COWEN INC.
Form 10-Q
October 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018
or

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

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

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

(646) 562-1000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes Q No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer Q	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No Q
APPLICABLE ONLY TO CORPORATE ISSUERS:
As of October 30, 2018, there were 29,140,689 shares of the registrant's common stock outstanding.

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Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in “Management's Discussion and Analysis of Financial Condition and Results of Operations”) that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as “may,” “might,” “will,” “would,” “could,” “should,” “expect,” “plan,” “anticipate,” “believe,” “ “predict,” “project,” “possible,” “potential,” “intend,” “seek” or “continue,” the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 as well as Item 1A of this periodic report on Form 10-Q for the quarterly period ended September 30, 2018.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three and nine months ended September 30, 2018 and 2017. The Consolidated Financial Statements as of December 31, 2017 were audited.

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

Assets	As of September 30, 2018	As of December 31, 2017
Cash and cash equivalents	$193,066	$130,052
Cash collateral pledged	16,092	17,888
Segregated cash	154,191	116,268
Securities owned, at fair value	644,169	673,221
Receivable on derivative contracts, at fair value	32,229	69,177
Securities borrowed	713,288	443,148
Other investments	167,428	141,548
Deposits with clearing organizations, brokers and banks	98,646	93,996
Receivable from brokers, dealers and clearing organizations	644,392	508,178
Receivable from customers, net of allowance of $551 and $1,550, respectively	33,240	49,891
Fees receivable, net of allowance of $2,040 and $1,736, respectively	111,756	111,784
Due from related parties	32,509	34,814
Fixed assets, net of accumulated depreciation and amortization of $33,150 and $28,355, respectively	41,458	40,496
Goodwill	60,678	60,678
Intangible assets, net of accumulated amortization of $37,038 and $33,081, respectively	25,998	29,955
Deferred tax asset, net	101,683	116,323
Other assets	67,118	88,268
Consolidated Funds		
Cash and cash equivalents	18,747	21,988
Securities owned, at fair value	108,901	165,916
Receivable on derivative contracts, at fair value	1,911	2,520
Other investments	183,290	374,111
Receivable from brokers	11,017	5,644
Other assets	355	388
Total Assets	$3,462,162	$3,296,252
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$374,518	$342,527
Payable for derivative contracts, at fair value	30,002	42,750
Securities loaned	548,629	456,831
Payables to brokers, dealers and clearing organizations	210,326	252,153
Payable to customers	470,476	352,467
Commission management payable	90,233	70,451
Compensation payable	189,249	150,206
Notes payable and other debt	271,082	173,458
Convertible debt	133,126	141,502
Fees payable	22,258	8,047
Due to related parties	571	570
Accounts payable, accrued expenses and other liabilities	94,731	96,533

Consolidated Funds		
Payable for derivative contracts, at fair value	2,189	7,130
Payable to brokers	1,936	751
Capital withdrawals payable	11,120	11,931
Accounts payable, accrued expenses and other liabilities	260	322
Total Liabilities	$2,450,706	$2,107,629

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Cowen Inc.
Condensed Consolidated Statements of Financial Condition
(dollars in thousands, except share and per share data)
(unaudited)

	As of September 30, 2018	As of December 31, 2017
(continued)		
Commitments and Contingencies (Note 16)		
Redeemable non-controlling interests	$203,212	$440,604
Stockholders' equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of September 30, 2018 (aggregate liquidation preference of $120,750,000) and 10,000,000 shares authorized, 120,750 shares issued and outstanding as of as of December 31, 2017 (aggregate liquidation preference of $120,750,000), respectively	$1	$1
Class A common stock, par value $0.01 per share: 62,500,000 shares authorized, 43,235,279 shares issued and 29,142,547 outstanding as of September 30, 2018 and 62,500,000 shares authorized, 41,765,296 shares issued and 29,632,020 outstanding as of December 31, 2017, respectively (including 253,772 and 191,962 restricted shares, respectively)	324	324
Class B common stock, par value $0.01 per share: 62,500,000 authorized, no shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	1,061,274	1,004,664
(Accumulated deficit) retained earnings	(38,029)	(70,116)
Accumulated other comprehensive income (loss)	(3)	(8)
Less: Class A common stock held in treasury, at cost, 14,092,732 and 12,133,276 shares as of September 30, 2018 and December 31, 2017, respectively	(215,323)	(186,846)
Total Stockholders' Equity	$808,244	$748,019
Total Liabilities and Stockholders' Equity	$3,462,162	$3,296,252

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Investment banking	$81,923	$57,383	$264,737	$158,082
Brokerage	92,035	84,220	301,053	198,599
Management fees	7,546	8,223	22,336	25,587
Incentive income	33	1,945	97	6,217
Interest and dividends	26,448	14,318	77,511	27,324
Reimbursement from affiliates	353	484	1,066	2,631
Aircraft lease revenue	375	934	1,509	3,036
Reinsurance premiums	8,378	7,186	26,251	21,957
Other revenues	1,634	3,402	3,846	6,147
Consolidated Funds				
Interest and dividends	2,294	871	8,565	4,253
Other revenues	9	(136)	14	498
Total revenues	221,028	178,830	706,985	454,331
Interest and dividends expense	26,000	15,132	74,846	37,273
Total net revenues	195,028	163,698	632,139	417,058
Expenses				
Employee compensation and benefits	127,303	103,282	394,288	282,066
Floor brokerage and trade execution	23,217	25,817	82,317	48,218
Underwriting expenses	4,412	—	13,260	—
Professional, advisory and other fees	7,698	7,001	20,541	23,344
Service fees	4,880	3,983	14,927	9,927
Communications	7,894	6,423	22,566	17,186
Occupancy and equipment	10,140	9,656	30,385	25,252
Depreciation and amortization	3,139	3,452	9,558	9,612
Client services and business development	6,671	5,551	22,767	20,505
Reinsurance claims, commissions and amortization of deferred acquisition costs	8,773	7,157	27,428	20,610
Restructuring costs	—	222	—	8,763
Other expenses	5,335	4,960	15,007	12,550
Consolidated Funds				
Interest and dividends	1,270	1,234	5,660	7,325
Professional, advisory and other fees	191	205	748	901
Floor brokerage and trade execution	39	64	192	278
Other expenses	187	209	667	919
Total expenses	211,149	179,216	660,311	487,456
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	32,040	18,326	64,728	63,101
Bargain purchase gain, net of tax	—	—	—	7,946
Gain/(loss) on debt extinguishment	—	—	(556)	—

Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	8,280	9,073	52,284	48,154
Net realized and unrealized gains (losses) on derivatives	1,664	220	6,258	5,405
Net gains (losses) on foreign currency transactions	(2)	8	250	(299)
Total other income (loss)	41,982	27,627	122,964	124,307
Income (loss) before income taxes	25,861	12,109	94,792	53,909
Income tax expense (benefit)	5,083	2,281	15,999	3,407
Net income (loss)	20,778	9,828	78,793	50,502

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(continued)				
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	5,290	5,162	41,053	35,412
Net income (loss) attributable to Cowen Inc.	15,488	4,666	37,740	15,090
Preferred stock dividends	1,698	1,698	5,094	5,094
Net income (loss) attributable to Cowen Inc. common stockholders	$13,790	$2,968	$32,646	$9,996
Weighted average common shares outstanding:				
Basic	29,610	31,271	29,662	29,004
Diluted	30,844	32,246	30,613	30,011
Earnings (loss) per share:				
Basic	$0.47	$0.09	$1.10	$0.34
Diluted	$0.45	$0.09	$1.07	$0.33

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$20,778	$9,828	$78,793	$50,502
Other comprehensive income (loss), net of tax:				
Foreign currency translation	4	—	5	(6)
Total other comprehensive income (loss), net of tax	4	—	5	(6)
Comprehensive income (loss)	$20,782	$9,828	$78,798	$50,496

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

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

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders' Equity	Redeemable Non-controlling Interest
Balance, December 31, 2017	29,632,020	$324	120,750	$1	$(186,846)	$1,004,664	$(8)	$(70,116)	$748,019	$440,604
Cumulative effect of the adoption of the new revenue recognition standard (See Note 3)	—	—	—	—	—	—	—	(559)	(559)	—
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	37,740	37,740	
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	41,053
Foreign currency translation	—	—	—	—	—	—	5	—	5	—
Capital contributions	—	—	—	—	—	—	—	—	—	25,175
Capital withdrawals	—	—	—	—	—	—	—	—	—	(271,061)
Deconsolidation of entity	—	—	—	—	—	—	—	—	—	(32,559)
Restricted stock awards issued	1,469,983	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(1,959,456)	—	—	—	(28,477)	—	—	—	(28,477)	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(5,094)	(5,094)	—

Embedded cash conversion option (See Note 18)	—	—	—	—	—	28,974	—	—	28,974	—
Amortization of share based compensation	—	—	—	—	—	27,636	—	—	27,636	—
Balance, September 30, 2018	29,142,547	$ 324	120,750	$ 1	$ (215,323)	$ 1,061,274	$ (3)	$ (38,029)	$ 808,244	$ 203,212

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders' Equity	Redeemable Non-controlling Interest
Balance, December 31, 2016	26,731,289	$ 292	120,750	$ 1	$ (153,845)	$ 928,646	$ (2)	$ (2,442)	$ 772,650	$ 379,205
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	15,090	15,090	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	35,412
Foreign currency translation	—	—	—	—	—	—	(6)	—	(6)	—
Capital contributions	—	—	—	—	—	—	—	—	—	60,322
Capital withdrawals	—	—	—	—	—	—	—	—	—	(53,278)
Common stock issued upon acquisition (See Note 2)	3,162,278	32	—	—	—	47,575	—	—	47,607	—
Restricted stock awards issued	1,985,618	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(791,727)	—	—	—	(11,433)	—	—	—	(11,433)	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(5,094)	(5,094)	—

Amortization of share based compensation	—	—	—	—	—	24,702	—	—	24,702	—
Balance, September 30, 2017	31,087,458	$ 324	120,750	$ 1	$ (165,278)	$ 1,000,923	$ (8)	$ 7,554	$ 843,516	$ 421,661

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

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$78,793	$50,502
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Bargain purchase gain, net of tax	—	(7,946)
Depreciation and amortization	9,558	9,612
Amortization of debt issuance costs	990	936
Amortization of debt discount	4,177	5,601
Gain / (loss) on extinguishment of debt	652	—
Share-based compensation	27,636	24,702
Deferred tax benefit	14,640	7,039
Deferred rent obligations	(2,532)	(1,503)
Net loss (gain) on disposal of fixed assets	146	(2,362)
Purchases of securities owned, at fair value	(3,137,168)	(3,442,431)
Proceeds from sales of securities owned, at fair value	3,329,707	3,620,347
Proceeds from sales of securities sold, not yet purchased, at fair value	2,132,935	1,809,863
Payments to cover securities sold, not yet purchased, at fair value	(2,233,427)	(1,799,136)
Proceeds from the sale of other investments	7,313	—
Net (gains) losses on securities, derivatives and other investments	(61,927)	(76,325)
Consolidated Funds		
Purchases of securities owned, at fair value	(457,293)	(261,863)
Proceeds from sales of securities owned, at fair value	491,427	241,307
Proceeds from sales of securities sold, not yet purchased, at fair value	—	217
Payments to cover securities sold, not yet purchased, at fair value	—	(899)
Purchases of other investments	(1,414)	(26,206)
Proceeds from sales of other investments	230,832	51,709
Net realized and unrealized (gains) losses on investments and other transactions	(58,523)	(43,423)
(Increase) decrease in operating assets:		
Cash acquired through acquisition	—	159,587
Securities owned, at fair value, held at broker-dealer	(124,740)	(58,126)
Receivable on derivative contracts, at fair value	36,949	(9,204)
Securities borrowed	(270,140)	(113,046)
Deposits with clearing organizations, brokers and banks	(4,650)	(22,625)
Receivable from brokers, dealers and clearing organizations	(136,214)	(105,255)
Receivable from customers, net of allowance	16,651	(2,040)
Fees receivable, net of allowance	(6,211)	(28,839)
Due from related parties	2,765	2,222
Other assets	16,573	(31,415)
Consolidated Funds		
Cash and cash equivalents	(130)	6,605
Receivable on derivative contracts, at fair value	609	(149)
Receivable from brokers	(5,373)	(2,356)

Other assets	(153)	222
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker-dealer	146,853	(100)
Payable for derivative contracts, at fair value	16,225	5,555
Securities loaned	91,798	128,598
Payable to brokers, dealers and clearing organizations	(41,827)	(128,490)
Payable to customers	118,009	190,926
Commission management payable	19,782	(8,457)
Compensation payable	30,500	(38,092)
Fees payable	14,211	2,807
Due to related parties	1	(6)
Accounts payable, accrued expenses and other liabilities	1,527	19,109

(continued)

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

	Nine Months Ended September 30,	
	2018	2017
(continued)		
Consolidated Funds		
Contributions received in advance	$—	$(2,000)
Payable to brokers	1,185	(2,289)
Payable for derivative contracts, at fair value	(4,941)	1,175
Due to related parties	—	(189)
Accounts payable, accrued expenses and other liabilities	205	(438)
Net cash provided by / (used in) operating activities	295,986	123,431
Cash flows from investing activities:		
Purchases of other investments	(21,355)	(72,834)
Purchase of business (See Note 2)	—	(54,017)
Proceeds from sales of other investments	15,730	118,130
Proceeds from loans held for investment	1,410	3,200
Purchase of fixed assets	(6,710)	(3,056)
Sale of fixed assets	—	7,850
Net cash provided by / (used in) investing activities	(10,925)	(727)
Cash flows from financing activities:		
Repayments on convertible debt	(13,500)	—
Deferred debt issuance cost	(3,985)	—
Borrowings on notes and other debt	102,382	31,737
Repayments on notes and other debt	(6,561)	(8,845)
Purchase of treasury stock	(16,763)	—
Contingent liability payment	(797)	(393)
Capital contributions by redeemable non-controlling interests in operating entities	581	—
Capital withdrawals to redeemable non-controlling interests in operating entities	(1,685)	(4,628)
Consolidated Funds		
Capital contributions by redeemable non-controlling interests in Consolidated Funds	24,594	60,322
Capital withdrawals to redeemable non-controlling interests in Consolidated Funds	(270,186)	(50,778)
Net cash provided by / (used in) financing activities	(185,920)	27,415
Change in cash and cash equivalents	99,141	150,119
Cash and cash equivalents, including cash collateral pledged and segregated cash, beginning of period	264,208	125,356
Cash and equivalents at end of period:		
Cash and cash equivalents	193,066	117,824
Cash collateral pledged	16,092	16,995
Segregated cash	154,191	140,656
Cash and cash equivalents, including cash collateral pledged and segregated cash, end of period	$363,349	$275,475
Supplemental information		
Cash paid during the year for interest	$62,371	$24,528
Cash paid during the year for taxes	$4,862	$1,944

Supplemental non-cash information		
Purchase of treasury stock, at cost, through net settlement (See Note 18)	$8,544	$11,433
Net assets (liabilities) acquired upon acquisition (net of cash)	$—	$(50,017)
Transfer of investment from consolidated funds, securities owned, fair value to securities owned, fair value	$8,820	$—
Net decrease in redeemable non-controlling interests in Consolidated Funds due to deconsolidation of consolidated fund (See Note 3)	$32,559	$—
Separately recognized conversion option reclassification from a derivative liability to equity (Note 18)	$28,974	$—
Common stock issuance upon close of acquisition (see Note 2)	$—	$47,607
Conversion of redeemable non-controlling interest to loan receivable	$—	$1,299

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

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

1. Organization and Business

Cowen Inc. (formerly Cowen Group, Inc.), a Delaware corporation formed in 2009, is a diversified financial services firm which, together with its consolidated subsidiaries (collectively, "Cowen," or the "Company"), operates through its two business segments: an investment management segment and an investment bank segment. The Company's investment management segment includes advisers to private funds, managed accounts, real estate funds, private equity structures and listed vehicles. The Company's investment bank segment offers investment banking, research, sales and trading, prime brokerage, global clearing and commission management services to companies and primarily institutional investor clients. The investment bank segment's primary target sectors ("Target Sectors") are healthcare, technology, media and telecommunications, information and technology services, consumer, aerospace and defense, industrials, energy and transportation.

2. Acquisition

On April 2, 2017, the Company, through its wholly owned subsidiary Cowen CV Acquisition LLC, entered into a securities purchase agreement with, among others, Convergex Holdings LLC to acquire all the outstanding interests in Convergex Group, LLC ("Convergex Group") (subsequently renamed to Cowen Execution Holdco LLC), a provider of agency based execution services and trading technology to middle market institutional investors and broker-dealers. Convergex Group's operations were primarily conducted through two U.S. Securities Exchange Commission ("SEC") registered broker-dealers, Convergex Execution Solutions LLC (subsequently renamed to Cowen Execution Services LLC) ("Cowen Execution") and Westminster Research Associates LLC ("Westminster") and also Convergex Limited (subsequently renamed to Cowen Execution Services Limited) ("Cowen Execution Ltd"), which is based in the United Kingdom and regulated by the Financial Conduct Authority ("FCA"). The purchase price was paid approximately 50% in cash and 50% in Cowen Inc. Class A common stock.

The acquisition was accounted for under the acquisition method of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). As such, results of operations for Convergex Group are included in the accompanying condensed consolidated statements of operations since the date of acquisition, and the assets acquired and liabilities assumed were recorded at their fair value as of the acquisition date. Subsequent to the acquisition, the operations of Convergex Group were integrated within the Company's existing businesses.

The acquisition was consummated effective as of June 1, 2017. The adjusted aggregate estimated purchase price was $98.0 million, which was determined based on closing date tangible book value of Convergex Group, less certain closing adjustments. Based on the closing date purchase price allocation, the fair value of the net identifiable assets acquired and liabilities assumed of $109.6 million exceeded the estimated purchase price of $98.0 million. As a result, the Company recognized a bargain purchase gain of $11.6 million during 2017 related to the acquisition. The bargain purchase gain was shown net of $4.7 million of associated tax.

Subsequent to the acquisition, certain of Convergex Group's businesses were integrated within the investment bank businesses of the Company and therefore they are included within their respective line items in the accompanying condensed consolidated statements of operations. The following table provides unaudited supplemental pro forma financial information for the nine months ended September 30, 2017, as if the acquisition were completed as of January 1, 2017. This unaudited supplemental pro forma information has been prepared for comparative purposes only and is not intended to be indicative of what the Company's financial results would have been had the acquisition been completed on January 1, 2017, nor does it purport to be indicative of any future results.

	Nine Months Ended September 30, 2017 (dollars in thousands, except per share data) (unaudited)
Revenues	$ 529,294

Net income (loss) attributable to Cowen Inc. stockholders	(7,001	)
Net income (loss) per common share:		
Basic	$ (0.23	)
Diluted	(0.23	)

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Cowen Inc.
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In conjunction with the integration of the acquired businesses of Convergex Group, the Company evaluated the combined broker-dealer businesses and operations and, during 2017, incurred approximately $8.8 million of integration and restructuring costs which primarily related to exit and disposal costs, discontinuation of redundant technology services and severance costs. During the nine months ended September 30, 2018, the Company continued to integrate the businesses acquired through Convergex Group and consolidated certain similar businesses.

3. Significant Accounting Policies

a. Basis of Presentation

These unaudited condensed consolidated financial statements are prepared in accordance with US GAAP as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification ("The Accounting Standards") as the source of authoritative accounting principles in the preparation of financial statements, and include the accounts of the Company, its operating and other subsidiaries, and entities in which the Company has a controlling financial interest or a general partner interest. All material intercompany transactions and balances have been eliminated on consolidation. Certain fund entities that are consolidated in these accompanying condensed consolidated financial statements, as further discussed below, are not subject to the consolidation provisions with respect to their own controlled investments pursuant to their specialized accounting.

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

In this Form 10-Q, interest and dividends expense has been reclassified to be presented net of revenues on the condensed consolidated statement of operations. The Company believes that this presentation provides a better representation of the Company's operating results as it is used by management to monitor the Company's financial performance and is consistent with industry practice. The change to the presentation of interest and dividend expense has no impact on net income.

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

b. Principles of consolidation

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

In accordance with these standards, the Company consolidates four funds for which it acts (or acted) as the general partner and investment manager. As of and during the three months ended September 30, 2018, the Company consolidated the following funds: Ramius Enterprise LP (“Enterprise LP”), Ramius Merger Fund LLC (the "Merger Fund"), Cowen Private Investments LP ("Cowen Private"), and Ramius Merger Arbitrage UCITS Fund ("UCITS Fund") (collectively the "Consolidated Funds").

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

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

Under US GAAP, the usual condition for a controlling financial interest in a VOE is ownership of a majority voting interest. Accordingly, the Company consolidates all VOEs in which it owns a majority of the entity's voting shares or units.

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

The Company reconsiders whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of September 30, 2018 and December 31, 2017, the total net assets of the consolidated VIEs were $254.6 million and $482.8 million, respectively. The decrease is primarily related to other investors' redemptions which reduced overall VIEs net assets. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company.

As of September 30, 2018 and December 31, 2017 the Company held variable interests in Ramius Enterprise Master Fund Ltd (“Enterprise Master”) and Ramius Merger Master Fund Ltd ("Merger Master") (collectively the “Unconsolidated Master Funds”) through the Consolidated Funds. Investment companies, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under US GAAP, are not subject to the consolidation provisions for their investments. Therefore, the Company has not consolidated the Unconsolidated Master Funds.

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

The Company does not consolidate the Unconsolidated Master Funds or real estate entities that are VIEs as it has concluded that it is not the primary beneficiary in each instance. Fund investors are entitled to all of their economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company's involvement with funds and real estate entities that are unconsolidated VIEs is limited to providing investment management services in exchange for management fees and incentive income. Although the Company may advance amounts and pay certain expenses on behalf of the funds and real estate entities that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services (see Note 6 for additional disclosures on VIEs).

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

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

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

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

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c. Use of estimates
The preparation of the accompanying condensed consolidated financial statements in conformity with US GAAP requires the management of the Company to make estimates and assumptions that affect the fair value of securities and other investments, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accompanying condensed consolidated financial statements, the accounting for goodwill and identifiable intangible assets and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.
d. Allowance for doubtful accounts
The allowance for doubtful accounts is based on the Company’s assessment of the collectability of receivables related to securities transactions, prepaid research and other receivables. The Company considers factors such as historical experience, credit quality, age of balances and current economic conditions that may affect collectability in determining the allowance for doubtful accounts. Specifically for prepaid research, the Company reviews clients' historical, current and forecasted trading activity in determining the allowance for doubtful accounts. Expense related to the allowance for doubtful accounts as well as any recoveries of amounts previously charged is reflected in other expenses in the accompanying condensed consolidated statements of operations.
e. Valuation of investments and derivative contracts
US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and

Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.
The Company and its operating subsidiaries act as the manager for the Consolidated Funds. Both the Company and the Consolidated Funds hold certain investments which are valued by the Company, acting as the investment manager. The fair value of these investments is generally estimated based on proprietary models developed by the Company, which include discounted cash flow analysis, public market comparables, and other techniques and may be based, at least in part, on independently sourced market information. The material estimates and assumptions used in these

models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions used in these models, and the timing and actual values realized with respect to investments could be materially different from values derived based on the use of those estimates. The valuation methodologies applied impact the reported value of the Company's investments and the investments held by the Consolidated Funds in the condensed consolidated financial statements. Certain of the Company's investments are relatively illiquid or thinly traded and may not be immediately liquidated on demand if needed. Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed and such differences could be material.

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The Company primarily uses the "market approach" to value its financial instruments measured at fair value. In determining an instrument's level within the hierarchy, the Company categorizes the Company's financial instruments into three categories: securities, derivative contracts and other investments. To the extent applicable, each of these categories can further be divided between those held long or sold short.

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The election is made on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company has elected the fair value option for certain of its investments held by its operating companies. This option has been elected because the Company believes that it is consistent with the manner in which the business is managed, as well as the way that financial instruments in other parts of the business are recorded.

Securities—Securities with values based on quoted market prices in active markets for identical assets are classified within level 1 of the fair value hierarchy. These securities primarily include active listed equities, certain U.S. government and sovereign obligations, Exchange Traded Funds ("ETFs"), mutual funds and certain money market securities. The Company does not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

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

Derivative contracts—Derivative contracts can be exchange-traded or privately negotiated over-the-counter ("OTC"). Exchange-traded derivatives, such as futures contracts and exchange-traded option contracts, are typically classified within level 1 or level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded. OTC derivatives, such as generic forwards, swaps and options, have inputs which can generally be corroborated by market data and are therefore classified within level 2. OTC derivatives, such as swaps and options where market data is not readily available or observable are classified as level 3.

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

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

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

Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the Company invests in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. Amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.
The Company's real estate investments are typically categorized as level 3 investments within the fair value hierarchy as management uses significant unobservable inputs in determining their estimated fair value.
See Notes 6 and 7 for further information regarding the Company's investments, including equity method investments and fair value measurements.

f. Fees receivable

Fees related to security transactions are reported net of an allowance for doubtful accounts. An allowance for doubtful accounts is taken on any commission receivables aged over 180 days.
Corporate finance and syndicate receivables, include receivables relating to the Company’s investment banking and advisory engagements net of allowance for doubtful accounts. The Company records this allowance for doubtful accounts on these receivables on a specific identification basis. The future collectability of the receivables is reviewed on a monthly basis based on the following factors: aging (usually if outstanding greater than 90 days), known financial stability of the paying company, as well as any other factors that might impact the collection of the outstanding fees.
Management and incentive fees are earned as the managing member, general partner and/or investment manager to the Company's funds and are recognized in accordance with the new revenue recognition guidance (see Note 3k).

g. Securities borrowed and securities loaned

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received on a gross basis. The related rebates are recorded in the accompanying condensed consolidated statements of operations as interest and dividends income and interest and dividends expense. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary. Securities borrowed and loaned may also result in credit exposures for the Company in an event that the counterparties are unable to fulfill their contractual obligations. The Company minimizes its credit risk by continuously monitoring its credit exposure and collateral values by demanding additional or returning excess collateral in accordance with the netting provisions available in the master securities lending contracts in place with the counterparties.
Fees and interest received or paid are recorded in interest and dividends income and interest and dividends expense, respectively, on an accrual basis in the accompanying condensed consolidated statements of operations. In cases where the fair value basis of accounting is elected, any resulting change in fair value would be reported in net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations. Accrued interest income and expense are recorded in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, on an accrual basis in the accompanying condensed consolidated statements of financial condition. At September 30, 2018 and December 31, 2017, the Company did not have any securities lending transactions for which fair value basis of accounting was elected.

h. Fixed Assets

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

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

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Asset	Depreciable Lives	Depreciation and/or Amortization Method
Telephone and computer equipment	3-5 years	Straight-line
Computer software	3-8 years	Straight-line
Furniture and fixtures	5 years	Straight-line
Leasehold improvements	Term of Lease	Straight-line
Capitalized lease asset	5 years	Straight-line
Aircraft and related equipment	10-20 years	Straight-line
Modifications to aircraft	4-10 years	Straight-line

i. Debt

Long-term debt is carried at the principal amount borrowed net of any unamortized discount/premium. The discount is accreted to interest expense using the effective interest method over the remaining life of the underlying debt obligations. Accrued but unpaid coupon interest is included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition.

j. Deferred rent

Deferred rent primarily consists of step rent, allowances from landlords and valuing the Company's lease properties acquired through business combinations in accordance with US GAAP. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received and/or promised to the Company by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. The Company records a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition, as of September 30, 2018 and December 31, 2017 is $9.1 million and $12.8 million, respectively.

k. Revenue recognition

Effective January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"). The new revenue recognition guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires an entity to follow a five step model to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. The Company applied the modified retrospective method of adoption which resulted in a cumulative adjustment of $0.6 million to retained earnings as of January 1, 2018. Reported financial results for historic periods were not restated and are reported under The Accounting Standards in effect during the historic period. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for discussions related to the Company's previous revenue recognition policies.

Our principle sources of revenue are derived from two segments: an investment management segment and an investment bank segment, as more fully described below. The new revenue recognition guidance does not apply to revenue associated with financial instruments, interest income and expense, leasing and insurance contracts. The following is a description of principal activities, separated by reportable segments, from which the Company generates its revenue. For more detailed information about reportable segments, see Note 21.

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Investment Management
Our investment management segment generates revenue through three principle sources: management fees, incentive income and investment income from the Company's own capital. The investment income was excluded from the new revenue recognition guidance, therefore there were no changes associated with the adoption of the new guidance.
Management fees
The Company earns management fees from affiliated private funds and certain managed accounts for which it serves as the investment manager; such fees earned are based on assets under management. The management fees are earned as the investment management services are provided and are not subject to reversals.
Several management companies of the private funds are owned jointly by the Company and third parties. Accordingly, the management fees generated by these funds are split between the Company and these third parties based on the proportionate ownership of the management company. Pursuant to US GAAP, these fees received by the management companies are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.
Management fees are generally paid on a quarterly basis and are prorated for capital inflows (or commitments) and redemptions (or distributions). While some investors may have separately negotiated fees, in general the management fees are as follows:

- Private Hedge Funds. Management fees for the Company's private hedge funds are generally charged at an annual rate of up to 2% of assets under management or notional trading level. Management fees are generally calculated monthly based on assets under management at the end of each month.
- Real Estate. Management fees from the Company's real estate business are generally charged at an annual rate from 0.25% to 1.50% of total capital commitments during the investment period and of invested capital or net asset value of the applicable fund after the investment period has ended. Management fees are typically paid to the general partners on a quarterly basis, at the beginning of the quarter in arrears.
- Private Equity Funds. Management fees for the Company's private equity or debt funds are generally charged at an annual rate of 1% to 2% of committed capital during the investment period (as defined in the relevant partnership agreements). After the investment period, management fees for these funds are generally charged at an annual rate of 0.5% to 2% of the net asset value or the aggregate cost basis of the unrealized investments held by the funds. For certain other funds (and managed accounts), the management fees range from 0.2% to 1% and there is no adjustment based on the investment period. Management fees for the Company's private equity funds are generally paid on a quarterly basis.
- Cowen Trading Strategies. Advisory fees for the Company's collateral management advisory business are typically paid quarterly based on assets under management, generally subject to a minimum fee.

Incentive income
The Company earns incentive income based on net profits (as defined in the respective investment management or partnership agreements) with respect to certain of the Company's funds and managed accounts. The incentive income is either allocated to the Company or is charged to the funds in accordance with their respective investment management or partnership agreements. For the private hedge fund products the Company offers, incentive income earned is typically up to 20% (in certain cases on performance in excess of a benchmark) of the net profits earned for the full year that are attributable to each fee-paying investor. For the private equity and debt fund products the Company offers, the carried interest earned is typically up to 20% of the distributions made to investors after return of their contributed capital and generally a preferred return.
With the adoption of ASC Topic 606, the Company applied an accounting policy election to recognize incentive income allocated to the Company under an equity ownership model as net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations. The Company previously recognized these amounts as incentive income. This accounting change did not change the timing or amount of revenue recognized. Under the equity method of accounting the Company recognizes its allocations of incentive

income or carried interest within net gains (losses) along with the allocations proportionate to the Company’s ownership interests in the funds.

The Company recognizes incentive income charged to the Company's private hedge funds based on the net profits of the funds. The Company recognizes such incentive income when the fees are no longer subject to reversal or are crystalized. For a majority of the private hedge funds, the incentive fee crystallizes annually when the high-water mark for such funds is reset, which delays recognition of the incentive fee until year end.

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

The management companies and general partners of the Company's private equity and debt funds (including the real estate funds, the private healthcare investing funds and HealthCare Royalty Partners funds) are private companies and therefore have not adopted the new revenue recognition guidance. Generally, incentive income or carried interest on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However, for certain real estate funds, the Company is entitled to receive incentive fees earlier, provided that the investors have received their preferred return on a current basis or on an investor by investor basis. These funds are generally subject to a potential clawback of these incentive fees upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income or carried interest in the HealthCare Royalty Partners and the Company's private healthcare investing funds is generally earned only after investors receive a full return of their capital plus a preferred return. With the adoption of ASC Topic 606, the Company recognizes incentive income at the end of the performance period.

Several general partners of the Company's private funds are jointly owned by the Company and third parties. Accordingly, the incentive fees generated by these funds are split between the Company and these third parties. Pursuant to US GAAP, incentive income received by the general partners that are accounted for under the equity method of accounting are reflected under net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.

Investment Bank

Investment Banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small- and mid-capitalization companies within the Company's Target Sectors.

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

- Underwriting fees. The Company earns underwriting fees in securities offerings in which the Company acts as an underwriter, such as initial public offerings, follow-on equity offerings, debt offerings, and convertible security offerings. Fee revenue relating to underwriting commitments is recorded at the point in time when all significant items relating to the underwriting process have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC or the other offering documents are finalized; (ii) the Company has made a firm commitment for the purchase of securities from the issuer; and (iii) the Company has been informed of the number of securities that it has been allotted.

Underwriting fees are recognized gross of transaction-related expenses, such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically within 90 days following the closing of the transaction.

- Strategic/financial advisory fees. The Company's strategic advisory revenues include success fees earned in connection with advising companies, principally in mergers, acquisitions and restructuring transactions. The Company also earns fees for related advisory work such as providing fairness opinions. The Company records strategic advisory revenues at the point in time, gross of related expenses, when the services for the transactions are completed under the terms of each assignment or engagement.
- Placement and sales agent fees. The Company earns agency placement fees and sales agent commissions in non-underwritten transactions, such as private placements of loans and debt and equity securities, including, private investment in public equity transactions ("PIPEs"), and as sales agent in at-the-market offerings of equity securities. The

Company records placement revenues (which may be in cash and/or securities) at the point in time when the services for the transactions are completed under the terms of each assignment or engagement. The Company records sales agent commissions on a trade-date basis.

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Brokerage

Brokerage revenue consists of commissions, principal transactions, equity and credit research fees and trade conversion revenue.

- Commissions. Commission revenue includes fees from executing and clearing client transactions and commission sharing arrangements. These fees are recognized on a trade-date basis. The Company permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as "soft dollar arrangements". Commissions on soft dollar brokerage are recorded net of the related expenditures on an accrual basis. The costs of commission recapture arrangements are recorded on an accrual basis for each eligible trade and shown net of commission revenue. The Company recognizes the soft dollar and commission recapture revenue on a net basis where the Company acts as an agent and on a gross basis where the Company is deemed to be the principal. Commission revenues also includes fees from making algorithms available to clients.
- Principal transactions. Principal transactions revenue includes net trading gains and losses from the Company's market-making activities in over-the-counter equity and fixed income securities, trading of convertible securities, and trading gains and losses on inventory and other Company positions, which include warrants previously received as part of investment banking transactions. In certain cases, the Company provides liquidity to clients by buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a very short duration.
- Equity and credit research fees. Equity and credit research fees are paid to the Company for providing equity and credit research. Revenue is recognized once an arrangement exists and access to research has been provided.
- Trade conversion revenue. Trade conversion revenue includes fees earned from converting foreign securities into an American Depository Receipt (“ADR”) and fees earned from converting an ADR into foreign securities on behalf of customers, and margins earned from facilitating customer foreign exchange transactions. Trade conversion revenue is recognized on a trade-date basis.

Investment Income

Investment income earned by the investment management and investment bank segments are earned from investing the Company's capital in various strategies and from investments in private capital raising transactions of its investment banking clients.

Interest and dividends

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

Reimbursement from affiliates

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

Aircraft lease revenue

Aircraft lease revenue associated with the Company's aircraft leasing business is recorded on a straight-line basis over the term of the lease, net of deferred rent and/or prepaid initial direct costs.

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

Reinsurance-related contracts

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

The liabilities for losses and loss adjustment expenses are recorded at the estimated ultimate payment amounts, including reported losses. Estimated ultimate payment amounts are based upon (1) reports of losses from policyholders, (2) individual case estimates and (3) estimates of incurred but unreported losses.

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

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

The following tables summarize the impacts of adopting ASC Topic 606 on the Company's condensed consolidated financial statements.

Condensed Consolidated Statements of Financial Condition	As of September 30, 2018		
	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)		
Assets			
Fees receivable, net of allowance	$111,756	$11,739	$123,495
Other investments	167,428	(11,739)	155,689
Stockholders' equity	$808,244	$3,493	$811,737

Condensed Consolidated Statements of Operations	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As reported	ASC 606 Impact	Adjusted (a)	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)					
Revenues						
Investment banking	$81,923	$(4,412)	$77,511	$264,737	$(13,260)	$251,477
Incentive income	33	7,776	7,809	97	11,186	11,283
Total revenues	221,028	3,364	224,392	706,985	(2,074)	704,911
Expenses						
Underwriting expenses	4,412	(4,412)	—	13,260	(13,260)	—
Total expenses	211,149	(4,412)	206,737	660,311	(13,260)	647,051
Net gains (losses) on securities, derivatives and other investments	32,040	6,822	38,862	64,728	8,252	72,980
Net income (loss) attributable to Cowen Inc. common stockholders	$13,790	$954	$14,744	$32,646	$2,934	$35,580

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Condensed Consolidated Statements of Cash Flows	Nine Months Ended September 30, 2018		
	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)		
Cash flows from operating activities:			
Net income (loss)	$78,793	$2,934	$81,727
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:			
Net (gains) losses on securities, derivatives, and other investments	(61,927)	6,075	(55,852)
(Increase) decrease in operating assets:			
Fees receivable, net of allowance	(6,211)	(8,197)	(14,408)
Net cash provided by / (used in) operating activities	295,986	812	296,798
Cash flows from investing activities:			
Purchase of other investments	(21,355)	(812)	(22,167)
Net cash provided by / (used in) investing activities	$(10,925)	$(812)	$(11,737)

(a) The amounts reflected above represent items as they would have been reported prior to adoption of the new revenue standard.

Refer to Note 21, Segment Reporting, for revenues from contracts with customers disaggregated by major business activity.

Interest and dividends expense

Interest and dividends expense relates primarily to securities finance activities, trading activity with respect to the Company's investments and interest expense on debt.

l. Recently issued accounting pronouncements

In August 2018, the FASB issued guidance for accounting for upfront costs and fees paid by a customer in a cloud computing arrangement. The guidance requires capitalization of implementation costs incurred in connection with a hosting arrangement or the development or obtainment of internal use software. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years for any implementation costs incurred after adoption. The Company is currently evaluating the impact of this guidance on the Company’s condensed consolidated financial statements and does not expect this guidance to have a material impact on its condensed consolidated statements of financial condition or its condensed consolidated statements of operations.

In August 2018, as part of its disclosure framework project, the FASB amended the disclosure requirements for fair value measurement. The amendments update and eliminate various disclosure requirements that improve the overall usefulness of the disclosure requirement for financial statement users and reduce costs by eliminating disclosures that may not be useful. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Since the guidance only relates to disclosure requirements, the Company does not expect this guidance to have a material impact on its condensed consolidated statements of financial condition or its condensed consolidated statements of operations.

In February 2018, the FASB issued guidance to permit entities to reclassify certain tax effects from accumulated comprehensive income as a result of recent tax reforms. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company’s condensed consolidated financial statements and does not expect this guidance to have a material impact as the Company does not hold any material components of deferred taxes in accumulated other comprehensive income (loss).

In March 2017, the FASB issued guidance to amend the amortization period for certain purchased callable debt securities held at a premium. Under current guidance, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The new guidance shortened the amortization period for the premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements and does not expect this guidance to have a material impact on its condensed consolidated statement of financial condition or its statement of operations as the Company does not hold any material callable debt securities.

In January 2017, the FASB issued guidance that simplifies the subsequent measurement of goodwill. The new guidance eliminated Step 2 from the goodwill impairment test which was required in computing the implied fair value of goodwill. Instead, under the new amendments, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. If applicable, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss. The amendments in this guidance are effective for public business entities for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019 with early adoption permitted after January 1, 2017. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements. The Company expects this guidance to simplify its goodwill impairment analysis.

In February 2016, the FASB issued guidance that amends and supersedes its previous guidance regarding leases. The new guidance requires the lessee to recognize the right to use lease assets and lease liabilities that arise from leases, and present them in its statement of financial condition. The recognition of these lease assets and lease liabilities represents a change from previous US GAAP requirements, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee, have not significantly changed from previous US GAAP requirements. For public business entities, the guidance is effective for reporting periods beginning after December 15, 2018. As of September 30, 2018, the Company has identified its arrangements that are within the scope of the new guidance and has evaluated its portfolio of leases, which is primarily comprised of operating real estate leases for its respective offices. The Company will elect the package of practical expedients and, upon adoption, will recognize the right to use lease assets and related lease liabilities as of the adoption date using FASB's modified retrospective approach. Prior period information will not be restated.

4. Cash Collateral Pledged

As of September 30, 2018 and December 31, 2017, the Company pledged cash collateral in the amount of $5.3 million and $6.1 million, respectively, which relates to letters of credit issued to the landlords of the Company's premises in New York City, Boston, Stamford and San Francisco. The Company also has pledged collateral for reinsurance agreements which amounted to $10.8 million, as of September 30, 2018, and $11.8 million, as of December 31, 2017, which is anticipated to be due March 2021 (see Note 17).

5. Segregated Cash

As of September 30, 2018 and December 31, 2017, cash segregated in compliance with federal regulations and other restricted deposits of $154.2 million and $116.3 million, respectively, consisted of cash deposited in special bank accounts for the benefit of customers under SEC Rule 15c3-3 and cash held in accounts designated as Special Reserve Bank Accounts for Proprietary Accounts of Broker-Dealers ("PAB").

6. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

Securities owned, at fair value are held by the Company and are considered held for trading. Substantially all equity securities, which are not part of the Company's self clearing securities finance activities, are pledged to external clearing brokers under terms which permit the external clearing broker to sell or re-pledge the securities to others subject to certain limitations.

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

As of September 30, 2018 and December 31, 2017, securities owned, at fair value consisted of the following:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Common stock (b)	$576,720	$ 640,065
Preferred stock (b)	6,466	9,604
Warrants and rights (b)	21,403	9,604
U.S. Government securities (a)	2,842	2,807
Corporate bonds (d)	30,992	4,909
Convertible bonds (c)	—	282
Trade claims	5,746	5,950
	$644,169	$ 673,221

(a) As of September 30, 2018, maturities ranged from October 2018 to August 2019 with an interest rate of 0%. As of December 31, 2017, maturities ranged from February 2018 to June 2018 with an interest rate of 0%.

(b) The Company has elected the fair value option for investments in securities of preferred and common stock with a fair value of $2.9 million and $6.2 million, respectively, at September 30, 2018 and $6.0 million and $5.2 million, respectively, at December 31, 2017. At September 30, 2018 and December 31, 2017, the Company elected the fair value option for investments in warrants and rights with a fair value of $1.1 million and $2.4 million.

(c) As of December 31, 2017, maturities ranged from February 2018 to March 2018 and interest rates ranged from 5% to 12%.

(d) As of September 30, 2018, maturities ranged from October 2018 to April 2049 and interest rates ranged from 0.50% to 14.00%. As of December 31, 2017, maturities ranged from October 2018 to May 2040 and interest rates ranged from 0.00% to 10.75%.

Receivable on and Payable for derivative contracts, at fair value

The Company's direct involvement with derivative financial instruments includes total return swaps, futures, currency forwards, equity swaps, credit default swaps and options. The Company's derivatives trading activities exposes the Company to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, counterparty risk, foreign currency movements and changes in the liquidity of markets.

Upon issuance of the Company's 3% cash convertible senior notes due 2019 in March 2014 ("2019 Convertible Notes") (see Note 17), the Company recognized the embedded cash conversion option at fair value of $35.7 million which is valued as of September 30, 2018 at $0.2 million and is included in payable for derivative contracts in the accompanying condensed consolidated statement of financial condition. The Company has partially repurchased and extinguished most of the 2019 Convertible Notes (See Note 17).

Also, on the date of issuance of the 2019 Convertible Notes, the Company entered into a separate cash convertible note economic hedge transaction (the "Hedge Transaction") with a counterparty (the “Option Counterparty”) whereby, the Company purchased a cash settled option contract with terms identical to the conversion option embedded in the 2019 Convertible Notes and simultaneously sold an equity settled warrant with a higher strike price. The Hedge Transaction was expected to reduce the Company’s exposure to potential cash payments in excess of the principal amount of converted notes that the Company may be required to make upon conversion of the 2019 Convertible Notes. The Company paid a premium of $35.7 million for the option under the Hedge Transaction and received a premium of $15.2 million for the equity settled warrant transaction, for a net cost of $20.5 million. During January 2018, the Company terminated the Hedge Transaction for a loss of $0.6 million.

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

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

Receivable on derivative contracts	As of September 30, 2018		As of December 31, 2017	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$—	$—	$3,819	$58
Currency forwards	$79,310	1,088	$233	5
Swaps	$57,926	1,203	$164,664	10,942
Options other (a)	660,776	29,330	283,112	58,172
Pay to hold	$—	608	$—	—
		$32,229		$69,177

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

Payable for derivative contracts	As of September 30, 2018		As of December 31, 2017	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$25,474	$71	$16,796	$242
Currency forwards	$2,897	4	$62,439	874
Swaps	$77,775	2,743	$11,595	71
Options other (a)	96,500	27,184	57,043	41,563
		$30,002		$42,750

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

The following tables present the gross and net derivative positions and the related offsetting amount, as of September 30, 2018 and December 31, 2017. This table does not include the impact of over collateralization.

				Gross amounts not offset in the Condensed Consolidated Statement of Financial Condition		
	Gross amounts recognized	Gross amounts offset on the Condensed Consolidated	Net amounts included on the Condensed Consolidated	Financial instruments	Cash Collateral pledged (b)	Net amounts

		Statements of Financial Condition (a)	Statements of Financial Condition			
	(dollars in thousands)					
As of September 30, 2018						
Receivable on derivative contracts, at fair value	$32,229	$ —	$ 32,229	$ —	$ 2,899	$ 29,330
Payable for derivative contracts, at fair value	30,002	—	30,002	—	2,747	27,255
As of December 31, 2017						
Receivable on derivative contracts, at fair value	$69,177	$ —	$ 69,177	$ —	$ 10,948	$ 58,229
Payable for derivative contracts, at fair value	42,750	—	42,750	—	1,031	41,719

(a) Includes financial instruments subject to enforceable master netting provisions that are permitted to be offset to the extent an event of default has occurred.

(b) Includes the amount of collateral held or posted.

The realized and unrealized gains/(losses) related to derivatives trading activities were $(7.5) million and $0.5 million for the three months ended September 30, 2018 and 2017, and $6.4 million and $(4.9) million for the nine months ended September 30, 2018 and 2017, respectively, and are included in other income in the accompanying condensed consolidated statements of operations.

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

Pursuant to the various derivatives transactions discussed above, except for the cash convertible note hedge (see Note 17), exchange traded derivatives, and certain options, the Company is required to post/receive collateral. As of September 30, 2018 and December 31, 2017, collateral consisting of $9.8 million and $13.5 million of cash is included in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, on the accompanying condensed consolidated statements of financial condition. As of September 30, 2018 and December 31, 2017 all derivative contracts were with multiple major financial institutions.

Other investments

As of September 30, 2018 and December 31, 2017, other investments included the following:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Portfolio Funds, at fair value (1)	$125,107	$100,148
Equity method investments (2)	42,321	41,099
Lehman claims, at fair value	—	301
	$167,428	$141,548

(1) Portfolio Funds, at fair value

The Portfolio Funds, at fair value as of September 30, 2018 and December 31, 2017, included the following:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Starboard Value and Opportunity Fund LP (c)(*)	$33,321	$32,079
Formation8 Partners Fund I, L.P. (f)	28,135	28,243
RCG Longview Debt Fund V, L.P. (g)(*)	4,537	8,892
RCG Longview II LP (g) (*)	4,160	131
Cowen Healthcare Investments II LP (j) (*)	15,875	—
Eclipse Ventures Fund I, L.P. (b)	3,575	3,428
HealthCare Royalty Partners LP (a)(*)	2,129	3,452
Lagunita Biosciences, LLC (d)	3,859	2,400
RCG IO Renergys Sarl (j) (*)	1,780	—
Starboard Leaders Fund LP (e)(*)	1,405	1,276
Eclipse SPV I, LP (k)(*)	1,447	—
RCG Longview Equity Fund, LP (g) (*)	819	—
RCG Longview Debt Fund VI, LP (g) (*)	588	1,022
RCG Park Liberty GP Member LLC (g) (*)	908	750
HealthCare Royalty Partners II LP (a)(*)	1,162	873
RCGL PE MPA, LLC (g)(*)	549	—
RCG LPP2 PNW5 Co-Invest, L.P. (h)(*)	309	3,493
Quadratic Fund LLC (i)(*)	—	906
Other private investment (l)(*)	15,997	10,133
Other affiliated funds (m)(*)	4,552	3,070
	$125,107	$100,148

* These portfolio funds are affiliates of the Company.

The Company has no unfunded commitments regarding the portfolio funds held by the Company except as noted in Note 16.

(a)

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

(b) Eclipse Ventures Fund I, L.P. is a private equity fund which invests in early stage and growth hardware companies. Distributions will be made when the underlying investments are liquidated.

(c) Starboard Value and Opportunity Fund LP permits quarterly withdrawals upon 90 days' notice.

(d) Lagunita Biosciences, LLC, is a healthcare investment company that creates and grows early stage companies to commercialize impactful translational science that addresses significant clinical needs, is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.

(e) Starboard Leaders Fund LP does not permit withdrawals, but instead allows terminations with respect to capital commitments upon 30 days' prior written notice at any time following the first anniversary of an investors' initial capital contribution.

(f) Formation8 Partners Fund I, L.P. is a private equity fund which invests in early stage and growth transformational information and energy technology companies. Distributions will be made when the underlying investments are liquidated.

(g) RCG Longview Debt Fund V, L.P., RCG Longview II LP, RCG Park Liberty GP Member LLC, RCG Longview Equity Fund, LP, RCGL PE MPA, LLC and RCG Longview Debt Fund VI, LP are real estate private equity structures. The timing of distributions depend on the nature of the underlying investments and therefore will be made either quarterly or when the underlying investments are liquidated.

(h) RCG LPP2 PNW5 Co-Invest, L.P. is a single purpose entity formed to participate in a joint venture which acquired five multi-unit residential rental properties located in the Pacific Northwest. RCG LPP2 PNW5 Co-Invest, L.P. is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.

(i) Effective January 31, 2018, the Company is no longer affiliated with Quadratic Capital Management LLC.

(j) Cowen Healthcare Investments II LP and RCG IO Renergys Sarl are private equity funds. Distributions are made from these funds when cash flows or securities are received from the underlying investments. Investors do not have redemption rights.

(k) Eclipse SPV I, L.P. is a co-investment vehicle organized to invest in a private company focused on software-driven automation projects. Distributions will be made when the underlying investments are liquidated.

(l) Other private investment represents the Company's closed end investment in a portfolio fund that invests in a wireless broadband communication provider in Italy.

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

(2) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 13% to 56%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in RCG Longview Partners II, LLC and 41% in Surf House Ocean Views Holdings, LLC (which is a joint venture in a real estate development project). The operating agreement that governs the management of day-to-day operations and affairs of these entities stipulates that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these entities requires the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) HealthCare Royalty Partners General Partners and (b) Starboard Value (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of several activist private funds and related managed accounts. As part of its equity method investment in operating companies, the Company incurs certain expenses on behalf of its equity method investees. These expenses reflect direct and indirect costs associated with the respective business and are included in their respective line items in the accompanying condensed consolidated statements of operations. For the three months ended September 30, 2018 and 2017, the Company incurred $2.6 million and $0.9 million of these costs, respectively.

For the nine months ended September 30, 2018 and 2017, the Company incurred $6.6 million and $3.5 million of these costs, respectively. During the third quarter of 2018, the Company completed an assessment of the recoverability of the Company's equity method investments and determined that the carrying value of the investment in Surf House Ocean View Holdings, LLC exceeded the estimated fair value of the Company's interest, which was other than temporary. Accordingly, an impairment charge of $7.1 million was recognized to reduce the

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

carrying value of the investment to fair value at September 30, 2018. The Company recorded no other impairment charges in relation to its equity method investments for the nine months ended September 30, 2018 and 2017.
The Company elected to use the cumulative earnings approach for the distributions it receives from its equity method investments. Under the cumulative earnings approach, any distributions received up to the amount of cumulative earnings are treated as return on investment and classified in operating activities within the cash flows. Any excess distributions would be considered as return of investments and classified in investing activities.
The following table summarizes equity method investments held by the Company:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Surf House Ocean Views Holdings, LLC	$7,478	$ 14,179
Starboard Value LP	17,842	13,202
RCG Longview Debt Fund V Partners, LLC	10,273	9,284
RCG Longview Management, LLC	1,316	1,149
RCG Longview Debt Fund VI Partners LLC	971	—
HealthCare Royalty GP, LLC	174	281
HealthCare Royalty GP II, LLC	197	148
RCG Longview Debt Fund IV Management, LLC	331	331
HealthCare Royalty GP III, LLC	1,562	764
RCG Kennedy House, LLC	119	154
RCG Longview Equity Management, LLC	114	114
RCG LPP II GP, LLC	272	487
RCG Park Liberty GP Member Manager, LLC	1,018	428
Other	654	578
	$42,321	$ 41,099

As of September 30, 2018 and December 31, 2017, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million as of September 30, 2018 and December 31, 2017, respectively.
The Company's income (loss) from equity method investments was $(4.7) million and $4.1 million for the three months ended September 30, 2018 and 2017, and $7.2 million and $12.1 million for the nine months ended September 30, 2018 and 2017, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations.
Securities sold, not yet purchased, at fair value
Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial

statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the accompanying condensed consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of September 30, 2018 and December 31, 2017, securities sold, not yet purchased, at fair value consisted of the following:

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Common stock	$353,113	$342,328
Corporate bonds (a)	20,309	122
Preferred stock	836	77
Warrants and rights	260	—
	$374,518	$342,527

(a) As of September 30, 2018, the maturities ranged from January 2026 to April 2049 with interest rates ranged from 5.00% to 5.55%. As of December 31, 2017, the maturities ranged from July 2025 to January 2026 with interest rates ranged from 3.78% to 5.55%.

Securities lending and borrowing transactions

The following tables present the contractual gross and net securities borrowing and lending agreements and the related offsetting amount as of September 30, 2018 and December 31, 2017.

	Gross amounts recognized	Gross amounts offset on the Condensed Consolidated Statements of Financial Condition (a)	Net amounts included on the Condensed Consolidated Statements of Financial Condition	Gross amounts not offset on the Condensed Consolidated Statement of Financial Condition: Additional Amounts Available	Financial instruments	Cash Collateral pledged (b)	Net amounts
	(dollars in thousands)						
As of September 30, 2018							
Securities borrowed	$713,288	$ —	$ 713,288	$ —	$ 684,569	$ —	$28,719
Securities loaned	548,629	—	548,629	—	531,984	—	16,645
As of December 31, 2017							
Securities borrowed	$443,148	$ —	$ 443,148	$ —	$ 414,778	$ —	$28,370
Securities loaned	456,831	—	456,831	—	439,228	—	17,603

(a) Includes financial instruments subject to enforceable master netting provisions that are permitted to be offset to the extent an event of default has occurred.

(b) Includes the amount of cash collateral held/posted.

The following tables present gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged as of September 30, 2018 and December 31, 2017:

	Open and Overnight	Up to 30 days	31 - 90 days	Greater than 90 days	Total
	(dollars in thousands)				
As of September 30, 2018					
Common stock	$548,629	$ —	$ —	$ —	$548,629

As of December 31, 2017					
Common stock	$456,831	$ —	$ —	$ —	$456,831

Variable Interest Entities

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $5.6 billion and $346.9 million as of September 30, 2018 and $5.2 billion and $445.6 million as of December 31, 2017, respectively. In addition, the maximum exposure relating to these variable interest entities as of September 30, 2018 was $333.8 million, and as of December 31, 2017 was $471.3 million, all of which is included in other investments, at fair value in the accompanying condensed consolidated statements of financial

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

condition. The exposure to loss primarily relates to the Consolidated Feeder Funds' investment in their Unconsolidated Master Funds and the Company's investment in unconsolidated investment companies.

b. Consolidated Funds

Securities owned, at fair value

As of September 30, 2018 and December 31, 2017, securities owned, at fair value, held by the Consolidated Funds consisted of the following:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Preferred stock	$24,314	$ 50,445
Common stock	55,535	77,702
U.S. Government securities (a)	20,446	34,201
Corporate bonds (b)	3,758	—
Warrants and rights	4,848	3,568
	$108,901	$ 165,916

(a) As of September 30, 2018, maturities ranged from November 2018 to December 2018 and interest rates were 0%. As of December 31, 2017, maturities ranged from January 2018 to April 2022 and interest rates ranged from 0% to 5.75%.

(b) As of September 30, 2018, the maturity was December 2023 with an interest rate of 5.88%.

Receivable on derivative contracts

As of September 30, 2018 and December 31, 2017, receivable on derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Currency forwards	$27	$ 524
Equity swaps	1,584	1,754
Options	300	242
	$1,911	$ 2,520

Payable for derivative contracts

As of September 30, 2018 and December 31, 2017, payable for derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Currency forwards	$539	$ 11
Equity swaps	1,590	7,042
Options	60	77
	$2,189	$ 7,130

Other investments, at fair value

Investments in Portfolio Funds, at fair value

As of September 30, 2018 and December 31, 2017, investments in Portfolio Funds, at fair value, included the following:

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Investments of Enterprise LP	$97,026	$ 87,221
Investments of Merger Fund	86,264	286,890
	$183,290	$ 374,111

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Consolidated portfolio fund investments of Enterprise LP
Enterprise LP operates under a “master-feeder” structure, whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate Fund, L.P. The consolidated investments in Portfolio Funds include Enterprise LP's investment of $97.0 million and $87.2 million in Enterprise Master as of September 30, 2018 and December 31, 2017, respectively. On May 12, 2010, the Company announced its intention to close Enterprise Master. Prior to this announcement, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. As Enterprise Master winds down its positions, it will return capital to its investors. There are no unfunded commitments at Enterprise LP.
Consolidated portfolio fund investments of Merger Fund
The Merger Fund operates under a “master-feeder” structure, whereby Ramius Merger Master Ltd.'s ("Merger Master") shareholders are Merger Fund and Ramius Merger Fund Ltd. The consolidated investments in Portfolio Funds include Merger Fund's investment of $86.3 million and $286.9 million in Merger Master as of September 30, 2018 and December 31, 2017, respectively. The Merger Master’s investment objective is to achieve consistent absolute returns while emphasizing the preservation of investor capital. The Merger Master seeks to achieve these objectives by taking a fundamental, research-driven approach to investing, primarily in the securities of issuers engaged in, or subject to, announced (or unannounced but otherwise anticipated) extraordinary corporate transactions, which may include, but are not limited to, mergers, acquisitions, leveraged buyouts, tender offers, hostile takeover bids, sale processes, exchange offers, and recapitalizations. Merger Master invests in the securities of one or more issuers engaged in or subject to such extraordinary corporate transactions. Merger Master typically seeks to derive a profit by realizing the price differential, or “spread,” between the market price of securities purchased or sold short and the market price or value of securities realized in connection with the completion or termination of the extraordinary corporate transaction, or in connection with the adjustment of market prices in anticipation thereof, while seeking to minimize the market risk associated with the aforementioned investment activities. Merger Master will, depending on market conditions, generally focus the majority of its investment program on announced transactions. If the investment manager of Merger Master considers it necessary, it may either alone or as part of a group, also initiate shareholder actions seeking to maximize value. Such shareholder actions may include, but are not limited to, re-orienting management’s focus or initiating the sale of the company (or one or more of its divisions) to a third party. There are no unfunded commitments at Merger Fund.
Indirect Concentration of the Underlying Investments Held by Consolidated Funds
From time to time, either directly or indirectly through its investments in the Consolidated Funds, the Company may maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Company's equity. Based on information that is available to the Company as of September 30, 2018 and December 31, 2017, the Company assessed whether or not its interests in an issuer for which the Company's pro-rata share exceeds 5% of the Company's equity. There was one indirect concentration that exceeded 5% of the Company's equity as of September 30, 2018 and one at December 31, 2017.
Through its investments in a Consolidated Fund and combined with direct Company investments, the Company maintained exposure to a particular investment which accounted for 5% or more of the Company's equity.

Investment's percentage of the Company's equity

Issuer	Security Type	Country	Industry	Percentage of Equity	Market Value

							(dollars in thousands)
As of September 30, 2018	Linkem	Equity	Italy	Wireless Broadband	8.01	%	$ 64,754
As of December 31, 2017	Linkem	Equity	Italy	Wireless Broadband	7.52	%	$ 56,271

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

Enterprise Master and Merger Master

Enterprise LP's investment in Enterprise Master represents Enterprise LP's proportionate share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. Merger Fund's investment in Merger Master represents Merger Fund's proportionate share of

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Merger Master's net assets; as a result, the investment balances of Merger Master reflected below may exceed the net investment which Merger Fund has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master and Merger Master as of September 30, 2018 and December 31, 2017:

Securities owned by Enterprise Master, at fair value

	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Common stock	$469	$ 608
	$469	$ 608

Portfolio Funds, owned by Enterprise Master, at fair value

	Strategy	As of September 30, 2018	As of December 31, 2017
		(dollars in thousands)	
RCG Special Opportunities Fund, Ltd*	Multi-Strategy	$109,518	$ 97,345
RCG Longview Equity Fund, LP*	Real Estate	—	1,266
RCG Longview Debt Fund IV, LP*	Real Estate	—	99
RCG Longview II, LP*	Real Estate	—	229
Other Private Investments	Various	864	937
		$110,382	$ 99,876

* Affiliates of the Company.

Merger Master

As of September 30, 2018, Merger Master held common stock and corporate bonds, of $342.1 million and $23.8 million, respectively, and common stock, sold not yet purchased, of $128.6 million. As of December 31, 2017, Merger Master held common stock, securities owned, of $483.2 million and common stock, sold not yet purchased, of $171.2 million, respectively.

Receivable on derivative contracts, at fair value, owned by Merger Master

Description	As of September 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Options	$1,817	$ 108,063
Equity swaps	1,658	14,488
Currency forwards	200	—
	$3,675	$ 122,551

Payable for derivative contracts, at fair value, owned by Merger Master

	As of September 30, 2018	As of December 31, 2017

Description	(dollars in thousands)	
Options	$261	$ 1,256
Currency forwards	—	213
Equity swaps	2,005	1,249
	$2,266	$ 2,718

7. Fair Value Measurements for Operating Entities and Consolidated Funds

The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the accompanying condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of September 30, 2018 and December 31, 2017:

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Operating Entities				
Securities owned				
US Government securities	$2,842	$—	$—	$2,842
Preferred stock	1,308	—	5,158	6,466
Common stock	564,140	6,906	5,674	576,720
Corporate bonds	—	30,992	—	30,992
Trade claims	—	—	5,746	5,746
Warrants and rights	19,821	—	1,582	21,403
Receivable on derivative contracts, at fair value				
Currency forwards	—	1,088	—	1,088
Swaps	—	1,203	—	1,203
Options	29,330	—	—	29,330
Pay to hold	—	608	—	608
Consolidated Funds				
Securities owned				
US Government securities	20,446	—	—	20,446
Preferred stock	—	—	24,314	24,314
Common stock	55,441	—	94	55,535
Corporate bonds	—	3,758	—	3,758
Warrants and rights	—	—	4,848	4,848
Receivable on derivative contracts, at fair value				
Currency forwards	—	27	—	27
Equity swaps	—	1,584	—	1,584
Options	300	—	—	300
	$693,628	$46,166	$47,416	$787,210
Percentage of total assets measured at fair value on a recurring basis	88.1 %	5.9 %	6.0 %	
Portfolio funds measured at net asset value (a)				125,107
Consolidated funds' portfolio funds measured at net asset value (a)				183,290
Equity method investments				42,321
Total investments				$1,137,928

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

	Liabilities at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased				
Common stock	$353,113	$—	$—	$353,113
Corporate bonds	—	20,309	—	20,309
Preferred stock	836	—	—	836
Warrants and rights	260	—	—	260
Payable for derivative contracts, at fair value				
Futures	71	—	—	71
Currency forwards	—	4	—	4
Swaps	—	2,743	—	2,743
Options	24,637	—	2,547	27,184
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	2,643	2,643
Consolidated Funds				
Payable for derivative contracts, at fair value				
Currency forwards	—	539	—	539
Options	60	—	—	60
Equity swaps	—	1,590	—	1,590
	$378,977	$25,185	$5,190	$409,352
Percentage of total liabilities measured at fair value	92.6 %	6.2 %	1.3 %	

(a) In accordance with US GAAP, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed consolidated statement of financial condition.
(b) In accordance with the terms of the purchase agreements for acquisitions that closed during the third and fourth quarter of 2015 and the second quarter of 2016, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 2018, December 2020, and June 2018, respectively. The Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of September 30, 2018 can range from $0.1 million to $7.0 million.

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Operating Entities				
Securities owned				
US Government securities	$2,807	$—	$—	$2,807
Preferred stock	571	918	8,115	9,604
Common stock	627,011	5,484	7,570	640,065
Convertible bonds	—	—	282	282
Corporate bonds	—	4,909	—	4,909
Trade claims	—	—	5,950	5,950
Warrants and rights	7,087	—	2,517	9,604
Receivable on derivative contracts, at fair value				
Futures	58	—	—	58
Currency forwards	—	5	—	5
Swaps	—	10,942	—	10,942
Options	56,717	—	1,455	58,172
Other investments				
Lehman claim	—	—	301	301
Consolidated Funds				
Securities owned				
US Government securities	30,552	3,649	—	34,201
Preferred stock	—	—	50,445	50,445
Common stock	77,652	—	50	77,702
Warrants and rights	—	—	3,568	3,568
Receivable on derivative contracts, at fair value				
Currency forwards	—	524	—	524
Equity swaps	—	1,754	—	1,754
Options	242	—	—	242
	$802,697	$28,185	$80,253	$911,135
Percentage of total assets measured at fair value on a recurring basis	88.1 %	3.1 %	8.8 %	
Portfolio funds measured at net asset value (a)				100,148
Consolidated funds' portfolio funds measured at net asset value (a)				374,111
Equity method investments				41,099
Total investments				$1,426,493

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

	Liabilities at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased				
Common stock	$342,328	$—	$—	$342,328
Corporate bonds	—	122	—	122
Preferred stock	77	—	—	77
Payable for derivative contracts, at fair value				
Futures	242	—	—	242
Currency forwards	—	874	—	874
Swaps	—	71	—	71
Options	19,162	—	22,401	41,563
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	3,440	3,440
Consolidated Funds				
Payable for derivative contracts, at fair value				
Currency forwards	—	11	—	11
Options	77	—	—	77
Equity swaps	—	7,042	—	7,042
	$361,886	$8,120	$25,841	$395,847
Percentage of total liabilities measured at fair value	91.4 %	2.1 %	6.5 %	

(a) In accordance with US GAAP, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed consolidated statement of financial condition.

(b) In accordance with the terms of the purchase agreements for acquisitions that closed during the third and fourth quarter of 2015 and the second quarter of 2016, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 2018 and December 2020, respectively. The Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of December 31, 2017 can range from $0.1 million to $15.0 million.

The following table includes a roll forward of the amounts for the three and nine months ended September 30, 2018 and 2017 for financial instruments classified within level 3. The classification of a financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

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

	Three Months Ended September 30, 2018							
	Balance at June 30, 2018	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2018	Change in unrealized gains/losses relating to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$ 7,422	$ —	$ (1,141) (c)	$ —	$ —	$ (1,123)	$ 5,158	$ (1,124)
Common stock	5,848	—	—	—	—	(174)	5,674	(174)
Options, liability	301	—	—	—	—	2,246	2,547	2,246
Warrants and rights	1,544	—	—	—	—	38	1,582	38
Trade claims	5,699	—	—	44	—	3	5,746	3
Lehman claim	295	—	—	—	(234)	(61)	—	—
Contingent consideration liability	2,870	—	—	—	(227)	—	2,643	—
Consolidated Funds								
Preferred stock	24,314	—	—	—	—	—	24,314	—
Common stock	94	—	—	—	—	—	94	—
Warrants and rights	4,738	—	—	—	—	110	4,848	110

	Three Months Ended September 30, 2017							
	Balance at June 30, 2017	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2017	Change in unrealized gains/losses relating to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$ 18,576	$ —	$ —	$ —	$ —	$ (587)	$ 17,989	$ (587)
Common stock	10,588	—	—	3,151	(1,946)	297	12,090	297
Convertible bonds	282	—	—	250	—	(250)	282	—
Options, asset	9,860	—	—	—	—	499	10,359	499
Options, liability	9,860	—	—	—	—	499	10,359	499
Warrants and rights	3,409	—	—	—	—	(1,013)	2,396	187
Trade claims	4,648	—	—	1,925	(630)	3	5,946	3
Lehman claim	309	—	—	—	—	10	319	10
Contingent consideration liability	5,174	—	—	—	(125)	—	5,049	—
Consolidated Funds								
Preferred stock	18,224	—	—	467	—	252	18,943	252
Common stock	848	—	—	—	(848)	—	—	—
Warrants and rights	3,369	—	—	—	—	9	3,378	9
Term Loan	202	—	—	—	(200)	(2)	—	—

Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2018							
	Balance at December 31, 2017	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2018	Change in unrealized gains/losses relati
	(dollars in thousands)							
Operating Entities								
Preferred stock	$8,115	$ —	$(1,141)(c)	$ 1,415	$ (695)	$(2,536)	$5,158	$ (2,301)
Common stock	7,570	—	—	531	(1,333)	(1,094)	5,674	(1,128)
Convertible bonds	282	—	—	—	(307)	25	—	—
Options, asset	1,455	—	—	—	(1,455)	—	—	—
Options, liability	22,401	—	(28,973)(e)	—	(259)	9,378	2,547	9,378
Warrants and rights	2,517	—	—	—	(143)	(792)	1,582	(933)
Trade claims	5,950	—	—	44	(334)	86	5,746	23
Lehman claim	301	—	—	—	(234)	(67)	—	—
Contingent consideration liability	3,440	—	—	—	(797)	—	2,643	—
Consolidated Funds								
Preferred stock	50,445	—	(38,552)(a)	3,066	—	9,355	24,314	9,355
Common stock	50	—	—	—	—	44	94	44
Warrants and rights	3,568	—	(20)(a)	(1,340)	—	2,640	4,848	1,300

	Nine Months Ended September 30, 2017							
	Balance at December 31, 2016	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2017	Change in unrealized gains/losses relatir
	(dollars in thousands)							
Operating Entities								
Preferred stock	$15,811	$ —	$(3,472)(c)	$ 9,000	$ (31)	$(3,319)	$17,989	$ (1,006)
Common stock	10,121	—	—	3,182	(2,121)	908	12,090	908
Convertible bonds	250	—	—	282	—	(250)	282	—
Options, asset	14,753	—	—	—	—	(4,394)	10,359	(4,394)
Options, liability	14,753	—	—	—	—	(4,394)	10,359	(4,394)
Warrants and rights	3,719	3,192(b)(d)	—	—	(4,367)	(148)	2,396	510
Trade claim	562							