, trading of convertible securities, and trading gains and losses on inventory and other firm positions, which include warrants previously received as part of investment banking transactions. Commissions associated with these transactions are also included herein. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of

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listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a very short duration.

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

Interest and dividends

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

Reimbursement from affiliates

The Company allocates, at its discretion, certain expenses incurred on behalf of its hedge fund, fund of funds and real estate businesses. These expenses relate to the administration of such subsidiaries and assets that the Company manages for its funds. In addition, pursuant to the funds' offering documents, the Company charges certain allowable expenses to the funds, including charges and personnel costs for legal, compliance, accounting, tax compliance, risk and technology expenses that directly relate to administering the assets of the funds. Such expenses that have been reimbursed at their actual costs are included in the condensed consolidated statements of operations as employee compensation and benefits, professional, advisory and other fees, communications, occupancy and equipment, client services and business development and other.

Expenses

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

- Compensation and Benefits. Compensation and benefits is comprised of salaries, benefits, discretionary cash bonuses and equity-based compensation. Annual incentive compensation is variable, and the amount paid is generally based on a combination of employees' performance, their contribution to their business segment, and the Company's performance. Generally, compensation and benefits comprise a significant portion of total expenses, with annual incentive compensation comprising a significant portion of total compensation and benefits expenses.
- Interest and Dividends. Interest and dividend expense relates primarily to trading activity with respect to the Company's investments.
- General, Administrative and Other. General, administrative and other expenses are primarily related to professional services, occupancy and equipment, business development expenses, communications, insurance and other miscellaneous expenses. These expenses may also include certain one-time charges and non-cash expenses.
- Consolidated Funds Expenses. Certain funds are consolidated by the Company pursuant to US GAAP. As such, the Company's condensed consolidated financial statements reflect the expenses of these consolidated entities and the portion attributable to other investors is allocated to a redeemable non-controlling interest.

Income Taxes

The taxable results of the Company’s U.S. operations are subject to U.S. federal, state and city taxation as a corporation. The Company is also subject to foreign taxation on income it generates in certain countries.

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

Redeemable Non-controlling Interests

Redeemable non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities. Due to the fact that the non-controlling interests are redeemable at the option of the holder they have been classified as temporary equity.

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Assets Under Management and Fund Performance

Assets Under Management

Assets under management refer to all of our alternative investment products, solutions and services including hedge funds, replication products, mutual funds, managed futures funds, fund of funds, real estate and healthcare royalty funds. Assets under management also include the fair value of assets we manage pursuant to separately managed accounts, collateralized debt obligations for which we are the collateral manager, and, as indicated in the footnotes to the table below, proprietary assets which the Company has invested in these products. Also, as indicated, assets under management for certain products represent committed capital and certain products where the Company owns a portion of the general partners.

As of October 1, 2013, the Company had assets under management of $9.3 billion, a 14.9% increase as compared to assets under management of $8.1 billion as of January 1, 2013. The $1.2 billion increase in assets under management during the first nine months of 2013 primarily resulted from $0.5 billion in our alternative solutions product and $0.5 billion related to our hedge fund products including the launch of the Ramius Merger Fund LLC.

The following table is a breakout of total assets under management by platform as of October 1, 2013 (which excludes cross investments from other Ramius platforms):

	Platform						
	Hedge Funds (a) (b)	Alternative Solutions (a) (c)	Ramius Trading Strategies (d)	Real Estate (a)	Healthcare Royalty Partners (e) (f)	Other (g)	Total
	(dollars in millions)						
January 1, 2010	$1,608	$2,376	$—	$1,628	$807	$1,429	$7,848
Net Subscriptions/(Redemptions)	(392)	323	78	—	234	800	1,043
Performance (h)	169	93	4			(115)	151
January 1, 2011	1,385	2,792	82	1,628	1,041	2,114	9,042
Net Subscriptions/(Redemptions)	493	56	194	—	432	125	1,300
Performance (h)	39	(98)	(14)	—	—	(4)	(77)
January 1, 2012	1,917	2,750	262	1,628	1,473	2,235	10,265
Net Subscriptions/(Redemptions)	59	(370)	(111)	(95)	—	(2,130)	(2,647)
Performance (h)	373	85	(5)	—	—	—	453
January 1, 2013	2,349	2,465	146	1,533	1,473	105	8,071
Net Subscriptions/(Redemptions)	194	674	(47)	222	50	(33)	1,060
Performance (h)	302	(153)	(5)	—	—	—	144
October 1, 2013	$2,845	$2,986	$94	$1,755	$1,523	$72	$9,275

	Platform						
	Hedge Funds (a) (b)	Alternative Solutions (c)	Ramius Trading Strategies (d)	Real Estate (a)	Healthcare Royalty Partners (e) (f)	Other (g)	Total
	(dollars in millions)						
July 1, 2013	$2,783	$2,844	$106	$1,755	$1,473	$80	$9,041
Net Subscriptions/(Redemptions)	(50)	67	(9)	—	50	(8)	50
Performance (h)	112	75	(3)	—	—	—	184

October 1, 2013	$2,845	$2,986	$94	$1,755	$1,523	$72	$9,275

(a) The Company owns between 30% and 55% of the general partners or managing members of the real estate business, the activist business, the long/short credit business (as of 7/1/13) (the single strategy hedge funds) and the alternative solutions business (as of 9/16/13). We do not possess unilateral control over any of these general partners or managing members.

(b) These amounts include the Ramius Event Driven Equity Fund and the Company's invested capital of approximately $150.6 million, $147.0 million and $148.0 million as of October 1, 2013, January 1, 2013 and January 1, 2012, respectively.

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(c) These amounts include the Company's invested capital of approximately $1.5 million, $2.5 million and $5.2 million as of October 1, 2013, January 1, 2013 and January 1, 2012, respectively.

(d) These amounts include Ramius Trading Strategies Managed Futures Fund and the Company's invested capital of approximately $19.4 million and $22.3 million as of January 1, 2013 and January 1, 2012, respectively. RTS Global 3X was liquidated on March 31, 2013, therefore, the notional amount of the Company's investment in RTS Global 3X Fund LP is only included in the Company's assets under management as of January 1, 2013 and prior years.

(e) These amounts include the Company's invested capital of approximately $16.4 million, $16.0 million and $8.6 million as of October 1, 2013, January 1, 2013 and January 1, 2012, respectively.

(f) This amount reflects committed capital.

(g) The Company's cash management services business provided clients with investment guidelines for managing cash and established investment programs for managing their cash in separately managed accounts. Given the current focus of the Company's alternative investment management business and the areas where the Company believes it can achieve long term growth, as of November 1, 2012, the Company no longer offered cash management services and arranged for the transfer of the remaining assets under management related to such business to another asset manager. This transfer was completed in December 2012. The Company continues to provide mortgage advisory services where the Company manages collateralized debt obligations held by investors.

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

Fund Performance

The third quarter captured the range of market sentiments set in motion by Federal Reserve Chairman Bernanke’s testimony on May 22 before the Joint Economic Committee of Congress, when he spoke of the Fed “tapering back" its monthly mortgage bond purchase program. While the immediate negative market reaction made June a very difficult period for both equity and bond investors, the subsequent three months alternated between positive and negative outcomes.

As noted in last quarter’s comments, immediate pressure was directed at U.S. government securities, with the overall U.S. Treasury market suffering four consecutive months of losses from May through August. Yields on the ten year, which had bottomed at 1.61% on May 1, rose to 2.61% on September 30. Corporate bonds, from investment grade to high yield, sold off as well. There was a record monthly outflow of $9.5 billion from high yield mutual funds in June; after a small technical rally in July and a negative August, investor sentiment appeared to change when resurgent demand allowed for a record $52.7 billion of high yield debt to be issued in September. Similarly, investment grade debt, which had suffered price declines, also saw a reversal in sentiment, and a record $149 billion of investment grade paper was issued in September as well. Much of this strength in fixed income occurred in the last two weeks of the quarter, as Larry Summers withdrew his name from the Fed Chairman nominee pool, and fears of tapering dissipated.

Equities also had elevated moments of volatility, but the S&P 500 rose 5.24% for the quarter and the Russell 2000 gained 9.34%. Following a loss of 9.46% in the Dow Jones UBS Commodity Index in the second quarter, the index gained 2.12% during the third quarter. More dramatically, after gold had lost more than 23% during the second quarter (the worst quarterly loss since the advent of modern trading of gold futures began in 1974) the metal crept back 6% despite a weak September.

Ramius hedge fund vehicles had positive results across the board, including both the long /short corporate credit and small-cap activist funds. As previously noted, the credit fund's relative results during the most stressful months of May and June were reassuring. The fund has outperformed the Merrill Lynch High Yield II Index on a year to date basis. The activist fund again lagged the Russell 2000 for the quarter, but its long terms results continue to be substantially above the Index. Short term returns can vary over time due to the idiosyncratic nature of the fund's portfolio.

Consistent with past periods, the internally managed multi-strategy funds maintained their focus on capital preservation, while executing opportunistic transactions linked to certain assets in order to make distributions to investors. In May, Ramius introduced a merger arbitrage fund to investors, and thus far the fund has exceeded the benchmark HFRX Merger Arbitrage Index.

The more liquid alternative mutual funds (offering hedge fund exposures, multi-manager managed futures access and a long volatility strategy) had varying results for the quarter. Hedge fund replication was positive and outperformed a representative, investable hedge fund index, which has a higher equity-related component. The managed futures fund declined in an environment that continues to challenge the asset class. The strategic volatility fund participated in the occasional, but temporary, upticks in equity volatility, but overall market volatility remains at depressed levels.
In terms of longer-dated investment vehicles, the Longview real estate debt funds were marginally positive for the quarter. The primary real estate equity fund was fractionally lower. Both debt and equity funds reflect valuations that have

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recovered sharply from the lows of 2009. In another longer-term alternative asset class, our health care royalty fund continues to steadily commit capital and perform to expectations.

Invested Capital

The Company invests a significant portion of its capital base to help drive results and facilitate the growth of its alternative investment and broker/dealer businesses. Management allocates capital to three primary investment categories: (i) trading strategies; (ii) merchant banking investments; and (iii) real estate investments. The Company seeks to make strategic and opportunistic investments in varying capital structures across a diverse array of businesses, hedge funds and mutual funds. Much of the Company's trading strategy portfolio is invested along side the Company's alternative investment clients and includes liquid investment strategies such as corporate credit trading, event driven, macro trading, and enhanced cash management. Within its merchant banking investments, management generally takes a long-term view that typically involves investing directly in public and private companies globally, private equity funds and along side its alternative investment management clients. The Company's real estate investment strategy focuses on making investments along side the Company's alternative investment clients in Ramius managed funds such as the RCG Longview platform, as well as in direct investments in commercial real estate projects.

As of September 30, 2013, the Company's invested capital amounted to a net value of $407.0 million (supporting a long market value of $679.3 million), representing approximately 80% of Cowen Group's stockholders' equity presented in accordance with US GAAP. The table below presents the Company's invested equity capital by strategy and as a percentage of Cowen Group's stockholders' equity as of September 30, 2013. The net values presented in the table below do not tie to Cowen Group's condensed consolidated statement of financial condition as of September 30, 2013 because they are included in various line items of the condensed consolidated statement of financial condition, including “securities owned, at fair value”, “other investments”, “cash and cash equivalents”, and “consolidated funds-securities owned, at fair value”.

Strategy	Net Value (dollars in millions)	% of Stockholders' Equity
Trading	$239.1	47%
Merchant Banking	109.4	21%
Real Estate	58.5	11%
Total	407.0	80%
Stockholders' Equity	$511.3	100%

The allocations shown in the table above will change over time.

Results of Operations

To provide comparative information of the Company's operating results for the periods presented, a discussion of Economic Income (Loss) of our alternative investment management and broker-dealer segments follows the discussion of our total consolidated US GAAP results. Economic Income (Loss) reflects, on a consistent basis for all periods presented in the Company's condensed consolidated financial statements, income earned from the Company's funds and managed accounts and from its own invested capital. Economic Income (Loss) excludes certain adjustments required under US GAAP. See the section titled “Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company-Segment Analysis and Economic Income (Loss),” and Note 17 to the Company's condensed consolidated financial statements, appearing elsewhere in this Form 10-Q, for a reconciliation of Economic Income (Loss) to total Company US GAAP net income (loss).

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Three Months Ended September 30, 2013 Compared with the Three Months Ended September 30, 2012

Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30,		Period to Period	
	2013	2012	$ Change	% Change
	(dollars in thousands)			
Revenues				
Investment banking	$27,694	$18,666	$9,028	48 %
Brokerage	28,462	22,701	5,761	25 %
Management fees	9,327	8,866	461	5 %
Incentive income	2,521	1,416	1,105	78 %
Interest and dividends	10,969	3,605	7,364	204 %
Reimbursement from affiliates	1,386	1,370	16	1 %
Other revenues	556	701	(145)	(21)%
Consolidated Funds revenues	445	273	172	63 %
Total revenues	81,360	57,598	23,762	41 %
Expenses				
Employee compensation and benefits	53,614	47,322	6,292	13 %
Interest and dividends	6,133	2,056	4,077	198 %
General, administrative and other expenses	31,540	29,346	2,194	7 %
Consolidated Funds expenses	450	330	120	36 %
Total expenses	91,737	79,054	12,683	16 %
Other income (loss)				
Net gain (loss) on securities, derivatives and other investments	15,469	12,510	2,959	24 %
Consolidated Funds net gains (losses)	3,232	(2,509)	5,741	(229)%
Total other income (loss)	18,701	10,001	8,700	87 %
Income (loss) before income taxes	8,324	(11,455)	19,779	(173)%
Income taxes expense (benefit)	(46)	163	(209)	(128)%
Net income (loss)	8,370	(11,618)	19,988	(172)%
Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	4,759	(1,033)	5,792	(561)%
Net income (loss) attributable to Cowen Group, Inc. stockholders	$3,611	$(10,585)	$14,196	(134)%

Revenues

Investment Banking

Investment banking revenues increased $9.0 million to $27.7 million for the three months ended September 30, 2013 compared with $18.7 million in the prior year quarter. During the three months ended September 30, 2013, the Company completed 20 underwriting transactions, one strategic advisory transactions and seven debt capital market transactions. During the three months ended September 30, 2012, the Company completed 11 underwriting transactions, one strategic advisory transaction and three debt capital market transactions.

Brokerage

Brokerage revenues increased $5.8 million to $28.5 million for the three months ended September 30, 2013 compared with $22.7 million in the prior year quarter. This was attributable to higher commissions due to an increase in customer trading volume at the Company (even though there was an industry wide decline in volume), which was partially related to an increase in stocks covered due to the Company's acquisition of Dahlman Rose & Company, LLC (subsequently renamed Cowen Securities) during the first quarter of 2013 and equity finance revenues related to

the acquisition of KDC Securities (subsequently renamed Cowen Equity Finance) in November 2012. Customer trading volumes across the industry (according to Bloomberg) decreased 3% in the three months ended September 30, 2013 compared to the same period in 2012.

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Management Fees

Management fees increased $0.4 million to $9.3 million for the three months ended September 30, 2013 compared with $8.9 million in the prior year quarter. This increase was primarily related to an increase in management fees from our credit and healthcare funds.

Incentive Income

Incentive income increased $1.1 million to $2.5 million for the three months ended September 30, 2013, compared with $1.4 million in the prior year quarter. This increase was primarily related to an increase in performance fees from our credit fund.

Interest and Dividends

Interest and dividends increased $7.4 million to $11.0 million for the three months ended September 30, 2013 compared with $3.6 million in the prior year quarter. This was primarily attributable to the activity in our stock loan business which began in the fourth quarter of 2012.

Reimbursements from Affiliates

Reimbursements from affiliates remained unchanged at $1.4 million for the three months ended September 30, 2013 compared with the prior year quarter.

Other Revenues

Other revenues decreased $0.1 million to $0.6 million for the three months ended September 30, 2013 compared with $0.7 million in the prior year quarter.

Consolidated Funds Revenues

Consolidated Funds revenues increased $0.1 million to $0.4 million for the three months ended September 30, 2013 compared with $0.3 million in the prior year quarter.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expenses increased $6.3 million to $53.6 million for the three months ended September 30, 2013 compared with $47.3 million in the prior year quarter. The increase is primarily due to $23.7 million higher revenues during the third quarter of 2013 as compared to 2012 and thus resulting in a higher compensation and benefits accrual to remain consistent with the Company's compensation to revenue ratio. The increase is also related to an increase in headcount due to the acquisition of Dahlman Rose (subsequently renamed to Cowen Securities) in the first quarter of 2013. The compensation to revenue ratio, based on total revenues only, was 66% for the three months ended September 30, 2013, compared with 82% for the prior year period. The decrease in the compensation to revenue ratio resulted from a 13% increase in total compensation combined with a 41% increase in total revenues. The compensation to revenue ratio, including other income (loss), was 54% for the three months ended September 30, 2013, compared with 70% for the prior year period. Average headcount increased by 8.2% for the three months ended September 30, 2013 compared to the prior year quarter.

Interest and Dividends

Interest and dividends expense increased $4.0 million to $6.1 million for the three months ended September 30, 2013 compared with $2.1 million in the prior year quarter. Interest and dividends expense relates to trading activity with respect to the Company's investments and activity in our stock loan business which began in the fourth quarter of 2012.

General, Administrative and Other Expenses

General, administrative and other expenses increased $2.2 million to $31.5 million for the three months ended September 30, 2013 compared with $29.3 million in the prior year quarter. This was primarily due to increased communications and floor brokerage and trade execution costs due to two acquisitions completed during second and fourth quarter of 2012 and one in the first quarter of 2013 which a) require additional market data services and b) generated increased trading costs and is in line with the increase in associated revenues. Marketing and business development expenses have increased due to firm wide increased marketing activity. Occupancy and depreciation and amortization costs increased due to the Dahlman Rose (renamed to Cowen Securities) acquisition completed during the first quarter of 2013.

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Consolidated Funds Expenses

Consolidated Funds expenses increased $0.2 million to $0.5 million for the three months ended September 30, 2013 compared with $0.3 million for the prior year quarter.

Other Income (Loss)

Other income (loss) increased $8.7 million to $18.7 million for the three months ended September 30, 2013 compared with $10.0 million in the prior year quarter. The increase primarily relates to an increase in the Company's own invested capital driven by increases in performance in certain investment strategies including our credit, PIPEs and equities strategies. The gains and losses shown under Consolidated Funds reflect the consolidated total performance for such funds, and the portion of those gains or losses that are attributable to other investors is allocated to redeemable non-controlling interests.

Income Taxes

Income tax benefit remained fairly flat for the three months ended September 30, 2013 compared with an income tax expense of $0.2 million in the prior year quarter. The Company’s tax benefit increased primarily because the Company’s foreign subsidiaries recorded lower foreign taxes resulting from decreased pre-tax income.

Income (Loss) Attributable to Redeemable Non-controlling Interests

Income (loss) attributable to redeemable non-controlling interests increased by $5.8 million to an income of $4.8 million for the three months ended September 30, 2013 compared with a loss of $1.0 million in the prior year quarter. The period over period change was primarily from the result of an extension of the partnership agreement relating to our credit business (subsequently renamed Orchard Square Partners) and our alternative solutions business which resulted in a profit split and therefore more allocations of income to non-controlling interest holders.

Nine Months Ended September 30, 2013 Compared with the Nine Months Ended September 30, 2012

Condensed Consolidated Statements of Operations (unaudited)

	Nine Months Ended September 30,		Period to Period	
	2013	2012	$ Change	% Change
	(dollars in thousands)			
Revenues				
Investment banking	$70,431	$50,550	$19,881	39 %
Brokerage	86,583	71,282	15,301	21 %
Management fees	28,518	28,515	3	— %
Incentive income	7,086	2,687	4,399	164 %
Interest and dividends	30,905	14,845	16,060	108 %
Reimbursement from affiliates	4,085	3,796	289	8 %
Other revenues	1,519	2,398	(879)	(37)%
Consolidated Funds revenues	681	474	207	44 %
Total revenues	229,808	174,547	55,261	32 %
Expenses				
Employee compensation and benefits	145,344	137,102	8,242	6 %
Interest and dividends	20,287	7,107	13,180	185 %
General, administrative and other expenses	94,593	87,670	6,923	8 %
Consolidated Funds expenses	1,237	1,339	(102)	(8)%
Total expenses	261,461	233,218	28,243	12 %
Other income (loss)				
Net gain (loss) on securities, derivatives and other investments	32,873	41,969	(9,096)	(22)%
Consolidated Funds net gains (losses)	11,705	1,437	10,268	715 %
Total other income (loss)	44,578	43,406	1,172	3 %
Income (loss) before income taxes	12,925	(15,265)	28,190	(185)%

Income taxes expense (benefit)	288	496	(208)	(42)%
Net income (loss)	12,637	(15,761)	28,398	(180)%
Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries	10,509	(1,225)	11,734	(958)%
Net income (loss) attributable to Cowen Group, Inc. stockholders	$2,128	$(14,536)	$16,664	(115)%

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Revenues

Investment Banking

Investment banking revenues increased $19.8 million to $70.4 million for the nine months ended September 30, 2013 compared with $50.6 million for the first nine months of 2012. During the nine months ended September 30, 2013, the Company completed 49 underwriting transactions, six strategic advisory transactions and 14 debt capital market transactions. During the nine months ended September 30, 2012, the Company completed 42 underwriting transactions, three strategic advisory transactions and seven debt capital market transactions.

Brokerage

Brokerage revenues increased $15.3 million to $86.6 million for the nine months ended September 30, 2013 compared with $71.3 million for the first nine months of 2012. This was attributable to higher commissions due to an increase in customer trading volume (even though there was an industry wide decline in volume), which was partially related to an increase in stocks covered due to the Company's acquisition of Dahlman Rose & Company, LLC (subsequently renamed to Cowen Securities) during the first quarter of 2013, fees related to the Company's acquisition of ATM in the second quarter of 2012 and equity finance revenues related to the acquisition of KDC Securities (subsequently renamed to Cowen Equity Finance) in November 2012. Customer trading volumes across the industry (according to Bloomberg) decreased 7% in the nine months ended September 30, 2013 compared to the same period in 2012.

Management Fees

Management fees remained unchanged at $28.5 million for the nine months ended September 30, 2013 compared with the first nine months of 2012.

Incentive Income

Incentive income increased $4.4 million to $7.1 million for the nine months ended September 30, 2013, compared with $2.7 million for the first nine months of 2012. This increase was primarily related to an increase in performance fees from our credit fund.

Interest and Dividends

Interest and dividends increased $16.1 million to $30.9 million for the nine months ended September 30, 2013 compared with $14.8 million for the first nine months of 2012. This was primarily attributable to the activity in our stock loan business which began in the fourth quarter of 2012.

Reimbursements from Affiliates

Reimbursements from affiliates increased $0.3 million to $4.1 million for the nine months ended September 30, 2013 compared with $3.8 million for the first nine months of 2012.

Other Revenues

Other revenues decreased $0.9 million to $1.5 million for the nine months ended September 30, 2013 compared with $2.4 million for the first nine months of 2012.

Consolidated Funds Revenues

Consolidated Funds revenues increased $0.2 million to $0.7 million for the nine months ended September 30, 2013 compared with $0.5 million for the first nine months of 2012.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expenses increased $8.2 million to $145.3 million for the nine months ended September 30, 2013 compared with $137.1 million for the first nine months of 2012. The increase is primarily due to $55.3 million higher revenues during the third quarter of 2013 as compared to 2012 and thus resulting in a higher compensation and benefits accrual to remain consistent with the Company's compensation to revenue ratio. The increase is also related to an increase in headcount due to the acquisition of Dahlman Rose (subsequently renamed to Cowen Securities) in the first quarter of 2013. The compensation to revenue ratio, based on total revenues only, was 63% for the nine months ended September 30, 2013, compared with 79% for the first nine months of 2012. The decrease in the compensation to revenue ratio resulted from a 6% increase in total compensation combined with a 32% increase in total revenues. The compensation to revenue ratio, including other income (loss), was 53% for the nine months ended September 30, 2013, compared with 63% for the first nine

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months of 2012. Average headcount increased by 7.3% for the nine months ended September 30, 2013 compared to the prior year period.

Interest and Dividends

Interest and dividends expense increased $13.2 million to $20.3 million for the nine months ended September 30, 2013 compared with $7.1 million for the first nine months of 2012. Interest and dividends expense relates to trading activity with respect to the Company's investments and activity in our stock loan business which began in the fourth quarter of 2012.

General, Administrative and Other Expenses

General, administrative and other expenses increased $6.9 million to $94.6 million for the nine months ended September 30, 2013 compared with $87.7 million for the first nine months of 2012. This was primarily due to increased communications and floor brokerage and trade execution costs due to two acquisitions completed during second and fourth quarter of 2012 and one in the first quarter of 2013 which a) require additional market data services and b) generated increased trading costs and is in line with the increase in associated revenues. Marketing and business development expenses have increased due to firm wide increased marketing activity. Occupancy and depreciation and amortization costs increased due to the Dahlman Rose (renamed to Cowen Securities) acquisition completed during the first quarter of 2013.

Consolidated Funds Expenses

Consolidated Funds expenses decreased $0.1 million to $1.2 million for the nine months ended September 30, 2013 compared with $1.3 million for the first nine months of 2012.

Other Income (Loss)

Other income (loss) increased $1.2 million to $44.6 million for the nine months ended September 30, 2013 compared with $43.4 million for the first nine months of 2012. The increase primarily relates to an increase in the Company's own invested capital driven by increases in performance in certain investment strategies including our credit, PIPEs and equities strategies. The gains and losses shown under Consolidated Funds reflect the consolidated total performance for such funds, and the portion of those gains or losses that are attributable to other investors is allocated to redeemable non-controlling interests.

Income Taxes

Income tax expense decreased $0.2 million to $0.3 million for the nine months ended September 30, 2013 compared with $0.5 million for the first nine months of 2012. The Company’s tax expense decreased primarily because the Company’s foreign subsidiaries recorded lower foreign taxes resulting from decreased pre-tax income.

Income (Loss) Attributable to Redeemable Non-controlling Interests

Income (loss) attributable to redeemable non-controlling interests increased by $11.7 million to an income of $10.5 million for the nine months ended September 30, 2013 compared with a loss of $1.2 million for the first nine months of 2012. The period over period change was primarily from the result of an extension of the partnership agreement relating to our credit business (subsequently renamed Orchard Square Partners) and our alternative solutions business which resulted in a profit split and therefore more allocations of income to non-controlling interest holders.

Segment Analysis and Economic Income (Loss)

Segments

The Company conducts its operations through two segments: an alternative investment segment and a broker-dealer segment. The Company's alternative investment segment currently includes its hedge funds, replication products, managed futures funds, fund of funds, real estate, healthcare royalty funds and other investment platforms businesses. The Company's broker-dealer segment currently includes its investment banking, brokerage and equity research businesses.

Economic Income (Loss)

The performance measure used by the Company for each segment is Economic Income (Loss), which management uses to evaluate the financial performance of and make operating decisions for the firm as a whole and each segment. Accordingly, management assesses its business by analyzing the performance of each segment and believes that investors should review the same performance measure that it uses to analyze its segment and business performance. In addition, management believes that Economic Income (Loss) is helpful to gain an understanding of its segment

results of operations because it reflects such results on a consistent basis for all periods presented.

Our Economic Income (Loss) may not be comparable to similarly titled measures used by other companies. We use Economic Income (Loss) as a measure of each segment's operating performance, not as a measure of liquidity. Economic

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Income (Loss) should not be considered in isolation or as a substitute for operating income, net income, operating cash flows, investing and financing activities, or other income or cash flow statement data prepared in accordance with US GAAP. As a result of the adjustments made to arrive at Economic Income (Loss), Economic Income (Loss) has limitations in that it does not take into account certain items included or excluded under US GAAP, including our Consolidated Funds. Economic Income (Loss) is considered by management as a supplemental measure to the US GAAP results to provide a more complete understanding of each segment's performance as measured by management. For a reconciliation of Economic Income (Loss) to US GAAP net income (loss) for the periods presented and additional information regarding the reconciling adjustments discussed above, see Note 17 to the Company's condensed consolidated financial statements included in this 10-Q.

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

Economic Income (Loss) Revenues

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

Our alternative investment segment generates Economic Income (Loss) revenues through three principal sources: management fees, incentive income and investment income from our own capital. Management fees are directly impacted by any increase or decrease in assets under management, while incentive income is impacted by our funds' performance and resulting increase or decrease in assets under management. Investment income from the Company's own capital is impacted by the performance of the funds and other securities in which our capital is invested. The Company periodically receives other Economic Income (Loss) revenue which is unrelated to our own invested capital or our activities on behalf of the Company's funds.

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

Economic Income (Loss) Expenses

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

Non-controlling Interests

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

Three Months Ended September 30, 2013 Compared with the Three Months Ended September 30, 2012

For the three months ended September 30, 2013 and 2012, the Company's alternative investment segment includes hedge funds, replication products, mutual funds, managed futures fund, fund of funds, real estate and healthcare royalty funds operating results and other investment platforms operating results.

For the three months ended September 30, 2013 and 2012, the Company's broker-dealer segment includes investment banking, research and brokerage businesses' operating results.

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	Economic Income (Loss) Three Month Ended September 30,							
	2013			2012			Total Period-to-Period	
	Alternative Investment	Broker-Dealer (a)	Total 2013	Alternative Investment	Broker-Dealer (a)	Total 2012	$ Change	% Change
	(dollars in thousands)							
Economic Income Revenues								
Investment banking	$—	$ 27,694	$27,694	$—	$ 18,666	$18,666	$9,028	48 %
Brokerage	—	32,035	32,035	—	22,701	22,701	9,334	41 %
Management fees	14,299	—	14,299	13,426	—	13,426	873	7 %
Incentive income (loss)	5,666	—	5,666	1,699	—	1,699	3,967	233 %
Investment income (loss)	10,031	2,296	12,327	6,864	2,288	9,152	3,175	35 %
Other revenues	156	(38)	118	168	213	381	(263)	(69)%
Total economic income revenues	30,152	61,987	92,139	22,157	43,868	66,025	26,114	40 %
Economic Income Expenses								
Compensation and benefits	13,539	40,291	53,830	11,759	34,490	46,249	7,581	16 %
Non-compensation expenses—Fixed	9,138	16,268	25,406	8,657	15,490	24,147	1,259	5 %
Non-compensation expenses—Variable	1,449	5,424	6,873	1,433	4,287	5,720	1,153	20 %
Reimbursement from affiliates	(1,461)	—	(1,461)	(1,467)	—	(1,467)	6	— %
Total economic income expenses	22,665	61,983	84,648	20,382	54,267	74,649	9,999	13 %
Net economic income (loss) (before non-controlling interest)	7,487	4	7,491	1,775	(10,399)	(8,624)	16,115	(187)%
Non-controlling interest	(3,825)	—	(3,825)	(301)	—	(301)	(3,524)	1,171 %
Economic income (loss)	$3,662	$ 4	$3,666	$1,474	$ (10,399)	$(8,925)	$12,591	(141)%

(a) For the three months ended September 30, 2013 and 2012, the Company has reflected $3.0 million and $2.3 million of investment income, respectively, and related compensation expense of $1.0 million and $0.8 million, respectively, within the broker-dealer segment in proportion to its capital.

Economic Income (Loss) Revenues

Total Economic Income (Loss) revenues were $92.1 million for the three months ended September 30, 2013, an increase of $26.1 million compared to Economic Income (Loss) revenues of $66.0 million in the prior year quarter. For purposes of the following section, all references to revenue refer to Economic Income (Loss) revenues. The increase was primarily related to an increase in investment banking and brokerage revenues in addition to increased revenue from the alternative investment business.

Alternative Investment Segment

Alternative investment segment Economic Income (Loss) revenues was $30.2 million for the three months ended September 30, 2013, an increase of $8.0 million compared to Economic Income (Loss) revenues of $22.2 million in the prior year quarter.

Management Fees. Management fees for the segment increased $0.9 million to $14.3 million for the three months ended September 30, 2013 compared with $13.4 million in the prior year quarter. This increase was primarily related to an increase in management fees from our healthcare and activist funds.

Incentive Income (Loss). Incentive income for the segment increased $4.0 million to $5.7 million for the three months ended September 30, 2013 compared with $1.7 million in the prior year quarter. This increase was primarily related to an increase in performance fees from our credit and activist funds.

Investment Income (Loss). Investment income for the segment increased $3.1 million to $10.0 million for the three months ended September 30, 2013, compared with $6.9 million in the prior year quarter. The increase primarily relates to an increase in the Company's own invested capital driven by increases in performance in certain investment strategies including activist and private investments.

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Other Revenues. Other revenues for the segment remained unchanged at $0.2 million for the three months ended September 30, 2013, compared with the prior year quarter.

Broker-Dealer Segment

Broker-dealer segment Economic Income (Loss) revenues were $62.0 million for the three months ended September 30, 2013, an increase of $18.1 million compared with Economic Income (Loss) revenues of $43.9 million in the prior year quarter.

Investment Banking. Investment banking revenues increased $9.0 million to $27.7 million for the three months ended September 30, 2013 compared with $18.7 million in the prior year quarter. During the three months ended September 30, 2013, the Company completed 20 underwriting transactions, one strategic advisory transactions and seven debt capital market transactions. During the three months ended September 30, 2012, the Company completed 11 underwriting transactions, one strategic advisory transaction and three debt capital market transactions.

Brokerage. Brokerage revenues increased $9.3 million to $32.0 million for the three months ended September 30, 2013, compared with $22.7 million in the prior year quarter. This was attributable to higher commissions due to an increase in customer trading volume at the Company (even though there was an industry wide decline in volume), which was partially related to an increase in stocks covered due to the Company's acquisition of Dahlman Rose & Company, LLC (subsequently renamed Cowen Securities) during the first quarter of 2013 and equity finance revenues related to the acquisition of KDC Securities (subsequently renamed Cowen Equity Finance) in November 2012. Customer trading volumes across the industry (according to Bloomberg) decreased 3% in the three months ended September 30, 2013 compared to the same period in 2012.

Investment Income (Loss). Investment income for the segment remained unchanged at $2.3 million income for the three months ended September 30, 2013 compared with the prior year quarter.

Economic Income (Loss) Expenses

Compensation and Benefits. Total compensation and benefits expense increased $7.6 million to $53.8 million for the three months ended September 30, 2013, compared with $46.2 million in the prior year quarter. The increase is due to $26.1 million higher revenues during the third quarter of 2013 as compared to 2012 and thus resulting in a higher compensation and benefits accrual to remain consistent with the Company's compensation to revenue ratio. The increase is also related to an increase in headcount due to the acquisition of Dahlman Rose (subsequently renamed to Cowen Securities) in the first quarter of 2013. The compensation to revenue ratio was 58% for the three months ended September 30, 2013, compared to 70% for the prior year period. The decrease in the compensation to revenue ratio resulted from a 16% increase in total compensation combined with a 40% increase in revenues compared to the prior year period. Average headcount increased by 8.2% for the three months ended September 30, 2013 compared to the prior year quarter.

Compensation and benefits expenses for the alternative investment segment increased $1.7 million to $13.5 million for the three months ended September 30, 2013 compared with $11.8 million in the prior year quarter. The compensation to revenue ratio was 45% for the three months ended September 30, 2013, compared to 53% for the prior year period.

Compensation and benefits expenses for the broker-dealer segment increased $5.8 million to $40.3 million for the three months ended September 30, 2013 compared with $34.5 million in the prior year quarter. The increase is primarily attributable to an increase in headcount due to the acquisition of Dahlman Rose (subsequently renamed to Cowen Securities) in the first quarter of 2013. The compensation to revenue ratio was 65% for three months ended September 30, 2013 compared with 79% for 2012.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses increased $1.3 million to $25.4 million for the three months ended September 30, 2013 compared with $24.1 million in the prior year quarter. This was primarily due to increased occupancy and depreciation and amortization costs due to the Dahlman Rose (renamed to Cowen Securities) acquisition completed during the first quarter of 2013 which were only partially offset by lower service fees.

Fixed non-compensation expenses for the alternative investment segment increased $0.4 million to $9.1 million for the three months ended September 30, 2013 compared with $8.7 million in the prior year quarter. Fixed non-compensation expenses for the broker-dealer segment increased $0.8 million to $16.3 million for the three months

ended September 30, 2013 compared with $15.5 million in the prior year quarter.

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The following table shows the components of the non-compensation expenses—fixed, for the three months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Period-to-Period	
	2013	2012	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—fixed:				
Interest expense	$75	$131	$(56)	(43)%
Professional, advisory and other fees	3,253	2,981	272	9 %
Occupancy and equipment	6,329	5,512	817	15 %
Depreciation and amortization	2,621	2,421	200	8 %
Service fees	2,342	2,778	(436)	(16)%
Other	10,786	10,324	462	4 %
Total	$25,406	$24,147	$1,259	5 %

Non-compensation Expenses—Variable. Variable non-compensation expenses, which primarily are comprised of expenses which are incurred as a direct result of the processing and soliciting of revenue generating activities, increased $1.2 million to $6.9 million for the three months ended September 30, 2013 compared with $5.7 million in the prior year quarter. The increase in floor brokerage and trade execution relate to two acquisitions completed during second and fourth quarter of 2012 and one in the first quarter of 2013 which generated increased trading costs and is in line with the increase in associated revenues.

The following table shows the components of the non-compensation expenses—variable, for the three months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Period-to-Period	
	2013	2012	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—Variable:				
Floor brokerage and trade execution	$2,858	$1,789	$1,069	60 %
Expenses related to Luxembourg reinsurance companies	772	748	24	3 %
Marketing and business development	3,243	3,183	60	2 %
Total	$6,873	$5,720	$1,153	20 %

Reimbursement from Affiliates. Reimbursements from affiliates, which relate to the alternative investment segment, remained unchanged at $1.5 million for the three months ended September 30, 2013 compared with the prior year quarter.

Non-Controlling Interest. Non-Controlling interest represents the portion of the net income or loss attributable to certain non-wholly owned subsidiaries that is allocated to other investors. The period over period change was the result of an extension of the partnership agreement relating to our credit business (subsequently renamed Orchard Square Partners) and our alternative solutions business which resulted in a profit split and therefore more allocations of income to non-controlling interest holders.

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Nine Months Ended September 30, 2013 Compared with the Nine Months Ended September 30, 2012

	Economic Income (Loss) Nine Months Ended September 30,							
	2013			2012			Total Period-to-Period	
	Alternative Investment	Broker-Dealer (a)	Total 2013	Alternative Investment	Broker-Dealer (a)	Total 2012	$ Change	% Change
	(dollars in thousands)							
Economic Income Revenues								
Investment banking	$—	$ 70,431	$70,431	$—	$ 50,550	$50,550	$19,881	39 %
Brokerage	—	93,352	93,352	—	71,282	71,282	22,070	31 %
Management fees	43,050	—	43,050	42,032	—	42,032	1,018	2 %
Incentive income (loss)	14,558	—	14,558	8,303	—	8,303	6,255	75 %
Investment income (loss)	22,169	4,593	26,762	30,361	8,182	38,543	(11,781)	(31)%
Other revenues	381	(427)	(46)	508	186	694	(740)	(107)%
Total economic income revenues	80,158	167,949	248,107	81,204	130,200	211,404	36,703	17 %
Economic Income Expenses								
Compensation and benefits	37,863	108,202	146,065	42,705	91,098	133,803	12,262	9 %
Non-compensation expenses—Fixed	26,878	46,285	73,163	24,216	45,810	70,026	3,137	4 %
Non-compensation expenses—Variable	3,594	19,192	22,786	3,881	15,852	19,733	3,053	15 %
Reimbursement from affiliates	(4,291)	—	(4,291)	(4,018)	—	(4,018)	(273)	7 %
Total economic income expenses	64,044	173,679	237,723	66,784	152,760	219,544	18,179	8 %
Net economic income (loss) (before non-controlling interest)	16,114	(5,730)	10,384	14,420	(22,560)	(8,140)	18,524	(228)%
Non-controlling interest	(6,517)	—	(6,517)	(900)	—	(900)	(5,617)	624 %
Economic income (loss)	$9,597	$ (5,730)	$3,867	$13,520	$ (22,560)	$(9,040)	$12,907	(143)%

(a) For the nine months ended September 30, 2013 and 2012, the Company has reflected $5.6 million and $8.2 million of investment income, respectively, and related compensation expense of $1.8 million and $2.7 million, respectively, within the broker-dealer segment in proportion to its capital.

Economic Income (Loss) Revenues

Total Economic Income (Loss) revenues were $248.1 million for the nine months ended September 30, 2013, an increase of $36.7 million compared to Economic Income (Loss) revenues of $211.4 million for the first nine months of 2012. For purposes of the following section, all references to revenue refer to Economic Income (Loss) revenues. The increase was primarily related to an increase in investment banking and brokerage revenues offset partially by a decrease in investment income.

Alternative Investment Segment

Alternative investment segment Economic Income (Loss) revenues was $80.2 million for the nine months ended September 30, 2013, a decrease of $1.0 million compared to Economic Income (Loss) revenues of $81.2 million for the first nine months of 2012.

Management Fees. Management fees for the segment increased $1.1 million to $43.1 million for the nine months ended September 30, 2013 compared with $42.0 million for the first nine months of 2012. This increase was primarily related to an increase in management fees from our healthcare and activist funds.

Incentive Income (Loss). Incentive income for the segment increased $6.3 million to $14.6 million for the nine months ended September 30, 2013 compared with $8.3 million for the first nine months of 2012. This increase was primarily related to an increase in performance fees from our credit and activist funds.

Investment Income (Loss). Investment income for the segment decreased $8.2 million to $22.2 million for the nine months ended September 30, 2013, compared with $30.4 million for the first nine months of 2012. The decrease primarily

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relates to a decrease in the Company's own invested capital driven by decreases in performance in certain investment strategies including our credit, PIPEs and equities strategies.

Other Revenues. Other revenues for the segment decreased $0.1 million to $0.4 million of income for the nine months ended September 30, 2013, compared with $0.5 million of loss for the first nine months of 2012.

Broker-Dealer Segment

Broker-dealer segment Economic Income (Loss) revenues were $167.9 million for the nine months ended September 30, 2013, an increase of $37.7 million compared with Economic Income (Loss) revenues of $130.2 million for the first nine months of 2012.

Investment Banking. Investment banking revenues increased $19.8 million to $70.4 million for the nine months ended September 30, 2013 compared with $50.6 million for the first nine months of 2012. During the nine months ended September 30, 2013, the Company completed 49 underwriting transactions, six strategic advisory transactions and 14 debt capital market transactions. During the nine months ended September 30, 2012, the Company completed 42 underwriting transactions, three strategic advisory transactions and seven debt capital market transactions.

Brokerage. Brokerage revenues increased $22.1 million to $93.4 million for the nine months ended September 30, 2013, compared with $71.3 million for the first nine months of 2012. This was attributable to higher commissions due to an increase in customer trading volume (even though there was an industry wide decline in volume), which was partially related to an increase in stocks covered due to the Company's acquisition of Dahlman Rose & Company, LLC (subsequently renamed to Cowen Securities) during the first quarter of 2013, fees related to the Company's acquisition of ATM in the second quarter of 2012 and equity finance revenues related to the acquisition of KDC Securities (subsequently renamed to Cowen Equity Finance) in November 2012. Customer trading volumes across the industry (according to Bloomberg) decreased 7% in the nine months ended September 30, 2013 compared to the same period in 2012.

Investment Income (Loss). Investment income for the segment decreased $3.6 million to $4.6 million for the nine months ended September 30, 2013, compared with $8.2 million for the first nine months of 2012. The decrease is a result of a decrease in overall investment income available for allocation.

Economic Income (Loss) Expenses

Compensation and Benefits. Total compensation and benefits expense increased $12.3 million to $146.1 million for the nine months ended September 30, 2013, compared with $133.8 million for the first nine months of 2012. The increase is due to $36.7 million higher revenues during the first nine months of 2013 as compared to 2012 and thus resulting in a higher compensation and benefits accrual to remain consistent with the Company's compensation to revenue ratio. The increase is also related to an increase in headcount due to the acquisition of Dahlman Rose (subsequently renamed to Cowen Securities) in the first quarter of 2013. The compensation to revenue ratio was 59% for the nine months ended September 30, 2013, compared to 63% for the prior year period. The decrease in the compensation to revenue ratio resulted from a 9% increase in total compensation combined with a 17% increase in revenues compared to the prior year period. Average headcount increased by 7.3% for the nine months ended September 30, 2013 compared to the prior year period.

Compensation and benefits expenses for the alternative investment segment decreased $4.8 million to $37.9 million for the nine months ended September 30, 2013 compared with $42.7 million for the first nine months of 2012. The compensation to revenue ratio was 47% for the nine months ended September 30, 2013, compared to 53% for the prior year period.

Compensation and benefits expenses for the broker-dealer segment increased $17.1 million to $108.2 million for the nine months ended September 30, 2013 compared with $91.1 million for the first nine months of 2012. The increase is due to $37.8 million higher revenues during the first nine months of 2013 as compared to 2012 and thus resulting in a higher compensation and benefits accrual to remain consistent with the Company's compensation to revenue ratio. The compensation to revenue ratio was 64% for nine months ended September 30, 2013 compared with 70% for 2012.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses increased $3.2 million to $73.2 million for the nine months ended September 30, 2013 compared with $70.0 million for the first nine months of 2012. This was primarily due to increased occupancy and depreciation and amortization costs due to the Dahlman Rose (renamed to Cowen Securities) acquisition completed during the first quarter of 2013. These expense increases were partially

offset by a reduction in professional fees related to lower accounting, legal and recruitment fees.

Fixed non-compensation expenses for the alternative investment segment increased $2.7 million to $26.9 million for the nine months ended September 30, 2013 compared with $24.2 million for the first nine months of 2012. Fixed non-compensation expenses for the broker-dealer segment increased $0.5 million to $46.3 million for the nine months ended September 30, 2013 compared with $45.8 million for the first nine months of 2012.

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The following table shows the components of the non-compensation expenses—fixed, for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,		Period-to-Period	
	2013	2012	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—fixed:				
Interest expense	$271	$278	$(7)	(3)%
Professional, advisory and other fees	8,666	9,391	(725)	(8)%
Occupancy and equipment	17,922	15,265	2,657	17 %
Depreciation and amortization	7,763	6,936	827	12 %
Service fees	7,566	8,156	(590)	(7)%
Other	30,975	30,000	975	3 %
Total	$73,163	$70,026	$3,137	4 %

Non-compensation Expenses—Variable. Variable non-compensation expenses, which primarily are comprised of expenses which are incurred as a direct result of the processing and soliciting of revenue generating activities, increased $3.1 million to $22.8 million for the nine months ended September 30, 2013 compared with $19.7 million for the first nine months of 2012. The increase in floor brokerage and trade execution relate to two acquisitions completed during second and fourth quarter of 2012 and one in the first quarter of 2013 which generated increased trading costs and is in line with the increase in associated revenues. Marketing and business development expenses have increased due to firm wide increased marketing activity.

The following table shows the components of the non-compensation expenses—variable, for the nine months ended September 30, 2013 and 2012:

	Nine Months Ended September 30,		Period-to-Period	
	2013	2012	$ Change	% Change
	(dollars in thousands)			
Non-compensation expenses—Variable:				
Floor brokerage and trade execution	$9,481	$7,367	$2,114	29 %
Expenses related to Luxembourg reinsurance companies	1,804	2,093	(289)	(14)%
Marketing and business development	11,501	10,273	1,228	12 %
Total	$22,786	$19,733	$3,053	15 %

Reimbursement from Affiliates. Reimbursements from affiliates, which relate to the alternative investment segment, increased $0.3 million to $4.3 million for the nine months ended September 30, 2013 compared with $4.0 million for the first nine months of 2012.

Non-Controlling Interest. Non-Controlling interest represents the portion of the net income or loss attributable to certain non-wholly owned subsidiaries that is allocated to other investors. The period over period change was the result of an extension of the partnership agreement relating to our credit business (subsequently renamed Orchard Square Partners) and our alternative solutions business which resulted in a profit split and therefore more allocations of income to non-controlling interest holders.

Liquidity and Capital Resources

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

- pay our operating expenses, primarily consisting of compensation and benefits and general and administrative expenses; and
- provide capital to facilitate the growth of our existing business.

Based on our historical results, management's experience, our current business strategy and current assets under management, the Company believes that its existing cash resources will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. Our cash reserves include cash, cash equivalents and assets readily convertible into cash such as our securities held in inventory. Securities inventories are stated at fair value and are

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generally readily marketable. As of September 30, 2013, we had cash and cash equivalents of $39.2 million, which includes $12.1 million held in foreign subsidiaries, and net liquid investment assets of $252.2 million.

The timing of cash bonus payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees are generally paid salaries semi-monthly during the year, cash bonus payments, which can make up a significant portion of total compensation, are generally paid once a year by March 15th.

As discussed in “Management's Discussion and Analysis of Financial Condition and Results of Operations-Certain Factors Impacting Our Business” we entered into a modification agreement with affiliates of Unicredit S.p.A in May 2010 and it is not expected to have a material impact on the Company's liquidity and capital resources.

As of September 30, 2013, the Company had unfunded commitments of $19.4 million pertaining to capital commitments in four real estate investments held by the Company, all of which pertain to related party investments. Such commitments can be called at any time, subject to advance notice. The Company, as a limited partner of the HealthCare Royalty Partners funds and also as a member of HealthCare Royalty Partners General Partner, has committed to invest $42.4 million in the Healthcare Royalty Partners funds which are managed by Healthcare Royalty Management. This commitment is expected to be called over a two to five year period. The Company will make its pro-rata investment in the HealthCare Royalty Partners funds along with the other limited partners. Through September 30, 2013, the Company has funded $29.3 million towards these commitments. In April 2011, the Company committed $15.0 million to Starboard Value and Opportunity Fund LP, which may increase or decrease over time with the performance of Starboard Value and Opportunity Fund LP. As of September 30, 2013, the Company has fully funded this commitment. In April 2013, the Company committed $1.0 million to Starboard Leaders Fund LP, which may increase or decrease over time dependent on the performance of the fund, and, as of September 30, 2013, has funded $0.5 million towards this commitment. In January 2013, the Company committed $10.0 million to Orchard Square Partners Credit Fund LP (formerly known as Ramius Global Credit Fund LP). As of March 31, 2013, the Company has fully funded this commitment. In September 2012, the Company committed $10.0 million to Formation 8 Partners Fund I LP as a limited partner and funded $3.0 million through September 30, 2013. The remaining capital commitment is expected to be called over a five year period.

Due to the nature of the securities business and our role as a market-maker and execution agent, the amount of our cash and short-term investments, as well as operating cash flow, may vary considerably due to a number of factors, including the dollar value of our positions as principal, whether we are net buyers or sellers of securities, the dollar volume of executions by our customers and clearing house requirements, among others. Certain regulatory requirements constrain the use of a portion of our liquid assets for financing, investing or operating activities. Similarly, due to the nature of our business lines, the capital necessary to maintain current operations and our current funding needs subject our cash and cash equivalents to different requirements and uses.

As registered broker dealers, Cowen and Company, ATM Execution (formerly known as Cowen Capital LLC), ATM USA, and Cowen Equity Finance are subject to the SEC's Uniform Net Capital Rule 15c3-1 (the “Rule”), which requires the maintenance of minimum net capital. Under the alternative method permitted by the Rule, Cowen and Company's minimum net capital requirement, as defined, is $1.0 million. Under the basic method permitted by the Rule, ATM Execution is required to maintain minimum net capital, as defined, equivalent to the greater of $1.0 million or 6.667% of aggregate indebtedness. ATM USA is required to maintain minimum net capital, as defined, equivalent to the greater of $5,000 or 6.667% of aggregate indebtedness. Cowen Equity Finance is required to maintain minimum net capital, as defined, equal to $250,000. The broker-dealers are not permitted to withdraw equity if certain minimum net capital requirements are not met. As of September 30, 2013, Cowen and Company had total net capital of approximately $52.3 million, which was approximately $51.3 million in excess of its minimum net capital requirement of $1.0 million. As of September 30, 2013, ATM Execution had total net capital of approximately $3.5 million, which was approximately $2.5 million in excess of its minimum net capital requirement of $1.0 million. As of September 30, 2013, ATM USA had total net capital of approximately $0.9 million, which was approximately $0.9 million in excess of its minimum net capital requirement of $6,138. As of September 30, 2013, Cowen Equity Finance had total net capital of approximately $11.5 million which was approximately $11.2 million in excess of its minimum net capital requirement of $250,000. As of August 23, 2013, Cowen Securities had been deregistered as a broker dealer and is no longer subject to the SEC's Uniform Net Capital Rule 15c3-1.

Cowen and Company and ATM Execution are exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 as its activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule. Similarly, ATM USA and Cowen Equity Finance are exempt from the provisions of Rule 15c3-3 under (k)(2)(i).

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

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Ramius UK Ltd. ("Ramius UK") and Cowen International Limited ("CIL") are subject to the capital requirements of the Financial Conduct Authority (“FCA”) of the UK. Financial Resources, as defined, must exceed the requirement of the FCA. As of September 30, 2013, Ramius UK's Financial Resources of $0.5 million exceeded its minimum requirement of $0.2 million by $0.3 million. As of September 30, 2013, CIL's Financial Resources of $4.2 million exceeded its minimum requirement of $2.2 million by $2.0 million.

Cowen and Company (Asia) Limited (“CCAL”) is subject to the financial resources requirements of the Securities and Futures Commission (“SFC”) of Hong Kong. Financial Resources, as defined, must exceed the Total Financial Resources requirement of the SFC. As of September 30, 2013, CCAL's Financial Resources of $1.1 million exceeded the minimum requirement of $0.4 million by $0.7 million.

The Company may also incur additional indebtedness or raise additional capital under certain circumstances to respond to market opportunities and challenges. Current market conditions may make it more difficult or costly to borrow additional funds or raise additional capital.

The Company uses securities purchased under agreements to resell and securities sold under agreements to repurchase (“Repurchase Agreements”) as part of its liquidity management activities and to support its trading and risk management activities. In particular, securities purchased and sold under Repurchase Agreements are used for short-term liquidity purposes. As of September 30, 2013, Repurchase Agreements are secured predominantly by liquid corporate credit and/or government-issued securities. The use of Repurchase Agreements will fluctuate with the Company's need to fund short term credit or obtain competitive short term credit financing. The Company's securities purchased under agreements to resell and securities sold under agreements to repurchase were transacted pursuant to agreements with one counterparty as of September 30, 2013 and multiple counterparties as of December 31, 2012.

There were no material differences between the average and period-end balances of the Company's Repurchase Agreements. The following table represents the Company's securities purchased under agreements to resell and securities sold under agreements to repurchase as of September 30, 2013 and December 31, 2012:

	As of September 30, 2013 (dollars in thousands)
Securities purchased under agreements to resell	
Agreements with Royal Bank of Canada bearing interest of 1.75% due June 2015 to January 2016	$6,311
	$6,311

	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 January 31, 2013 to June 25, 2013	$29,039
Agreements with Barclays Capital Inc bearing interest of (0.05%) - 0.23% due January 1, 2013	136,906
	$165,945

For all of the Company's holdings of Repurchase Agreements as of September 30, 2013, the repurchase dates are open and the agreement can be terminated by either party at any time. The agreements continue on a day-to-day basis.

Cash Flows Analysis

The Company's primary sources of cash are derived from its operating activities, fees and realized returns on its own invested capital. The Company's primary uses of cash include compensation and general and administrative expenses.

Operating Activities. Net cash provided by operating activities of $122.3 million for the nine months ended September 30, 2013 was predominately related to proceeds from sales of securities owned only partially offset by a) purchases of securities owned b) cash used to pay for year end bonuses and c) a decrease in payable to brokers. Net cash used by operating activities of $103.2 million for the nine months ended September 30, 2012 was predominately related to a) cash paid related to an increase in cash held at other brokers, b) cash used to pay for year end bonuses and c) cash used to purchase short positions and cover short investments partially offset by cash received from sales of

securities held at broker dealers.

Investing Activities. Net cash provided by investing activities of $5.4 million for the nine months ended September 30, 2013 was primarily related to the proceeds from sales of other investments offset partially by purchases of other investments. Net cash provided by investing activities of $159.2 million for the nine months ended September 30, 2012 was primarily related to increase repurchase agreement activity partially offset by cash used for an acquisition.

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Financing Activities. Net cash used in financing activities for the nine months ended September 30, 2013 of $172.0 million and the nine months ended September 30, 2012 of $129.2 million was primarily related to increase repurchase agreement activity, the purchase of treasury stock and payment by the consolidated funds to investors for capital withdrawals

Short-Term Borrowings and other debt

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

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

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

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

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

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as of September 30, 2013. However, through indemnification provisions in our clearing agreement, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreement, we are required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

Cowen and Company and ATM Execution are members of various securities exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. The Company's liability under these arrangements is not quantifiable. Accordingly, no contingent liability is carried in the accompanying condensed consolidated statements of financial condition for these arrangements.

Securities lending indemnifications

Through the Company's securities lending program, the Company can borrow and lend customers' securities, via custodial and non-custodial arrangements, to third parties. As part of this program, the Company provides a guarantee in an aggregate amount of $150 million to counterparties of the securities lending agreements, which protects the lender against the failure of the third-party borrower to return the lent securities in the event the Company did not obtain sufficient collateral. To minimize its liability under these indemnification agreements, the Company obtains cash collateral with a value exceeding 100% of the market value of the securities on loan from the borrower. Collateral is marked to market daily to assure that collateralization is adequate. Additional collateral is called from the

borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, the Company would use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof.

In conjunction with the acquisition of Cowen Securities the Company has agreed to guarantee loans which were issued to employees of Cowen Securities by a third party bank prior to the acquisition. The value of these loans at September 30, 2013 was $2.6 million.

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Critical Accounting Policies and Estimates

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

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

Consolidation

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

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

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

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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 though its operating companies. This option has been elected because the Company believes that it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded.

Securities— Securities whose values are based on quoted market prices in active markets for identical assets, and are therefore classified in level 1 of the fair value hierarchy, include active listed equities, certain U.S. government and sovereign 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:

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

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

Real estate investments—Real estate investments are valued at fair value. The fair value of real estate investments are estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Real estate investments without a public market are valued based on

ii. 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

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third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a quarterly basis by the Company for significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.

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

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

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

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

Revenue recognition

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

Our alternative investment segment generates revenue through three principal sources: management fees and incentive income.

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

Management fees

The Company earns management fees from affiliated funds and certain managed accounts that it serves as the investment manager based on assets under management. The actual management fees received vary depending on distribution fees or fee splits paid to third parties either in connection with raising the assets or structuring the investment. Management fees are generally paid on a quarterly basis at the beginning of each quarter in arrears and are prorated for capital inflows and redemptions. While some investors may have separately negotiated fees, in general the management fees are as follows:

- Hedge Funds. Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income.
- Alternative Solutions. Management fees for the Alternative Solutions business are generally charged at an annual rate of up to 2% of assets under management. Management fees are generally calculated monthly based on assets under management at the end of each month before incentive income or based on assets under management at the beginning of the month. Management fees earned from the Alternative Solutions business are based and initially calculated on estimated net asset values and actual fees ultimately earned could be impacted to the extent of any changes in these estimates.
- Real Estate Funds. Management fees from the Company's real estate funds are generally charged by their general partners at an annual rate from 1% to 1.5% of total capital commitments during the investment period and of invested capital or net asset value of the applicable fund after the investment period has ended. Management fees are typically paid to the general partners on a quarterly basis, at the beginning of the quarter in arrears, and are prorated for changes in capital commitments throughout the investment period and invested capital after the investment period. The general partners of the Company's real estate funds are owned jointly by the Company and third parties. Accordingly, the management fees (in addition to incentive income and investment income) generated by these real estate funds are

split between the Company and the other general partners. Pursuant to US GAAP, these fees and other income received by the general partners that are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the condensed consolidated statements of operations.

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- HealthCare Royalty Partners (formerly Cowen HealthCare Royalty Partners) Funds. During the investment period (as defined in the management agreement of the HealthCare Royalty Partners funds), management fees for the HealthCare Royalty Partners funds are generally charged at an annual rate of up to 2% of committed capital. After the investment period, management fees are generally charged at an annual rate of up to 2% of net asset value. Management fees for the HealthCare Royalty Partners funds are calculated on a quarterly basis.
- Ramius Trading Strategies. Management fees for Ramius Trading Strategies Managed Futures Fund, a mutual fund launched in September 2011, are 1.60% per annum (subject to an overall expense cap of 1.85%). Management fees and platform fees for the Company's private commodity trading advisory business are generally charged at an annual rate of up to 1.00%. Management and platform fees are generally calculated monthly based on assets under management at the end of each month.

Incentive income

The Company earns incentive income based on net profits (as defined in the respective investment management agreements) with respect to certain of the Company's funds and managed accounts, allocable for each fiscal year that exceeds cumulative unrecovered net losses, if any, that have carried forward from prior years. For the products we offer, incentive income earned is typically 20% for hedge funds and 10% for fund of funds and alternative solutions products (in certain cases on performance in excess of a benchmark), generally, of the net profits earned for the full year that are attributable to each fee-paying investor. Generally, incentive income on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However, in certain real estate funds, the Company is entitled to receive incentive fees earlier, provided that the investors have received their preferred return on a current basis. These funds are subject to a potential clawback of that incentive income upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income in the HealthCare Royalty Partners funds is earned only after investors receive a full return of their capital plus a preferred return.

In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to that investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a “high-water mark.” The Company has elected to record incentive income revenue in accordance with “Method 2” of the US GAAP. Under Method 2, the incentive income from the Company's funds and managed accounts for any period is based upon the net profits of those funds and managed accounts at the reporting date. Any incentive income recognized in the condensed consolidated statement of operations may be subject to reversal based on subsequent negative performance of the funds prior to the conclusion of the fiscal year, when all contingencies have been resolved.

Carried interest in the real estate funds is subject to clawback to the extent that the carried interest actually distributed to date exceeds the amount due to the Company based on cumulative results. As such, the accrual for potential repayment of previously received carried interest, which is a component of accounts payable, accrued expenses and other liabilities, represents all amounts previously distributed to the Company, less an assumed tax liability, that would need to be repaid to certain real estate funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual clawback liability does not become realized until the end of a fund's life.

Investment Banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small and mid-capitalization companies within the Company's target sectors of healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs"), clean technology, energy, metals and mining, transportation, chemicals and agriculture sectors.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees and private placement fees.

- Underwriting fees. The Company earns underwriting revenues in securities offerings in which the Company acts as an underwriter, such as initial public offerings, follow-on equity offerings, debt offerings, and convertible security offerings. Underwriting revenues include management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting process have

been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of securities from the issuer; and (iii) the Company has been informed of the number of securities that it has been allotted.

When the Company is not the lead manager for an underwriting transaction, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company

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

- Strategic/financial advisory fees. The Company's strategic advisory revenues include success fees earned in connection with advising companies, principally in mergers and acquisitions and liability management transactions. The Company also earns fees for related advisory work such as providing fairness opinions. The Company records strategic advisory revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.
- Placement and sales agent fees. The Company earns agency placement fees and sales agent commissions in non-underwritten transactions such as private placements of debt and equity and debt securities, including, private investment in public equity transactions ("PIPEs"), and as sales agent in at-the-market offerings of equity securities. The Company records placement revenues when the services for the transactions are completed under the terms of each assignment or engagement and collection is reasonably assured. The Company records sales agent commissions on a trade date basis. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price consideration of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. Goodwill is allocated to the Company's reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its identification with a particular acquisition, but instead becomes identifiable with the reporting unit. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit.

In accordance with US GAAP, the Company tests goodwill for impairment on an annual basis or at an interim period if events or changed circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. Under US GAAP, the Company first assesses the qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amounts as a basis for determining if it is necessary to perform the two-step approach. The first step requires a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the related goodwill is not considered impaired and no further analysis is required. If the carrying value of the reporting unit exceeds the fair value, there is an indication that the related goodwill might be impaired and the step two is performed to measure the amount of impairment, if any.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess. Goodwill impairment tests involve significant judgment in determining the estimates of future cash flows, discount rates, economic forecast and other assumptions which are then used in acceptable valuation techniques, such as the market approach (earning and or transactions multiples) and / or income approach (discounted cash flow method). Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill.

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

Legal Reserves

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with US GAAP. These amounts are reported in other expenses, net of recoveries, in the condensed consolidated statements of operations. The condensed consolidated statements of operations do not include litigation expenses incurred by the Company in connection with indemnified litigation matters. See Note 13 "Commitments and Contingencies" in our condensed consolidated financial statements for the quarter ended September 30, 2013 for further discussion. As the successor

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of the named party in these litigation matters, the Company recognizes the related legal reserve in the condensed consolidated statements of financial condition.

Recently adopted and future adoption of accounting pronouncements

For a detailed discussion, see Note 3h. "New accounting pronouncements" in our condensed condensed consolidated financial statements for the quarter ended September 30, 2013 and "Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2012 which was filed with the SEC on March 7, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the three and nine months ended September 30, 2013, there were no material changes in our quantitative and qualitative disclosures about market risks from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012. For a more detailed discussion concerning our market risk, see Item 7A “Quantitative and Qualitative Disclosures about Market Risk” in our Annual Report on Form 10-K.

Item 4. Controls and Procedures

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer (the principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of September 30, 2013.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of September 30, 2013, our disclosure controls and procedures are effective to provide a reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, we are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of securities, banking, anti-fraud, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

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

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

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

In accordance with the US GAAP, the Company establishes reserves for contingencies when the Company believes that it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. The Company

discloses a contingency if there is at least a reasonable possibility that a loss may have been incurred and there is no reserve for the loss because the conditions above are not met. The Company's disclosure includes an estimate of the reasonably possible loss or

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range of loss for those matters, for which an estimate can be made. Neither a reserve nor disclosure is required for losses that are deemed remote.

The Company appropriately reserves for certain matters where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Such amounts are included within accounts payable, accrued expenses and other liabilities in the condensed consolidated statements of financial condition. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters.

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

Item 1A. Risk Factors

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There are no material

changes from the risk factors previously disclosed in our 2012 Form 10-K filed with the SEC on March 7, 2013.

Item 2. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Issuer Purchases of Equity Securities

The Company's Board of Directors has approved a share repurchase program that authorizes the Company to purchase up to $35.0 million of Cowen Class A common stock from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. During the three months ended September 30, 2013, through the share repurchase program, the Company repurchased 724,647 shares of Cowen Class A common stock at an average price of $3.43 per share. In September 2013, the Company also reissued 24,744 shares of treasury stock valued at $65,000 in the aggregate based on the volume weighted average price over the term of the agreement for services provided to the Company. This issuance of treasury stock was made in reliance upon the exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(a)(2) thereof for transaction by an issuer not involving any public offering.

The table below sets forth the information with respect to purchases made by or on the behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended), of our common stock during the three months ended September 30, 2013.

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs	
Month 1(July 1, 2013 – July 31, 2013)					
Common stock repurchases(1)	—	$—	—	—	(3)
Employee transactions(2)	16,538	$3.34	—	—	
Total	16,538	$3.34			
Month 2 (August 1, 2013 – August 31, 2013)					
Common stock repurchases(1)	561,919	$3.48	—	—	(3)
Employee transactions(2)	55,455	$3.60	—	—	
Total	617,374	$3.49			
Month 3 (September 1, 2013 – September 30, 2013)					
Common stock repurchases(1)	162,728	$3.28	—	—	(3)
Employee transactions(2)	28,435	$3.25	—	—	
Total	191,163	$3.27			
Total (July 1, 2013 – September 30, 2013)					
Common stock repurchases(1)	724,647	$3.43	—	—	(3)
Employee transactions(2)	100,428	$3.46	—	—	
Total	825,075	$3.43			

(1) The Company's Board of Directors have authorized the repurchase, subject to market conditions, of up to $35.0 million of the Company's outstanding common stock.

(2) Represents shares of common stock withheld in satisfaction of tax withholding obligations upon the vesting of equity awards.

(3) Board approval of repurchases is based on dollar amount. The Company cannot estimate the number of shares that may yet be purchased.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

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SIGNATURES

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

COWEN GROUP, INC.

	By:	/s/ PETER A. COHEN
	Name:	Peter A. Cohen
	Title:	Chief Executive Officer and President (principal executive officer)
	By:	/s/ STEPHEN A. LASOTA
	Name:	Stephen A. Lasota
Date: November 7, 2013	Title:	Chief Financial Officer (principal financial officer and principal accounting officer)

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Exhibit Index

Exhibit No.	Description
31.1	Certification of CEO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of CFO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of CEO and CFO Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT