COWEN INC.
Form 10-Q
May 02, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2019
or

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

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

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

(646) 562-1000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Class A Common Stock, par value $0.01 per share	The Nasdaq Global Market
7.35% Senior Notes due 2027	The Nasdaq Global Market
7.75% Senior Notes due 2033	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes Q No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No Q
APPLICABLE ONLY TO CORPORATE ISSUERS:
As of May 1, 2019, there were 29,586,343 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, 2018 as well as Item 1A of this periodic report on Form 10-Q for the quarterly period ended March 31, 2019.

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 months ended March 31, 2019 and 2018. The Consolidated Financial Statements as of December 31, 2018 were audited.

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

Assets	As of March 31, 2019	As of December 31, 2018
Cash and cash equivalents	$235,838	$259,148
Cash collateral pledged	6,420	6,318
Segregated cash	136,964	176,647
Securities owned, at fair value ($45,786 and $57,583 were pledged to various parties)	563,121	520,888
Receivable on derivative contracts, at fair value	21,663	25,125
Securities borrowed	966,857	407,795
Other investments ($145,566 and $141,236 at fair value, respectively)	200,132	181,407
Deposits with clearing organizations, brokers and banks	109,310	89,423
Receivable from brokers, dealers and clearing organizations, net of allowance of $25 and $472, respectively	663,072	786,113
Receivable from customers, net of allowance of $520 and $516, respectively	36,719	37,858
Fees receivable, net of allowance of $3,687 and $1,569, respectively	130,099	111,946
Due from related parties	28,841	33,870
Fixed assets, net of accumulated depreciation and amortization of $28,662 and $31,630, respectively	27,537	26,443
Operating lease right-of-use assets	101,796	—
Goodwill	141,828	60,678
Intangible assets, net of accumulated amortization of $41,579 and $38,093, respectively	43,861	24,943
Deferred tax asset, net	90,208	93,057
Other assets	91,464	79,014
Consolidated Funds		
Cash and cash equivalents	2,178	38,118
Securities owned, at fair value	308,800	187,633
Receivable on derivative contracts, at fair value	3,184	4,416
Other investments	186,846	186,395
Receivable from brokers	39,551	8,328
Other assets	23,929	740
Total Assets	$4,160,218	$3,346,303
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$574,186	$195,307
Payable for derivative contracts, at fair value	43,583	16,082
Securities loaned	852,203	414,852
Payables to brokers, dealers and clearing organizations	174,532	228,731
Payable to customers	413,050	525,153
Commission management payable	103,634	95,270
Compensation payable	68,804	223,994
Operating lease liabilities	108,368	—
Notes payable and other debt	264,273	262,965
Convertible debt	115,099	134,489

Fees payable	11,339	22,565
Due to related parties	760	571
Accounts payable, accrued expenses and other liabilities	153,194	110,423
Consolidated Funds		
Payable for derivative contracts, at fair value	5,557	1,663
Payable to brokers	13,903	23,521
Contributions received in advance	1,000	—
Capital withdrawals payable	23,246	11,106
Accounts payable, accrued expenses and other liabilities	428	424
Total Liabilities	$2,927,159	$2,267,116

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

	As of March 31, 2019	As of December 31, 2018
(continued)		
Commitments and Contingencies (Note 17)		
Redeemable non-controlling interests	$418,277	$284,780
Stockholders' equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of March 31, 2019 (aggregate liquidation preference of $120,750,000) and 10,000,000 shares authorized, 120,750 shares issued and outstanding as of December 31, 2018 (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, 45,559,516 shares issued and 29,580,687 outstanding as of March 31, 2019 and 62,500,000 shares authorized, 43,774,731 shares issued and 28,437,860 outstanding as of December 31, 2018, respectively (including 253,772 and 253,772 restricted shares, respectively)	334	324
Class B common stock, par value $0.01 per share: 62,500,000 authorized, no shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	1,084,534	1,062,877
(Accumulated deficit) retained earnings	(26,563)	(34,648)
Accumulated other comprehensive income (loss)	(5)	(5)
Less: Class A common stock held in treasury, at cost, 15,978,829 and 15,336,871 shares as of March 31, 2019 and December 31, 2018, respectively	(243,519)	(234,142)
Total Stockholders' Equity	$814,782	$794,407
Total Liabilities and Stockholders' Equity	$4,160,218	$3,346,303

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

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

	Three Months Ended March 31,	
	2019	2018
Revenues		
Investment banking	$80,106	$97,988
Brokerage	97,463	105,733
Management fees	7,141	7,417
Incentive income	15	16
Interest and dividends	29,092	25,954
Reimbursement from affiliates	288	377
Aircraft lease revenue	—	715
Reinsurance premiums	6,591	8,647
Other revenues	1,061	1,336
Consolidated Funds		
Interest and dividends	2,325	3,196
Other revenues	15	5
Total revenues	224,097	251,384
Interest and dividends expense	29,084	24,540
Total net revenues	195,013	226,844
Expenses		
Employee compensation and benefits	130,188	135,140
Brokerage and trade execution costs	25,646	30,198
Underwriting expenses	3,131	4,063
Professional, advisory and other fees	10,241	7,024
Service fees	5,664	5,195
Communications	8,081	7,566
Occupancy and equipment	9,922	9,861
Depreciation and amortization	4,956	3,225
Client services and business development	11,301	8,231
Reinsurance claims, commissions and amortization of deferred acquisition costs	6,162	8,731
Other expenses	4,015	4,081
Consolidated Funds		
Interest and dividends	867	1,911
Professional, advisory and other fees	145	212
Brokerage and trade execution costs	53	64
Other expenses	417	244
Total expenses	220,789	225,746
Other income (loss)		
Net gains (losses) on securities, derivatives and other investments	39,084	15,969
Consolidated Funds		
Net realized and unrealized gains (losses) on investments and other transactions	2,644	15,736
Net realized and unrealized gains (losses) on derivatives	(762)	2,475
Net gains (losses) on foreign currency transactions	(24)	(346)
Total other income (loss)	40,942	33,834

Income (loss) before income taxes	15,166	34,932
Income tax expense (benefit)	3,177	6,923
Net income (loss)	11,989	28,009

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

	Three Months Ended March 31,	
	2019	2018
(continued)		
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and investment funds	2,206	11,156
Net income (loss) attributable to Cowen Inc.	9,783	16,853
Preferred stock dividends	1,698	1,698
Net income (loss) attributable to Cowen Inc. common stockholders	$8,085	$15,155
Weighted average common shares outstanding:		
Basic	29,750	29,625
Diluted	31,625	30,492
Earnings (loss) per share:		
Basic	$0.27	$0.51
Diluted	$0.26	$0.50

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 March 31, 2019	Three Months Ended March 31, 2018
Net income (loss)	$11,989	$28,009
Other comprehensive income (loss), net of tax:		
Foreign currency translation	—	1
Total other comprehensive income (loss), net of tax	—	1
Comprehensive income (loss)	$11,989	$28,010

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)

	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, 2018	28,437,860	$ 324	120,750	$ 1	$ (234,142)	$ 1,062,877	$ (5)	$ (34,648)	$ 794,407	$ 284,780
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	9,783	9,783	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and investment funds	—	—	—	—	—	—	—	—	—	2,206
Foreign currency translation	—	—	—	—	—	—	—	—	—	—
Capital contributions	—	—	—	—	—	—	—	—	—	161,973
Capital withdrawals	—	—	—	—	—	—	—	—	—	(30,682)
Restricted stock awards issued	751,436	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(641,959)	—	—	—	(9,377)	—	—	—	(9,377)	—
Common stock issuance upon acquisition (See Note 3)	1,033,350	10	—	—	—	14,436	—	—	14,446	—
Preferred stock dividends, $0.06/share (See Note 19)	—	—	—	—	—	—	—	(1,698)	(1,698)	—
Embedded cash conversion option, net of	—	—	—	—	—	(596)	—	—	(596)	—

tax (See Note 19)										
Amortization of share-based compensation	—	—	—	—	—	7,817	—	—	7,817	—
Balance, March 31, 2019	29,580,687	$ 334	120,750	$ 1	$ (243,519)	$ 1,084,534	$ (5)	$ (26,563)	$ 814,782	$ 418,277

	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 2)	—	—	—	—	—	—	—	(559)	(559)	—
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	16,853	16,853	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	11,156
Foreign currency translation	—	—	—	—	—	—	1	—	1	—
Capital contributions	—	—	—	—	—	—	—	—	—	8,259
Capital withdrawals	—	—	—	—	—	—	—	—	—	(35,134)
Deconsolidation of entities	—	—	—	—	—	—	—	—	—	(32,559)
Restricted stock awards issued	881,032	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(995,834)	—	—	—	(14,069)	—	—	—	(14,069)	—
	—	—	—	—	—	—	—	(1,698)	(1,698)	—

Preferred stock dividends $0.06/share (See Note 19)										
Amortization of share-based compensation	—	—	—	—	—	10,240	—	—	10,240	—
Balance, March 31, 2018	29,517,218	$ 324	120,750	$ 1	$ (200,915)	$ 1,014,904	$ (7)	$ (55,520)	$ 758,787	$ 392,326

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)

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	$11,989	$28,009
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Depreciation and amortization	4,956	3,225
Amortization of debt issuance costs	244	322
Amortization of debt discount	1,349	1,442
Noncash lease expense	(806)	—
Share-based compensation	7,817	10,241
Change in deferred taxes	2,253	7,115
Deferred rent obligations	—	(888)
Purchases of securities owned, at fair value	(299,969)	(1,943,349)
Proceeds from sales of securities owned, at fair value	389,551	2,060,263
Proceeds from sales of securities sold, not yet purchased, at fair value	439,565	1,276,205
Payments to cover securities sold, not yet purchased, at fair value	(361,290)	(1,386,253)
Proceeds from the sale of other investments	3,529	—
Net (gains) losses on securities, derivatives and other investments	(32,320)	(7,924)
Consolidated Funds		
Purchases of securities owned, at fair value	(674,220)	(148,548)
Proceeds from sales of securities owned, at fair value	565,460	175,010
Purchases of other investments	(296)	(81)
Proceeds from sales of other investments	1,174	4,774
Net realized and unrealized (gains) losses on investments and other transactions	(14,309)	(18,304)
(Increase) decrease in operating assets:		
Cash at deconsolidated entity	—	(3,371)
Securities owned, at fair value, held at broker-dealer	(105,939)	13,197
Receivable on derivative contracts, at fair value	3,462	34,265
Securities borrowed	(559,062)	(154,942)
Deposits with clearing organizations, brokers and banks	(19,887)	(7,403)
Receivable from brokers, dealers and clearing organizations	123,041	(54,163)
Receivable from customers, net of allowance	1,139	3,925
Fees receivable, net of allowance	(10,884)	(30,996)
Due from related parties	5,028	4,874
Other assets	(13,688)	8,062
Consolidated Funds		
Cash and cash equivalents	35,995	18,322
Receivable on derivative contracts, at fair value	1,232	654
Receivable from brokers	(31,223)	1,731
Other assets	(22,456)	(58)
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker-dealer	283,919	40,622
Payable for derivative contracts, at fair value	27,501	6,125

Securities loaned	437,351	6,023
Payable to brokers, dealers and clearing organizations	(54,199)	(4,532)
Payable to customers	(112,103)	60,179
Commission management payable	8,364	9,354
Compensation payable	(160,498)	(69,441)
Fees payable	(11,226)	11,183
Due to related parties	(4,561)	(26)
Accounts payable, accrued expenses and other liabilities	9,272	13,193
Consolidated Funds		
Contributions received in advance	1,000	670
Payable to brokers	(9,618)	865
Payable for derivative contracts, at fair value	3,894	(5,150)
Accounts payable, accrued expenses and other liabilities	(211)	73
Net cash provided by / (used in) operating activities	(129,680)	(35,506)

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

	Three Months Ended March 31, 2019	2018
(continued)		
Cash flows from investing activities:		
Purchases of other investments	(5,462)	(11,475)
Purchase of business (See Note 3)	(48,581)	—
Proceeds from sales of other investments	6,337	10,271
Loans issued	—	(3,050)
Proceeds from loans held for investment	13	10
Purchase of fixed assets	(1,684)	(1,151)
Net cash provided by / (used in) investing activities	(49,377)	(5,395)
Cash flows from financing activities:		
Repayments on convertible debt	(20,860)	—
Deferred debt issuance cost	—	(104)
Borrowings on notes and other debt	—	88,061
Repayments on notes and other debt	(513)	(1,475)
Purchase of treasury stock	(4,658)	(7,584)
Contingent liability payment	(1,235)	—
Capital contributions by redeemable non-controlling interests in operating entities	2,025	200
Capital withdrawals to redeemable non-controlling interests in operating entities	(696)	(513)
Consolidated Funds		
Capital contributions by redeemable non-controlling interests in Consolidated Funds	159,948	8,059
Capital withdrawals to redeemable non-controlling interests in Consolidated Funds	(17,845)	(46,041)
Net cash provided by / (used in) financing activities	116,166	40,603
Change in cash and cash equivalents	(62,891)	(298)
Cash and cash equivalents, including cash collateral pledged and segregated cash, beginning of period	442,113	264,208
Cash and equivalents at end of period:		
Cash and cash equivalents	235,838	117,680
Cash collateral pledged	6,420	14,786
Segregated cash	136,964	131,444
Cash and cash equivalents, including cash collateral pledged and segregated cash, end of period	$379,222	$263,910
Supplemental information		
Cash paid during the year for interest	$8,822	$12,265
Cash paid during the year for taxes	$1,431	$712
Supplemental non-cash information		
Purchase of treasury stock, at cost, through net settlement (See Note 19)	$4,671	$4,910
Net assets (liabilities) acquired upon acquisition (net of cash)	$90,727	$—
Initial recognition of operating lease right-of-use assets	$103,694	$—
Initial recognition of operating lease liabilities	$110,505	$—
Noncash transfer of net assets from Unconsolidated Master Fund to Consolidated Fund	$97,655	$—
Common stock issuance upon close of acquisition (see Note 3)	$14,446	$—

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

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

1. Organization and Business
Cowen 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 investment funds (including privately placed hedge funds, real estate funds and private equity structures), managed accounts, commodity pools, and registered funds. The Company's investment bank segment offers investment banking, research, sales and trading, prime brokerage, global clearing and commission management services to companies and primarily institutional investor clients. The investment bank segment's primary target sectors ("Target Sectors") are healthcare, technology, media and telecommunications, information and technology services, consumer, aerospace and defense, industrials, energy and transportation.
2. Significant Accounting Policies
a. Basis of Presentation
These unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification (the "Accounting Standards") as the source of authoritative accounting principles in the preparation of financial statements, and include the accounts of the Company, its operating and other subsidiaries, and entities in which the Company has a controlling financial interest or a general partner interest. All material intercompany transactions and balances have been eliminated in 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 for the three months ended March 31, 2018 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 investment 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 investment funds for which it acts as the general partner and investment manager. As of March 31, 2019, the Company consolidated the following investment 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") (each a "Consolidated Fund" and 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.

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

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

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

The Company reconsiders whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of March 31, 2019 and December 31, 2018, the total net assets of the consolidated VIEs were $571.2 million and $427.5 million, respectively. The increase is primarily related to other investors' subscriptions which increased overall VIEs net assets. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company.

As of March 31, 2019, the Company held a variable interest in Ramius Merger Master Fund Ltd ("Merger Master") (the “Unconsolidated Master Fund”) through the Consolidated Funds. As of December 31, 2018, 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 investment funds 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 Fund(s) or real estate funds that are VIEs as it has concluded that it is not the primary beneficiary in each instance. Investment 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 has equity interests in the funds as both GP and Limited partner. In these instances the Company has concluded that the variable interests are not potentially significant to the VIE. Although the Company may advance amounts and pay certain expenses on behalf of the investment funds 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 investment 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 Services LLC ("Cowen Execution") and Westminster Research Associates LLC ("Westminster"), Cowen Execution Services Limited ("Cowen Execution Ltd"), ATM Execution LLC ("ATM Execution"), Cowen International Limited ("Cowen International Ltd"), Cowen Prime Services LLC ("Cowen Prime") and Quarton Securities L.P. (subsequently renamed to Cowen Securities L.P.) ("Cowen Securities") 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

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 credit losses

The allowance for credit losses 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 credit losses. Specifically, for prepaid research, the Company reviews clients' historical, current and forecasted trading activity in determining the allowance for credit losses. The credit loss expense related to the allowance for credit losses 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.

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

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

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

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

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

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

i. Portfolio funds—Portfolio funds (“Portfolio Funds”) include interests in private investment partnerships, foreign investment companies and other collective investment vehicles 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 is estimated based on the price that would be received to sell an asset in an orderly transaction between

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

Real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. In addition, the Company invests in real estate and real estate related investments for which no liquid market exists. The market prices for such investments may be volatile and may not be readily ascertainable. Amounts ultimately realized by the Company from investments sold may differ from the fair values presented, and the differences could be material.

The Company's real estate investments are typically categorized as level 3 investments within the fair value hierarchy as management uses significant unobservable inputs in determining their estimated fair value.

See Notes 6 and 7 for further information regarding the Company's investments, including equity method investments and fair value measurements.

f. Fees receivable

Fees related to security transactions are reported net of an allowance for credit losses. An allowance for credit losses is assessed 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 credit losses. The Company records this allowance for credit losses 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 investment funds and are recognized in accordance with appropriate revenue recognition guidance (see Note 2(k)).

g. Securities financing arrangements

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 or securities as collateral from the borrower. When the Company receives securities as collateral, and has concluded it (i) is the transferor and (ii) can pledge the securities to third parties, the Company recognizes the securities received as collateral at fair value in Securities owned, at fair value with the corresponding obligation to return the securities received as collateral at fair value in Securities sold, not yet purchased, at fair value. Securities received as collateral are not recognized when the Company either (i) is not the transferor or (ii) cannot pledge the securities to third parties. 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 March 31, 2019 and December 31, 2018, 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.

Asset	Depreciable Lives	Depreciation and/or Amortization Method
Telephone and computer equipment	3-5 years	Straight-line
Computer software	3-8 years	Straight-line
Furniture and fixtures	5 years	Straight-line
Leasehold improvements	Term of Lease	Straight-line
Finance lease right-of-use asset	5 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. Right-of-use assets and lease liabilities

Effective January 1, 2019, the Company adopted ASC Topic 842, Leases ("ASC 842"). The new guidance increases transparency and comparability by requiring the recognition of right-of-use assets and lease liabilities on the condensed consolidated statements of financial condition. The recognition of these lease assets and lease liabilities represents a change from previous US GAAP requirements, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee, have not significantly changed from previous US GAAP requirements.

Under the effective date transition method selected by the Company, leases existing at, or entered into after January 1, 2019 were required to be recognized and measured. Prior period amounts have not been adjusted and continue to be reflected in accordance with the Company’s historical Accounting Standards. In applying ASC 842, the Company made an accounting policy election not to recognize the right-of-use assets and lease liabilities relating to short term leases. Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for discussions related to the Company's previous lease recognition policies. Implementation of ASC 842 included an analysis of contracts, including real estate leases and service contracts to identify embedded leases, to determine the initial recognition of right-of-use assets and lease liabilities, which required subjective assessment over the determination of the associated discount rates. ASC 842 also provided various practical expedients which were assessed to determine the ultimate impact of ASC 842 upon adoption. The standard includes a package of three practical expedients which permit the Company to not reassess (1) whether any expired or existing contracts are or contain a lease, (2) the lease classification for any expired or existing leases and (3) any initial direct costs for any existing leases as of the effective date. The Company has elected to apply the package of practical expedients, hindsight practical expedient, and land easement practical expedient.

The adoption of ASC 842 resulted in the recording of operating lease right-of-use assets of $103.7 million and operating lease liabilities of $110.5 million at January 1, 2019.

The Company determines if an arrangement is or contains a lease at inception. The Company’s operating lease arrangements are primarily for real estate and facility leases as well as office equipment. The Company has applied an accounting policy election to combine our lease and nonlease components for our real estate and facility leases. ROU assets represent the Company’s right to use the underlying asset for the lease term and lease liabilities represent the

Company’s obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Our variable lease payments consist of nonlease services related to the lease. Variable lease payments are excluded from the right-of-use asset and lease liabilities to the extent they are not based on consumer priced index or a market index and are recognized in the period in which the

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obligation for those payments is incurred. As most of our leases do not provide an implicit rate and the implicit rate is not readily determinable, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Right-of-use assets also include any lease payments made and exclude lease incentives. Many of our operating lease agreements include options to extend the lease, which the Company does not include in the determination of the minimum lease term unless the options are reasonably certain to be exercised. Expense for lease payments related to operating leases is recognized on a straight-line basis over the lease term.

Please refer to Note 18 for information on the Company’s finance leases (formerly capital leases).

k. Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"), which 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 Company follows 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, the Company includes 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. Significant judgments are required in the application of the five-step model including; when determining whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company’s progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

The Company's principle sources of revenue are derived from two segments: an investment management segment and an investment bank segment, as more fully described below. Revenue from contracts with customers includes management fees, incentive, investment banking revenue, brokerage services revenue excluding principal transactions from investment management and investment banking services. ASC Topic 606 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 22.

Investment Management

Our investment management segment generates revenue through three principle sources: management fees, incentive income and investment income from the Company's own capital. Investment income is excluded from ASC Topic 606.

Management fees

The Company earns management fees from investment funds and certain managed accounts for which it serves as the investment manager; such fees earned are typically based on committed and invested capital. The Company has determined that the primary drivers of management fees are committed and invested capital relating to private equity funds. The management fees are earned as the investment management services are provided and are not subject to reversals. The performance obligation related to the transfer of these services is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company.

Several investment managers and/or general partners of the investment 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) and are recognized as revenue at that time as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods. While some investors may have separately negotiated fees, in general the management fees are as follows:

- Hedge Funds. Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of utilized invested capital, committed capital or notional trading level. Management fees are generally calculated monthly at the end of each month.

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- 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 real estate 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 private equity 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 private equity funds. For certain other private equity 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 utilized invested capital or committed capital, 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 investment funds and managed accounts. The incentive income is either allocated to the Company or is charged to the investment funds in accordance with their respective investment management or partnership agreements. For the hedge funds 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.
In relation to ASC Topic 606, the Company applies 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. 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 investment funds.
The Company recognizes incentive income charged to the Company's hedge funds based on the net profits of the hedge funds. The Company recognizes such incentive income when the fees are no longer subject to reversal or are crystalized. For a majority of the hedge funds, the incentive fee crystallizes annually when the high-water mark for such hedge funds is reset, which delays recognition of the incentive fee until year end.
In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to such investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a “high-water mark.”
Generally, incentive income or carried interest is earned after the investor has received a full return of their invested capital, plus a preferred return. However, for certain private equity structures, 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 private equity structures are generally subject to a potential clawback of these incentive fees upon the liquidation of the private equity structure 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 investment funds is generally earned only after investors receive a full return of their capital plus a preferred return. The Company recognizes incentive income at the end of the performance period.
Several investment managers and/or general partners of the Company's investment funds are jointly owned by the Company and third parties. Accordingly, the incentive fees generated by these investment 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 public and private small- and mid-capitalization companies within the Company's Target Sectors.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees, expenses reimbursed from clients 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; (iii) the Company has been informed of the number of securities that it has been allotted; and (iv) the issuer obtains control and benefits if the offering; which generally occurs on trade date.

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. A significant portion of the Company's advisory revenue (i.e., success related advisory fees) is considered variable consideration and recognized when it is probable that the variable consideration will not be reversed in a future period. The variable consideration is constrained until satisfaction of the performance obligation. The Company records strategic advisory revenues at the point in time, gross of related expenses, when the services for the transactions are completed or the contract is canceled 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.
- Expense reimbursements from clients. Investment banking revenue includes expense reimbursements for transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction. Expense reimbursements associated with investment banking engagements are recognized in revenue at the point in time when the Company is contractually entitled to reimbursement. The related expenses are presented gross within their respective expense category in the accompanying condensed consolidated statements of operations.

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. Trade execution and clearing services, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission revenues associated with combined trade execution and clearing services on a standalone basis, are recognized at a point in time on trade-date. Commissions revenues are generally paid on settlement date and the Company records a receivable between trade-date and payment on settlement date. 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". The Company also offers institutional clients the ability to allocate a portion of their gross commissions incurred on trades executed with various clearing brokers to

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pay for research products and other services provided by third parties by entering into commission sharing arrangements. The Company acts as an agent in the soft dollar and commission sharing arrangements as the customer controls the use of the soft dollars and directs payments to third-party service providers on its behalf. Accordingly, amounts allocated to soft dollar arrangements are netted against commission revenues and recorded on trade date. Commissions on soft dollar brokerage are recorded net of the related expenditures. The costs of commission sharing arrangements are recorded for each eligible trade and shown net of commission revenue.

- 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 securities 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, access to research has been provided and the customer has benefited from the research.
- 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 investment management business. These expenses relate to the administration of such subsidiaries and assets that the Company manages for its investment funds. In addition, pursuant to the investment funds' offering documents, the Company charges certain allowable expenses to the investment 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 investment 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.

Revenue from contracts with customers

For the three months ended March 31, 2019 and 2018, the following table presents revenues from contracts with customers disaggregated by fee type.

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	Three Months Ended March 31, 2019	2018
Revenue from contracts with customers	(dollars in thousands)	
Investment Banking		
Underwriting fees	$48,036	$71,767
Strategic/financial advisory fees	20,544	14,360
Placement and sales agent fees	9,498	11,861
Expense reimbursements from clients	2,028	—
Total Investment Banking Revenue	80,106	97,988
Brokerage		
Commissions	87,359	94,692
Trade conversion revenue	4,106	3,522
Equity and credit research fees	3,590	3,839
Total Brokerage Revenue from Customers	95,055	102,053
Management Fees	7,141	7,417
Incentive Income	15	16
	$182,317	$207,474

Total
revenue
from
contracts
with
customers
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.
Interest and dividends expense
Interest and dividends expense relates primarily to securities finance activities, trading activity with respect to the Company's investments and interest expense on debt.
l. Recent pronouncements
Recently adopted
In 2018, the FASB issued guidance related to the Tax Cuts and Jobs Act of 2017 (“TCJ Act”) for the optional reclassification of the residual tax effects, arising from the change in corporate tax rate, in accumulated other comprehensive loss to retained earnings. The reclassification is the difference between the amount previously recorded in other comprehensive income at the historical U.S. federal tax rate that remains in accumulated other comprehensive loss at the time the TCJ Act was effective and the amount that would have been recorded using the newly enacted rate. This guidance became effective during the first quarter of 2019; however, we did not elect to make the optional reclassification.
In 2018, the FASB issued final guidance aligning the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees, with certain exceptions. Under the guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, which may lower their cost and reduce volatility in the income statement. The guidance became effective during the first quarter of 2019 and impacted the Company’s

recognition and measurement of the retention bonus pool established in connection with the Company's acquisition of Quarton International AG, which include share based payment to employees and nonemployees. Please refer to Note 3 for more information.

In 2017, the FASB issued guidance to amend the amortization period for certain purchased callable debt securities held at a premium. Under prior guidance, entities generally amortized 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. This guidance became effective during the first quarter of 2019; however, the guidance did not have an impact on our financials as we do not have investments in callable debt securities measured on an amortized cost basis.

In 2016, the FASB issued guidance that amends and supersedes its previous guidance regarding leases. The new guidance requires the lessee to recognize the right to use lease assets and lease liabilities that arise from leases greater than one year, and present them in its statement of financial condition. The guidance became effective during the first quarter of 2019. Please refer to Note 2j for more information.

Recently issued

In October 2018, the FASB issued guidance that made targeted changes to the related party consolidation guidance. The new guidance changes how entities evaluate decision-making fees under the variable interest entity guidance. To determine whether decision-making fees represent a variable interest, an entity will consider indirect interests held through related parties under common control on a proportionate basis under the new guidance, rather than in their entirety, as has been the case under current guidance. The guidance is effective in annual periods beginning after December 15, 2019 and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact of the new guidance and does not expect this guidance to have a material impact on its consolidated statements of financial condition or its consolidated statements of operations.

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

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

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

on the Company’s consolidated financial statements. The Company expects this guidance to simplify its goodwill impairment analysis.
In June 2016, the FASB issued guidance that impacts the impairment model for certain financial assets measured at amortized cost by requiring a current expected credit loss (“CECL”) methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. CECL will replace the loss model currently applicable to loans, held to maturity securities and other receivables carried at amortized cost. The guidance also eliminates the concept of other-than-temporary impairment for available-for-sale securities. Impairments on available-for-sale securities will be required to be recognized in earnings through an allowance, when the fair value is less than amortized cost and a credit loss exists or the

securities are expected to be sold before recovery of amortized cost. Under the accounting update, there may be an ability to determine there are no expected credit losses in certain circumstances, e.g., based on collateral arrangements for lending and financing transactions or based on the credit quality of the borrower or issuer. For public business entities, the guidance is effective for reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's consolidated financial statements and does not expect this guidance to have a material impact.

3. Acquisition

On January 2, 2019 (the "Acquisition Date"), the Company, together with its indirect wholly owned subsidiaries, Cowen International Ltd and Cowen QN Acquisition LLC, completed its previously announced acquisition (the "Acquisition") of Quarton International AG through the acquisition of all of the outstanding equity interest of Quarton International AG's affiliated combining companies, Quarton Management AG, Quarton International Europe AG, Quarton Partners, LLC and Quarton Securities GP, LLC (which owns a U.S. Securities Exchange Commission ("SEC") registered broker-dealer that was subsequently renamed to Cowen Securities LP), comprising the U.S. and European operations of the acquired combining companies (collectively "Quarton"). Quarton is a group of leading global financial advisory companies serving the middle market. Quarton's operations were primarily conducted through eight entities based in the United States, Switzerland, and Germany.

The acquisition was accounted for under the acquisition method of accounting in accordance with US GAAP. As such, results of operations for Quarton 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 Quarton were integrated within the Company's existing businesses.

The aggregate estimated purchase price of the Acquisition was $103.0 million. On the Acquisition Date the Company paid upfront consideration of $75.3 million subject to certain net working capital and other customary adjustments, with additional maximum contingent consideration of $40.0 million that will become payable dependent on the achievement of certain milestones by Quarton in each of the first four years (five years if certain conditions are met) following the Acquisition Date subject to a $10 million maximum in each year and a $40.0 million cumulative maximum. The Company estimated the contingent consideration at $27.7 million using the Monte Carlo valuation model which requires the Company to make estimates and assumptions regarding the future cash flows and profits. The contingent consideration liability is included within accounts payable, accrued expenses and other liabilities on the condensed consolidated statements of financial condition. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. A portion of the preliminary purchase price was deposited into escrow, in the amount of $0.6 million, as a reserve for any future claims against the sellers of Quarton. All consideration, including the upfront consideration and contingent consideration, consists of a combination of 80% cash and 20% shares of the Company's Class A common stock. Shares issued on the Acquisition Date of 1,033,350 were valued based on the 30-trading day volume-weighted average price per share of $14.52 as of December 31, 2018. The fair value of the shares of Class A common stock issued was determined on the basis of the closing market price of the Company's shares on the Acquisition Date. Any shares of Class A common stock issued in connection with any such contingent payments will be valued based on the 30-trading day volume-weighted average price per share as of the day immediately prior to the date on which such shares are to be issued. In addition, Quarton and the Company have established a retention bonus pool, for Quarton employees that remain employed at the end of each year there is a contingent payment which will be settled in a combination of 80% cash and 20% shares of the Company's Class A common stock based on Quarton meeting certain economic performance hurdles. The bonus pool has an aggregate maximum of $10.0 million over a five-year period with $2.5 million maximum in each year. The Company is recognizing the retention bonus over each contingent payment period based upon the Company's revenue projections for Quarton.

The table below summarizes the preliminary purchase price allocation of net tangible and intangible assets acquired and liabilities assumed as of January 2, 2019:

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	(dollars in thousands)
Cash and cash equivalents	$ 12,236
Fees receivable	7,269
Fixed assets	1,085
Operating lease right-of-use assets	3,200
Intangible assets	22,200
Other assets	667
Compensation payable	(637)
Operating lease liabilities	(3,200)
Due to related parties	(4,750)
Accounts payable, accrued expenses and other liabilities	(16,257)
Total identifiable net assets acquired and liabilities assumed	21,813
Goodwill	81,150
Total estimated purchase price	$ 102,963

As of the acquisition date, the estimated fair value of the Company's intangible assets, as acquired through the Acquisition, was $22.2 million. The allocation of the intangible assets is shown within the following table:

	Estimated intangible assets acquired (dollars in thousands)	Estimated average remaining useful lives (in years)
Intangible asset class		
Trade name	$ 900	3
Customer relationships	7,100	4
Backlog	12,600	2
Proprietary software	1,600	3
Total intangible assets	$ 22,200	

Amortization expense for the three months ended March 31, 2019 was $2.2 million and is included in depreciation and amortization in the accompanying condensed consolidated statements of operations. The estimated amortization expense related to these intangible assets in future periods is as follows:

	(dollars in thousands)
2019	$ 6,681
2020	8,908
2021	2,608
2022	1,775
2023	—
Thereafter	—
	$ 19,972

In addition to the purchase price consideration, for the three months ended March 31, 2019, the Company has incurred acquisition related expenses of $1.1 million including financial advisory, legal and valuation services, which are included in professional, advisory and other fees in the accompanying condensed consolidated statements of operations.
Included in the accompanying condensed consolidated statements of operations for the three months ended March 31, 2019 are revenues of $5.3 million and net income of $1.6 million related to the results of operations of Quarton.

Subsequent to the acquisition, Quarton'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 supplemental pro forma financial information for the three months ended March 31, 2018, as if the acquisition were completed as of January 1, 2018. 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, 2018, nor does it purport to be indicative of any future results.

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Cowen Inc.
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	Three Months Ended March 31, 2018 (dollars in thousands, except per share data)
Revenues	$ 236,337
Net income (loss) attributable to Cowen Inc. common stockholders	16,418
Net income (loss) per common share:	
Basic	$ 0.54
Diluted	0.52

4. Cash Collateral Pledged

As of March 31, 2019 and December 31, 2018, the Company pledged cash collateral in the amount of $5.2 million and $5.3 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 $1.2 million, as of March 31, 2019, and $1.0 million, as of December 31, 2018, which is anticipated to be due March 2021 (see Note 18).

5. Segregated Cash

As of March 31, 2019 and December 31, 2018, cash segregated in compliance with federal regulations and other restricted deposits of $137.0 million and $176.6 million, respectively, consisted of cash deposited in Special Reserve Accounts for the exclusive benefit of customers under SEC Rule 15c3-3 and cash held in accounts designated as Special Reserve Bank Accounts for Proprietary Accounts of Broker-Dealers ("PAB").

6. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

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

As of March 31, 2019 and December 31, 2018, securities owned, at fair value consisted of the following:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Common stock (b)	$428,952	$472,299
Preferred stock (b)	11,707	5,617
Warrants and rights (b)	6,787	7,990
Government bonds (a)	93,176	13,398
Corporate bonds (d)	12,012	13,041
Convertible bonds (c)	5,000	3,000
Trade claims	5,487	5,543
	$563,121	$520,888

(a) As of March 31, 2019, maturities range from April 2019 to February 2041 with an interest rate of 0% to 6.50%. As of December 31, 2018, maturities ranged from April 2019 to August 2019 with an interest rate of 0%.

(b) The Company has elected the fair value option for investments in securities of preferred and common stock with a fair value of $2.9 million and $3.1 million, respectively, at March 31, 2019 and $2.9 million and $7.1 million, respectively, at December 31, 2018. At December 31, 2018, the Company elected the fair value option for investments in warrants and rights with a fair value of $1.1 million.

(c) As of March 31, 2019, maturities range from June 2020 to March 2022 with an interest rate of 8%. As of December 31, 2018, the maturity was June 2020 with an interest rate of 8%.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(d) As of March 31, 2019, maturities ranged from April 2019 to March 2026 and interest rates ranged from 0% to 15.5%. As of December 31, 2018, maturities ranged from April 2019 to April 2049 and interest rates ranged from 2% to 15.50%.

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.

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

Receivable on derivative contracts	As of March 31, 2019		As of December 31, 2018	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$—	$—	$42,288	$334
Currency forwards	$99,791	543	$395	1
Swaps	$141,108	1,915	$13,702	917
Options other (a)	325,571	18,971	654,506	23,130
Pay to hold	$—	234	$—	743
		$21,663		$25,125

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

Payable for derivative contracts	As of March 31, 2019		As of December 31, 2018	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$12,464	$307	$—	$—
Currency forwards	$6,273	81	$96,406	709
Swaps	$41,031	3,183	$52,905	2,162
Options other (a)	140,452	40,012	90,730	13,211
		$43,583		$16,082

(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 March 31, 2019 and December 31, 2018. This table does not include the impact of over-collateralization.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Gross amounts recognized	Gross amounts offset on the Condensed Consolidated Statements of Financial Condition (a)	Net amounts included on the Condensed Consolidated Statements of Financial Condition	Gross amounts not offset in the Condensed Consolidated Statement of Financial Condition		
				Financial instruments	Cash Collateral pledged (b)	Net amounts
	(dollars in thousands)					
As of March 31, 2019						
Receivable on derivative contracts, at fair value	$21,663	$ —	$ 21,663	$ —	$ 2,691	$ 18,972
Payable for derivative contracts, at fair value	43,583	—	43,583	—	3,264	40,319
As of December 31, 2018						
Receivable on derivative contracts, at fair value	$25,125	$ —	$ 25,125	$ —	$ 1,662	$ 23,463
Payable for derivative contracts, at fair value	16,082	—	16,082	—	2,871	13,211

(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 $(2.2) million and $7.9 million for the three months ended March 31, 2019 and 2018, 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 18), exchange traded derivatives, and certain options, the Company is required to post/receive collateral. As of March 31, 2019 and December 31, 2018, collateral consisting of $6.7 million and $11.2 million of cash is included in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, on the accompanying condensed consolidated statements of financial condition. As of March 31, 2019 and December 31, 2018, all derivative contracts were with multiple major financial institutions.

Other investments

As of March 31, 2019 and December 31, 2018, other investments included the following:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Portfolio Funds, at fair value (1)	$ 145,566	$ 141,236
Equity method investments (2)	54,566	40,171
	$ 200,132	$ 181,407

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

(1) Portfolio Funds, at fair value
The Portfolio Funds, at fair value as of March 31, 2019 and December 31, 2018, included the following:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Starboard Value and Opportunity Fund LP (c)(*)	$36,270	$ 32,579
Formation8 Partners Fund I, L.P. (f)	33,613	34,099
RCG Longview Debt Fund V, L.P. (g)(*)	2,667	4,394
RCG Longview II LP (g) (*)	4,431	4,400
Cowen Healthcare Investments II LP (j) (*)	23,941	21,717
Eclipse Ventures Fund I, L.P. (b)	4,469	4,412
HealthCare Royalty Partners LP (a)(*)	1,825	1,833
Lagunita Biosciences, LLC (d)	4,080	3,833
RCG IO Renergys Sarl (j) (*)	6,329	6,369
Starboard Leaders Fund LP (e)(*)	1,424	1,230
Eclipse SPV I, LP (k)(*)	1,447	1,447
RCG Longview Equity Fund, LP (g) (*)	797	802
RCG Longview Debt Fund VI, LP (g) (*)	1,614	1,586
RCG Park Liberty GP Member LLC (g) (*)	1,129	1,023
HealthCare Royalty Partners II LP (a)(*)	1,106	1,037
RCGL PE MPA, LLC (g)(*)	618	618
RCG LPP2 PNW5 Co-Invest, L.P. (h)(*)	12	296
Other private investment (l)(*)	15,723	15,898
Other affiliated funds (m)(*)	4,071	3,663
	$145,566	$ 141,236

* 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 17.

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

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

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

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

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

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

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

(h) RCG LPP2 PNW5 Co-Invest, L.P. is a single purpose entity formed to participate in a joint venture which acquired five multi-unit residential rental properties located in the Pacific Northwest. RCG LPP2 PNW5 Co-Invest, L.P. is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.
(i) Effective January 31, 2018, the Company is no longer affiliated with Quadratic Capital Management LLC.
(j) Cowen Healthcare Investments II LP and RCG IO Renergys Sarl are private equity funds. Distributions are made from these funds when cash flows or securities are received from the underlying investments. Investors do not have redemption rights.
(k) Eclipse SPV I, L.P. is a co-investment vehicle organized to invest in a private company focused on software-driven automation projects. Distributions will be made when the underlying investments are liquidated.
(l) Other private investment represents the Company's closed end investment in a Portfolio Fund that invests in a wireless broadband communication provider in Italy.
(m) The majority of these investment funds are affiliates of the Company or are managed by the Company and the investors can redeem from these funds as investments are liquidated.
(2) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 1% to 56%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in RCG Longview Partners II, LLC and 40% in Surf House Ocean Views Holdings, LLC (which is a joint venture in a real estate development project). The operating agreement that governs the management of day-to-day operations and affairs of these entities stipulates that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these entities requires the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current Accounting Standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) HealthCare Royalty Partners General Partners and (b) Starboard Value (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of several activist investment funds and related managed accounts. As part of its equity method investment in operating companies, the Company incurs certain expenses on behalf of its equity method investees. These expenses reflect direct and indirect costs associated with the respective business and are included in their respective line items in the accompanying condensed consolidated statements of operations. For the three months ended March 31, 2019 and 2018, the Company incurred $2.7 million and $1.9 million, of these costs, respectively. The Company recorded no impairment charges in relation to its equity method investments for the three months ended March 31, 2019 and 2018.

The Company elected to use the cumulative earnings approach for the distributions it receives from its equity method investments. Under the cumulative earnings approach, any distributions received up to the amount of cumulative earnings are treated as return on investment and classified in operating activities within the cash flows. Any excess distributions would be considered as return of investments and classified in investing activities.

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

The following table summarizes equity method investments held by the Company:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Surf House Ocean Views Holdings, LLC	$8,493	$ 7,589
Starboard Value LP	26,240	12,699
RCG Longview Debt Fund V Partners, LLC	10,362	11,000
RCG Longview Management, LLC	1,167	1,167
RCG Longview Debt Fund VI Partners LLC	1,425	1,254
HealthCare Royalty GP, LLC	149	149
HealthCare Royalty GP II, LLC	187	176
RCG Longview Debt Fund IV Management, LLC	331	331
HealthCare Royalty GP III, LLC	1,645	1,573
Triartisan ES Partners LLC	1,026	1,500
Triartisan PFC Partners LLC	1,000	—
RCG Kennedy House, LLC	131	131
RCG Longview Equity Management, LLC	110	114
RCG LPP II GP, LLC	94	272
RCG Park Liberty GP Member Manager, LLC	1,248	1,248
Other	958	968
	$54,566	$ 40,171

For the period ended March 31, 2019, several equity method investments have met the significance criteria as defined under Regulation S-X Rule 4-08(g) of the SEC guidance ("Reg S-X 4-08(g)"). For the three months ended March 31, 2018 and for the period ended December 31, 2018, no equity method investments have met the significance criteria as defined under Reg S-X 4-08(g). As such, the Company is presenting the following summarized financial information:

	As of March 31, 2019
	(dollars in thousands)
Assets	
Cash	$ 3,261
Performance & management fee receivable	73,336
Investments	715,831
Liabilities	20,900
Equity	$ 771,528

	Three Months Ended March 31, 2019
	(dollars in thousands)

Revenues	$ 68,579
Expenses	(18,210)
Net realized and unrealized gains (losses)	89,560
Net Income	$ 139,929

As of March 31, 2019 and December 31, 2018, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in such fund. This obligation is due to a change in unrealized value of the real estate fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective real estate fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.5 million and $6.5 million as of March 31, 2019 and December 31, 2018, respectively.

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Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The Company's income (loss) from equity method investments was $16.3 million and $3.9 million for the three months ended March 31, 2019 and 2018, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations.

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the accompanying condensed consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of March 31, 2019 and December 31, 2018, securities sold, not yet purchased, at fair value consisted of the following:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Common stock	$463,319	$194,305
Corporate bonds (a)	3,207	750
Government bonds (b)	84,459	—
Preferred stock	3,959	199
Warrants and rights	19,242	53
	$574,186	$195,307

(a) As of March 31, 2019, the maturities ranged from October 2019 to April 2037 with interest rates ranged from 5.38% to 14.00%. As of December 31, 2018, the maturities ranged from October 2022 to January 2034 with interest rates ranged from 2.25% to 9.38%.

(b) As of March 31, 2019, the maturities ranged from October 2019 to February 2041 with interest rates ranged from 5.38% to 8.25%.

Securities lending and borrowing transactions

The following tables present the contractual gross and net securities borrowing and lending agreements and the related offsetting amount as of March 31, 2019 and December 31, 2018.

	Gross amounts recognized	Gross amounts offset on the Condensed Consolidated Statements of Financial Condition (a)	Net amounts included on the Condensed Consolidated Statements of Financial Condition	Gross amounts not offset on the Condensed Consolidated Statement of Financial Condition			
				Additional Amounts Available	Financial instruments	Cash Collateral pledged (b)	Net amounts
	(dollars in thousands)						
As of March 31, 2019							
Securities borrowed	$966,857	$ —	$ 966,857	$—	$ 957,787	$ —	$9,070

Securities loaned	852,203	—	852,203	—	858,175	—	(5,972)
As of December 31, 2018							
Securities borrowed	$407,795	$ —	$ 407,795	$ —	$ 383,593	$ —	$24,202
Securities loaned	414,852	—	414,852	—	391,310	—	23,542

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

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

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

The following tables present gross obligations for securities loaned transactions by remaining contractual maturity and class of collateral pledged as of March 31, 2019 and December 31, 2018:

	Open and Overnight	Up to 30 days	31 - 90 days	Greater than 90 days	Total
	(dollars in thousands)				
As of March 31, 2019					
Securities loaned					
Common stock	$710,449	$ —	$ —	$ —	$710,449
Corporate bonds	70,565	—	—	—	70,565
Government bonds	71,189	—	—	—	71,189
Securities sold, not yet purchased, at fair value - obligation to return securities received as collateral					
Common stock	79,778	—	—	—	79,778
As of December 31, 2018					
Securities loaned					
Common stock	$414,852	$ —	$ —	$ —	$414,852

Variable Interest Entities

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are $5.4 billion and $282.0 million as of March 31, 2019 and $5.1 billion and $157.6 million as of December 31, 2018, respectively. The carrying value of the Company's exposure to loss for these variable interest entities as of March 31, 2019 was $231.6 million, and as of December 31, 2018 was $301.4 million, all of which is included in other investments, at fair value in the accompanying condensed consolidated statements of financial condition. The exposure to loss primarily relates to the Consolidated Funds' investment in their Unconsolidated Master Funds and the Company's investment in unconsolidated investment companies. Additionally, the Company’s maximum exposure to loss for the variable interest entities noted above as of March 31, 2019 and December 31, 2018, was $263.3 million and $332.4 million, respectively. The maximum exposure to loss often differs from the carrying value of exposure to loss of the variable interests. The maximum exposure to loss is dependent on the nature of the variable interests in the VIEs and is limited to the notional amounts of certain commitments and guarantees.

b. Consolidated Funds

Securities owned, at fair value

As of March 31, 2019 and 2018, securities owned, at fair value, held by the Consolidated Funds consisted of the following:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Preferred stock	$24,322	$ 24,314
Common stock	178,701	95,565
Government bonds (a)	47,034	38,377
Corporate bonds (b)	54,035	24,098
Warrants and rights	4,708	5,279
	$308,800	$ 187,633

(a)

As of March 31, 2019, maturities ranged from April 2019 to May 2019 and interest rates were 0%. As of December 31, 2018, maturities ranged from January 2019 to April 2019 and interest rates ranged from 0%.

(b) As of March 31, 2019, maturities ranged from December 2019 to March 2026 and interest rates ranged from 4.90% to 19.00%. As of December 31, 2018, maturities ranged from August 2020 to March 2026 and interest rates ranged from 5.88% to 7.63%.

Receivable on derivative contracts

As of March 31, 2019 and December 31, 2018, receivable on derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Currency forwards	$25	$ 186
Equity swaps	1,196	2,477
Options	1,963	1,753
	$3,184	$ 4,416

Payable for derivative contracts

As of March 31, 2019 and December 31, 2018, payable for derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Currency forwards	$1,327	$ 96
Equity swaps	3,921	713
Options	309	854
	$5,557	$ 1,663

Other investments, at fair value

Investments in Portfolio Funds, at fair value

As of March 31, 2019 and December 31, 2018, investments in Portfolio Funds, at fair value, included the following:

	As of March 31, 2019	As of December 31, 2018
	(dollars in thousands)	
Investments of Enterprise LP	$95,414	$97,656
Investments of Merger Fund	91,432	88,739
	$186,846	$186,395

Consolidated portfolio fund investments of Enterprise LP

On May 12, 2010, the Company announced its intention to close Enterprise Master. Enterprise LP operated under a “master-feeder” structure up until January 1, 2019, when Enterprise Master distributed its capital to each feeder and was liquidated. As of March 31, 2019, the consolidated investments in Portfolio Funds include Enterprise LP's investment in RCG Special Opportunities Fund, Ltd which is a portfolio fund that invests in a limited number of private equity investment directly as well as through affiliated portfolio funds. As of December 31, 2018, the consolidated investments in Portfolio Funds included Enterprise LP's investment of $97.7 million in Enterprise Master. Prior to liquidation, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. There are no unfunded commitments at Enterprise LP.

Consolidated portfolio fund investments of Merger Fund

The Merger Fund operates under a “master-feeder” structure, whereby Ramius Merger Master Ltd.'s ("Merger Master") shareholders are Merger Fund and Ramius Merger Fund Ltd. The consolidated investments in Portfolio Funds include Merger Fund's investment of $91.4 million and $88.7 million in Merger Master as of March 31, 2019 and December 31, 2018, respectively. The Merger Master’s investment objective is to achieve consistent absolute returns while emphasizing the preservation of investor capital. The Merger Master seeks to achieve these objectives by taking a fundamental, research-driven approach to investing, primarily in the securities of issuers engaged in, or subject to, announced (or unannounced but otherwise anticipated) extraordinary corporate transactions, which may include, but are not limited to, mergers, acquisitions, leveraged buyouts, tender offers, hostile takeover bids, sale processes, exchange offers, and recapitalizations. Merger Master invests in the securities of one or more issuers engaged in or subject to such extraordinary corporate transactions. Merger Master typically seeks to derive a profit by realizing the price differential, or "spread," between the market price of securities purchased or sold short and the market price or value of securities realized in connection with the completion or termination of the extraordinary corporate transaction, or in connection with the adjustment of market prices in anticipation thereof, while seeking to minimize the market risk associated with the aforementioned investment activities. Merger Master will, depending on market conditions, generally focus the majority of its investment program on announced transactions. If the investment manager of Merger Master considers it necessary, it may either alone or as part of a group, also initiate shareholder actions seeking to maximize value. Such shareholder actions may include, but are not limited to, re-orienting management's focus or initiating the sale of the company (or one or more of its divisions) to a third party. There are no unfunded commitments at Merger Fund.

Indirect Concentration of the Underlying Investments Held by Consolidated Funds

From time to time, either directly or indirectly through its investments in the Consolidated Funds, the Company may maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Company's equity. Based on information that is available to the Company as of March 31, 2019 and December 31, 2018, the Company assessed whether or not its interests in an issuer for which the Company's pro-rata share exceeds 5% of the Company's equity. There was one indirect concentration that exceeded 5% of the Company's equity as of March 31, 2019 and one at December 31, 2018.

Through its investments in a Consolidated Fund and combined with direct Company investments, the Company maintained exposure to a particular investment which accounted for 5% or more of the Company's equity.

	Investment's percentage of the Company's equity						
	Issuer	Security Type	Country	Industry	Percentage of Equity		Market Value (dollars in thousands)
As of March 31, 2019	Linkem	Equity	Italy	Wireless Broadband	8.08	%	$ 65,842
As of December 31, 2018	Linkem	Equity	Italy	Wireless Broadband	8.36	%	$ 66,439

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

Enterprise Master and Merger Master

At December 31, 2018, Enterprise LP's investment in Enterprise Master represented Enterprise LP's proportionate share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. Merger Fund's investment in Merger Master represents Merger Fund's proportionate share of Merger Master's net assets; as a result, the investment balances of Merger Master reflected below may exceed the net investment which Merger Fund has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Enterprise Master and Merger Master as of March 31, 2019 and December 31, 2018:

Securities owned by Enterprise Master, at fair value

	As of December 31, 2018 (dollars in thousands)
Common stock	$ 469
	$ 469

Portfolio Funds, owned by Enterprise Master, at fair value

	Strategy	As of December 31, 2018 (dollars in thousands)
RCG Special Opportunities Fund, Ltd*	Multi-Strategy	$ 111,548
Other Private Investments	Various	846
		$ 112,394

* Affiliates of the Company.

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

Merger Master
As of March 31, 2019, Merger Master held common stock and corporate bonds of $249.7 million and $74.2 million, respectively, and common stock, sold not yet purchased, of $104.2 million. As of December 31, 2018, Merger Master held common stock, securities owned, and corporate bonds of $162.8 million and $116.5 million and common stock, sold not yet purchased, of $9.6 million, respectively.
Receivable on derivative contracts, at fair value, owned by Merger Master

	As of March 31, 2019	As of December 31, 2018
Description	(dollars in thousands)	
Options	$1,973	$ 3,450
Equity swaps	219	5,320
	$2,192	$ 8,770

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

	As of March 31, 2019	As of December 31, 2018
Description	(dollars in thousands)	
Options	$287	$ 1,430
Currency forwards	22,523	270
Equity swaps	1,547	28
	$24,357	$ 1,728

7. Fair Value Measurements for Operating Entities and Consolidated Funds
The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the accompanying condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of March 31, 2019 and December 31, 2018:

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

	Assets at Fair Value as of March 31, 2019			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Operating Entities				
Securities owned, at fair value				
Government bonds	$13,398	$79,778	$—	$93,176
Preferred stock	4,550	—	7,157	11,707
Common stock	421,177	2,824	4,951	428,952
Convertible bonds	—	—	5,000	5,000
Corporate bonds	—	11,751	261	12,012
Trade claims	—	—	5,487	5,487
Warrants and rights	6,333	—	454	6,787
Receivable on derivative contracts, at fair value				
Currency forwards	—	543	—	543
Swaps	—	1,915	—	1,915
Options	18,971	—	—	18,971
Pay to hold	—	234	—	234
Consolidated Funds				
Securities owned, at fair value				
Government bonds	47,034	—	—	47,034
Preferred stock	—	—	24,322	24,322
Common stock	177,684	—	1,017	178,701
Corporate bonds	—	54,035	—	54,035
Warrants and rights	—	—	4,708	4,708
Receivable on derivative contracts, at fair value				
Currency forwards	—	25	—	25
Equity swaps	—	1,196	—	1,196
Options	1,963	—	—	1,963
	$691,110	$152,301	$53,357	$896,768
Percentage of total assets measured at fair value on a recurring basis	77.1 %	17.0 %	5.9 %	
Portfolio Funds measured at net asset value (a)				145,566
Consolidated Funds' Portfolio Funds measured at net asset value (a)				186,846
Equity method investments				54,566
Total investments				$1,283,746

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

	Liabilities at Fair Value as of March 31, 2019			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased, at fair value				
Government bonds	$—	$84,459	$—	$84,459
Common stock	463,319	—	—	463,319
Corporate bonds	—	3,207	—	3,207
Preferred stock	3,959	—	—	3,959
Warrants and rights	19,242	—	—	19,242
Payable for derivative contracts, at fair value				
Futures	307	—	—	307
Currency forwards	—	81	—	81
Swaps	—	3,183	—	3,183
Options	38,279	—	1,733	40,012
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	29,536	29,536
Consolidated Funds				
Payable for derivative contracts, at fair value				
Currency forwards	—	1,327	—	1,327
Options	309	—	—	309
Equity swaps	—	3,921	—	3,921
	$525,415	$96,178	$31,269	$652,862
Percentage of total liabilities measured at fair value	80.5 %	14.7 %	4.8 %	

(a) In accordance with US GAAP, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the condensed consolidated statement of financial condition.
(b) In accordance with the terms of the purchase agreements for acquisitions that closed during the second quarter of 2016 and the first quarter of 2019, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 2019 and December 2023, respectively. For the acquisition that closed during 2016, the Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. For the acquisition that closed during 2019, the Company estimated the contingent consideration liability using the present value of the monte carlo simulated revenue. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of March 31, 2019 can range from $1.6 million to $40.0 million.

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

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Operating Entities				
Securities owned, at fair value				
Government bonds	$13,398	$—	$—	$13,398
Preferred stock	449	—	5,168	5,617
Common stock	459,601	2,848	9,850	472,299
Convertible bonds	—	—	3,000	3,000
Corporate bonds	—	13,041	—	13,041
Trade claims	—	—	5,543	5,543
Warrants and rights	6,324	—	1,666	7,990
Receivable on derivative contracts, at fair value				
Futures	334	—	—	334
Currency forwards	—	1	—	1
Swaps	—	917	—	917
Options	23,130	—	—	23,130
Pay to hold	—	743	—	743
Consolidated Funds				
Securities owned, at fair value				
Government bonds	38,377	—	—	38,377
Preferred stock	—	—	24,314	24,314
Common stock	95,471	—	94	95,565
Corporate bonds	—	24,098	—	24,098
Warrants and rights	—	—	5,279	5,279
Receivable on derivative contracts, at fair value				
Currency forwards	—	186	—	186
Equity swaps	—	2,477	—	2,477
Options	1,753	—	—	1,753
	$638,837	$44,311	$54,914	$738,062
Percentage of total assets measured at fair value on a recurring basis	86.6 %	6.0 %	7.4 %	
Portfolio Funds measured at net asset value (a)				141,236
Consolidated Funds' Portfolio Funds measured at net asset value (a)				186,395
Equity method investments				40,171
Total investments				$1,105,864

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

	Liabilities at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased, at fair value				
Common stock	$194,305	$—	$—	$194,305
Corporate bonds	—	750	—	750
Preferred stock	199	—	—	199
Warrants and rights	53	—	—	53
Payable for derivative contracts, at fair value				
Currency forwards	—	709	—	709
Swaps	—	2,162	—	2,162
Options	11,115	—	2,096	13,211
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	3,070	3,070
Consolidated Funds				
Payable for derivative contracts, at fair value				
Currency forwards	—	96	—	96
Options	854	—	—	854
Equity swaps	—	713	—	713
	$206,526	$4,430	$5,166	$216,122
Percentage of total liabilities measured at fair value	95.6 %	2.0 %	2.4 %	

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

(b) In accordance with the terms of the purchase agreements for the acquisition that closed during the second quarter of 2016, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired business, if certain targets are achieved through the periods ended December 2020. The Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of December 31, 2018 can range from $2.8 million to $3.4 million.

The following table includes a roll forward of the amounts for the three months ended March 31, 2019 and 2018 for financial instruments classified within level 3. The classification of a financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

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

	Three Months Ended March 31, 2019							
	Balance at December 31, 2018	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at March 31, 2019	Change in unrealized gains/losses relating to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$5,168	$ —	$ —	$ 2,000	$ —	$ (11)	$7,157	$ (11)
Common stock	9,850	—	—	1,262	(5,952)	(209)	4,951	(7)
Convertible bonds	3,000	—	—	5,000	(3,000)	—	5,000	—
Corporate bond	—	—	—	261	—	—	261	—
Options, liability	2,096	—	—	—	(4)	(359)	1,733	(359)
Warrants and rights	1,666	—	—	—	(116)	(1,096)	454	(109)
Trade claims	5,543	—	—	—	(56)	—	5,487	—
Contingent consideration liability	3,070	—	—	27,700	(1,234)	—	29,536	—
Consolidated Funds								
Preferred stock	24,314	—	—	—	—	8	24,322	8
Common stock	94	—	—	407	—	516	1,017	516
Warrants and rights	5,279	—	—	(1,088)	—	517	4,708	(570)

	Three Months Ended March 31, 2018							
	Balance at December 31, 2017	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at March 31, 2018	Change in unrealized gains/losses relating to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$8,115	$ —	$ —	$ 1,415	$ (478)	$ (235)	$8,817	$ 486
Common stock	7,570	—	—	310	(133)	(347)	7,400	412
Convertible bonds	282	—	—	—	(307)	25	—	—
Options, asset	1,455	—	—	—	(1,455)	—	—	—
Options, liability	22,401	—	—	—	—	(1,006)	21,395	(1,006)
Warrants and rights	2,517	—	—	—	—	(815)	1,702	510
Trade claim	5,950	—	—	—	—	5	5,955	5
Lehman claim	301	—	—	—	—	11	312	12
Contingent consideration liability	3,440	—	—	—	—	—	3,440	—
Consolidated Funds								
Preferred stock	50,445	—	(38,552) (a)	—	—	—	11,893	—
Common stock	50	—	—	—	—	—	50	—
Warrants and rights	3,568	—	(20) (a)	—	—	1,706	5,254	1,706

(1) Unrealized gains/losses are reported in other income (loss) in the accompanying condensed consolidated statements of operations.
(a) The Company deconsolidated an investment fund.

All realized and unrealized gains (losses) in the table above are reflected in other income (loss) in the accompanying condensed consolidated statements of operations.
Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above.
The Company recognizes all transfers and the related unrealized gain (loss) at the beginning of the reporting period. Transfers between level 1 and 2 generally relate to whether the principal market for the security becomes active or inactive. Transfers between level 2 and 3 generally relate to whether significant relevant observable inputs are available for the fair value measurements or due to change in liquidity restrictions for the investments.
During the three months ended March 31, 2019 and 2018, there were no transfers between level 1 and level 2 assets and liabilities.

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

The following table includes quantitative information as of March 31, 2019 and December 31, 2018 for financial instruments classified within level 3. The table below quantifies information about the significant unobservable inputs used in the fair value measurement of the Company's level 3 financial instruments.

	Quantitative Information about Level 3 Fair Value Measurements			
Level 3 Assets	Fair Value at March 31, 2019 (dollars in thousands)	Valuation Techniques	Unobservable Inputs	Range
Common and preferred stocks	$320	Discounted cash flows	Discount rate	8%
Trade claims	25	Discounted cash flows	Discount rate	20%
Warrants and rights	5,162	Model based Discounted cash flows	Volatility Discount rate	30% 7% to 8%
Other level 3 assets (a)	47,850			
Total level 3 assets	$53,357			
Level 3 Liabilities				
Options	1,733	Option pricing models	Volatility	35% to 40%
Contingent consideration liability	29,536	Discounted cash flows Monte Carlo simulation	Discount rate Volatility	14%-22% 14%-15%
Total level 3 liabilities	$31,269			

	Quantitative Information about Level 3 Fair Value Measurements			
Level 3 Assets	Fair Value at December 31, 2018 (dollars in thousands)	Valuation Techniques	Unobservable Inputs	Range
Common and preferred stocks	$			