

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

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: 000-52048

Cowen Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

84-1702964

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

1221 Avenue of the Americas
New York, New York

(Address of principal executive offices)

10020

(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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of May 11, 2007 there were 15,803,794 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 in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” that are forward-looking statements. In some cases, you can identify these statements by forward-looking terms such as “may”, “might”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “intend” or “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are only predictions 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 outlined under Part II, Item 1A—“Risk Factors”.

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 are under no duty to update any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations.

Unaudited Condensed Consolidated Financial Statements are presented for the three months ended March 31, 2007 and 2006. The Consolidated Financial Statements as of December 31, 2006 were audited.

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Cowen Group, Inc.
Condensed Consolidated Statements of Financial Condition
(In thousands, except share and per share data)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 109,041	\$ 185,042
Restricted cash pursuant to escrow agreement	51,337	52,099
Securities owned, at fair value	161,449	259,921
Receivable from brokers, dealers and clearing brokers	29,958	83,564
Corporate finance and syndicate receivables	20,318	27,022
Due from affiliates	295	1,367
Exchange memberships, at cost (fair value of \$763 and \$2,561 at March 31, 2007 and December 31, 2006, respectively)	487	812
Furniture, fixtures, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$6,767 and \$6,001 at March 31, 2007 and December 31, 2006, respectively)	12,065	12,629
Goodwill	50,000	50,000
Other assets	15,330	11,982
Total assets	<u>\$ 450,280</u>	<u>\$ 684,438</u>
Liabilities and Stockholders' Equity		
Liabilities		
Bank overdrafts	\$ 1,979	\$ 1,858
Securities sold, not yet purchased, at fair value	128,600	251,580
Payable to brokers, dealers and clearing brokers	2,790	29,918
Employee compensation and benefits payable	24,348	116,021
Legal reserves and legal expenses payable (see Note 9 Commitments, Contingencies and Guarantees)	52,798	53,167
Accounts payable, accrued expenses and other liabilities	14,637	13,766
Total liabilities	<u>225,152</u>	<u>466,310</u>
Stockholders' equity		
Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 16,001,944 and 15,000,000 shares issued, and 15,899,682 and 14,988,472 shares outstanding at March 31, 2007 and December 31, 2006, respectively (including 2,999,682 and 2,088,472 restricted shares, respectively)	129	129

Additional paid-in capital	219,769	215,240
Retained earnings	5,230	2,759
Less: common stock held in treasury, at cost: 102,262 shares at March 31, 2007 and 11,528 shares at December 31, 2006	—	—
Total stockholders' equity	225,128	218,128
Total liabilities and stockholders' equity	\$ 450,280	\$ 684,438

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

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

	Three Months Ended March 31,	
	2007	2006
Revenues		
Investment banking	\$ 25,363	\$ 53,439
Commissions	23,961	24,115
Principal transactions	20,665	19,412
Interest and dividend income (see Note 11, Related Party Transactions)	2,137	6,145
Other	1,415	682
Total revenues	73,541	103,793
Expenses		
Employee compensation and benefits	45,167	62,738
Floor brokerage and trade execution (see Note 11, Related Party Transactions)	3,454	4,320
Service fees, net (see Note 11, Related Party Transactions)	3,503	4,956
Communications	4,197	4,128
Occupancy and equipment (see Note 11, Related Party Transactions)	4,277	4,222
Marketing and business development	3,215	2,903
Depreciation and amortization	766	475
Interest	141	227
Other	6,197	6,340
Total expenses	70,917	90,309
Operating income	2,624	13,484
Gain on exchange memberships	1,775	24,832
Income before income taxes	4,399	38,316
Provision for income taxes	1,928	1,776
Net income	\$ 2,471	\$ 36,540
Earnings per share:		
Basic	\$ 0.19	\$ 2.83
Diluted	\$ 0.18	\$ 2.83
Weighted average shares used in computation of per share data:		
Basic	12,910	12,900
Diluted	13,417	12,900

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

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Cowen Group, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net income	\$ 2,471	\$ 36,540
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of exchange memberships	—	(24,832)
Income taxes	(1,789)	1,776
Stock-based compensation	4,529	58
Depreciation and amortization	766	475
(Increase) decrease in operating assets:		
Restricted cash pursuant to escrow agreement	762	—

Cash segregated under Federal and other regulations	—	187
Securities owned, at fair value	98,472	8,777
Securities purchased under agreements to resell with related party	—	60,670
Receivable from brokers, dealers and clearing brokers	53,606	(10,181)
Corporate finance and syndicate receivables	6,704	(9,150)
Insurance claims receivable	—	5,316
Due from affiliates	1,072	99
Exchange memberships, at cost	325	—
Other assets	(969)	(6,179)
Increase (decrease) in operating liabilities:		
Bank overdrafts	121	(110)
Securities sold, not yet purchased, at fair value	(122,980)	(8,039)
Payable to brokers, dealers and clearing brokers	(27,128)	(4,686)
Employee compensation and benefits payable	(91,673)	(57,160)
Legal reserves and legal expenses payable	(369)	945
Accounts payable, accrued expenses and other liabilities	281	(3,264)
Net cash used in operating activities	<u>(75,799)</u>	<u>(8,758)</u>
Cash flows from investing activities		
Purchase of furniture, fixtures, equipment and leaseholds improvements	(202)	(1,133)
Cash used in investing activities	<u>(202)</u>	<u>(1,133)</u>
Cash flows from financing activities		
Payments related to retail brokerage business not conducted by the Company (see Note 1)	—	(202)
Capital contributions	—	8,584
Net cash provided by financing activities	<u>—</u>	<u>8,382</u>
Net decrease in cash and cash equivalents	<u>(76,001)</u>	<u>(1,509)</u>
Cash and cash equivalents		
Beginning of period	185,042	2,150
End of period	<u>\$ 109,041</u>	<u>\$ 641</u>
Supplemental disclosure of cash flow information		
Income taxes paid	\$ 3,020	\$ —
Interest paid	\$ 286	\$ 732
Supplemental disclosure of non-cash flow information		
Transfer to SGASH of consideration from NYSE merger with Archipelago	\$ —	\$ 32,182

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

Cowen Group, Inc.
Notes to Condensed Consolidated Financial Statements

1. Organization and Basis of Presentation

Cowen Group, Inc. (together with its subsidiaries, the “Company”) was incorporated in Delaware on February 15, 2006 with the issuance of 100 shares of common stock with a par value of \$0.01 per share. The Company completed an initial public offering (“IPO”) of its common stock on July 12, 2006. Prior to July 12, 2006, the Company was a wholly-owned subsidiary of SG Americas Securities Holdings, Inc. (“SGASH”). SGASH is a wholly-owned subsidiary of SG Americas, Inc. (“SGAI”), which in turn is a wholly-owned subsidiary of Société Générale. The Company is operated and managed on an integrated basis as a single operating segment and primarily provides research, institutional sales and trading and investment banking services to its clients.

Cowen and Company, LLC (“Cowen”), a Delaware single member limited liability company, is the United States (“U.S.”) broker-dealer subsidiary of Cowen Group, Inc. Cowen is a full-service investment banking and securities brokerage firm focused on the emerging growth sectors of healthcare, technology, media and telecommunications, alternative energy and consumer, operating primarily in the United States. Cowen’s predecessor was SG Cowen Securities Corporation (“SGCSC”). On April 23, 2004, Société Générale reorganized SGCSC into two separate affiliated single member limited liability broker-dealers: SG Cowen & Co., LLC (which subsequently was renamed as Cowen and Company, LLC) and SG Americas Securities, LLC (“SGAS”). Effective January 26, 2007, Cowen clears its securities transactions on a fully disclosed basis through National Financial Services, LLC, and does not carry customer funds or securities.

Cowen International Limited (“CIL”), a corporation formed under the laws of England and Wales, is the United Kingdom (“U.K.”) broker-dealer subsidiary of the Company. CIL is an investment banking and brokerage firm also focused on the emerging growth sectors of healthcare, technology, media and telecommunications, alternative energy and consumer, primarily in Europe. CIL’s predecessors were SG London Securities Limited and SG London Branch.

Cowen Capital Partners, LLC (“Cowen Capital”), a Delaware single member limited liability company, is a wholly-owned subsidiary of the Company. Cowen Capital focuses on providing management services to management teams who acquire significant equity positions in growing businesses engaged in business services, healthcare services and specialty manufacturing.

Concurrent with the Company's IPO, the Board of Directors of the Company approved a return of capital distribution to SGASH which left the Company with initial stockholders' equity of \$207.0 million at July 12, 2006. In connection with the IPO, the Company distributed cash of \$180.3 million to SGASH pursuant to this authorization. Under the terms of the Separation Agreement (see Note 10 for further discussion of the Separation Agreement), the amount of this distribution is subject to adjustment based on a final review of the Company's separation from Société Générale. The Company has accrued approximately \$2.0 million as a capital distribution to Société Générale related to this final review. SGASH received all the proceeds from the sale of 11,517,392 shares as a result of the IPO. In addition, 2,100,000 restricted shares were granted to employees of the Company. SGASH retained 1,382,608 shares of the Company out of the total 12,900,000 shares available for sale.

Basis of Presentation

Management believes that these condensed consolidated financial statements include normally recurring adjustments and accruals necessary for a fair presentation of the Condensed Consolidated Statements of Financial Condition, Operations and Cash Flows for the periods presented.

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The condensed consolidated financial statements for all periods prior to July 13, 2006 include the carve-out accounts of Cowen and the carve-out accounts of SG London Branch, the predecessor of CIL, in each case using the historical basis of accounting for the results of operations, assets and liabilities of the businesses that currently constitute Cowen and CIL. The condensed consolidated financial information included herein, for periods prior to July 13, 2006, may not necessarily be indicative of the Company's results of operations, financial condition and cash flows in the future or what its results of operations, financial condition and cash flows would have been had the Company been a stand-alone company during the entire periods presented.

The Condensed Consolidated Statements of Operations do not include litigation expenses incurred by the Company in connection with certain litigation and other legal matters that are indemnified by Société Générale. The legal reserves related to these indemnified matters are included in legal reserves and legal expenses payable in the Condensed Consolidated Statements of Financial Condition. Before becoming a public company, payments related to these matters were included in the Condensed Consolidated Statements of Cash Flows as financing activities because the Company was a wholly-owned subsidiary of Société Générale. After becoming a public company, these payments are included as operating activities. The effect of this indemnification on the Company's consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost and the indemnification recovery will be reflected as an increase in litigation and related expense and the indemnification recovery will be recorded as a reduction to the Company's litigation and related expense. See Note 9, "Commitments, Contingencies and Guarantees" and Note 10, "Separation from Société Générale and Other Related Matters" for further discussion.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated upon consolidation. Certain reclassifications have been made to conform prior-period amounts to the current-period presentation, including the reclassification of \$1.8 million from communications expense to floor brokerage and trade execution expense in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2006. In addition, litigation and related expenses have been reclassified to other expenses.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Valuation of Financial Instruments

Substantially all of the Company's financial instruments are recorded at fair value or contract amounts that approximate fair value. Securities owned and securities sold, not yet purchased and derivative financial instruments including futures, options and warrant positions are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in principal transactions in the Condensed

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Consolidated Statements of Operations. Financial instruments carried at contract amounts include amounts receivable from and payable to brokers, dealers and clearing brokers, securities purchased under agreements to resell and corporate finance and syndicate receivables.

Fair value is generally based on independent sources such as quoted market prices or dealer price quotations. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, the Company estimates the fair value of these instruments using various pricing models and available information that management deems most relevant. Among the factors considered by the Company in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of financial instruments.

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell generally are collateralized by U.S. government and agency obligations, are treated as collateralized financing transactions and are carried at amounts at which the securities will be resold plus accrued interest. It is the Company's policy to take possession or control of securities purchased under agreements to resell. The Company requires the fair value of the collateral to be equal to or in excess of the principal amount loaned under the resale agreements. The Company minimizes credit risk associated with these activities by monitoring credit exposure and collateral values on a daily basis and requiring additional collateral or principal to be deposited or returned when deemed appropriate.

Receivable from and Payable to Brokers, Dealers and Clearing Brokers

Amounts receivable from and payable to brokers, dealers and clearing brokers primarily include proceeds from securities sold short including commissions and fees related to securities transactions, net receivables and payables for unsettled transactions, and deposits with the clearing brokers. Proceeds related to securities sold, not yet purchased, may be restricted until the securities are purchased.

Corporate Finance and Syndicate Receivables

Corporate finance and syndicate receivables include receivables relating to the Company's investment banking and advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis. No valuation allowance has been recorded as of March 31, 2007 and December 31, 2006.

Furniture, Fixtures, Equipment, and Leasehold Improvements

Furniture, fixtures, equipment, and computer software, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of furniture, fixtures, equipment and computer software is provided on the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the term of the lease which range from one to nine years.

Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill is not amortized. The Company monitors goodwill annually or more frequently if events or circumstances indicate a possible impairment.

A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of the Company with the fair value of the Company. If the carrying value of the Company exceeds the fair value of the Company, the second step is applied. The second step is to compare the carrying amount of the goodwill with the implied fair value of the goodwill as determined in accordance with SFAS 142. Goodwill impairment is recognized if its carrying value exceeds its implied fair value. The determination of fair value includes considerations of projected cash flows, revenue multiples of comparable exchange listed corporations, and the trading price of the Company's common shares.

Goodwill impairment tests are subject to significant judgment in determining the estimation of future cash flows, discount rates and other assumptions. Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill.

Exchange Memberships

Exchange memberships representing both ownership interest and the right to conduct business on the exchange are accounted for at cost. The Company evaluates exchange memberships for other-than-temporary impairment annually or more frequently if events or circumstances indicate a possible impairment.

Stock-Based Compensation

Upon becoming a public company, the Company established a stock-based compensation plan. Awards related to this plan are accounted for under the recognition and measurement provisions SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"). See Note 12 for a description of these awards.

The Company adopted SFAS 123R effective January 1, 2006. Upon adoption of SFAS 123R, the modified prospective transition method was used. This method requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest.

Legal Reserves

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS No. 5, *Accounting for Contingencies*. These amounts are reported in other expenses, net of recoveries, on the Condensed Consolidated Statements of Operations. The Condensed Consolidated Statements of Operations do not include litigation expenses incurred by the Company in connection with certain litigation matters (see Note 9, "Commitments, Contingencies, and Guarantees" and Note 10, "Separation from Société Générale and Other Related Matters"). As the successor of the named party in these litigation matters, the Company recognizes the related legal reserve in the Condensed Consolidated Statements of Financial Condition.

Revenue recognition

Investment Banking

Investment banking revenues include underwriting fees, private placement fees, strategic advisory fees and financial advisory fees. Underwriting revenues are earned in securities offerings in which the Company acts as an underwriter and include management fees, sales concessions and underwriting fees. Management fees are recorded on the offering date, sales concessions on settlement date and underwriting fees are recognized net of related syndicate expenses, at the time the underwriting is complete and the income is reasonably determinable. As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction. Private placement fees, including warrants received in certain private placement transactions, are recorded on the closing date of the placement. Strategic advisory and financial advisory fees are recorded when the services to be performed and/or the transactions are substantially completed, and fees are determinable and collection is reasonably assured. Expenses associated with these transactions are recognized, net of client reimbursements, when the related revenue is recognized or the engagement is otherwise concluded.

Commissions

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

Principal Transactions

Principal transactions revenue includes net trading gains and losses from the Company's market-making activities in over-the-counter common equity securities, convertible securities and options, from commitment of capital to facilitate customer trades for listed stocks and from proprietary trading activities. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a very short duration.

Derivative Financial Instruments

The Company primarily uses U.S. Treasury futures and options to economically hedge proprietary trading positions. In addition, the Company uses options for proprietary trading activities. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Options are stated at fair value which is based on current market prices. Realized and unrealized gains and losses associated with futures transactions and options are included in principal transactions on the Condensed Consolidated Statements of Operations. The fair value of futures contracts and required margin deposits are included in receivable from brokers, dealers and clearing brokers on the Condensed Consolidated Statements of Financial Condition and were de minimis at March 31, 2007 and December 31, 2006. The Company also holds warrants, which are reported at fair value, within securities owned in the Condensed Consolidated Statements of Financial Position.

Earnings Per Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive nonvested restricted stock and stock options, in accordance with the treasury stock method.

Leases

Leases are accounted for under SFAS No. 13, *Accounting for Leases*. All of the Company's leases are classified as operating leases.

Foreign Currency Translation

The Company's assets and liabilities denominated in foreign currencies are translated based on the rate of exchange prevailing at each statement of financial condition date. Revenues and expenses are translated at the average exchange rates prevailing during the periods. Gains and losses on foreign currency are recorded in other income or other expense in the Condensed Consolidated Statement of Operations.

Income Taxes

The income tax provision reflected in the Condensed Consolidated Statements of Operations is presented as if the Company operated on a stand-alone basis for all periods presented, consistent with the liability method prescribed by SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under applicable tax laws and rates. A valuation allowance is provided for deferred tax assets when it is more likely than not that the benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

3. Accounting Developments

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of implementing SFAS 159.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. The Company is currently evaluating the impact, if any, that the adoption of SFAS 157 will have on the Company’s consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the impact of FIN 48 and determined

that the adoption of FIN 48 does not have a significant impact on the Company’s consolidated financial statements at the present time.

4. Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale

In connection with the IPO, the Company has an Indemnification Agreement with Société Générale under which (1) Société Générale will indemnify, and will defend and hold harmless the Company and each of the Company’s subsidiaries from and against certain liabilities assumed or retained by Société Générale, and (2) Société Générale will indemnify the Company for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters (see Note 10, “Separation from Société Générale and Other Related Matters”, for further discussion of the Indemnification Agreement).

On July 12, 2006, the Company entered into an Escrow Agreement with Société Générale and SGASH and a third-party escrow agent. Also on July 12, 2006, the Company deposited with the escrow agent \$72.3 million for the payment of liabilities arising out of the matters for which Société Générale has agreed to indemnify Cowen. Subsequent to making this deposit, certain matters covered by the escrow arrangement have been settled and excess reserves related to these settled matters were returned to SGASH. The escrow agent will, when and as directed by SGASH, distribute funds from the escrow account to satisfy specified contingent liabilities for which Société Générale has assumed responsibility should such liabilities become due. Any amounts remaining in the escrow account after final conclusion of the related litigation will be paid to SGASH. SGASH is also entitled to any interest earned on such deposits held in escrow. The balance in the escrow account was \$51.3 million as of March 31, 2007 and \$52.1 million as of December 31, 2006.

The effect of this indemnification on the Company’s consolidated results of operations is that when a future increase to a loss contingency reserve that is related to litigation covered by the Indemnification Agreement is recorded, the litigation cost and the indemnification recovery will be reflected as an increase in litigation and related expense and the indemnification recovery will be recorded as a reduction to the Company’s litigation and related expense.

5. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, both at fair value, consist of the following at March 31, 2007 and December 31, 2006:

	March 31, 2007		December 31, 2006	
	Owned	Sold, Not Yet Purchased	Owned	Sold, Not Yet Purchased
	(in thousands)			
Corporate debt securities	\$ 99,294	\$ 48,901	\$ 171,124	\$ 91,904
Equity securities	52,464	77,385	54,802	156,449
Mutual funds	2,500	—	3,266	—
Options	3,073	2,184	25,874	3,106
Warrants	4,118	—	4,088	—
Other	—	130	767	121
Total	\$ 161,449	\$ 128,600	\$ 259,921	\$ 251,580

Securities sold, not yet purchased, represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security in the market at prevailing prices. The Company’s liability for securities to be delivered is measured at their fair value as of the date of the financial statements. However, these transactions result in off-balance sheet risk, as the Company’s ultimate cost to satisfy the delivery of securities sold, not yet purchased, may exceed the amount reflected in the Condensed Consolidated Statements of Financial Condition. Substantially all securities owned are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations.

6. Receivable from and Payable to Brokers, Dealers and Clearing Brokers

Amounts receivable from and payable to brokers, dealers and clearing brokers at March 31, 2007 and December 31, 2006 consist of the following:

	March 31, 2007		December 31, 2006	
	Receivable	Payable	Receivable	Payable
	(in thousands)			
Clearing brokers	\$ 20,763	\$ 15	\$ 70,032	\$ 22,215
Fees and commissions	9,195	2,775	13,532	7,703
Total	<u>\$ 29,958</u>	<u>\$ 2,790</u>	<u>\$ 83,564</u>	<u>\$ 29,918</u>

7. Exchange Memberships

Exchange memberships provide the Company with the right to do business on the exchanges of which it is a member. No impairment was recorded in the three months ended March 31, 2007 and 2006. The fair value of the exchange memberships was approximately \$0.8 million and \$2.6 million at March 31, 2007 and December 31, 2006, respectively.

8. Goodwill

All of the Company's goodwill resulted from the 1998 acquisition of the former Cowen private partnership by Société Générale. Goodwill was amortized based on its estimated useful life up until the date of adoption of SFAS No. 142, January 1, 2002, after which time goodwill was no longer amortized. Goodwill is tested annually for impairment, or more frequently if deemed necessary. There were no impairment losses during the quarter ended March 31, 2006. The following table reflects the changes in the carrying value of goodwill for the three months ended March 31, 2007:

	(in thousands)
Balance at December 31, 2006	\$ 50,000
Goodwill acquired	—
Impairment losses	—
Balance at March 31, 2007	<u>\$ 50,000</u>

9. Commitments, Contingencies and Guarantees

Legal Proceedings

The Company is involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of its businesses. To the extent that the Company is indemnified by Société Générale, indemnified legal expenses and liabilities will be paid out of escrow pursuant to the Company's Escrow Agreement with Société Générale (see Note 4, "Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale" and Note 10, "Separation from Société Générale and Other Related Matters", for further discussion of the Escrow Agreement and the Indemnification Agreement). To the extent that the Company is not indemnified by Société Générale, the Company estimates potential losses that may arise out of these matters and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS No. 5, *Accounting for Contingencies*. Such estimates, by their nature,

are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter by matter basis, to account for developments in such matters.

Based on information currently available, the Company believes that the amount, or range, of reasonably possible losses will not have a material adverse effect on the Company's consolidated financial condition or cash flows. However, losses may be material to the Company's operating results in a future period, depending in part, on the operating results for such period and the extent to which the Company is indemnified by Société Générale.

Lease commitments

The Company's headquarters is located in New York and other offices are located in Boston, San Francisco, Cleveland, Denver, London and Geneva. Certain office space is leased under operating leases that extend up to 2015. In addition, certain lease agreements are subject to escalation clauses. Under the terms of the Boston office lease, which expires on November 30, 2014, there is a five-year extension option which would allow the Company to extend the lease through November 30, 2019.

As of March 31, 2007, the Company had the following lease commitments related to these agreements:

	Minimum Lease Payments (in thousands)
2007	\$ 6,674
2008	8,981
2009	9,284
2010	9,395
2011	9,351
Thereafter	20,439
	<u>\$ 64,124</u>

Rent expense was approximately \$2.7 million and \$2.6 million for the three months ended March 31, 2007 and 2006, respectively.

Guarantees

The Company has outsourced certain information technology services under agreements which are in place until 2010. As of March 31, 2007, the Company's annual minimum guaranteed payments under these agreements are as follows:

	Minimum Guaranteed Payments (in thousands)
2007	\$ 8,691
2008	11,665
2009	9,963
2010	4,210
	<u>\$ 34,529</u>

The Company applies the provisions of the FASB's Interpretation No. 45, *Guarantor's Accounting and Disclosure Required for Guarantees, Including Indirect Indebtedness of Others*, which provides accounting and disclosure requirements for certain guarantees. In this regard, the Company has agreed to indemnify its clearing broker for losses that it may sustain from the customer accounts introduced by the Company. Pursuant to the clearing agreement, the Company is required to reimburse the clearing broker without limit for any losses incurred due to the counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

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

In connection with the IPO, the Company has an Indemnification Agreement with Société Générale under which the Company will indemnify, and will defend and hold harmless Société Générale and its subsidiaries from and against certain liabilities specifically retained or assumed by the Company after becoming a public company (see Note 10, Separation from Société Générale and Other Related Matters, for further discussion of the Indemnification Agreement). There were no contingent liabilities related to these matters recognized by the Company through the period ended March 31, 2007.

10. Separation from Société Générale and Other Related Matters

In connection with the IPO, the Company entered into a Separation Agreement, an Indemnification Agreement and a number of other agreements with Société Générale for the purpose of accomplishing the separation from Société Générale, the transfer of the Cowen and CIL businesses to the Company, the return of capital to SGASH, and various other matters regarding the separation and the IPO. The Separation Agreement and Indemnification Agreement were executed on July 11, 2006. The other

agreements described below were executed on July 12, 2006. These agreements provide, among other things, for the allocation of employee benefits, tax and other liabilities and obligations attributable or related to periods or events prior to, in connection with and after the IPO.

The Separation Agreement provides that, as of July 18, 2006, both the Company and Société Générale will assume and/or retain certain actual or contingent liabilities. Specifically, the Company will retain or assume, among others, certain liabilities reflected on the Company's Condensed Consolidated Statements of Financial Condition, all liabilities associated with the Company's stock ownership and incentive compensation plans, liabilities associated with certain contracts and accounts that the Company shares with Société Générale, liabilities associated with the breach of or failure to perform any of the Company's obligations under certain agreements, certain specified liabilities and all other liabilities expressly allocated to the Company in connection with the separation, and all other known and unknown liabilities (to the extent not specifically assumed by Société Générale) relating to, arising out of or resulting from the Company's business, assets, liabilities or any business or operations conducted by the Company at any time prior to, on or after the date of separation. Liabilities retained or assumed by Société Générale include, among others, liabilities associated with the sale and transfer of its interests in the SG Merchant Banking Fund L.P. to a third party, its portion of liabilities associated with certain contracts and accounts that it shares with the Company, liabilities associated with the breach of or failure to perform any of its obligations under certain agreements, liabilities arising from the operation of its business, liabilities associated with certain businesses previously conducted by the Company, certain liabilities associated with any known or unknown employee-related claims made by any current or former employees of Société Générale or any of its subsidiaries (other than the Company), certain specific contingent liabilities to the extent that such liabilities exceed the aggregate dollar amount held in escrow pursuant to the Escrow Agreement, certain specified liabilities and all other liabilities expressly allocated to it under the Separation Agreement and the other agreements entered into in connection with the separation, and all other known and unknown liabilities relating to, arising out of or resulting from its business, assets, liabilities or any business or operations conducted by Société Générale.

The Company entered into an Indemnification Agreement with Société Générale on July 11, 2006. Under the Indemnification Agreement, the Company will indemnify, and will defend and hold harmless Société Générale and its subsidiaries from and against all liabilities specifically retained or assumed by the Company after becoming a public company. Société Générale will indemnify, and will defend and hold harmless the Company and each of the Company's subsidiaries from and against certain liabilities assumed or retained by them, and Société Générale will indemnify the Company for known, pending and threatened litigation (including the costs of such litigation) and certain known regulatory matters, in each case, that existed prior to the date of the IPO to the extent the cost of such litigation results in payments in excess of the amount placed in escrow to fund such matters.

The Company entered into an Employee Matters Agreement with Société Générale in connection with the IPO. The Employee Matters Agreement provides, among other things, for the allocation, between the Company and Société Générale, of responsibilities and liabilities for employees, employee compensation and benefit plans, programs, policies and arrangements following the transactions contemplated by the Separation Agreement. Such allocation includes the transfer to Société Générale of certain assets and liabilities associated with identified deferred compensation plans sponsored by Société Générale.

The Company entered into a Stockholders Agreement with SGASH in connection with the IPO. The Stockholders Agreement, among other agreements, governs SGASH's right to appoint members of the Board of Directors of the Company, SGASH's registration rights relating to shares of the Company's

common stock, if any, held by SGASH after the IPO and restrictions on SGASH's ability to sell, transfer or otherwise convey shares of the common stock, if any, held by SGASH after the IPO. Because SGASH holds less than 10% of the Company's common stock they can no longer appoint members of the Board of Directors of the Company pursuant to the Stockholders Agreement.

The Company entered into a Transition Services Agreement with Société Générale in connection with the IPO pursuant to which the companies agreed to provide each other certain administrative and support services and other assistance consistent with a limited number of the services provided before the separation. Services that the Company agreed to provide to Société Générale included merchant banking oversight services. Services that Société Générale agreed to provide to the Company included facilities management, business continuity management, certain legal services and litigation management services and access to Société Générale data rooms and e-mail archives.

The Company entered into a Tax Matters Agreement with Société Générale in connection with the IPO. The Tax Matters Agreement includes a description of the Company's continuing tax sharing arrangements with Société Générale relating to periods prior to the separation, and also allocates responsibility and benefits associated with the elections made in connection with the separation from Société Générale. The Tax Matters Agreement also allocates rights, obligations and responsibilities in connection with certain administrative matters relating to taxes. In connection with the Company's separation from Société Générale, SGAI retained the tax benefits of the Company's net operating loss carryforwards.

On July 11, 2006 the Board of Directors of the Company approved the "Equity and Incentive Plan" pursuant to which the Company can offer employees, independent contractors and non-employee Directors' equity-based awards. 4,725,000 shares of common stock have been allocated for issuance under this plan. In connection with the IPO, the Company made equity awards of 2,100,000 shares of restricted stock and granted options to purchase 1,125,000 shares of common stock to certain of its senior employees.

11. Related Party Transactions

Effective July 21, 2006 (the date on which Société Générale's ownership level was reduced to below 10%), the Company is no longer an affiliate or related party of Société Générale. As such, the Condensed Consolidated Statements of Operations include related party items through July 21, 2006.

Balances due from affiliates were \$0.3 million and \$1.4 million at March 31, 2007 and December 31, 2006, respectively. Revenues earned from and expenses incurred with affiliated companies for the three months ended March 31, 2007 and 2006 (including transactions with Société Générale through July 21, 2006, the date on which their ownership level was reduced to below 10%), are summarized as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
	(in thousands)	
Revenues		
Interest and dividend income	\$ —	\$ 4,556
Other	—	531
Total revenues	—	5,087
Expenses		
Floor brokerage and trade execution	—	2,127
Service fees, net	—	2,350
Occupancy and equipment	—	2,463
Interest	—	100
Other	—	22
Total expenses	—	7,062
Total, net	\$ —	\$ (1,975)

Other than interest earned on reverse repos with SGNY, revenues earned from and expenses incurred with affiliated companies primarily resulted from securities transactions and administrative services.

Pursuant to service agreements with certain affiliates, the Company received fees related to portfolio, investment and administration services that were provided in connection with the management of certain assets. These fees are included in other revenue on the Condensed Consolidated Statements of Operations.

The Company previously cleared its securities and futures transactions on a fully disclosed basis through clearing brokers that are affiliates of Société Générale. Clearing expenses are reported in floor brokerage and trade execution on the Condensed Consolidated Statements of Operations. The Company had entered into a commercial clearing agreement with SGAS as a result of the Company's separation from Société Générale, which had replaced

the Company's pre-existing clearing agreement with SGAS. The initial terms of that clearing agreement terminated on December 31, 2006 and were extended until January 25, 2007, at which time the Company entered into a long term relationship with a new clearing firm.

Pursuant to a service agreement with SGAI and other affiliates through the date of the IPO, the Company incurred expenses for costs and services that included facilities administration and security, risk management, financial management and reporting, information systems management and support, insurance, legal and compliance. Total expenses pursuant to the service plan were approximately \$2.1 million for the three months ended March 31, 2006. In addition, the Company incurred expenses of approximately \$0.3 million in the three months ended March 31, 2006 with an affiliated company for certain presentation center services during that period. These expenses are included in service fees on the Condensed Consolidated Statements of Operations, net of approximately \$0.1 million of fees earned related to presentation center and library services provided by the Company to SGAI during the three months ended March 31, 2006.

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The Company entered into a Transition Services Agreement with Société Générale in connection with the IPO pursuant to which the companies agreed to provide each other certain administrative and support services and other assistance consistent with a limited number of the services provided before the separation (see Note 10, "Separation from Société Générale and Other Related Matters", for further discussion of the Transition Services Agreement).

Certain costs and services, which include real estate, project management and premises and securities maintenance through the date of the IPO were allocated to the Company by Société Générale. The total amount allocated was approximately \$2.5 million during the three months ended March 31, 2006, and is reported in occupancy and equipment on the Condensed Consolidated Statements of Operations.

12. Stock-Based Compensation

Upon becoming a public company, the Company established the 2006 Equity and Incentive Plan (the "Plan"). The Plan permits the grant of options, restricted shares, restricted stock units and other equity based awards to its employees, consultants and directors for up to 4,725,000 shares of common stock. Stock options granted generally vest at 25% on each of the second through fifth anniversaries of the grant date and expire seven years from the date of grant. Restricted shares issued generally vest over three to five year periods. Restricted stock units may be immediately vested or may generally vest over a three to five year period. As of March 31, 2007, there were 9,792 restricted stock units outstanding for awards to non-employee directors, which were immediately vested and expensed in a prior period. As of March 31, 2007, there were 9,649 restricted stock units outstanding for awards to employees, which generally vest over a three to five year period. For the three months ended March 31, 2007, the Company awarded 2,985 restricted stock units to employees. As of March 31, 2007, there were approximately 0.6 million shares available for future issuance under the Plan.

The Company measures compensation cost for these awards according to the fair value method prescribed by SFAS 123R. In accordance with the expense recognition provisions of SFAS 123R, unearned compensation associated with share-based awards with graded vesting periods is amortized on an accelerated basis over the vesting period of the option or award.

The compensation cost that has been expensed for these awards was approximately \$4.5 million for the three months ended March 31, 2007. An income tax benefit of \$1.9 million was recognized during the three months ended March 31, 2007. There was no expense related to the Company's stock awards for the three months ended March 31, 2006, as the Company was not yet publicly traded.

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

Expected volatility—Based on the lack of historical data for the Company's own shares, the Company based its expected volatility on a representative peer group that took into account the criteria outlined in SEC Staff Accounting Bulletin No. 107 ("SAB 107"): industry, market capitalization, stage of life cycle and capital structure.

Expected term—Expected term represents the period of time that options granted are expected to be outstanding. The Company elected to use the "simplified" calculation method according to the provisions of SAB 107 as applicable to companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

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

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

There were no stock option grants during the three months ended March 31, 2007 and 2006. The valuation assumptions used in the valuation of the stock option grant on July 12, 2006 in conjunction with the initial public offering were as follows:

Valuation assumptions:

	<u>Grant Date</u>
Expected option term	5.25 years
Expected volatility	31.8%
Expected dividend yield	—
Risk-free interest rate	4.97%

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The following table summarizes the Company's stock option activity for the three months ended March 31, 2007:

	Shares Subject to Option	Weighted Average Exercise Price/Share(1)	Weighted Average Remaining Term (in years)	Aggregate Intrinsic Value(2) (in thousands)
Balance outstanding at December 31, 2006	1,113,427	\$ 16.00		
Options granted	—	—		
Options exercised	—	—		
Options forfeited	(36,008)	16.00		
Options expired	—	—		
Balance outstanding at March 31, 2007	<u>1,077,419</u>	<u>\$ 16.00</u>	<u>6.28</u>	<u>\$ —</u>
Options exercisable at March 31, 2007	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

(1) No options were exercised through March 31, 2007.

(2) No options were vested or exercisable through March 31, 2007. The weighted-average grant-date fair value of options granted on July 12, 2006 was \$6.11 per option.

The following table summarizes the Company's nonvested restricted shares activity for the three months ended March 31, 2007:

	Nonvested Restricted Shares	Weighted-Average Grant Date Fair Value
Balance outstanding at December 31, 2006	2,088,472	\$ 16.00
Granted	1,040,961	20.63
Vested	—	—
Forfeited	(129,751)	19.38
Balance outstanding at March 31, 2007	<u>2,999,682</u>	<u>\$ 17.46</u>

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

As of March 31, 2007, there was \$39.2 million of unrecognized compensation expense related to the Company's grants of nonvested restricted shares. Unrecognized compensation expense related to nonvested restricted shares is expected to be recognized over a weighted-average period of 1.4 years. None of the nonvested restricted shares vested during the period ended March 31, 2007.

There have been no modifications to any awards granted under the Plan during the three months ended March 31, 2007.

Prior to the IPO, the Company's employees participated in various Société Générale stock and deferred compensation plans. Expenses related to these plans totaled approximately \$2.5 million for the three months ended March 31, 2006.

13. Income Taxes

The taxable results of the Company's U.S. operations are included in the consolidated income tax returns of Cowen Group, Inc. as well as stand alone state and local tax returns. The tax results of the Company's U.K. operations are included in CIL's U.K. tax filing.

The reconciliation of the Company's federal statutory tax rate to the effective income tax rate for the three months ended March 31, 2007 and 2006 is as follows:

	For the Three Months Ended March 31,	
	2007	2006
Statutory U.S. federal income tax rate	35.0%	35.0%
State and local taxes	5.6	2.1
Other, net	3.3	3.8
Change in valuation allowance	(0.1)	(36.3)
Effective rate	<u>43.8%</u>	<u>4.6%</u>

The first quarter of 2007 tax expense consisted of current tax expense of \$3.7 million offset by a net deferred tax benefit of \$1.8 million. The deferred tax benefit for the period is primarily attributable to stock based compensation.

The low effective tax rate for the first quarter 2006 is due to the reversal of the valuation allowance associated with the net operating loss that was generated prior to the Company's IPO. In connection with the Company's separation from Société Générale, SGAI retained such tax benefits.

14. Earnings Per Share

The Company calculates its basic and diluted earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per common share is calculated by dividing net income by the weighted average number of common shares outstanding for the period. As of March 31, 2007, there were 15,899,682 shares outstanding, of which 2,999,682 are restricted. To the extent that restricted shares are unvested, they are excluded from the calculation of basic earnings per share. The Company has included 9,792 fully vested restricted stock units in its calculation of basic earnings per share.

Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive nonvested restricted stock and stock options. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares and unexercised stock options. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares are assumed to have been delivered, and options are assumed to have been exercised, on the grant date. The assumed proceeds from the assumed vesting, delivery and exercising were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized as of March 31, 2007 and (b) the amount of tax benefit that was credited to additional paid-in capital assuming vesting and delivery of the restricted shares. The tax benefit is the

amount resulting from a tax deduction for compensation in excess of compensation expense recognized for financial statement reporting purposes. In applying the treasury stock method to assume conversion of potentially dilutive stock options, there was no incremental dilutive effect of options through March 31, 2007.

The computation of earnings per share is as follows:

	Three months ended	
	March 31,	
	2007	2006
	(in thousands, except per share data)	
Net income	\$ 2,471	\$ 36,540
Shares for basic and diluted calculations:		
Average shares used in basic computation	12,910	12,900
Stock options	—	—
Restricted shares	507	—
Average shares used in diluted computation	13,417	12,900
Earnings per share:		
Basic	\$ 0.19	\$ 2.83
Diluted	\$ 0.18	\$ 2.83

15. Regulatory Requirements

As a registered broker-dealer, Cowen is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934. Under the alternative method permitted by this Rule, Cowen's net capital, as defined, is \$1.0 million. Cowen is not permitted to withdraw equity if certain minimum net capital requirements are not met. As of March 31, 2007, Cowen had net capital of approximately \$82.3 million, which was approximately \$81.3 million in excess of its net capital requirement of \$1.0 million.

Pursuant to an exemption under Rule 15c3-3(k)(2)(ii), Cowen is not required to calculate a reserve requirement and segregate funds for the benefit of customers since it clears its securities transactions on a fully disclosed basis and promptly transmits all customer funds and securities to the clearing broker-dealer which carries the accounts, maintains and preserves such books and records pertaining to them pursuant to Rules 17a-3 and 17a-4.

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

CIL is subject to the capital requirements of the Financial Services Authority ("FSA") of the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At March 31, 2007, CIL's financial resources of approximately \$5.1 million exceeded the minimum requirement of \$3.4 million by approximately \$1.7 million.

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

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results and the timing of events may differ significantly from those projected in forward-looking statements due to a number of factors, including those set forth in Item 1A — "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Overview

We are an investment bank dedicated to providing superior research, sales and trading and investment banking services to companies and institutional investor clients primarily in the healthcare, technology, media and telecommunications, alternative energy and consumer sectors. As of March 31, 2007 our research and sales and trading services were provided to over 1,000 domestic and international clients seeking to trade equity, convertible and other equity-linked securities, principally in our target sectors. We focus our investment banking efforts, principally equity and equity-linked capital raising and strategic advisory services, on small and mid-capitalization public companies as well as private companies. We operate through a single reportable segment.

Many external factors affect our revenues and profitability, including economic and market conditions, the level and volatility of interest rates, inflation, political events, investor sentiment, legislative and regulatory developments and competition. A favorable business environment is characterized by many factors, including a stable geopolitical climate, transparent financial markets, low inflation, low interest rates, low unemployment, strong business profitability and high business and investor confidence. These factors influence levels of equity security issuance and merger and acquisition activity generally and in our target sectors, which affect our investment banking business. The same factors also affect trading volumes and valuations in secondary financial markets, which affect our sales and trading business. Commission rates, market volatility and other factors also affect our sales and trading revenues and may cause our sales and trading revenues to vary from period to period. Because these business environment issues are unpredictable and beyond our control, our earnings may fluctuate significantly from period to period. We are also subject to various legal and regulatory actions that impact our business and financial results.

Many of the macro economic factors noted above were positive during the first quarter of 2007 as inflation, interest rates and unemployment remained low, and earnings were generally positive. The equity markets experienced strong performance in January and much of February with several indices reaching new all time highs in late February. Volatility increased in late February and early March highlighted by a 416 point drop in the Dow Jones Industrial Average and 97 point drop in the NASDAQ on February 27, 2007. The equity markets stabilized in the latter portion of March. Capital markets activity, the volume of merger and acquisition transactions and aggregate trading volume on the Nasdaq Stock Market increased slightly in the first quarter while aggregate volumes on the New York Stock Exchange experienced a modest decrease.

The increased volatility in late February and early March was beneficial to our sales and trading business as volumes increased during those time periods. This market disruption was, however, detrimental to our capital raising activities. Our capital raising activities were also impacted by the high level of transaction volume toward the end of the fourth quarter of 2006 as many transactions that typically would have occurred in early 2007 were completed in December. Our sales and trading business continued to experience the effects of increased competition in the brokerage industry. Although recent client and product initiatives resulted in an increase in our sales and trading revenues in the first quarter of 2007,

competitive pressures in the secondary equities business have caused our sales and trading revenues to decline from previous levels. We remain confident in the long-term market opportunity for our business primarily due to positive long-term growth and investment trends in our target sectors and expected continued demand for our specialized services; however, because we are primarily focused on the healthcare, technology, media and telecommunications, alternative energy and consumer sectors, our period-over-period operating results may be different than performance levels indicated by broader market trends.

Public Equity

Notwithstanding the market disruption in late February, market conditions were favorable for public equity transactions during much of the first three months of 2007. For the three months ended March 31, 2007, new issue activity, including IPOs, secondary offerings and convertible debt offerings increased modestly compared to the first quarter of 2006. When measured by number of offerings, new issue activity increased by 8% year-over-year. When measured by total proceeds, new issue activity increased by 2% year-over-year. Activity in Cowen's growth sectors was more muted than the overall market in the first quarter of 2007, with the number of transactions flat and total proceeds down 13% from the first quarter of 2006.

Private Equity

Private market capital raising activity decreased for the three months ended March 31, 2007 relative to the first quarter of 2006 when measured by the number of transactions. Year-over-year, the number of private investments in public equities ("PIPEs") and registered direct placements ("RDs") decreased by approximately 22%. When measured by total proceeds, there was an increase year-over-year of 13%, due to a limited number of very large transactions.

Strategic Advisory

Merger and acquisition activity across all sectors on a year-over-year basis increased in the first quarter of 2007 when measured by both aggregate transaction value and number of transactions. In Cowen's growth sectors, merger and acquisition activity in the first quarter of 2007 decreased from the first quarter of 2006. Transaction value in the first quarter of 2007 increased 10% across all sectors, but decreased 17% within Cowen's growth sectors compared to the first quarter of 2006. When measured by the total number of transactions, year-over-year volume increased 4% across all sectors, but was down 6% within Cowen's growth sectors.

Sales and Trading

The equity trading environment was mixed during the quarter as activity on the New York Stock Exchange decreased by 4% year-over-year, while volumes on the Nasdaq Stock Market increased by 8% year-over-year.

Basis of Presentation

Our condensed consolidated financial statements have been prepared as if we had been a stand-alone entity for the periods presented prior to our IPO in July 2006. Our condensed consolidated financial statements for those periods prior to the IPO have also been prepared assuming that SGASH transferred all of its interest in Cowen and CIL to the Company.

of the businesses that currently constitute Cowen and CIL. The condensed consolidated financial information included herein, for periods prior to July 13, 2006, may not necessarily be indicative of our results of operations, financial condition and cash flows in the future or what its results of operations, financial condition and cash flows would have been had we been a stand-alone company during the entire periods presented.

The condensed consolidated financial statements for the three months ended March 31, 2007 included elsewhere in this Form 10-Q have been prepared in conformity with U.S. GAAP. The condensed consolidated financial information included herein may not necessarily be indicative of our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we been a stand-alone company during the periods presented prior to the date of our IPO.

Certain of our expenses are based on shared services that were provided by Société Générale or one of its affiliates prior to the IPO. These expenses primarily related to providing employee-related services and benefits, technology and data processing services and corporate functions including tax, legal, compliance, finance and operations. Costs included in the condensed consolidated financial statements for shared services were determined based on costs to the affiliated entity and allocated based on our usage of those services.

The Condensed Consolidated Statements of Operations do not include litigation expenses incurred by us in connection with certain litigation and other legal matters that are indemnified by Société Générale. As the successor of the named party in the litigation, we recognize the legal reserves and accruals related to these matters in our Condensed Consolidated Statements of Financial Condition, and cash flows related to these matters are recognized as financing activities in the Condensed Consolidated Statements of Cash Flows. We will be indemnified by Société Générale for any payments we may be required to make or expenses we may incur related to indemnified legal matters (see Note, "Separation from Société Générale and Other Related Matters", for further discussion of the Indemnification Agreement).

All intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to conform prior-period amounts to the current-period presentation.

Revenues

We operate our business as a single segment; however, we derive revenues from two primary sources, investment banking and sales and trading.

Investment Banking

We earn investment banking revenue primarily from fees associated with underwriting and privately placing securities and from providing strategic advisory services in mergers and acquisitions and similar transactions. Our investment banking revenues are derived primarily from small and mid-capitalization companies within our target sectors of healthcare, technology, media and telecommunications, alternative energy and consumer.

- **Underwriting revenues.** We earn underwriting revenues in securities offerings in which we act as an underwriter, such as initial public offerings, follow-on equity offerings and convertible security offerings. Underwriting revenues include management fees, underwriting fees and selling concessions. Management fees are recorded on the offering date, sales concessions on settlement

date and underwriting fees are recognized net of related syndicate expenses, at the time the underwriting is complete and the income is reasonably determinable. As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction. We receive a higher proportion of total fees in underwritten transactions in which we act as a lead manager.

- **Private placement revenues.** We earn agency placement fees in non-underwritten transactions such as private placements, PIPEs and RDs. We record private placement revenues on the closing date of the transaction. Expenses associated with generating agency placement fees are recognized primarily as marketing and business development expense, net of client reimbursements, when related revenue is recognized or the engagement is otherwise concluded.
- **Strategic advisory revenues.** Our strategic advisory revenues include success fees earned in connection with advising companies, both buyers and sellers, principally in mergers and acquisitions. We also earn fees for related advisory work such as providing fairness opinions. We record strategic advisory revenues when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially complete, the fees are determinable and collection is reasonably assured. Expenses associated with generating strategic advisory fees are recognized primarily as marketing and business development expense, net of client reimbursements, when the related revenue is recognized or the engagement is otherwise concluded.

Since our investment banking revenues are generally recognized at the time of completion of each transaction or the services to be performed, these revenues typically vary between periods and may be considerably affected by the timing of the closing of significant transactions.

Sales and Trading

Our sales and trading revenues consist of commissions and principal transactions revenues. Our management reviews sales and trading revenue on a combined basis as the majority of the revenue in both line items is derived from the same group of clients. In addition, the majority of our trading gains and losses are a result of activities that support the facilitation of client orders in both listed and over-the-counter securities, although all trading gains and losses are recorded in principal transactions. We derive our sales and trading revenue primarily from trading equity and equity-linked securities on behalf of institutional investors.

- **Commissions.** Our sales and trading business generates commission revenue from securities trading commissions paid by institutional investor clients. Commissions are recognized on a trade date basis. The Company permits institutional customers to allocate a portion of their gross

commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. Commissions on soft dollar brokerage are recorded net of the related expenditures on an accrual basis.

Principal transactions. Our sales and trading revenues also include net trading gains and losses from principal transactions, which primarily include our acting as a market-maker in over-the-counter equity securities, our listed options trading, and our trading of convertible securities. In certain cases, we commit our own capital to provide liquidity to clients buying or selling blocks of

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

Interest and Dividend Income

Interest and dividend income primarily consists of interest earned on our interest bearing assets and net interest and dividends on securities maintained in trading accounts related to our sales and trading business. In conjunction with our separation from Société Générale and our becoming a public company we have made a payment representing a return of capital to SGASH. The level of our interest bearing assets was significantly reduced as a result of this capital distribution which will result in a meaningful reduction in our interest income during 2007. In addition, we have transferred funds into an escrow account for the future payment of certain litigation that existed prior to the date of the IPO for which Société Générale has agreed to indemnify us. Subsequent to making this transfer, certain matters covered by the escrow arrangement have been settled and the escrow balance has been reduced accordingly. Excess reserves related to these settled matters will be returned to SGASH. SGASH is also entitled to any interest earned on such deposits held in escrow.

Other

Other revenue includes fees for managing a portfolio of merchant banking investments on behalf of Société Générale and other third party investors, miscellaneous income such as fees for managing venture capital investments on behalf of an inactive employee fund and fees for the delivery of equity research related to unbundling agreements with certain of our institutional investor clients. Fees for managing the portfolio of merchant banking assets and venture capital investments are earned on a monthly basis pursuant to the terms of agreements with Société Générale and other third party investors.

Expenses

A significant portion of our expense base is variable, including employee compensation and benefits, brokerage and clearance, communications, and marketing and business development expenses. Certain of our expenses are largely fixed in nature, the most significant of which include expenses associated with rent and occupancy, outsourced services such as information technology infrastructure, presentation center, copy center and library services.

Compensation Expense

Our ongoing compensation expense includes salaries, employee benefits, amortization of equity compensation awards and cash bonuses. The annual base salary for each individual employee is based on their experience and position, but generally does not exceed \$250 thousand. Amortization expense of equity awards relates to both the compensation expense associated with the initial grant of equity to our senior employees (as described below) in connection with our IPO and the expense associated with our ongoing Cowen equity plan, which is a component of annual employee compensation. According to our equity plan, employees who earn total compensation above a designated level will have a specified percentage of their compensation paid with restricted equity awards in lieu of cash. The amount of restricted equity awards paid to an employee is determined using a pre-determined formula such that higher levels of compensation will be more heavily weighted toward equity awards. As is typical in our industry, variable bonuses represent the most significant component of compensation expense.

We intend to incur employee compensation and benefits expense equal to between 58% and 60% of total revenues, plus, through 2011, the compensation expense associated with the initial grant of equity to our senior employees in connection with our IPO. We may change our target percentages at any time.

The annual expense associated with the initial grant of equity to our senior employees in connection with our IPO was \$5.2 million in 2006 and is expected to be \$10.1 million, \$9.4 million, \$6.3 million, \$4.9 million, and \$0.7 million in the years 2007, 2008, 2009, 2010, and 2011, respectively. We have accounted for our equity awards in accordance with SFAS 123R. Compensation and benefit expense in 2006 included the expense associated with deferred compensation plans that were terminated as a result of our separation from Société Générale.

Non-compensation Expense

Floor brokerage and trade execution. These expenses include floor brokerage and trade execution costs that fluctuate depending on the volume of trades we complete. We entered into a new commercial clearing agreement with National Financial Services, LLC and commenced operations with them on January 26, 2007.

Service fees, net. These expenses include fees for outsourcing services, including certain support functions such as information technology infrastructure, management and support, net of fees earned related to presentation center and library services provided by the Company to SGAI for the three months ended March 31, 2006.

Communications. These expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data. We also incur communications expenses related to enhancements to our trading platform.

Occupancy and equipment. These expenses include rent and utilities associated with our various offices, occupancy and premises taxes, support for software applications, disaster recovery services and other fixed asset service fees.

Marketing and business development. These expenses include costs such as business travel and entertainment, expenses related to holding conferences and advertising costs.

Depreciation and amortization. We incur depreciation and amortization expense related to capital assets, such as investments in technology and leasehold improvements.

Other. Other expenses include consulting fees, professional fees, legal and related costs, and implementation costs related to outsourcing and other projects, insurance premiums, exchange membership fees (net), research delivery costs and other related expenses.

Gain (loss) on exchange memberships. These realized gains or losses are recognized upon the sale, exchange or other disposition of the membership interests or the other-than-temporary impairment of the membership interests.

Provision for Income Taxes

The taxable results of the Company's U.S. operations are included in the consolidated income tax returns of Cowen Group, Inc. as well as stand alone state and local tax returns. The tax results of the Company's U.K. operations are included in CIL's U.K. tax filing.

The income tax provision reflected in this quarterly report is presented as if the Company operated on a stand-alone basis for all periods presented, consistent with the liability method prescribed by SFAS No. 109, *Accounting for Income Taxes*. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under applicable tax laws and rates. A valuation allowance is provided for deferred tax assets when it is more likely than not that the benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

Results of Operations

Three Months Ended March 31, 2007 Compared with the Three Months Ended March 31, 2006

Overview

Total revenues decreased \$30.3 million, or 29%, to \$73.5 million for the three months ended March 31, 2007 compared with \$103.8 million in the first quarter of 2006. This decrease was primarily due to a decrease in investment banking revenues of \$28.0 million and a decrease in interest and dividend income of \$4.0 million.

Total expenses decreased \$19.4 million, or 21%, to \$70.9 million for the three months ended March 31, 2007 compared with \$90.3 million in the first quarter of 2006, primarily due to a decrease in compensation expense. Compensation expense decreased as a result of the decrease in total revenues, 58% of which were accrued for compensation. Total non-compensation expenses decreased \$1.8 million, or 7%, during the three months ended March 31, 2007 compared with the first quarter of 2006, primarily due to a decrease in service fees as a result of our separation from Société Générale and a decrease in floor brokerage and trade execution related expenses due to our new clearing agreement with National Financial Services, LLC. These decreases were partially offset by an increase in marketing and development expenses, and depreciation and amortization expense related to leasehold improvements made during 2006 in certain of our offices. We recorded net income of \$2.5 million for the three months ended March 31, 2007 compared with \$36.5 million in the first quarter of 2006. Net income for the three months ended March 31, 2006 included a one-time gain on exchange memberships of \$24.8 million realized upon the consummation of the merger of the New York Stock Exchange, Inc. and Archipelago Holdings, Inc. which occurred on March 7, 2006.

The following table provides a comparison of our revenues and expenses for the periods presented:

	Three Months Ended March 31,		Period-to-Period	
	2007	2006	\$ Change	% Change
	(in thousands)			
Revenues				
Investment banking	\$ 25,363	\$ 53,439	\$ (28,076)	(52.5)%
Commissions	23,961	24,115	(154)	(0.6)
Principal transactions	20,665	19,412	1,253	6.5
Interest and dividend income	2,137	6,145	(4,008)	(65.2)
Other	1,415	682	733	107.5
	73,541	103,793	(30,252)	(29.1)
Expenses				
Employee compensation and benefits	45,167	62,738	(17,571)	(28.0)
Floor brokerage and trade execution	3,454	4,320	(866)	(20.0)
Service fees, net	3,503	4,956	(1,453)	(29.3)
Communications	4,197	4,128	69	1.7
Occupancy and equipment	4,277	4,222	55	1.3
Marketing and business development	3,215	2,903	312	10.7

Depreciation and amortization	766	475	291	61.3
Interest	141	227	(86)	(37.9)
Other	6,197	6,340	(143)	(2.3)
Total expenses	70,917	90,309	(19,392)	(21.5)
Operating income	2,624	13,484	(10,860)	(80.5)
Gain on exchange memberships	1,775	24,832	(23,057)	(92.9)
Income before income taxes	4,399	38,316	(33,917)	(88.5)
Provision for income taxes	1,928	1,776	152	8.6
Net income	\$ 2,471	\$ 36,540	\$ (34,069)	(93.2)%

Revenues

Investment Banking

Investment banking revenues decreased \$28.0 million, or 53%, to \$25.4 million for the three months ended March 31, 2007 compared with \$53.4 million in the first quarter of 2006. The decrease reflects a slow down in our capital raising activities during the quarter. Our underwriting revenues decreased \$12.8 million, or 49%, to \$13.4 million for the three months ended March 31, 2007 compared with \$26.2 million during the same period in the prior year. The decrease in underwriting revenues was the result of a decrease in transaction volume, which decreased by 45% and a slight decrease in our average revenues per transaction. We lead managed 25% of our underwritten transactions in the first quarter of 2007. Our private placement revenues decreased \$17.2 million, or 81%, to \$4.0 million for the three months ended March 31, 2007 compared with \$21.2 million in the first quarter of 2006. The decrease in private placement revenues was primarily attributable to a decrease in the number of transactions completed in the first quarter of 2007. The decrease in capital raising revenues were partially offset by an increase of \$2.0 million, or 33%, in strategic advisory fees to \$8.0 million for the three months ended March 31, 2007 compared with \$6.0 million in the first quarter of 2006. The increase in strategic advisory fees was primarily

the result of an increase in the size of the transactions completed in the first quarter of 2007 compared to the first quarter of 2006.

Sales and Trading

- **Commissions**

Commissions decreased slightly to \$24.0 million for the three months ended March 31, 2007 compared with \$24.1 million in the first quarter of 2006. These results were primarily attributable to a slight reduction in trading volume.

- **Principal Transactions**

Principal transactions increased \$1.3 million, or 6%, to \$20.7 million for the three months ended March 31, 2007 compared with \$19.4 in the first quarter of 2006. This increase was primarily due to higher over-the-counter equity volumes as well as net gains on securities owned.

Interest and Dividend Income

Interest and dividend income decreased \$4.0 million, or 65%, to \$2.1 million for three months ended March 31, 2007 compared with \$6.1 million in the first quarter of 2006, resulting primarily from lower average interest bearing assets in the first quarter of 2007 compared with the first quarter of 2006, partially offset by higher average interest rates during the first quarter of 2007. In conjunction with our IPO, we made a payment of \$180.3 million, representing a return of capital, to SGASH. The level of our interest bearing assets was significantly reduced as a result of this capital distribution which will result in a meaningful reduction in our interest income in the future.

Other

Other revenues increased \$0.7 million, or 107%, to \$1.4 million for the three months ended March 31, 2007 compared with \$0.7 million in the first quarter of 2006. This increase was primarily attributable to an increase in fees for managing the portfolio of merchant banking assets and venture capital investments and an increase in equity research fee income associated with unbundling arrangements with certain of our institutional investor clients.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expense decreased \$17.5 million, or 28%, to \$45.2 million for the three months ended March 31, 2007 compared with \$62.7 million in the first quarter of 2006. This decrease was attributable to the application of our target compensation and benefits expense to revenue ratio to the decreased revenues during the first quarter of 2007 as compared to the first quarter of 2006. In addition, the first quarter of 2007 includes \$2.5 million of expense associated with the initial grant of equity to our employees in connection with the IPO, while the first quarter of 2006 included a vesting expense of \$2.5 million related to deferred compensation plans that were terminated as a result of our separation from Société Générale. Excluding the compensation expense associated with the initial grant of equity and the terminated deferred compensation plans, employee compensation and benefits expense as a percentage of total revenues was 58% for the three months ended March 31, 2007 and 2006.

Floor Brokerage and Trade Execution

Floor brokerage and trade execution fees decreased \$0.8 million, or 20%, to \$3.5 million for the three months ended March 31, 2007 compared with \$4.3 million in the first three months of 2006. This decrease was primarily attributable to more favorable pricing under the new clearing agreement entered into with

National Financial Services, LLC. We commenced operations with National Financial Services, LLC on January 26, 2007.

Service Fees, net

Net service fees decreased \$1.5 million, or 29%, to \$3.5 million for the three months ended March 31, 2007 compared with \$5.0 million in the first three months of 2006. This decrease was primarily attributable to the termination of various service level agreements with Société Générale for certain support functions as a result of the IPO, partially offset by additional services related to the outsourcing of our information technology infrastructure.

Marketing and Business Development

Marketing and business development expense increased \$0.3 million, or 11%, to \$3.2 million for the three months ended March 31, 2007 compared with \$2.9 million in the first three months of 2006. This increase was primarily due to an increase in conference related costs, partially offset by a decrease in travel and entertainment related expenses.

Depreciation and Amortization

Depreciation and amortization expense increased \$0.3 million, or 61.3%, to \$0.8 million for the three months ended March 31, 2007 compared with \$0.5 million in the first three months of 2006. This increase was primarily attributable to the amortization of additional network hardware and additional leasehold improvements placed into service during 2006.

Other

Other expenses decreased \$0.1 million, or 2%, to \$6.2 million for the three months ended March 31, 2007 compared with \$6.3 million in the first three months of 2006. This decrease was primarily attributable to reductions in accounting and auditing expenses, recruiting expenses and insurance premiums, partially offset by an increase in legal related expenses.

Gain on exchange memberships

Gain on exchange memberships decreased \$23.0 million to \$1.8 million for the three months ended March 31, 2007 compared to \$24.8 million in the same period in the prior year. This decrease was primarily attributable to a \$24.8 million one-time gain realized upon the consummation of the merger of the New York Stock Exchange and Archipelago Holdings, Inc. which occurred during the first quarter of 2006. During the first quarter 2007, we sold our seat on the Chicago Board Options Exchange for a one-time gain of \$1.8 million.

Provision for income taxes

We reported a tax provision of \$1.9 million for the three months ended March 31, 2007, which reflects an effective tax rate of 43.8% compared to a tax provision of \$1.8 million in the same period in the prior year, which reflects an effective tax rate of 4.6%. The first quarter of 2007 tax expense consisted of current tax expense of \$3.7 million offset by a net deferred tax benefit of \$1.8 million. The deferred tax benefit for the period is primarily attributable to stock based compensation.

The low effective tax rate for the first quarter 2006 is due to the reversal of valuation allowance associated with the net operating loss that was generated prior to the Company's IPO. In connection with the Company's separation from Société Générale, SGAI retained such tax benefits.

Liquidity and Capital Resources

Most of our assets consist of cash, cash equivalents and assets readily convertible into cash such as our securities held in inventory. Securities inventories are stated at fair value and are generally readily marketable. As of March 31, 2007, we had cash and cash equivalents of \$109.0 million.

As part of our separation from Société Générale and our becoming a public company, we made a payment to SGASH of \$180.3 million in 2006. This distribution was the amount necessary to cause our stockholders' equity to be \$207.0 million immediately after the IPO as agreed upon with Société Générale. Under the terms of the Separation Agreement (see Note 10 for further discussion of the Separation Agreement), the amount of this distribution is subject to adjustment based on a final review of the Company's separation from Société Générale. The Company has accrued approximately \$2.0 million as a capital distribution payable to Société Générale related to this final review.

As a registered broker-dealer and member firm of the NYSE, our broker-dealer subsidiary is subject to the uniform net capital rule of the SEC. We have elected to use the alternative method permitted by the uniform net capital rule, which generally requires that we maintain minimum net capital of \$1.0 million. The NYSE may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be below the regulatory limit. We expect these limits will not impact our ability to meet current and future obligations.

At March 31, 2007, our net capital under the SEC's Uniform Net Capital Rule was \$82.3 million, or \$81.3 million in excess of the minimum required net capital.

CIL is subject to the capital requirements of the FSA of the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At March 31, 2007, CIL's financial resources of approximately \$5.1 million exceeded the minimum requirement of \$3.4 million by approximately \$1.7 million.

Cash Flows

Three Months Ended March 31, 2007. Cash decreased by \$76.0 million for the three months ended March 31, 2007, primarily as a result of cash used in operating activities. Our operating activities used \$75.8 million of cash due to a decrease in cash from changes in operating liabilities of \$241.7 million, partially offset by an increase in cash from changes in operating assets of \$160.0 million, net income of \$2.5 million, and non-cash charges of \$3.5 million.

The change in operating liabilities of \$241.7 million was primarily due to a decrease in securities sold, not yet purchased, at fair value, of \$123.0 million, a decrease in employee compensation and benefits payable of \$91.7 million, and a decrease in payable to brokers, dealers and clearing brokers of \$27.1 million. The quarter-to-quarter change in securities sold, not yet purchased, at fair value, caused cash to increase by that amount. The decrease in employee compensation and benefits payable was due to the payment of 2006 cash bonuses in the first quarter.

The change in operating assets of \$160.0 million was primarily due to a decrease in securities owned, at fair value of \$98.5 million, and a decrease in receivable from brokers, dealers and clearing brokers of \$53.6 million.

The non-cash charges primarily represent stock-based compensation, income taxes, and depreciation and amortization charges.

Three Months Ended March 31, 2006. Cash decreased by \$1.5 million for the three months ended March 31, 2006, primarily due to cash used in operating activities of \$8.8 million and cash used in investing activities of \$1.1 million, partially offset by cash provided by financing activities of \$8.4 million.

Our operating activities used \$8.8 million of cash primarily due to a decrease in cash from changes in operating liabilities of \$72.3 million and a decrease in cash due to adjustments for non-cash charges items of \$22.5 million. These decreases were partially offset by net income of \$36.5 million and an increase in cash from changes in operating assets of \$49.5 million.

The change in operating liabilities of \$72.3 million primarily represents a decrease in employee compensation and benefits payable of \$57.2 million due to the payment of 2005 cash bonuses in the first quarter. The non-cash charge primarily represents a one-time non-cash gain of \$24.8 million from the merger of NYSE and Archipelago Holdings, Inc. which occurred on March 7, 2006. The change in operating assets of \$49.5 million was primarily due to a decrease in securities purchased under agreements to resell with related party of \$60.7 million, offset by an increase in receivable from brokers, dealers, and clearing brokers of \$10.2 million.

Cash used in investing activities represents the purchase of furniture, fixtures, equipment, and leasehold improvements of \$1.1 million. Cash provided by financing activities primarily represents capital contributions from SGASH of \$8.6 million.

Credit Facilities

We have an irrevocable Letter of Credit for \$5.0 million issued by the Bank of New York (“BONY”), expiring on July 12, 2008, supporting our Boston office lease. We have another irrevocable Letter of Credit for \$100 thousand issued by BONY, expiring on July 26, 2008, supporting our worker compensation insurance with Safety National Casualty Corporation. To the extent either Letter of Credit is drawn upon, interest will be assessed at the prime commercial lending rate.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of March 31, 2007; however, through indemnification provisions in our clearing agreement, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreement, we are required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty’s failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date. See Part I, Item 3 - “Qualitative and Quantitative Disclosures About Market Risk—Credit Risk.”

We are a member of various securities exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the accompanying Condensed Consolidated Statements of Financial Condition for these arrangements.

Critical Accounting Policies and Estimates

The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting periods. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. The use of different estimates and assumptions could produce materially different results. For example, if factors such as those described in “Risk Factors” cause actual events to differ from the assumptions we used in applying the accounting policies, our results of operations, financial condition and liquidity could be materially adversely affected.

Our significant accounting policies are summarized in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we

believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where:

- the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimate or assumption on our financial condition or operating performance is material.

Using these criteria, we believe the following to be our critical accounting policies:

Revenue Recognition

Investment banking revenues include underwriting fees, private placement fees, strategic advisory fees and financial advisory fees. Underwriting revenues are earned in securities offerings in which we act as an underwriter and include management fees, sales concessions and underwriting fees. Management fees are recorded on the offering date, sales concessions on settlement date and underwriting fees are recognized net of related syndicate expenses, at the time the underwriting is complete and the income is reasonably determinable. As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction-related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue the Company recognizes. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction. Private placement fees, including warrants received in certain private placement transactions, are recorded on the closing date of the placement. Strategic advisory and financial advisory fees are recorded when the services to be performed and/or the transactions are substantially completed, and fees are determinable and collection is reasonably assured. Expenses associated with these transactions are recognized, net of client reimbursements, when the related revenue is recognized or the engagement is otherwise concluded.

Valuation of Financial Instruments

Substantially all of our financial instruments are recorded at fair value or contract amounts that approximate fair value. "Securities owned" and "securities sold, not yet purchased" and derivative financial instruments including futures, options and warrant positions are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in the line item "principal transactions" in our Condensed Consolidated Statements of Operations. Financial instruments carried at contract amounts include "receivable from brokers, dealers and clearing brokers", "payable to brokers, dealers and clearing brokers", "securities purchased under agreements to resell with related party" and "corporate finance and syndicate receivables."

Fair value is generally based on independent sources such as quoted market prices or dealer price quotations. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, do not have readily determinable fair values, we estimate the fair value of these instruments using various pricing models and the information available to us that we deem most relevant. Among the factors considered by us in determining the fair value of financial instruments are discounted anticipated cash flows, the cost, terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar quality and yield and other factors generally pertinent to the valuation of financial instruments.

Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. In accordance with SFAS 142, goodwill is not amortized; instead these assets are evaluated at least annually for impairment.

We monitor goodwill annually or more frequently if events or circumstances indicate a possible impairment. A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of the Company with the fair value of the Company. If the carrying value of the Company exceeds the fair value of the Company, the second step is applied. The second step is to compare the carrying amount of the goodwill with the implied fair value of the goodwill. If the carrying amount of the goodwill exceeds the implied fair value of the goodwill, goodwill impairment is recognized. Fair value is based on factors such as projected cash flows, revenue multiples of comparable exchange listed companies, and/or the price of our stock.

Legal and Regulatory Reserves

We are involved in a number of legal and regulatory matters that arise from time to time in connection with the conduct of our businesses. To the extent that we are indemnified by Société Générale, indemnified legal expenses and liabilities will be paid out of escrow pursuant to our Escrow Agreement with Société Générale (see Note 4, Restricted Cash Pursuant to Escrow Agreement and Related Indemnification Agreement with Société Générale and Note 10, Separation from Société Générale and Other Related Matters, for further discussion of the Escrow Agreement and the Indemnification Agreement). To the extent that we are not indemnified by Société Générale, we estimate potential losses that may arise out of these matters and record a reserve and take a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with SFAS No. 5, *Accounting for Contingencies*. Such estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, our defenses and our experience in similar cases or proceedings as well as our assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. We may increase or decrease our legal reserves in the future, on a matter by matter basis, to account for developments in such matters. Any future increases to our loss contingency reserves or releases from these reserves may affect our results of operations. Historically, legal costs have significantly impacted our financial results.

Accounting Developments

In February 2007, the FASB issued SFAS 159. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for

which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of implementing SFAS 159.

In September, 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. This statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The provisions of this statement should be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except in some circumstances where the statement shall be applied retrospectively. We are currently evaluating the impact, if any, that the adoption of SFAS 157 will have on our consolidated financial statements.

In June 2006, the FASB issued Interpretation FIN 48. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and

penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has evaluated the impact of FIN 48 and determined that the adoption of FIN 48 does not have a significant impact on the Company's consolidated financial statements at the present time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Our exposure to market risk is directly related to our role as a financial intermediary in customer trading and to our market making and investment activities. Market risk is inherent in financial instruments. We trade in equity and convertible debt securities as an active participant in both listed and over the counter markets. We typically maintain securities in inventory to facilitate our market making activities and customer order flow. We may use a variety of risk management techniques and hedging strategies in the ordinary course of our trading business to manage our exposures. In connection with our trading business, management also reviews reports appropriate to the risk profile of specific trading activities. Typically, market conditions are evaluated and transaction details and securities positions are reviewed. These activities seek to ensure that trading strategies are within acceptable risk tolerance parameters, particularly when we commit our own capital to facilitate client trading. Activities include price verification procedures, position reconciliations and reviews of transaction booking. We believe these procedures, which stress timely communications between traders, trading management and senior management, are important elements of the risk management process.

Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold convertible debt securities and other interest sensitive liabilities from time to time, we are exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve. Interest rate risk is primarily managed through the use of U.S. Treasury futures, options and short positions in corporate debt securities.

Credit Risk

We engage in various securities underwriting, trading and brokerage activities servicing a diverse group of domestic and foreign corporations and institutional investor clients. A substantial portion of our transactions are collateralized and are executed with and on behalf of institutional investor clients including other brokers or dealers, commercial banks and other financial institutions. Our exposure to credit risk associated with the nonperformance of these clients in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the client's ability to satisfy its obligations to us. Our principal activities are also subject to the risk of counterparty nonperformance. Pursuant to our clearing agreement, we are required to reimburse our clearing broker without limit for any losses incurred due to a counterparty's failure to satisfy its contractual obligations with respect to a transaction executed by the affiliate as a clearing agent. However, as noted above, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date. We also seek to mitigate the risks associated with sales and trading services through active customer screening and selection procedures and through requirements that clients maintain collateral in appropriate amounts where required or deemed necessary.

Inflation Risk

Because our assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our financial condition and results of operations in certain businesses.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. We are focused on maintaining our overall operational risk management framework and minimizing or mitigating these risks through continual assessment, reporting and monitoring of potential operational risks.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (“Exchange Act”) Rule 13a-15(b). Based upon that evaluation, as of March 31, 2007, our Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in our periodic SEC filings. There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Disclosure controls and procedures are our controls and other procedures which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The following legal matters reflect developments with respect to the Company’s legal proceedings that occurred in the first quarter of 2007. These items should be read together with the Company’s discussion under the heading *Commitments and Contingencies and Guarantees, Litigation*, in the Notes to the Condensed Consolidated Financial Statements and the Company’s discussion set forth under Legal Proceedings in Part I, Item 3 of the Company’s Annual Report on form 10-K for the year ended December 31, 2006.

The Company is one of several defendants named in lawsuits involving Lernout & Hauspie Speech Products, N.V. (“L&H”). In Nisselson v. Lernout, et al., No. 05-1774, filed in the United States District Court for the District of Massachusetts on May 5, 2003, the Trustee of the Dictaphone Litigation Trust alleged that the Company made material misrepresentations to Dictaphone while the Company was a financial advisor to L&H on its acquisition of Dictaphone, and further alleged that the Company published

materially misleading research on L&H, in violation of various federal and state laws. On August 9, 2004, the District Court granted the Company’s motion to dismiss the amended complaint. The Trustee appealed the District Court’s ruling to the United States Court of Appeal for the First Circuit and, on November 8, 2006, the First Circuit affirmed the dismissal of all claims against the Company. On February 23, 2007, the plaintiff filed a petition for writ of certiorari to the Supreme Court of the United States, and on April 30, 2007, the Supreme Court denied that petition. To the extent that the Company incurs additional legal fees or pays any fine or monetary sanction, the Company will be indemnified by Société Générale.

The Company is one of many financial institutions named as defendants in a number of putative securities class actions entitled In re: Initial Public Offering Securities Litigation, filed in the United States District Court for the Southern District of New York relating to numerous initial and other public offerings of common stock from approximately 1998 through 2000. The various complaints allege that the underwriters of certain initial public offerings, including the Company, made material misrepresentations and omissions to purchasers of the stock sold in the initial public offerings, thereby inflating the value of the stock. Specifically, the plaintiffs allege that the defendants failed to disclose, among other things, the purported existence of improper tie-in and compensation arrangements they had with certain purchasers of the stock and alleged conflicts of interest relating to research published by the underwriters, all in violation of federal securities laws. The district court granted plaintiffs’ motion to certify six “focus” cases as class actions. The Company is a named defendant in four of these “focus” cases. The Company appealed the class certification decision to the Second Circuit Court of Appeals and on December 4, 2006, the Second Circuit reversed the district court’s decision and remanded the matter for reconsideration in light of the Second Circuit’s opinion. Plaintiffs petitioned for rehearing and rehearing en banc by the Second Circuit. On December 14, 2006, the district court stayed discovery in the consolidated banc. On April 6, 2007, the Second Circuit denied plaintiff’s petition for rehearing en banc. To the extent that the Company incurs additional legal fees or pays any fine or monetary sanction, the Company will be indemnified by Société Générale.

The Company was one of several named defendants in a putative securities class action filed in the United States District Court for the District of New Jersey on September 2, 2005. The plaintiffs in this matter sought to recover losses allegedly caused by misrepresentations and omissions in connection with the December 2004 initial public offering of Arbinet-thexchange, an electronic marketplace for trading, routing and settling telecommunications capacity. The complaint alleged that these misrepresentations and omissions artificially inflated the price of Arbinet’s securities and that subsequent disclosures of the true state of Arbinet’s market and its business in May and June 2005 caused Arbinet’s securities to decline in value. The defendants, including the Company, filed a motion to dismiss the complaint and, on December 22, 2006, the court granted defendants’ motion, dismissing the complaint in its entirety, but granting leave to re-plead. By stipulation and order dated January 22, 2007, plaintiffs agreed that the case should be dismissed with prejudice, each side to bear its own costs. Accordingly, the case now has been fully resolved in the Company’s favor.

On June 28, 2006, a group of approximately 60 medical doctors filed a lawsuit against the Company in San Francisco Superior Court. Plaintiffs allege that the Company negligently rendered a fairness opinion in 1998 in connection with the acquisition of Orange Coast Managed Care Services and St. Joseph Medical Corporation by FPA Medical Management, Inc. According to the complaint, plaintiffs received restricted FPA stock as consideration in the sale and, shortly after the acquisition, FPA went bankrupt, rendering the stock worthless. On August 14, 2006, the Company removed the case to United States District Court for the Northern District of California. On August 17, 2006 the Company filed a motion to dismiss the complaint. Plaintiffs sought a remand to state court. On March 18, 2007, the court granted the Company’s

motion to dismiss, with leave to replead, and denied Plaintiffs' move to remand. By stipulation and order dated April 20, 2007, the court directed entry of a final judgment dismissing the complaint with prejudice. Plaintiffs' time to appeal this dismissal has not yet expired. To the extent that the Company incurs additional legal fees or pays any fine or monetary sanction, the Company will be indemnified by Société Générale.

The Company is named as an underwriter defendant in several putative securities class actions brought in the United States District Court for the Southern District of New York. In all of the cases brought to date, plaintiffs seek to recover for losses allegedly caused by misrepresentations and omissions in connection with the August 4, 2005 initial public offering of WorldSpace, Inc., a satellite-radio provider. The complaints allege that the subscriber count in the WorldSpace prospectus improperly included subscribers who had purchased a three-month, pre-paid subscription pursuant to a promotional offer but who declined to continue to pay for a subscription following the end of the promotional period. The court has scheduled a status conference for June 5, 2007.

Item 1A. Risk Factors

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on form 10-K for the year ended December 31, 2006. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There are no material changes from the risk factors previously disclosed in our 2006 Form 10-K filed on March 30, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

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

COWEN GROUP, INC.

By: /s/ KIM S. FENNEBRESQUE

Name: Kim S. Fennebresque

Title: Chairman, Chief Executive Officer
and President

By: /s/ THOMAS K. CONNER

Name: Thomas K. Conner

Title: Chief Financial Officer and Treasurer
(principal financial officer and principal
accounting officer)

Dated: May 15, 2007

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
3.2	Amended and Restated By-Laws of Cowen Group, Inc, Effective April 16, 2007
31.1	Certification of CEO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification of CFO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith)

32 Certification of CEO and CFO Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (furnished herewith)

**AMENDED AND RESTATED BY-LAWS
OF
COWEN GROUP, INC.**

EFFECTIVE APRIL 16, 2007

**AMENDED AND RESTATED BY-LAWS
OF
COWEN GROUP, INC.**

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**AMENDED AND RESTATED BY-LAWS
OF
COWEN GROUP, INC.**

(hereinafter called the “Corporation”)

ARTICLE I

OFFICES

Section 1.1 Registered Office. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 1.2 Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 2.1 Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware as shall be designated from time to time by the Board of Directors.

Section 2.2 Annual Meetings. The Annual Meetings of Stockholders for the election of directors shall be held on such date and at such time as shall be designated from time to time by the Board of Directors. Any other proper business may be transacted at the Annual Meeting of Stockholders.

Section 2.3 Special Meetings. Unless otherwise required by law or by the certificate of incorporation of the Corporation, as amended and restated from time to time (the “Certificate of Incorporation”), Special Meetings of Stockholders, for any purpose or purposes, may be called by (i) the Chairman, if there be one, (ii) the Chief Executive Officer, (iii) the

shall state the purpose or purposes of the proposed meeting. At a Special Meeting of Stockholders, only such business shall be conducted as shall be specified in the notice of meeting (or any supplement thereto).

Section 2.4 Notice. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, and the means of remote communications, if any, by which stockholders or any proxy holders may be deemed present in person and vote at such meeting. Unless otherwise required by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 2.5 Adjournments. Any meeting of the stockholders may be adjourned from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.6 Quorum. Unless otherwise required by law or the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote at a meeting, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote at such meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, in the manner provided in Section 2.5, until a quorum shall be present or represented.

Section 2.7 Voting. Unless otherwise required by law, the Certificate of Incorporation or these By-laws, when a quorum is present at any meeting of stockholders, any question to be voted upon by the stockholders at such meeting, other than the election of directors, shall be decided by the vote of the holders of shares of stock having a majority in voting power of the votes cast by the holders of all of the shares of stock present or represented at the meeting and voting affirmatively or negatively on such matter (or if there are two or more classes or series of stock entitled to vote as separate classes, then in the case of each such class or series, the holders of a majority in voting power of the shares of stock of that class or series present or represented at the meeting and voting affirmatively or negatively on such matter). When a quorum is present at any meeting, any election by stockholders of directors shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election. Unless otherwise provided in the Certificate of Incorporation, and subject to Section 5.5 hereof, each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote at such meeting held by such stockholder. Such votes may be cast in person or by proxy as provided in Section 2.8. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in such officer's discretion, may require that any votes cast at such meeting shall be cast by written ballot.

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Section 2.8 Proxies. Each stockholder entitled to vote at a meeting of the stockholders may authorize another person or persons to act for such stockholder as proxy, but no such proxy shall be voted upon after three years from its date, unless such proxy provides for a longer period. Without limiting the manner in which a stockholder may authorize another person or persons to act for such stockholder as proxy, the following shall constitute a valid means by which a stockholder may grant such authority:

(a) A stockholder may execute a writing authorizing another person or persons to act for such stockholder as proxy. Execution may be accomplished by the stockholder or such stockholder's authorized officer, director, employee or agent signing such writing or causing such person's signature to be affixed to such writing by any reasonable means, including, without limitation, by facsimile signature.

(b) A stockholder may authorize another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a facsimile or other electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such facsimile or other electronic transmission, provided that any such facsimile or other electronic transmission must either set forth or be submitted with information from which it can be determined that the facsimile or other electronic transmission was authorized by the stockholder. If it is determined that such facsimiles or other electronic transmissions are valid, the inspectors or, if there are no inspectors, such other persons making that determination shall specify the information on which they relied.

Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission authorizing another person or persons to act as proxy for a stockholder may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used; provided, however, that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

Section 2.9 Nature of Business at Meetings of Stockholders.

(a) No business may be transacted at an Annual Meeting of Stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any

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duly authorized committee thereof), (b) otherwise properly brought before the Annual Meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise properly brought before the Annual Meeting by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.9 and on the record date for the determination of stockholders entitled to notice of and to vote at such Annual Meeting and (ii) who complies with the notice procedures set forth in this Section 2.9.

(b) In addition to any other applicable requirements, for business to be properly brought before an Annual Meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

(c) To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding Annual Meeting of Stockholders; provided, however, that in the event that the Annual Meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the Annual Meeting was mailed or such public disclosure of the date of the Annual Meeting was made, whichever first occurs.

(d) To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the Annual Meeting (i) a brief description of the business desired to be brought before the Annual Meeting and the reasons for conducting such business at the Annual Meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the Annual Meeting to bring such business before the meeting.

(e) No business shall be conducted at the Annual Meeting of Stockholders except business brought before the Annual Meeting in accordance with the procedures set forth in this Section 2.9; provided, however, that, once business has been properly brought before the Annual Meeting in accordance with such procedures, nothing in this Section 2.9 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of an Annual Meeting determines that business was not properly brought before the Annual Meeting in accordance with the foregoing procedures, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

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Section 2.10 Nomination of Directors. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation, except as may be otherwise provided in the Certificate of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of directors in certain circumstances.

(a) Nominations of persons for election to the Board of Directors may be made at any Annual Meeting of Stockholders, or at any Special Meeting of Stockholders called for the purpose of electing directors, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any stockholder of the Corporation (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.10 and on the record date for the determination of stockholders entitled to notice of and to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 2.10.

(b) In addition to any other applicable requirements, for a nomination to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

(c) To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of an Annual Meeting, not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding Annual Meeting of Stockholders; provided, however, that in the event that the Annual Meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the Annual Meeting was mailed or such public disclosure of the date of the Annual Meeting was made, whichever first occurs; and (b) in the case of a Special Meeting of Stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the Special Meeting was mailed or public disclosure of the date of the Special Meeting was made, whichever first occurs.

(d) To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares

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of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

(e) No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.10. If the Chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Section 2.11 List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 2.12 Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 2.11 or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.13 Conduct of Meetings. The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of the meeting of the stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting.

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Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

Section 2.14 Inspectors of Election. In advance of any meeting of the stockholders, the Board of Directors, by resolution, the Chairman, the Chief Executive Officer or the President shall appoint one or more inspectors to act at the meeting and make a written report thereof. One or more other persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of the stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Unless otherwise required by applicable law, inspectors may be officers, employees or agents of the Corporation. Each inspector, before entering upon the discharge of the duties of inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector shall have the duties prescribed by law and shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by applicable law.

ARTICLE III

DIRECTORS

Section 3.1 Duties and Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws required to be exercised or done by the stockholders.

Section 3.2 Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by any director, the Chief Executive Officer, the President or Secretary. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not

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less than forty-eight (48) hours before the date of the meeting, by telephone, telefax or electronic means on twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

Section 3.3 Quorum. Except as otherwise required by law or the Certificate of Incorporation, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present at such meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting of the time and place of the adjourned meeting, until a quorum shall be present.

Section 3.4 Actions by Written Consent. Unless otherwise provided in the Certificate of Incorporation, or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 3.5 Meetings by Means of Conference Telephone. Unless otherwise provided in the Certificate of Incorporation, members of the Board of Directors of the Corporation, or any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.5 shall constitute presence in person at such meeting.

Section 3.6 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent permitted by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the

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business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 3.7 Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director, payable in cash and/or securities. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation for that capacity. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.8 Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because the director or officer's vote is counted for such purpose if (i) the material facts as to the director or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to the director or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 3.9 Organization. At each meeting of the Board of Directors, the Chairman of the Board of Directors, or, in his or her absence, a director chosen by a majority of the directors present, shall act as chairman. The Secretary of the Corporation shall act as secretary at each meeting of the Board of Directors. In case the Secretary shall be absent from any meeting of the Board of Directors, an Assistant Secretary shall perform the duties of secretary at such meeting; and in the absence from any such meeting of the Secretary and all the Assistant Secretaries, the chairman of the meeting may appoint any person to act as secretary of the meeting.

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ARTICLE IV

OFFICERS

Section 4.1 General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, also may choose a Chairman of the Board of Directors (who must be a director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law or the Certificate of Incorporation. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors, need such officers be directors of the Corporation.

Section 4.2 Election. The Board of Directors, at its first meeting held after each Annual Meeting of Stockholders, shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier death, resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be approved by the Board of Directors.

Section 4.3 Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the Chief Executive Officer, President or any Vice President or any other officer authorized to do so by the Board of Directors and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4.4 Chairman of the Board of Directors. The Chairman of the Board of Directors, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board of Directors shall be selected by the Board of Directors.

Except where by law the signature of the Chief Executive Officer or President is required, the Chairman of the Board of Directors shall possess the same power as the Chief Executive Officer or President to sign all contracts, certificates and other instruments of the Corporation which may be authorized by the Board of Directors. During the absence or disability of the Chief Executive Officer and President, the Chairman of the Board of Directors shall exercise all the powers and discharge all the duties of the Chief Executive Officer and President. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as may from time to time be assigned by these By-Laws or by the Board of Directors.

Section 4.5 Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board of Directors and, if there be one, the Chairman of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence or disability of the Chairman of the Board of Directors, or if there be none, the Chief Executive Officer shall preside at all meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall also perform such other duties and may exercise such other powers as may from time to time be assigned to such officer by these By-Laws or by the Board of Directors.

Section 4.6 President. At the request of the Chief Executive Officer or Chairman or in either's absence or in the event of either's inability or refusal to act, the President shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The President shall have the right to execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these By-Laws, the Board of Directors, the Chief Executive Officer or the President. The President shall also perform such other duties and may exercise such other powers as may from time to time be assigned to such officer by these By-Laws, the Board of Directors or the Chief Executive Officer.

Section 4.7 Vice Presidents. At the request of the Chief Executive Officer or President or in either's absence or in the event of either's inability or refusal to act (and if there be no Chairman of the Board of Directors), the Vice President, or the Vice Presidents if there is more than one (in the order designated by the Board of Directors), shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors, the Chief Executive Officer or the President from time to time may prescribe. If there be no Chairman of the Board of Directors or Chief

Executive Officer and no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

Section 4.8 Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings of such meetings in a book or books to be kept for that purpose; the Secretary shall also perform like duties for committees of the Board of Directors when requested. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer or the President, under whose supervision the Secretary shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then any of the Board of Directors, the Chief Executive Officer or the President may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest to the affixing by such officer's signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 4.9 Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer, the President and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of the office of the Treasurer and for the restoration to the Corporation, in case of the Treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the Treasurer's possession or under the Treasurer's control belonging to the Corporation.

Section 4.10 Assistant Secretaries. Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of the Secretary's disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 4.11 Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of the Treasurer's disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the

Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of the office of Assistant Treasurer and for the restoration to the Corporation, in case of the Assistant Treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the Assistant Treasurer's possession or under the Assistant Treasurer's control belonging to the Corporation.

Section 4.12 Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V

STOCK

Section 5.1 Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the Chief Executive Officer, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by such stockholder in the Corporation.

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Section 5.2 Signatures. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 5.3 Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or the owner's legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate.

Section 5.4 Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by such person's attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued. No transfer of stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

Section 5.5 Record Date

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; providing, however, that the Board of Directors may fix a new record date for the adjourned meeting.

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(b) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 5.6 Record Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise required by law.

Section 5.7 Transfer and Registry Agents. The Corporation may from time to time maintain one or more transfer offices or agencies and registry offices or agencies at such place or places as may be determined from time to time by the Board of Directors.

ARTICLE VI

NOTICES

Section 6.1 Notices. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at such person's address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under applicable law, the Certificate of Incorporation or these By-Laws shall be effective if given by a form of electronic transmission if consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed to be revoked if (i) the Corporation is unable to deliver by electronic transmission two (2) consecutive notices by the Corporation in accordance with such consent and (ii) such inability becomes known to the Secretary or Assistant Secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however,

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that the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given by electronic transmission, as described above, shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network, together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder. Notice to directors or committee members may be given personally or by telefax or by means of electronic transmission.

Section 6.2 Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting, present in person or represented by proxy, shall constitute a waiver of notice of such meeting, except where the person attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE VII

GENERAL PROVISIONS

Section 7.1 Dividends. Dividends upon the capital stock of the Corporation, subject to the requirements of the General Corporation Law of the State of Delaware (the "DGCL") and the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting of the Board of Directors (or any action by written consent in lieu thereof in accordance with Section 3.4), and may be paid in cash, in property, or in shares of the Corporation's capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 7.2 Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

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Section 7.3 Fiscal Year. The fiscal year of the Corporation shall be the calendar year or as otherwise fixed by resolution of the Board of Directors.

Section 7.4 Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII

INDEMNIFICATION

Section 8.1 Power to Indemnify in Actions, Suits or Proceedings other than Those by or in the Right of the Corporation. Subject to Section 8.3, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director or Officer of the Corporation, or is or was a director or Officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. For the purposes of this Article VIII, the Officers of the Corporation shall mean the Chief Executive Officer, President, Vice Presidents, Treasurer, Secretary, Assistant Secretary, the Chief Financial Officer, the members of the Office of the CEO, the members of the Operating Committee and such other officers that may be determined to be Officers of the Corporation by the Board of Directors. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

Section 8.2 Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 8.3, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or Officer of the Corporation, or is or was a director or Officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 8.3 Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or Officer of the Corporation is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 8.1 or Section 8.2, as the case may be. Such determination shall be made, with respect to a person who is a director or Officer of the Corporation at the time of such determination, (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) by a committee of such directors designated by a majority vote of such directors, even though less than a quorum, or (iii) if there are no such directors, or if such directors so direct, by independent legal counsel to the Corporation in a written opinion or (iv) if the directors so direct, by the Chief Executive Officer or President. Such determination shall be made, with respect to former directors and Officers of the Corporation, by any person or persons having the authority to act on the matter on behalf of the Corporation. To the extent, however, that a present or former director or Officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith, without the necessity of authorization in the specific case.

Section 8.4 Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 8.3, and notwithstanding the absence of any determination thereunder, any director or Officer of the Corporation may apply to the Court of Chancery in the State of Delaware for indemnification to the extent otherwise permissible under Sections 8.1 and 8.2. The basis of such indemnification by a court shall be a determination by such court that

indemnification of the director or Officer of the Corporation is proper in the circumstances because such person has met the applicable standards of conduct set forth in Section 8.1 or 8.2, as the case may be. Neither a contrary determination in the specific case under Section 8.3 nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or Officer of the Corporation seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 8.4 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or Officer of the Corporation seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 8.5 Expenses Payable in Advance – Directors. Expenses incurred by a director in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VIII.

Section 8.6 Expenses Payable in Advance – Officers of the Corporation. Expenses incurred by an Officer of the Corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Officer of the Corporation to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VIII.

Section 8.7 Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Certificate of Incorporation, any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 8.1 and 8.2 be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Section 8.1 or 8.2 but whom the Corporation has the power or obligation to indemnify under the provisions of the DGCL, or otherwise.

Section 8.8 Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or Officer of the Corporation, or is or was a director or Officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power or the obligation to indemnify such person against such liability under the provisions of this Article VIII. The Corporation shall have no obligation to procure such insurance.

Section 8.9 Certain Definitions. For purposes of this Article VIII, references to the “Corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a director, Officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or Officer of the Corporation with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VIII.

Section 8.10 Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or Officer of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 8.11 Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 8.4 hereof), the Corporation shall not be obligated to indemnify any director or Officer of the Corporation in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

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Section 8.12 Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and Officers of the Corporation.

ARTICLE IX

AMENDMENTS

Section 9.1 Amendments. In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board of Directors shall have the power to adopt, amend, alter or repeal these By-Laws. The affirmative vote of at least a majority of the entire Board of Directors shall be required to adopt, amend, alter or repeal the Corporation’s By-Laws. These By-Laws also may be adopted, amended, altered or repealed by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the shares entitled to vote at an election of directors.

Section 9.2 Entire Board of Directors. As used in this Article IX and in these By-Laws generally, the term “entire Board of Directors” means the total number of directors which the Corporation would have if there were no vacancies.

* * *

Adopted as of: April 16, 2007

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Certification

I, Kim S. Fennebresque, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cowen Group, Inc:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2007

/s/ Kim S. Fennebresque

Kim S. Fennebresque
Chairman, Chief Executive Officer and President
(principal executive officer)

Certification

I, Thomas K. Conner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cowen Group, Inc:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2007

/s/ Thomas K. Conner

Thomas K. Conner
Chief Financial Officer and Treasurer
(principal financial officer and principal accounting officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cowen Group, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2007

/s/ Kim S. Fennebresque

Kim S. Fennebresque
Chairman, Chief Executive Officer and
President (principal executive officer)

/s/ Thomas K. Conner

Thomas K. Conner
Chief Financial Officer and Treasurer
(principal financial officer and principal
accounting officer)
