COWEN GROUP, INC.
Form 10-Q
October 31, 2016

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, 2016
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 (State or Other Jurisdiction of Incorporation or Organization)	27-0423711 (I.R.S. Employer Identification No.)
599 Lexington Avenue New York, New York (Address of Principal Executive Offices)	10022 (Zip Code)

(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 October 28, 2016 there were 107,314,244 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, 2015 as well as Item 1A of this periodic report on Form 10-Q for the quarterly period ended September 30, 2016.

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, 2016 and 2015. The Consolidated Financial Statements as of December 31, 2015 were audited.

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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, 2016	As of December 31, 2015
Assets		
Cash and cash equivalents	$76,925	$158,485
Cash collateral pledged	13,783	10,085
Securities owned, at fair value	544,644	610,234
Receivable on derivative contracts, at fair value	27,428	39,618
Other investments	167,450	140,647
Receivable from brokers	77,631	117,757
Fees receivable, net of allowance	45,787	34,413
Due from related parties	32,539	39,659
Fixed assets, net of accumulated depreciation and amortization of $24,170 and $29,953, respectively	43,463	27,231
Goodwill	60,678	58,361
Intangible assets, net of accumulated amortization of $28,114 and $28,301, respectively	27,073	25,663
Deferred tax asset, net	151,237	143,560
Other assets	53,081	71,531
Consolidated Funds		
Cash and cash equivalents	10,370	13,934
Securities owned, at fair value	71,456	32,000
Receivable on derivative contracts, at fair value	429	—
Other investments	391,872	263,818
Receivable from brokers	5,333	—
Other assets	999	663
Total Assets	$1,802,178	$1,787,659
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$212,183	$257,159
Payable for derivative contracts, at fair value	17,021	21,183
Payable to brokers	127,216	131,789
Compensation payable	59,103	150,403
Notes payable and other debt	78,357	68,565
Convertible debt	128,065	122,401
Fees payable	6,637	5,638
Due to related parties	257	329
Accounts payable, accrued expenses and other liabilities	62,496	52,233
Consolidated Funds		
Due to related parties	—	3
Contributions received in advance	—	850
Securities sold, not yet purchased, at fair value	1,540	—
Payable to brokers	3,132	—
Payable for derivative contracts, at fair value	276	—

Capital withdrawals payable	2,378	78
Accounts payable, accrued expenses and other liabilities	410	124
Total Liabilities	699,071	810,755
Commitments and Contingencies (Note 12)		
Redeemable non-controlling interests	331,883	186,911
Stockholders' equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of September 30, 2016 (aggregate liquidation preference of $120,750,000) and 120,750 shares issued and outstanding as of as of December 31, 2015 (aggregate liquidation preference of $120,750,000), respectively	1	1
Class A common stock, par value $0.01 per share: 250,000,000 shares authorized, 146,131,829 shares issued and 107,314,157 outstanding as of September 30, 2016 and 140,120,392 shares issued and 105,604,658 outstanding as of December 31, 2015, respectively (including 648,704 and 497,570 restricted shares, respectively)	1,167	1,167
Class B common stock, par value $0.01 per share: 250,000,000 authorized, no shares issued and outstanding	—	—
Additional paid-in capital	921,062	902,554
(Accumulated deficit) retained earnings	1,160	23,627
Accumulated other comprehensive income (loss)	(3)	—
Less: Class A common stock held in treasury, at cost, 38,817,672 and 34,515,734 shares, respectively	(152,163)	(137,356)
Total Stockholders' Equity	771,224	789,993
Total Liabilities and Stockholders' Equity	$1,802,178	$1,787,659

The accompanying notes are an integral part of these unaudited 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,	
	2016	2015	2016	2015
Revenues				
Investment banking	$36,722	$53,012	$98,156	$186,763
Brokerage	49,605	41,085	147,640	111,496
Management fees	10,272	10,519	31,951	31,169
Incentive income	1,284	93	2,823	365
Interest and dividends	3,906	3,604	11,664	9,846
Reimbursement from affiliates	2,140	3,355	8,268	10,499
Aircraft lease revenue	1,089	—	3,071	—
Other revenues	25,112	1,312	41,183	2,684
Consolidated Funds				
Interest and dividends	904	245	3,518	685
Other revenues	(7)	29	1,023	449
Total revenues	131,027	113,254	349,297	353,956
Expenses				
Employee compensation and benefits	98,501	56,401	217,309	227,593
Floor brokerage and trade execution	8,224	6,415	23,887	18,418
Interest and dividends	7,612	7,367	21,866	19,241
Professional, advisory and other fees	5,305	6,392	16,585	16,874
Service fees	2,075	1,778	6,334	5,338
Communications	4,619	3,478	13,287	10,313
Occupancy and equipment	8,033	7,286	23,911	21,024
Depreciation and amortization	3,174	2,301	9,654	6,584
Client services and business development	6,349	5,132	20,335	18,316
Other expenses	11,898	3,783	32,328	11,442
Consolidated Funds				
Interest and dividends	1,665	366	4,292	858
Professional, advisory and other fees	337	174	959	476
Floor brokerage and trade execution	173	(20)	306	46
Other expenses	294	114	871	246
Total expenses	158,259	100,967	391,924	356,769
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	26,153	(23,612)	9,123	24,449
Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	19,755	333	(6,543)	8,073
Net realized and unrealized gains (losses) on derivatives	5,368	(78)	13,525	(404)
Net gains (losses) on foreign currency transactions	(26)	(13)	72	(45)
Total other income (loss)	51,250	(23,370)	16,177	32,073
Income (loss) before income taxes	24,018	(11,083)	(26,450)	29,260
Income tax expense (benefit)	8,759	(5,081)	(6,553)	5,212

Net income (loss)	15,259	(6,002)	(19,897)	24,048
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	18,478	4,344	(2,524)	10,980
Net income (loss) attributable to Cowen Group, Inc.	(3,219)	(10,346)	(17,373)	13,068
Preferred stock dividends	1,698	1,603	5,094	2,358
Net income (loss) attributable to Cowen Group, Inc. common stockholders	$(4,917)	$(11,949)	$(22,467)	$10,710
Weighted average common shares outstanding:				
Basic	107,974	109,191	107,272	111,050
Diluted	107,974	109,191	107,272	117,249
Earnings (loss) per share:				
Basic	$(0.05)	$(0.11)	$(0.21)	$0.10
Diluted	$(0.05)	$(0.11)	$(0.21)	$0.09

The accompanying notes are an integral part of these unaudited 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, 2016	Nine Months Ended September 30, 2015
Net income (loss)	$(19,897)	$24,048
Other comprehensive income (loss), net of tax:		
Foreign currency translation	(3)	(4)
Total other comprehensive income (loss), net of tax	(3)	(4)
Comprehensive income (loss)	$(19,900)	$24,044

The accompanying notes are an integral part of these unaudited 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	Preferred Shares Outstanding	Preferred 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, 2015	105,604,658	$1,167	120,750	$1	$(137,356)	$902,554	$—	$23,627	$789,993	$186,911
Net income (loss)	—	—	—	—	—	—	—	(17,373)	(17,373)	(2,524)
Foreign currency translation	—	—	—	—	—	—	(3)	—	(3)	—
Capital contributions	—	—	—	—	—	—	—	—	—	236,720
Capital withdrawals	—	—	—	—	—	—	—	—	—	(16,182)
Deconsolidation of entity	—	—	—	—	—	—	—	—	—	(73,042)
Restricted stock awards issued	6,011,437	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(4,301,938)	—	—	—	(14,807)	—	—	—	(14,807)	—
Preferred stock dividends (See Note 14)	—	—	—	—	—	—	—	(5,094)	(5,094)	—
Income tax effect from share based compensation	—	—	—	—	—	(763)	—	—	(763)	—
Amortization of share based compensation	—	—	—	—	—	19,271	—	—	19,271	—
Balance, September 30, 2016	107,314,157	$1,167	120,750	$1	$(152,163)	$921,062	$(3)	$1,160	$771,224	$331,883

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders Equity	Redeemable Non-controlling Interest
	111,691,199	$1,160	—	$—	$(79,771)	$772,296	$17	$(16,027)	$677,675	$86,076

Balance, December 31, 2014										
Net income (loss)	—	—	—	—	—	—	—	13,068	13,068	10,980
Foreign currency translation	—	—	—	—	—	—	(4)	—	(4)	—
Capital contributions	—	—	—	—	—	—	—	—	—	88,740
Capital withdrawals	—	—	—	—	—	—	—	—	—	(14,551)
Restricted stock awards issued	4,027,405	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(9,269,163)	—	—	—	(50,253)	—	—	—	(50,253)	—
Preferred stock issuance, net of issuance costs (See Note 14)	—	—	120,750	1	—	117,194	—	—	117,195	—
Preferred stock dividends (See Note 14)	—	—	—	—	—	—	—	(2,358)	(2,358)	—
Common stock issued upon acquisition (See Note 2)	548,625	6	—	—	—	3,002	—	—	3,008	—
Capped call option transaction (See Note 14)	—	—	—	—	—	(15,878)	—	—	(15,878)	—
Income tax effect from share based compensation	—	—	—	—	—	3,714	—	—	3,714	—
Stock options exercised (see Note 10)	100,002	1	—	—	—	394	—	—	395	
Amortization of share based compensation	—	—	—	—	—	16,211	—	—	16,211	—
Balance, September 30, 2015	107,098,068	$ 1,167	120,750	$ 1	$ (130,024)	$ 896,933	$ 13	$ (5,317)	$ 762,773	$ 171,245

The accompanying notes are an integral part of these unaudited 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,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	$(19,897)	$24,048
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Depreciation and amortization	9,654	6,584
Net gain on sale of divested business	(15,638)	—
Amortization of debt issuance costs	894	—
Amortization of debt discount	5,107	4,674
Tax benefit (expense) from share-based payment arrangements	(764)	3,714
Share-based compensation	19,271	16,211
Deferred tax benefit	(6,913)	(2,050)
Deferred rent obligations	(634)	(2,113)
Net loss on disposal of fixed assets	—	54
Contingent liability adjustment	2,139	—
Purchases of securities owned, at fair value	(3,050,670)	(4,650,626)
Proceeds from sales of securities owned, at fair value	3,173,147	4,556,647
Proceeds from sales of securities sold, not yet purchased, at fair value	2,343,063	2,003,879
Payments to cover securities sold, not yet purchased, at fair value	(2,442,968)	(1,940,343)
Net (gains) losses on securities, derivatives and other investments	(23,706)	(32,719)
Consolidated Funds		
Purchases of securities owned, at fair value	(60,187)	(12,000)
Proceeds from sales of securities owned, at fair value	27,010	—
Proceeds from sales of securities sold, not yet purchased, at fair value	2,226	—
Payments to cover securities sold, not yet purchased, at fair value	(1,098)	—
Purchases of other investments	(221,897)	(78,491)
Proceeds from sales of other investments	14,086	18,722
Net realized and unrealized (gains) losses on investments and other transactions	(4,505)	(6,749)
(Increase) decrease in operating assets:		
Cash collateral pledged	(3,698)	(823)
Securities owned, at fair value, held at broker-dealer	(26,048)	20,696
Receivable on derivative contracts, at fair value	12,191	8,290
Securities borrowed	—	676,100
Receivable from brokers	40,126	(26,744)
Fees receivable, net of allowance	(12,536)	(6,952)
Due from related parties	6,914	106
Other assets	(23,446)	(919)
Consolidated Funds		
Cash and cash equivalents	3,564	(16,124)
Receivable on derivative contracts, at fair value	(429)	—
Receivable from brokers	(5,333)	—
Other assets	(336)	780
Increase (decrease) in operating liabilities:		

Securities sold, not yet purchased, at fair value, held at broker-dealer	21,954	(7,134)
Payable for derivative contracts, at fair value	(4,162)	(15,252)
Securities loaned	—	(682,493)
Payable to brokers	(4,573)	(7,010)
Compensation payable	(99,217)	(41,628)
Fees payable	999	12,965
Due to related parties	(72)	(154)
Accounts payable, accrued expenses and other liabilities	3,863	(7,746)
Consolidated Funds		
Contributions received in advance	(850)	5,000
Payable to brokers	3,131	—
Payable for derivative contracts, at fair value	276	—
Due to related parties	264	1,000
Accounts payable, accrued expenses and other liabilities	286	67
Net cash provided by / (used in) operating activities	$(339,412)	$(178,533)

The accompanying notes are an integral part of these unaudited 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,	
(continued)	2016	2015
Cash flows from investing activities:		
Purchases of other investments	$(25,689)	$(10,259)
Purchase of business, net of cash acquired (Note 2)	(6,258)	(14,936)
Proceeds from sales of other investments	29,814	37,368
Proceeds from loans held for investment	41,600	—
Proceeds from divested business, net of cash divested	17,303	—
Purchase of fixed assets	(14,913)	(5,191)
Net cash provided by / (used in) investing activities	41,857	6,982
Cash flows from financing activities:		
Proceeds from issuance of preferred stock, net of issuance costs	—	117,194
Capped call option transaction	—	(15,879)
Borrowings on notes and other debt	30,638	2,140
Repayments on notes and other debt	(28,345)	(2,655)
Income tax effect from share-based payment arrangements	(764)	3,714
Proceeds from stock options exercised	—	395
Purchase of treasury stock	(6,014)	(41,697)
Cash paid to acquire net assets (contingent liability payment)	(2,358)	(1,725)
Capital contributions by redeemable non-controlling interests in operating entities	—	5,644
Capital withdrawals to redeemable non-controlling interests in operating entities	(6,995)	(8,203)
Consolidated Funds		
Capital contributions by redeemable non-controlling interests in Consolidated Funds	236,720	83,097
Capital withdrawals to redeemable non-controlling interests in Consolidated Funds	(6,887)	(7,129)
Net cash provided by / (used in) financing activities	215,995	134,896
Change in cash and cash equivalents	(81,560)	(36,655)
Cash and cash equivalents at beginning of period	158,485	129,509
Cash and cash equivalents at end of period	$76,925	$92,854
Supplemental non-cash information		
Purchase of treasury stock, at cost, through net settlement (see Note 14)	$8,793	$8,556
Notes payable increase through asset acquisition	$7,164	$—
Preferred stock dividends declared (See Note 14)	$5,094	$2,358
Net assets (liabilities) acquired upon acquisition (net of cash) (See Note 2)	$—	$11,688
Common stock issuance upon close of acquisition (see Note 2)	$—	$3,008

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

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Cowen Group, Inc.
Notes to Unaudited 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, sales and trading and prime brokerage services through its two business segments: alternative investment and broker-dealer. The Company's alternative investment segment, includes hedge funds, private equity structures, registered investment companies and listed vehicles. The Company's broker-dealer segment offers research, sales and trading, prime brokerage and investment banking services to companies and primarily institutional investor clients. Our primary target sectors are healthcare, technology, media and telecommunications, information and technology services, consumer, aerospace and defense, industrials, and energy and transportation sectors.

2. Acquisitions and Divestitures

Acquisitions

Low Country

On April 22, 2016, Cowen Aviation Finance Holdings Inc. ("Cowen Aviation Finance") entered into a transaction whereby Cowen Aviation Finance acquired Low Country III, LLC, which is comprised of a portfolio of four specialized aircraft currently on lease in exchange for an immaterial upfront payment and a minority equity interest in Cowen Aviation Finance. As part of the transaction Cowen Aviation Finance also acquired the associated debt financing and lease contracts for each aircraft. Separate from the transaction, Cowen Aviation Finance entered into services agreements with Tempus Applied Solutions, Inc., a related party through common directors, which, among other services, will provide marketing, maintenance, and lease administration services for Cowen Aviation Finance's current aircraft fleet. This acquisition was accounted for as an asset acquisition in accordance with accounting principles generally accepted in the United States of America ("US GAAP") because, upon separation from the seller, the acquired assets do not meet the definition of a business.

CRT business

On May 6, 2016, the Company completed its previously announced acquisition of the credit products, credit research, special situations and emerging markets units from CRT Capital Group LLC ("CRT"). The acquisition was completed for a combination of cash of $6.3 million and contingent consideration payable annually based on future revenues exceeding specific targets. 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. Following the acquisition, the businesses acquired from CRT are included in the broker-dealer segment.

In accordance with the terms of the purchase agreement, the Company is required to pay to the sellers a portion of future revenue of the business exceeding specified targets over the period through June 2018. The Company estimated the contingent consideration using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. Changes in these estimates and assumptions could have a significant impact on the amount recognized. On the acquisition date, the undiscounted amount ranged from zero to $8.0 million.

The acquisition was accounted for under the acquisition method of accounting in accordance with US GAAP. As such, the results of operations of the businesses acquired 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 (see Note 8).

The Company is currently in the process of finalizing the valuation for certain acquired assets of CRT; therefore, the fair value measurements as of September 30, 2016 and goodwill are preliminary and subject to adjustments.

The Company recognized approximately $0.4 million of acquisition-related costs, including legal, accounting, and valuation services. These costs are included in professional, advisory and other fees in the accompanying condensed consolidated statements of operations. The Company also assumed contractual obligations toward certain employees which will vest over a 12 month period. These obligations are recorded as compensation expense on a straight line basis.

The results of operations of the businesses acquired from CRT for the period from May 6, 2016 through September 30, 2016 are integrated with the broker-dealer business and are included within respective line items. Included in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2016 are revenues of $9.7 million and $13.1 million, respectively and net income of $1.4 million and $1.9 million, respectively (excluding corporate allocated expenses) related to the businesses acquired from CRT.

Concept and Conifer

During the year ended December 31, 2015, the Company completed two acquisitions. On September 1, 2015, the Company completed its acquisition of all of the outstanding interests in Concept Capital Markets, LLC ("Concept") offering prime brokerage services and outsourced trading. On October 1, 2015 the Company completed its acquisition of all of the outstanding interests in Conifer Securities, LLC ("Conifer") representing the prime brokerage services division of Conifer Financial Services LLC. Following the acquisitions, Concept was renamed Cowen Prime Services LLC ("Cowen Prime") and Conifer was renamed Cowen Prime Services Trading LLC ("Cowen Prime Trading"). Both were registered broker-dealers (members Financial Industry Regulatory Authority "FINRA" and Securities Industry Protection Corporation "SIPC"). Following the acquisitions, Conifer and Concept were integrated. During the second quarter of 2016, Cowen Prime Trading's broker-dealer withdrawal request, filed with FINRA, became effective and the business was combined into Cowen Prime.

The acquisitions were accounted for under the acquisition method of accounting in accordance with US GAAP. As such, the results of operations for Concept and Conifer are included in the accompanying condensed consolidated statements of operations since the dates of the respective acquisitions 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.

The Company is currently in the process of finalizing the valuation for certain acquired assets of Concept and Conifer; therefore, the fair value measurements and goodwill are preliminary and subject to measurement period adjustments. The allocation of the purchase price to the net assets acquired will be finalized as necessary, up to one year after the acquisitions' respective closing dates, as the information becomes available. Both of the acquisitions were not deemed material individually but were material in the aggregate.

Included in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2016 are revenues of $8.6 million and $30.7 million and net income of $0.4 million and $2.8 million, respectively (excluding corporate allocated expenses) related to the Concept and Conifer combined results of operations.

The following unaudited supplemental pro forma information presents consolidated financial results for the nine months ended September 30, 2015 as if the acquisitions were completed as of the beginning of that period. This supplemental pro forma information has been prepared for comparative purposes only and is not intended to be indicative of what the Company's results would have been had the acquisitions been completed on January 1, 2015, nor does it purport to be indicative of any future results.

	For the nine months ended September 30, 2015 (dollars in thousands, except per share data) (unaudited)
Revenues	$ 385,932
Net income (loss) attributable to Cowen Group, Inc. common stockholders	10,672
Net income per common share:	
Basic	$ 0.10
Diluted	$ 0.09

Divestitures

On September 23, 2016, the Company and the portfolio managers of Ramius Alternative Solutions LLC ("RASL") completed the sale of their respective ownership interests in RASL, an investment advisor, and RASL was deconsolidated as of that date. RASL offered a range of customized hedge fund investment solutions with approximately $2.5 billion in client assets. In accordance with the terms of the agreement, the Company was only required to transfer an immaterial target working capital balance on the closing date. The net consideration received by the Company was approximately $17.3 million. Along with the target working capital transferred at closing, the Company also allocated a portion of goodwill associated with the alternative investment segment to the sale price which is shown net in other revenues in the accompanying consolidated statements of operations.

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As the Company will continue to offer its alternative investment platform to institutional and retail investors, the sale was not presented as discontinued operations. The overall impact on the consolidated financial position, results of operations and cash flows is not expected to be significant.

3. Significant Accounting Policies

a. Basis of Presentation

These unaudited condensed consolidated financial statements are prepared in accordance with 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 operating and other subsidiaries, and entities in which the Company has a controlling financial interest or a general partner interest. All material intercompany transactions and balances have been eliminated on consolidation. Certain fund entities that are consolidated in these accompanying condensed consolidated financial statements, as further discussed below, are not subject to the consolidation provisions with respect to their own controlled 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.

The year-end condensed balance sheet data was derived from the audited financial statements, but does not include all disclosures included in the audited financial statements.

b. Principles of consolidation

The Company consolidates all entities that it controls through a majority voting interest or otherwise, including those funds in which the Company either directly or indirectly has a controlling financial interest. In addition, the Company consolidates all variable interest entities for which it is the primary beneficiary.

The Company adopted the new accounting pronouncement regarding consolidation accounting using the modified retrospective method with an effective adoption date of January 1, 2016. The modified retrospective method did not require the restatement of prior year periods. The adoption of the new accounting pronouncement also resulted in a reclassification of certain entities which were previously considered voting interest entities and are considered variable interest entities.

In accordance with these standards, the Company presently consolidates six funds for which it acts as the general partner and investment manager. As of September 30, 2016 the Company consolidated the following funds: Ramius Enterprise LP (“Enterprise LP”), Ramius Merger Fund LLC (the "Merger Fund"), Cowen Private Investments LP ("Cowen Private"), Ramius Archview Credit and Distressed Fund ("Archview Feeder Fund"), Ramius Archview Credit and Distressed Master Fund ("Archview Master Fund"), (as of May 1, 2016) Caerus Select Fund LP ("Caerus LP") and (as of July 11, 2016) Ramius Merger Arbitrage UCITS Fund ("UCITS Fund") (collectively the "Consolidated Funds").

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.

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 all VOEs in which it owns a majority of the entity's voting shares or units.

In connection with the adoption, the Company reevaluated all of its investment products for consolidation. As of January 1, 2016, the Company deconsolidated Quadratic Fund LLC ("Quadratic LLC") as the Company did not hold a significant voting interest in the fund. The adoption of the new accounting pronouncement also resulted in a reclassification of certain entities for which the Company was presumed to have control and will now be VIEs.
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.

The Company reconsiders whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of September 30, 2016 and December 31, 2015, the total net assets of the consolidated VIEs were $452.0 million and $1.5 million, respectively. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company.

As of September 30, 2016 the Company holds variable interests in Ramius Enterprise Master Fund Ltd (“Enterprise Master”), Ramius Merger Master Fund Ltd ("Merger Master") and Caerus Select Master Fund Ltd ("Caerus Master") (collectively the “Unconsolidated Master Funds”) through the Consolidated Funds. 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 Funds.

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

The Company does not consolidate the Unconsolidated Master 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 accompanying 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 accompanying condensed consolidated statements of operations.

The Company evaluates its equity method investments for impairment 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 such entities (primarily, all securities of such entity 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 accompanying condensed consolidated statements of operations.

Retention of Specialized Accounting—The Consolidated Funds and certain other consolidated companies 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 LLC ("ATM Execution"), Cowen International Limited

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

("CIL"), Ramius UK Ltd. ("Ramius UK") and Cowen Prime 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.

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 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 certain of its investments held by 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 with values based on quoted market prices in active markets for identical assets are classified within level 1 of the fair value hierarchy. These securities include active listed equities, certain U.S. government and sovereign obligations, ETF's, mutual funds 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 and restricted equities, are stated at fair value and classified within level 2 of the fair value hierarchy. 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. OTC derivatives, such as swaps and options where market data is not readily available or observable are classified as level 3.

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 which may be 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. In accordance with US GAAP, investments which are valued using NAV per share as a practical expedient are not categorized within the fair value hierarchy.

ii. Real estate investments—Real estate debt and equity 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.

Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the Company invests in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. Amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.
The Company's real estate investments are typically categorized as level 3 investments within the fair value hierarchy as management uses significant unobservable inputs in determining their estimated fair value.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

e. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation or amortization. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful life or lease term. When the Company commits to a plan to abandon fixed assets or leasehold improvements before the end of its original useful life, the estimated depreciation or amortization period is revised to reflect the shortened useful life of the asset. Other fixed assets are depreciated on a straight-line basis over their estimated useful lives.

Aircraft and related equipment, which are leased out under operating leases, are carried at cost less accumulated depreciation and are depreciated to estimated residual value using the straight-line method over the lease term or estimated useful life of the asset. Any assets received at the end of the lease are marked to the lower of cost or fair value with the adjustment recorded in other income.

Asset	Depreciable Lives	Principal Method
Telephone and computer equipment	3-8 years	Straight-line
Computer software	3-7 years	Straight-line
Furniture and fixtures	5-8 years	Straight-line
Leasehold improvements	5-15 years	Straight-line
Capitalized lease asset	5 years	Straight-line
Aircraft and related equipment	10-20 years	Straight-line
Modifications to aircraft	4-10 years	Straight-line

f. Debt

Long-term debt is carried at the principal amount borrowed net of any discount/premium. The discount is accreted to interest expense using the effective interest method over the remaining life of the underlying debt obligations. Accrued but unpaid coupon interest is included in accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. The Company adopted a new accounting pronouncement, during the first quarter of 2016, which reclassified the unamortized debt issuance costs in our previously reported condensed consolidated statements of financial condition from other assets to a direct reduction from the carrying amount of the debt. Notes payable and other debt and convertible debt as of December 31, 2015 was previously presented as $195.7 million. Due to the retrospective application notes payable and other debt and convertible debt is now presented as $191.0 million as of December 31, 2015.

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 a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition, as of September 30, 2016 and December 31, 2015 is $10.4 million and $12.0 million, respectively. Deferred rent asset, included in other assets in the accompanying condensed consolidated statements of financial condition, as of September 30, 2016 and

December 31, 2015 is $0.1 million and $0.3 million, respectively.

h. Insurance-related contracts

Premiums for insurance-related contracts are earned over the coverage period. In most cases, premiums are recognized as revenues ratably over the term of the contract with unearned premiums computed on a monthly basis. For each of its contracts, the Company determines if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with US GAAP. If the Company determines that a contract does not expose it to a reasonable possibility of a significant loss from insurance risk, the Company records the contract under the deposit method of accounting with any net amount receivable reflected as an asset in other assets, and any net amount payable reflected as a liability within accounts payable, accrued expenses and other liabilities on the condensed consolidated statements of financial condition.

The liabilities for losses and loss adjustment expenses are recorded at the estimated ultimate payment amounts, including reported losses. Estimated ultimate payment amounts are based upon (1) reports of losses from policyholders, (2) individual case estimates and (3) estimates of incurred but not reported losses.

Provisions for losses and loss adjustment expenses are charged to earnings after deducting amounts recovered and estimates of recoverable amounts and are included in other expenses on the condensed consolidated statements of operations.

Costs of acquiring new policies, which vary with and are directly related to the production of new policies, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. Such costs include commissions and allowances as well as certain costs of policy issuance and underwriting and are included within other assets on the condensed consolidated statements of financial condition.

Included in other revenues, in the accompanying condensed consolidated statements of operations, for the three and nine months ended September 30, 2016 is $8.9 million and $23.2 million, respectively, related to premiums earned from the Company’s insurance and reinsurance business. Included in other expenses, in the accompanying condensed consolidated statements of operations, for the three and nine months ended September 30, 2016 is $8.6 million and $20.9 million, respectively, are insurance and reinsurance business loss and claim reserves, acquisition costs and other expenses.

i. Revenue recognition

Lease revenue

Lease revenue under operating leases is recognized on a straight-line basis over the term of the lease.

j. Recently issued accounting pronouncements

In August 2016, the FASB issued guidance which reduces the diversity in practice as to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance addresses eight specific cash flow issues with the objective of reducing the existing and potential future diversity in practice. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company’s cash flows presentation.

In March 2016, as part of its simplification initiative, the FASB issued a new accounting pronouncement which simplified the requirements for share based payments. The guidance among other things covers the income tax consequences and classification of excess tax benefit and tax withholding on the statement of cash flows. For public business entities, the guidance is effective for reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of this guidance on the Company’s financial condition, results of operations and cash flows.

In May 2014, the FASB issued guidance which amends and supersedes the revenue recognition requirements and most industry-specific guidance and creates a single source of revenue guidance. The new guidance outlines the principles an entity must apply to measure and recognize revenue and related cash flows. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets. The guidance is effective for reporting periods beginning after December 15, 2017. In July 2015, the FASB confirmed a deferral of the effective date by one year, with early adoption on the original effective date permitted. In 2016, the FASB issued various new guidance to clarify the implementation guidance on principal versus agent considerations, revenue from contracts with customers and identifying performance obligations and licensing implementation. The Company is currently evaluating the impact of this guidance on the Company’s financial condition, results of operations and cash flows.

In March 2016, as part of its simplification initiative, the FASB issued a new accounting pronouncement which eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The guidance is effective prospectively for reporting

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

periods beginning after December 15, 2016. The Company is currently evaluating the impact of this guidance on the Company's financial condition, results of operations and cash flows.

In March 2016, the FASB issued two amendments relating to Derivatives and Hedging. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The Second amendment relates to Contingent Put and call option in a debt instrument and clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts when assessed under the current guidance. For public business entities the guidance is effective for reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosures.

In February 2016, the FASB issued guidance which amends and supersedes its previous guidance regarding leases. The new guidance requires the lessee to recognize the right to use assets and lease liabilities that arise from leases and present them in its statement of financial condition. The recognition of these lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial condition. For public business entities the guidance is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosures.

In January 2016, as a joint project with International Accounting Standards Board (IASB), the FASB issued a new accounting pronouncement to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in the update made improvements to US GAAP for equity investments and investments carried at amortized cost. The guidance also simplifies the impairment assessment for equity investments and clarifies the need for valuation allowance on deferred tax asset related to available for sale securities. For public business entities the guidance is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosures.

4. Cash Collateral Pledged

As of September 30, 2016 and December 31, 2015, the Company pledged cash collateral in the amount of $8.3 million and $10.1 million, respectively, which relates to letters of credit issued to the landlords of the Company's premises in New York City, Boston and San Francisco. The Company also has a letter of credit, in the amount of $5.5 million, due March 2017, for which cash is pledged as collateral under a reinsurance agreement. (See Note 13).

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 are pledged to the clearing brokers under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations.

As of September 30, 2016 and December 31, 2015, securities owned, at fair value consisted of the following:

	As of September 30, 2016	As of December 31, 2015
	(dollars in thousands)	
U.S. Government securities (a)	$3,776	$ 3,016
Preferred stock (b)	12,964	25,563
Common stocks (b)	504,093	516,108

Convertible bonds (c)	250	819
Corporate bonds (d)	17,794	47,192
Warrants and rights	5,762	3,059
Mutual funds (e)	5	14,477
	$544,644	$610,234

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

(a) As of September 30, 2016, maturities ranged from December 2016 to August 2017 with an interest rate of 0%. As of December 31, 2015, maturities ranged from January 2016 to August 2016 with interest rates ranged between 0% to 5.95%.

(b) Included in preferred stocks are investments in securities for which the Company has elected the fair value option with the fair value of $4.2 million at September 30, 2016 and preferred and common stock of $7.7 million and $7.4 million, respectively, at December 31, 2015. These investments were acquired in connection with merchant banking transactions.

(c) As of September 30, 2016, the maturity was March 2018 with an interest rate of 8%. As of December 31, 2015, maturities ranged from July 2016 to March 2018 with interest rates ranged between 8% to 10.00%.

(d) As of September 30, 2016, maturities ranged from October 2016 to February 2046 and interest rates ranged between 3.25% to 13.00%. As of December 31, 2015, maturities ranged from March 2016 to February 2046 and interest rates ranged between 3.25% to 9.00%.

(e) Included in this amount as of December 31, 2015, are investments in affiliated funds of $13.4 million all of which was liquidated during the three months ended March 31, 2016.

Receivable on and Payable for derivative contracts, at fair value

The Company's direct involvement with derivative financial instruments includes futures, currency forwards, equity swaps, credit default swaps and options. 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.

Upon issuance of the Company's cash convertible unsecured senior notes ("Convertible Notes") (See Note 13), the Company recognized the embedded cash conversion option at fair value of $35.7 million which is valued as of September 30, 2016 at $13.0 million and is included in payable for derivative contracts in the accompanying condensed consolidated statement of financial condition. Also, on the date of issuance of the Convertible Notes, the Company entered into a separate cash convertible note economic hedge transaction (the "Hedge Transaction") with a counterparty (the “Option Counterparty”) whereby, the Company purchased a cash settled option contract with terms identical to the conversion option embedded in the Convertible Notes and simultaneously sold an equity settled warrant with a higher strike price. The Hedge Transaction is expected to reduce the Company’s exposure to potential cash payments in excess of the principal amount of converted notes that the Company may be required to make upon conversion of the Convertible Notes. The Company paid a premium of $35.7 million for the option under the Hedge Transaction and received a premium of $15.2 million for the equity settled warrant transaction, for a net cost of $20.5 million. The Hedge Transaction is valued at $13.0 million as of September 30, 2016 and is included in receivable on derivative contracts in the accompanying condensed consolidated statement of financial condition. Aside from the initial premium paid, the Company will not be required to make any cash payments under the Hedge Transaction and could be entitled to receive an amount of cash from the Option Counterparty generally equal to the amount by which the market price per share of common stock exceeds the strike price of the Hedge Transaction during the relevant valuation period. The warrants cover 28,048,786 shares of the Company's Class A common stock and have an initial exercise price of $7.18 per share. The warrants expire over a period of 80 trading days beginning on November 14, 2018. The warrant transaction could have a dilutive effect to the extent that the market value per share of the Company’s Class A common stock exceeds the applicable strike price of the warrants.

The Company's long and short exposure to derivatives is as follows:

Receivable on derivative contracts	As of September 30, 2016		As of December 31, 2015	
	Number of contracts / Notional	Fair value	Number of contracts / Notional	Fair value

	Value		Value	
	(dollars in thousands)			
Futures	$13,935	$704	$9,416	$189
Currency forwards	$59,902	17	$67,862	659
Equity swaps	$67,059	1,442	$118,488	2,327
Options other (a)	242,968	22,941	289,433	31,456
Foreign currency options	$245,700	2,324	$283,797	4,987
		$27,428		$39,618

(a) Includes index, equity, commodity future and cash conversion options.

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

Payable for derivative contracts	As of September 30, 2016		As of December 31, 2015	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$42,736	$1,235	$11,995	$ 101
Currency forwards	$24,650	37	$44,156	463