

COWEN INC.
Form 10-Q
August 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from to

Commission File Number: 001-34516

Cowen Inc.

(Exact name of registrant as specified in its charter)

Delaware 27-0423711

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

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

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>	Non-accelerated filer <input type="radio"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="radio"/>	Emerging growth company <input type="radio"/>
---	--	--	---	---

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.

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 31, 2018, there were 29,609,472 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 June 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 six months ended June 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

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Cowen Inc.

Condensed Consolidated Statements of Financial Condition

(dollars in thousands, except share and per share data)

(unaudited)

	As of June 30, 2018	As of December 31, 2017
Assets		
Cash and cash equivalents	\$207,708	\$130,052
Cash collateral pledged	15,513	17,888
Segregated cash	95,309	116,268
Securities owned, at fair value	519,688	673,221
Receivable on derivative contracts, at fair value	25,196	69,177
Securities borrowed	548,121	443,148
Other investments	169,897	141,548
Deposits with clearing organizations, brokers and banks	94,656	93,996
Receivable from brokers, dealers and clearing organizations	667,880	508,178
Receivable from customers, net of allowance of \$577 and \$1,550, respectively	55,212	49,891
Fees receivable, net of allowance of \$2,271 and \$1,736, respectively	138,462	111,784
Due from related parties	32,826	34,814
Fixed assets, net of accumulated depreciation and amortization of \$31,617 and \$28,355, respectively	38,020	40,496
Goodwill	60,678	60,678
Intangible assets, net of accumulated amortization of \$35,783 and \$33,081, respectively	27,253	29,955
Deferred tax asset, net	105,370	116,323
Other assets	73,302	88,268
Consolidated Funds		
Cash and cash equivalents	13,027	21,988
Securities owned, at fair value	109,088	165,916
Receivable on derivative contracts, at fair value	1,638	2,520
Other investments	389,798	374,111
Receivable from brokers	8,938	5,644
Other assets	292	388
Total Assets	\$3,397,872	\$3,296,252
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$210,431	\$342,527
Payable for derivative contracts, at fair value	23,874	42,750
Securities loaned	434,466	456,831
Payables to brokers, dealers and clearing organizations	240,643	252,153
Payable to customers	520,566	352,467
Commission management payable	92,172	70,451
Compensation payable	129,938	150,206
Notes payable and other debt	272,602	173,458
Convertible debt	131,683	141,502
Fees payable	23,609	8,047
Due to related parties	574	570
Accounts payable, accrued expenses and other liabilities	105,167	96,533
Consolidated Funds		
Payable for derivative contracts, at fair value	1,045	7,130

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Payable to brokers	1,992	751
Capital withdrawals payable	3,557	11,931
Accounts payable, accrued expenses and other liabilities	279	322
Total Liabilities	\$2,192,598	\$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 June 30, 2018	As of December 31, 2017
(continued)		
Commitments and Contingencies (Note 16)		
Redeemable non-controlling interests	\$412,067	\$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 June 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, 43,205,051 shares issued and 29,609,472 outstanding as of June 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 165,268 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 June 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	1,052,717	1,004,664
(Accumulated deficit) retained earnings	(51,819)	(70,116)
Accumulated other comprehensive income (loss)	(7)	(8)
Less: Class A common stock held in treasury, at cost, 13,595,579 and 12,133,276 shares, respectively	(208,009)	(186,846)
Total Stockholders' Equity	\$793,207	\$748,019
Total Liabilities and Stockholders' Equity	\$3,397,872	\$3,296,252

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues				
Investment banking	\$84,826	\$64,146	\$182,814	\$100,699
Brokerage	103,285	63,845	209,018	114,379
Management fees	7,373	8,656	14,790	17,364
Incentive income	48	3,726	64	4,272
Interest and dividends	25,109	7,917	51,063	13,006
Reimbursement from affiliates	336	495	713	2,147
Aircraft lease revenue	419	1,043	1,134	2,102
Reinsurance premiums	9,226	7,682	17,873	14,771
Other revenues	876	1,345	2,212	2,745
Consolidated Funds				

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Interest and dividends	3,075	1,388	6,271	3,382
Other revenues	—	287	5	634
Total revenues	234,573	160,530	485,957	275,501
Interest and dividends expense	24,306	12,211	48,846	22,141
Total net revenues	210,267	148,319	437,111	253,360
Expenses				
Employee compensation and benefits	131,845	102,111	266,985	178,784
Floor brokerage and trade execution	28,902	14,078	59,100	22,401
Underwriting expenses	4,785	—	8,848	—
Professional, advisory and other fees	5,819	10,527	12,843	16,343
Service fees	4,852	3,328	10,047	5,944
Communications	7,106	6,003	14,672	10,763
Occupancy and equipment	10,384	8,533	20,245	15,596
Depreciation and amortization	3,194	3,132	6,419	6,160
Client services and business development	7,865	7,192	16,096	14,954
Reinsurance claims, commissions and amortization of deferred acquisition costs	9,924	7,275	18,655	13,453
Restructuring costs	—	8,541	—	8,541
Other expenses	5,591	4,329	9,672	7,590
Consolidated Funds				
Interest and dividends	2,479	2,108	4,390	6,091
Professional, advisory and other fees	345	304	557	696
Floor brokerage and trade execution	89	105	153	214
Other expenses	236	231	480	710
Total expenses	223,416	177,797	449,162	308,240
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	16,719	18,719	32,688	44,775
Bargain purchase gain, net of tax	—	7,946	—	7,946
Gain/(loss) on debt extinguishment	(556)	—	(556)	—
Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	28,268	29,503	44,004	39,081
Net realized and unrealized gains (losses) on derivatives	2,119	1,320	4,594	5,185
Net gains (losses) on foreign currency transactions	598	(210)	252	(307)
Total other income (loss)	47,148	57,278	80,982	96,680
Income (loss) before income taxes	33,999	27,800	68,931	41,800
Income tax expense (benefit)	3,993	(785)	10,916	1,126
Net income (loss)	30,006	28,585	58,015	40,674

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Cowen Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
(continued)				
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	24,607	21,145	35,763	30,250
Net income (loss) attributable to Cowen Inc.	5,399	7,440	22,252	10,424
Preferred stock dividends	1,698	1,698	3,396	3,396
Net income (loss) attributable to Cowen Inc. common stockholders	\$3,701	\$5,742	\$18,856	\$7,028
Weighted average common shares outstanding:				
Basic	29,769	28,634	29,688	27,852
Diluted	30,720	29,474	30,460	28,860
Earnings (loss) per share:				
Basic	\$0.12	\$0.20	\$0.64	\$0.25
Diluted	\$0.12	\$0.19	\$0.62	\$0.24

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$30,006	\$28,585	\$58,015	\$40,674
Other comprehensive income (loss), net of tax:				
Foreign currency translation	1	(4)	1	(6)
Total other comprehensive income (loss), net of tax	1	(4)	1	(6)
Comprehensive income (loss)	\$30,007	\$28,581	\$58,016	\$40,668

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.	—	—	—	—	—	—	—	22,252	22,252	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	35,763
Foreign currency translation	—	—	—	—	—	—	1	—	1	—
Capital contributions	—	—	—	—	—	—	—	—	—	19,136
Capital withdrawals	—	—	—	—	—	—	—	—	—	(50,877)
Deconsolidation of entity	—	—	—	—	—	—	—	—	—	(32,559)
Restricted stock awards issued	1,439,755	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(1,462,303)	—	—	—	(21,163)	—	—	—	(21,163)	—
Preferred stock dividends (See	—	—	—	—	—	—	—	(3,396)	(3,396)	—

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Note 18)

Embedded cash conversion option (See Note 18)	—	—	—	—	—	28,973	—	—	28,973	—
Amortization of share based compensation	—	—	—	—	—	19,080	—	—	19,080	—
Balance, June 30, 2018	29,609,472	\$ 324	120,750	\$ 1	\$(208,009)	\$1,052,717	\$ (7)	\$(51,819)	\$793,207	\$412,067

	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.	—	—	—	—	—	—	—	10,424	10,424	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	30,250
Foreign currency translation	—	—	—	—	—	—	(6)	—	(6)	—
Capital contributions	—	—	—	—	—	—	—	—	—	35,150
Capital withdrawals	—	—	—	—	—	—	—	—	—	(26,596)
Common stock issued upon acquisition (See Note 2)	3,162,278	32	—	—	—	47,575	—	—	47,607	—
Restricted stock awards issued	1,962,893	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(782,389)	—	—	—	(11,279)	—	—	—	(11,279)	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(3,396)	(3,396)	—

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Amortization of share based compensation	—	—	—	—	—	17,905	—	—	17,905	—
Balance, June 30, 2017	31,074,071	\$ 324	120,750	\$ 1	\$(165,124)	\$994,126	\$ (8)	\$4,586	\$833,905	\$418,009

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)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$58,015	\$40,674
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	6,419	6,160
Amortization of debt issuance costs	656	608
Amortization of debt discount	2,871	3,699
Gain / (loss) on extinguishment of debt	652	—
Share-based compensation	19,080	17,905
Deferred tax benefit	10,953	5,201
Deferred rent obligations	(939)	(175)
Net loss (gain) on disposal of fixed assets	155	55
Purchases of securities owned, at fair value	(2,525,789)	(2,432,174)
Proceeds from sales of securities owned, at fair value	2,779,569	2,628,293
Proceeds from sales of securities sold, not yet purchased, at fair value	1,789,059	1,316,612
Payments to cover securities sold, not yet purchased, at fair value	(1,940,907)	(1,430,940)
Proceeds from the sale of other investments	3,870	—
Net (gains) losses on securities, derivatives and other investments	(28,237)	(50,070)
Consolidated Funds		
Purchases of securities owned, at fair value	(306,995)	(137,781)
Proceeds from sales of securities owned, at fair value	344,079	130,550
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)	(8,628)
Proceeds from sales of other investments	10,289	31,478
Net realized and unrealized (gains) losses on investments and other transactions	(47,628)	(34,282)
(Increase) decrease in operating assets:		
Cash acquired through acquisition	—	159,587
Securities owned, at fair value, held at broker-dealer	(89,077)	(131,681)
Receivable on derivative contracts, at fair value	43,982	(7,928)
Securities borrowed	(104,973)	157,476
Deposits with clearing organizations, brokers and banks	(660)	(26,612)
Receivable from brokers, dealers and clearing organizations	(159,702)	5,435
Receivable from customers, net of allowance	(5,321)	(20,726)
Fees receivable, net of allowance	(32,917)	(34,215)
Due from related parties	2,448	(623)
Other assets	13,027	(25,591)
Consolidated Funds		
Cash and cash equivalents	5,590	(16,646)
Receivable on derivative contracts, at fair value	882	(122)

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Receivable from brokers	(3,294)	(3,732)
Other assets	(91)	159
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker-dealer	30,292	77,783
Payable for derivative contracts, at fair value	10,097	5,179
Securities loaned	(22,365)	(143,925)
Payable to brokers, dealers and clearing organizations	(11,510)	(16,659)
Payable to customers	168,099	102,648
Commission management payable	21,721	6,176
Compensation payable	(28,644)	(60,243)
Fees payable	15,562	1,999
Due to related parties	4	1
Accounts payable, accrued expenses and other liabilities	6,747	22,578
(continued)		

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Cowen Inc.

Condensed Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
(continued)		
Consolidated Funds		
Contributions received in advance	\$—	\$(2,000)
Payable to brokers	1,241	4,569
Payable for derivative contracts, at fair value	(6,085)	48
Due to related parties	—	(189)
Accounts payable, accrued expenses and other liabilities	225	(312)
Net cash provided by / (used in) operating activities	29,036	130,991
Cash flows from investing activities:		
Purchases of other investments	(20,227)	(60,367)
Purchase of business (See Note 2)	—	(54,017)
Proceeds from sales of other investments	13,295	99,127
Proceeds from loans held for investment	13	2,400
Purchase of fixed assets	(1,397)	(2,175)
Net cash provided by / (used in) investing activities	(8,316)	(15,032)
Cash flows from financing activities:		
Repayments on convertible debt	(13,500)	—
Deferred debt issuance cost	(3,883)	—
Borrowings on notes and other debt	105,516	31,737
Repayments on notes and other debt	(2,987)	(2,740)
Purchase of treasury stock	(10,862)	(11,279)
Contingent liability payment	(570)	—
Cash paid to acquire net assets (contingent liability payment)	—	(267)
Capital contributions by redeemable non-controlling interests in operating entities	200	—
Capital withdrawals to redeemable non-controlling interests in operating entities	(1,113)	(3,778)
Consolidated Funds		
Capital contributions by redeemable non-controlling interests in Consolidated Funds	18,937	35,149
Capital withdrawals to redeemable non-controlling interests in Consolidated Funds	(58,136)	(22,045)
Net cash provided by / (used in) financing activities	33,602	26,777
Change in cash and cash equivalents	54,322	142,736
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	207,708	101,058
Cash collateral pledged	15,513	15,473
Segregated cash	95,309	151,561
Cash and cash equivalents, including cash collateral pledged and segregated cash, end of period	\$318,530	\$268,092
Supplemental information		
Cash paid during the year for interest	\$39,061	\$9,231
Cash paid during the year for taxes	\$2,233	\$1,535

Supplemental non-cash information

Purchase of treasury stock, at cost, through net settlement (See Note 18)	\$8,376	\$11,279
Preferred stock dividends declared (See Note 18)	\$3,396	\$3,396
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)	\$28,973	\$—
Common stock issuance upon close of acquisition (see Note 2)	\$—	\$47,607

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 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, Convergenx Holdings LLC to acquire all the outstanding interests in Convergenx Group, LLC ("Convergenx 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. Convergenx Group's operations were primarily conducted through two U.S. Securities Exchange Commission ("SEC") registered broker-dealers, Convergenx Execution Solutions LLC (subsequently renamed to Cowen Execution Services LLC) ("Cowen Execution") and Westminster Research Associates LLC ("Westminster") and also Convergenx 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 Convergenx 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 Convergenx 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 Convergenx 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 Convergenx 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 six months ended June 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.

Six Months Ended June 30,
2017
(dollars
in thousands, except per share data)
(unaudited)

Revenues

\$ 350,464

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Net income (loss) attributable to Cowen Inc. stockholders	(9,318)
Net income (loss) per common share:		
Basic	\$ (0.30)
Diluted	(0.30)

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

In conjunction with the integration of the acquired businesses of Convergenx 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 six months ended June 30, 2018, the Company continued to integrate the businesses acquired through Convergenx 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 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 or during the three months ended June 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

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 June 30, 2018 and December 31, 2017, the total net assets of the consolidated VIEs were \$448.7 million and \$482.8 million, respectively. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company. As of June 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.

c. Use of estimates

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The election is made on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

The Company has elected the fair value option for certain of its investments held by its operating companies. This option has been elected because the Company believes that it is consistent with the manner in which the business is managed, as well as the way that financial instruments in other parts of the business are recorded.

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

- 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

vide 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.

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 on an accrual basis when earned.

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 June 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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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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	2-15 years	Straight-line
Capitalized lease asset	5 years	Straight-line
Aircraft and related equipment	10-20 years	Straight-line
Modifications to aircraft	4-10 years	Straight-line

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 June 30, 2018 and December 31, 2017 is \$11.0 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.

Investment Management

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 crystallized. 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.

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 June 30, 2018

	As reported	ASC 606 Impact	Adjusted (a)
Assets			
Fees receivable, net of allowance	\$138,462	\$7,550	\$146,012
Other investments	169,897	(7,550)	162,347
Stockholders' equity	\$793,207	\$2,539	\$795,746

(dollars in thousands)

Assets

Fees receivable, net of allowance

Other investments

Stockholders' equity

Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As reported	ASC 606 Impact	Adjusted (a)	As reported	ASC 606 Impact	Adjusted (a)
Revenues						
Investment banking	\$84,826	\$(4,785)	\$80,041	\$182,814	\$(8,848)	\$173,966
Incentive income	48	1,103	1,151	64	3,410	3,474
Total revenues	234,573	(3,682)	230,891	485,957	(5,438)	480,519
Expenses						
Underwriting expenses	4,785	(4,785)	—	8,848	(8,848)	—
Total expenses	223,416	(4,785)	218,631	449,162	(8,848)	440,314
Net gains (losses) on securities, derivatives and other investments	16,719	(24)	16,695	32,688	1,430	34,118
Net income (loss) attributable to Cowen Inc. common stockholders	\$3,701	\$1,127	\$4,828	\$18,856	\$1,980	\$20,836

(dollars in thousands)

Revenues

Investment banking

Incentive income

Total revenues

Expenses

Underwriting expenses

Total expenses

Net gains (losses) on securities, derivatives and other investments

Net income (loss) attributable to Cowen Inc. common stockholders

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Condensed Consolidated Statements of Cash Flows	Six Months Ended June 30, 2018		
	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)		
Cash flows from operating activities:			
Net income (loss)	\$58,015	\$1,980	\$59,995
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:			
Net (gains) losses on securities, derivatives, and other investments	(28,237)	1,885	(26,352)
(Increase) decrease in operating assets:			
Fees receivable, net of allowance	(32,917)	(3,055)	(35,972)
Net cash provided by / (used in) operating activities	29,036	810	29,846
Cash flows from investing activities:			
Purchase of other investments	(20,227)	(812)	(21,039)
Net cash provided by / (used in) investing activities	\$(8,316)	\$(812)	\$(9,128)

(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.

1. Recently issued accounting pronouncements

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 January 2018, the FASB issued guidance to amend its new leasing standard to add an optional practical expedient for land easements that permits entities to continue to apply their current accounting policies for land easements that expire before the effective date of the new standard. The guidance is effective on the same date as the new leasing standard. 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 as the Company does not hold any land easements.

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

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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 which amends and supersedes its previous guidance regarding leases. The new guidance requires the lessee to recognize the right to use assets and lease liabilities that arise from leases and present them in its statement of financial condition. The recognition of these lease assets and lease liabilities represents a change from previous US GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous US GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial condition. For public business entities the guidance is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosures. The Company notes that a significant majority of the Company's leases represent operating real estate leases for its respective offices and will require the gross up on its condensed consolidated statements of financial condition. The Company is currently in the process of quantifying the amount of the gross up.

4. Cash Collateral Pledged

As of June 30, 2018 and December 31, 2017, the Company pledged cash collateral in the amount of \$5.9 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 \$9.6 million, as of June 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 June 30, 2018 and December 31, 2017, cash segregated in compliance with federal regulations and other restricted deposits of \$95.3 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 are pledged to the clearing brokers under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations.

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

	As of June 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Common stock (b)	\$464,986	\$ 640,065
Preferred stock (b)	8,210	9,604
Warrants and rights (b)	16,225	9,604
U.S. Government securities (a)	2,821	2,807
Corporate bonds (d)	21,747	4,909
Convertible bonds (c)	—	282
Trade claims	5,699	5,950

\$519,688 \$ 673,221

(a) As of June 30, 2018, maturities ranged from August 2018 to June 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%.

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The Company has elected the fair value option for investments in securities of preferred and common stock with a fair value of \$6.1 million and \$5.2 million, respectively, at June 30, 2018 and \$6.0 million and \$5.2 million, respectively, at December 31, 2017. At June 30, 2018 and December 31, 2017, the Company elected the fair value option for investments in warrants and rights with a fair value of \$1.9 million and \$2.4 million.

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

(c) As of June 30, 2018, maturities ranged from October 2018 to December 2033 and interest rates ranged from 2.00% 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 June 30, 2018 at \$0.3 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.

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

Receivable on derivative contracts	As of June 30, 2018		As of December 31, 2017	
	Number of contracts / Notional Value (dollars in thousands)	Fair value	Number of contracts / Notional Value	Fair value
Futures	\$—	\$489	\$3,819	\$58
Currency forwards	\$65,252	11	\$233	5
Swaps	\$43,242	1,009	\$164,664	10,942
Options other (a)	286,123	22,592	283,112	58,172
Pay to hold	—	1,095	—	—
		\$25,196		\$69,177

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

Payable for derivative contracts	As of June 30, 2018		As of December 31, 2017	
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	Number of contracts / Notional Value (dollars in thousands)	Fair value	Number of contracts / Notional Value (dollars in thousands)	Fair value
Futures	\$24,303	\$—	\$16,796	\$242
Currency forwards	\$10,386	192	\$62,439	874
Swaps	\$24,384	885	\$11,595	71
Options other (a)	94,491	22,797	57,043	41,563
		\$23,874		\$42,750

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(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 June 30, 2018 and December 31, 2017. This table does not include the impact of over collateralization.

	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	Cash collateral posted (b)	Net amounts
Gross amounts not offset in the Condensed Consolidated Statement of Financial Condition					
(dollars in thousands)					

As of June 30, 2018

Receivable on derivative contracts, at fair value	\$25,196	\$ —	—\$ 25,196	\$ —\$ 1,020	\$24,176
Payable for derivative contracts, at fair value	23,874	—	23,874	— 1,166	22,708

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 \$6.1 million and \$3.1 million for the three months ended June 30, 2018 and 2017, and \$14.0 million and \$(5.4) million for the six months ended June 30, 2018 and 2017, respectively, and are included in other income in the accompanying condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, except for the cash convertible note hedge (see Note 17) and exchange traded derivatives, the Company is required to post/receive collateral. As of June 30, 2018 and December 31, 2017, collateral consisting of \$8.6 million and \$13.5 million of cash, respectively, is included in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations on the accompanying condensed consolidated statements of financial condition. As of June 30, 2018 and December 31, 2017 all derivative contracts were with multiple major financial institutions.

Other investments

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

	As of June 30, 2018	As of December 31, 2017
Portfolio Funds, at fair value (1)	\$ 119,595	\$ 100,148

Equity method investments (2)	50,007	41,099
Lehman claims, at fair value	295	301
	\$169,897	\$141,548

(1) Portfolio Funds, at fair value

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

	As of June 30, 2018	As of December 31, 2017
	(dollars in thousands)	
Starboard Value and Opportunity Fund LP (c)(*)	\$33,291	\$ 32,079
Formation8 Partners Fund I, L.P. (f)	28,358	28,243
RCG Longview Debt Fund V, L.P. (g)(*)	5,831	8,892
RCG Longview II LP (g) (*)	4,129	131
Cowen Healthcare Investments II LP (j) (*)	12,582	—
Eclipse Ventures Fund I, L.P. (b)	3,538	3,428
HealthCare Royalty Partners LP (a)(*)	2,155	3,452
Lagunita Biosciences, LLC (d)	3,585	2,400
RCG IO Renegys Sarl (j) (*)	1,687	—
Starboard Leaders Fund LP (e)(*)	1,377	1,276
Eclipse SPV I, LP (k)(*)	1,500	—
RCG Longview Equity Fund, LP (g) (*)	845	—
RCG Longview Debt Fund VI, LP (g) (*)	608	1,022
RCG Park Liberty GP Member LLC (g) (*)	908	750
HealthCare Royalty Partners II LP (a)(*)	1,034	873
RCGL PE MPA, LLC (g)(*)	521	—
RCG LPP2 PNW5 Co-Invest, L.P. (h)(*)	309	3,493
Quadratic Fund LLC (i)(*)	—	906
Other private investment (l)(*)	3,862	10,133
Other affiliated funds (m)(*)	13,475	3,070
	\$119,595	\$ 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.

HealthCare Royalty Partners, L.P. and HealthCare Royalty Partners II, L.P. are private equity funds and therefore (a) 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.

(b) Distributions will be made when the underlying investments are liquidated.

(c) Starboard Value and O