

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from to

Commission File Number: 001-34516

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware 27-0423711

(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

599 Lexington Avenue 10022
New York, New York (Zip Code)

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

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

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

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

Non-accelerated filer

Large accelerated filer Accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of 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	—

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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	

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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	Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholder 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	Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholder 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:		

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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,	
	2016	2015
(continued)		
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

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Cowen Group, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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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Cowen Group, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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