COWEN INC.
Form 10-Q
August 07, 2017
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 June 30, 2017
or

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

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

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

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

Large accelerated filer o	Accelerated filer Q	Non-accelerated filer o (Do not check if a smaller reporting company)	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 August 4, 2017, there were 31,074,071 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, 2016 as well as Item 1A of this periodic report on Form 10-Q for the quarterly period ended June 30, 2017.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three and six months ended June 30, 2017 and 2016. The Consolidated Financial Statements as of December 31, 2016 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 June 30, 2017	As of December 31, 2016
Cash and cash equivalents	$165,474	$110,990
Cash collateral pledged	15,473	13,342
Segregated cash	87,145	1,024
Securities owned, at fair value	696,543	700,876
Receivable on derivative contracts, at fair value	30,829	22,901
Securities borrowed	100,845	—
Other investments	136,360	157,279
Deposits with clearing organizations, brokers and banks	79,209	8,939
Receivable from brokers, dealers and clearing organizations	145,385	78,898
Receivable from customers	64,195	—
Fees receivable, net of allowance of $1,120	116,330	45,883
Due from related parties	40,252	39,629
Fixed assets, net of accumulated depreciation and amortization of $26,612 and $23,867, respectively	42,341	42,408
Goodwill	60,678	60,678
Intangible assets, net of accumulated amortization of $29,643 and $29,418, respectively	33,393	25,769
Deferred tax asset, net	160,453	165,656
Other assets	69,065	38,406
Consolidated Funds		
Cash and cash equivalents	34,407	17,761
Securities owned, at fair value	94,674	79,237
Receivable on derivative contracts, at fair value	1,015	893
Other investments	404,490	401,465
Receivable from brokers	9,710	5,978
Other assets	352	511
Total Assets	$2,588,618	$2,018,523
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$254,077	$266,090
Payable for derivative contracts, at fair value	25,941	20,762
Securities loaned	142,434	—
Payables to brokers, dealers and clearing organizations	267,934	210,309
Payable to customers	114,449	—
Commission management payable	88,894	3,590
Compensation payable	68,924	98,084
Notes payable and other debt	107,119	77,030
Convertible debt	134,100	130,029
Fees payable	10,685	3,272
Due to related parties	574	573
Accounts payable, accrued expenses and other liabilities	110,163	47,525

Consolidated Funds		
Securities sold, not yet purchased, at fair value	—	883
Payable for derivative contracts, at fair value	620	572
Payable to brokers	8,269	3,700
Contributions received in advance	—	2,000
Capital withdrawals payable	2,181	1,408
Accounts payable, accrued expenses and other liabilities	340	841
Total Liabilities	1,336,704	866,668

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

	As of June 30, 2017	As of December 31, 2016
(continued)		
Commitments and Contingencies (Note 16)		
Redeemable non-controlling interests	418,009	379,205
Stockholders' equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of June 30, 2017 (aggregate liquidation preference of $120,750,000) and 120,750 shares issued and outstanding as of as of December 31, 2016 (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, 41,665,691 shares issued and 31,074,071 outstanding as of June 30, 2017 and 36,542,091 shares issued and 26,731,289 outstanding as of December 31, 2016, respectively (including 191,962 and 162,176 restricted shares, respectively)	324	292
Class B common stock, par value $0.01 per share: 62,500,000 authorized, no shares issued and outstanding	—	—
Additional paid-in capital	994,126	928,646
(Accumulated deficit) retained earnings	4,586	(2,442)
Accumulated other comprehensive income (loss)	(8)	(2)
Less: Class A common stock held in treasury, at cost, 10,593,191 and 9,810,802 shares, respectively	(165,124)	(153,845)
Total Stockholders' Equity	833,905	772,650
Total Liabilities and Stockholders' Equity	$2,588,618	$2,018,523

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Investment banking	$64,146	$35,287	$100,699	$61,434
Brokerage	63,845	47,100	114,379	98,035
Management fees	8,656	10,649	17,364	21,679
Incentive income	3,726	428	4,272	1,539
Interest and dividends	7,917	4,105	13,006	7,758
Reimbursement from affiliates	495	2,241	2,147	6,128
Aircraft lease revenue	1,043	1,588	2,102	1,982
Reinsurance premiums	7,682	13,328	14,771	14,338
Other revenues	1,345	412	2,745	1,733
Consolidated Funds				
Interest and dividends	1,388	1,538	3,382	2,614
Other revenues	287	555	634	1,030
Total revenues	160,530	117,231	275,501	218,270
Expenses				
Employee compensation and benefits	102,111	55,627	178,784	118,808
Floor brokerage and trade execution	14,078	7,872	22,401	15,663
Interest and dividends	12,211	6,944	22,141	14,254
Professional, advisory and other fees	10,527	5,686	16,343	11,280
Service fees	3,328	2,075	5,944	4,259
Communications	6,003	4,529	10,763	8,668
Occupancy and equipment	8,533	7,873	15,596	15,878
Depreciation and amortization	3,132	3,413	6,160	6,480
Client services and business development	7,192	6,946	14,954	13,986
Reinsurance claims, commissions and amortization of deferred acquisition costs	7,275	11,766	13,453	12,329
Restructuring costs	8,541	—	8,541	—
Other expenses	4,329	2,852	7,590	8,101
Consolidated Funds				
Interest and dividends	2,108	1,507	6,091	2,627
Professional, advisory and other fees	304	320	696	622
Floor brokerage and trade execution	105	111	214	133
Other expenses	231	205	710	577
Total expenses	190,008	117,726	330,381	233,665
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	18,719	(20,218)	44,775	(17,030)
Bargain purchase gain, net of tax	7,946	—	7,946	—
Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	29,503	(23,606)	39,081	(26,298)
Net realized and unrealized gains (losses) on derivatives	1,320	5,055	5,185	8,157

Net gains (losses) on foreign currency transactions	(210)	111	(307)	98
Total other income (loss)	57,278	(38,658)	96,680	(35,073)
Income (loss) before income taxes	27,800	(39,153)	41,800	(50,468)
Income tax expense (benefit)	(785)	(11,992)	1,126	(15,312)
Net income (loss)	28,585	(27,161)	40,674	(35,156)
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	21,145	(16,705)	30,250	(21,002)
Net income (loss) attributable to Cowen Inc.	7,440	(10,456)	10,424	(14,154)
Preferred stock dividends	1,698	1,698	3,396	3,396
Net income (loss) attributable to Cowen Inc. common stockholders	$5,742	$(12,154)	$7,028	$(17,550)

(continued)

Weighted average common shares outstanding:				
Basic (a)	28,634	26,867	27,852	26,729
Diluted (a)	29,474	26,867	28,860	26,729
Earnings (loss) per share:				
Basic (a)	$0.20	$(0.45)	$0.25	$(0.66)
Diluted (a)	$0.19	$(0.45)	$0.24	$(0.66)

(a) Share and per share amounts have been retroactively updated to reflect the one-for-four reverse stock split effective as of December 5, 2016.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$28,585	$(27,161)	$40,674	$(35,156)
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(4)	(2)	(6)	(5)
Total other comprehensive income (loss), net of tax	(4)	(2)	(6)	(5)
Comprehensive income (loss)	$28,581	$(27,163)	$40,668	$(35,161)

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

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

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders Equity	Redeemable Non-controlling Interest
Balance, December 31, 2016	26,731,289	$ 292	120,750	$ 1	$ (153,845)	$ 928,646	$ (2)	$ (2,442)	$ 772,650	$ 379,205
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	10,424	10,424	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	30,250
Foreign currency translation	—	—	—	—	—	—	(6)	—	(6)	—
Capital contributions	—	—	—	—	—	—	—	—	—	35,150
Capital withdrawals	—	—	—	—	—	—	—	—	—	(26,596)
Common stock issuance upon acquisition (See Note 2)	3,162,278	32	—	—	—	47,575	—	—	47,607	—
Restricted stock awards issued	1,962,893	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(782,389)	—	—	—	(11,279)	—	—	—	(11,279)	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(3,396)	(3,396)	—
Amortization of share based compensation	—	—	—	—	—	17,905	—	—	17,905	—
Balance, June 30, 2017	31,074,071	$ 324	120,750	$ 1	$ (165,124)	$ 994,126	$ (8)	$ 4,586	$ 833,905	$ 418,009

	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, 2015	26,401,163	$ 292	120,750	$ 1	$ (137,356)	$ 903,429	$ —	$ 23,627	$ 789,993	$ 186,911
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	(14,154)	(14,154)	
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds										(21,002)
Foreign currency translation	—	—	—	—	—	—	(5)	—	(5)	—
Capital contributions	—	—	—	—	—	—	—	—	—	231,871
Capital withdrawals	—	—	—	—	—	—	—	—	—	(9,615)
Deconsolidation of entities	—	—	—	—	—	—	—	—	—	(73,042)
Restricted stock awards issued	1,459,003	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(1,058,511)	—	—	—	(14,576)	—	—	—	(14,576)	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(3,396)	(3,396)	—
Income tax effect from share based compensation	—	—	—	—	—	(744)	—	—	(744)	—
Amortization of share based compensation	—	—	—	—	—	13,036	—	—	13,036	—
Balance, June 30, 2016	26,801,655	$ 292	120,750	$ 1	$ (151,932)	$ 915,721	$ (5)	$ 6,077	$ 770,154	$ 315,123

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

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net income (loss)	$40,674	$(35,156)
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Bargain purchase gain	(7,946)	—
Depreciation and amortization	6,160	6,480
Amortization of debt issuance costs	608	587
Amortization of debt discount	3,699	3,366
Tax benefit (expense) from share-based payment arrangements	—	(744)
Share-based compensation	17,905	13,036
Deferred tax benefit	5,201	(13,982)
Deferred rent obligations	(175)	(402)
Net loss on disposal of fixed assets	55	—
Contingent liability adjustment	—	2,135
Purchases of securities owned, at fair value	(2,432,174)	(2,085,486)
Proceeds from sales of securities owned, at fair value	2,628,293	2,219,623
Proceeds from sales of securities sold, not yet purchased, at fair value	1,316,612	1,856,801
Payments to cover securities sold, not yet purchased, at fair value	(1,430,940)	(1,841,743)
Net (gains) losses on securities, derivatives and other investments	(50,070)	7,731
Consolidated Funds		
Purchases of securities owned, at fair value	(137,781)	(22,056)
Proceeds from sales of securities owned, at fair value	130,550	1,517
Proceeds from sales of securities sold, not yet purchased, at fair value	217	2,226
Payments to cover securities sold, not yet purchased, at fair value	(899)	(947)
Purchases of other investments	(8,628)	(221,506)
Proceeds from sales of other investments	31,478	12,431
Net realized and unrealized (gains) losses on investments and other transactions	(34,282)	19,100
(Increase) decrease in operating assets:		
Cash acquired through acquisition	96,197	—
Cash collateral pledged	(2,131)	(3,687)
Segregated Cash	(22,731)	356
Securities owned, at fair value, held at broker-dealer	(131,681)	870
Receivable on derivative contracts, at fair value	(7,928)	14,647
Securities borrowed	157,476	—
Deposits with clearing organizations, brokers and banks	(26,612)	(2,037)
Receivable from brokers, dealers and clearing organizations	5,435	2,888
Receivable from customers	(20,726)	—
Fees receivable, net of allowance	(34,215)	(10,939)
Due from related parties	(623)	4,134
Other assets	(25,591)	(22,173)
Consolidated Funds		
Cash and cash equivalents	(16,646)	5,992

Receivable on derivative contracts, at fair value	(122)	(60)
Receivable from brokers	(3,732)	—
Other assets	159	(584)
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker-dealer	77,783	(2,029)
Payable for derivative contracts, at fair value	5,179	(6,327)
Securities loaned	(143,925)	—
Payable to brokers, dealers and clearing organizations	(16,659)	(122,493)
Payable to customers	102,648	—
Commission management payable	6,176	318
Compensation payable	(60,243)	(145,817)
Fees payable	1,999	(3,114)
Due to related parties	1	(65)
Accounts payable, accrued expenses and other liabilities	22,578	8,513

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

	Six Months Ended June 30, 2017	2016
(continued)		
Consolidated Funds		
Contributions received in advance	(2,000)	(850)
Payable to brokers	4,569	731
Payable for derivative contracts, at fair value	48	—
Due to related parties	(189)	264
Accounts payable, accrued expenses and other liabilities	(312)	198
Net cash provided by / (used in) operating activities	$42,739	$(358,253)
Cash flows from investing activities:		
Purchases of other investments	$(60,367)	$(24,956)
Purchase of business (Note 2)	(54,017)	(6,258)
Proceeds from sales of other investments	99,127	22,680
Proceeds from loans held for investment	2,400	40,400
Purchase of fixed assets	(2,175)	(14,694)
Net cash provided by / (used in) investing activities	(15,032)	17,172
Cash flows from financing activities:		
Borrowings on notes and other debt	31,737	30,709
Repayments on notes and other debt	(2,740)	(1,901)
Income tax effect from share-based payment arrangements	—	(744)
Purchase of treasury stock	(11,279)	(6,014)
Cash paid to acquire net assets (contingent liability payment)	(267)	(3,493)
Capital withdrawals to redeemable non-controlling interests in operating entities	(3,778)	(5,144)
Consolidated Funds		
Capital contributions by redeemable non-controlling interests in Consolidated Funds	35,149	231,871
Capital withdrawals to redeemable non-controlling interests in Consolidated Funds	(22,045)	(4,549)
Net cash provided by / (used in) financing activities	26,777	240,735
Change in cash and cash equivalents	54,484	(100,346)
Total cash beginning of period	110,990	157,232
Total cash at end of period	165,474	56,886
Supplemental non-cash information		
Purchase of treasury stock, at cost, through net settlement (See Note 18)	$11,279	$8,562
Preferred stock dividends declared (See Note 18)	$3,396	$3,396
Net assets (liabilities) acquired upon acquisition (net of cash) (See Note 2)	$10,220	$—
Common stock issuance upon close of acquisition (see Note 2)	$47,607	$—
Notes payable increase through asset acquisition	$—	$7,164
Net assets of deconsolidated entities	$—	$73,042

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

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

1. Organization and Business

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

On December 5, 2016, the Company effected a one-for-four reverse stock split of the Company's common stock. Except where the context indicates otherwise, all share and per share information has been retroactively adjusted to reflect the reverse stock split.

2. Acquisition

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

The acquisition was consummated effective as of June 1, 2017. The adjusted aggregate estimated purchase price was $96.2 million, which was determined based on closing date tangible book value of Convergex Group, less certain closing adjustments. A portion of the preliminary purchase price was deposited into escrow as a reserve for any future claims against the sellers of Convergex Group. On closing, the Company paid cash of $48.6 million and issued 3,162,278 of the Company’s Class A common stock determined based on the 30-day volume-weighted average price per share of $15.05 as of May 30, 2017.

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

The Company is currently in the process of finalizing its purchase price allocation of Convergex Group; therefore, the purchase price adjustments as of June 30, 2017 are preliminary and subject to measurement period adjustments. The allocation of the purchase price to the net assets acquired will be finalized as necessary, up to one year after the acquisition's closing date, as the information becomes available.

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

The table below summarizes the preliminary purchase price allocation of net tangible and intangible assets acquired and liabilities assumed as of June 1, 2017:

	(dollars in thousands)
Cash and cash equivalents	$ 96,197
Segregated cash	63,390
Securities owned, at fair value	3,417
Securities borrowed	258,321
Deposits from clearing organizations	52,596
Receivable from brokers	62,983
Receivable from customers	43,469
Fees receivable	36,232
Fixed assets, net	1,325
Intangible assets, net	10,270
Other assets	7,528
Securities sold, not yet purchased, at fair value	(71)
Securities loaned	(286,359)
Payable to brokers	(74,284)
Payable to customers	(11,801)
Commission management payable	(82,718)
Compensation payable	(31,083)
Notes payable and other debt	(857)
Fees payable	(5,414)
Accounts payable, accrued expenses and other liabilities	(33,570)
Total identifiable net assets acquired and liabilities assumed	109,571
Goodwill/(Bargain purchase gain)	(13,343)
Total estimated purchase price	$ 96,228

The Company believes that all of the acquired receivables and contractual amounts receivable as reflected above in the allocation of the purchase price are recorded at fair value. See Note 16 for further information on legal matters relating to the acquisition.
As of the acquisition date, the estimated fair value of the Company's intangible assets, as acquired through the acquisition, was $10.3 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	$ 760	0.6 - 2.6
Intellectual property	1,790	5
Customer relationships	7,720	9
Total intangible assets	$ 10,270	

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Amortization expense for the three and six months ended June 30, 2017, respectively, is $0.2 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)
2017	$ 1,203
2018	1,258
2019	1,239
2020	1,216
2021	1,216
Thereafter	3,938
	$ 10,070

Based on the June 1, 2017 estimated purchase price allocation, the fair value of the net identifiable assets acquired and liabilities assumed of $109.6 million exceeded the estimated purchase price of $96.2 million. As a result, the Company has recognized a bargain purchase gain of $13.3 million related to the acquisition. The bargain purchase gain is shown net of $5.4 million of associated tax in the accompanying condensed consolidated statements of operations.

In addition to the purchase price consideration, the Company incurred acquisition related expenses of $4.7 million, including financial advisory, legal and valuation services, which are included in professional, advisory and other fees in the condensed consolidated statements of operations for the three and six months ended June 30, 2017. Subsequent to the acquisition, certain of Convergex Group's businesses were integrated within the broker-dealer businesses of the Company and therefore they are included within their respective line items in the accompanying condensed consolidated statements of operations from June 1, 2017 through June 30, 2017. The following table provides unaudited supplemental pro forma financial information for the six months ended June 30, 2017 and 2016, as if the acquisition were completed as of January 1, 2016. This 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, 2016, nor does it purport to be indicative of any future results.

	Six Months Ended June 30,	
	2017	2016
	(dollars in thousands, except per share data) (unaudited)	
Revenues	$ 350,464	$ 326,371
Net income (loss) attributable to Cowen Inc. stockholders	(9,318)	(29,645)
Net income (loss) per common share:		
Basic (a)	$ (0.30)	$ (0.99)
Diluted (a)	(0.30)	(0.99)

(a) Share and per share amounts have been retroactively updated to reflect the one-for-four reverse stock split effective as of December 5, 2016.

In conjunction with the integration of the acquired businesses of Convergex Group, the Company evaluated the combined broker-dealer businesses and operations and incurred approximately $8.5 million of integration and restructuring costs which primarily related to exit and disposal costs, discontinuation of redundant technology services and severance costs.

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

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

Certain reclassifications have been made to prior period amounts in order to conform to current period presentation. The year-end condensed balance sheet data was derived from the audited financial statements, but does not include all disclosures included in the audited financial statements.

b. Principles of consolidation

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

In accordance with these standards, the Company presently consolidates six funds for which it acts as the general partner and investment manager. As of June 30, 2017 the Company consolidated the following funds: Ramius Enterprise LP (“Enterprise LP”), Ramius Merger Fund LLC (the "Merger Fund"), Cowen Private Investments LP ("Cowen Private"), Caerus Select Fund LP ("Caerus LP") (between May 1, 2016 through March 1, 2017 when the fund was liquidated), Ramius Archview Credit and Distressed Master Fund ("Archview Master Fund") and Ramius Merger Arbitrage UCITS Fund ("UCITS Fund") (collectively the "Consolidated Funds").

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

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

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

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

The Company reconsiders whether it is the primary beneficiary of a VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of June 30, 2017 and December 31, 2016, the total net assets of the consolidated VIEs were $479.9 million and $461.6 million, respectively. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company.

As of June 30, 2017 the Company holds 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.

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

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

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

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

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

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

c. Use of estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with US GAAP requires the management of the Company to make estimates and assumptions that affect the fair value of securities and other investments, the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accompanying condensed consolidated financial statements, the accounting for goodwill and identifiable intangible assets and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

d. Allowance for doubtful accounts

The allowance for doubtful accounts is based on the Company’s assessment of the collectability of receivables related to securities transactions, prepaid research and other receivables. The Company considers factors such as historical experience, credit quality, age of balances and current economic conditions that may affect collectability in determining the allowance for doubtful accounts. Specifically for prepaid research, the Company reviews clients' historical, current and forecasted trading activity in determining the allowance for doubtful accounts. Expense related to the allowance for doubtful accounts as well as any recoveries of amounts previously charged is reflected in other expenses in the accompanying condensed consolidated statements of operations.

e. Valuation of investments and derivative contracts

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Company. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Company's perceived risk of that instrument.

The Company and its operating subsidiaries act as the manager for the Consolidated Funds. Both the Company and the Consolidated Funds hold certain investments which are valued by the Company, acting as the investment manager. The fair value of these investments is generally estimated based on proprietary models developed by the Company, which include discounted cash flow analysis, public market comparables, and other techniques and may be based, at least in part, on independently sourced market information. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions used in these models, and the timing and actual values realized with respect to investments could be materially different from values derived based on the use of those estimates. The valuation methodologies applied impact the reported value of the Company's investments and the investments held by the Consolidated Funds in the condensed consolidated financial statements. Certain of the Company's investments are relatively illiquid or thinly traded and may not be immediately liquidated on demand if needed. Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed and such differences could be material.

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

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

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

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

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

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

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

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

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

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

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

f. Securities borrowed and securities loaned

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received on a gross basis. The related rebates are recorded in the accompanying condensed consolidated statements of operations as interest income and interest expense. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary. Securities borrowed and loaned may also result in credit exposures for the Company in an event that the counterparties are unable to fulfill their contractual obligations. The Company minimizes its credit risk by continuously monitoring its credit exposure and collateral values by demanding additional or returning excess collateral in accordance with the netting provisions available in the master securities lending contracts in place with the counterparties.

Fees and interest received or paid are recorded in interest and dividend income and interest expense, respectively, on an accrual basis. In cases where the fair value basis of accounting is elected, any resulting change in fair value is reported in trading revenues. Accrued interest income and expense are recorded in the same manner as under the accrual method. At June 30, 2017, the Company did not have any securities lending transactions for which fair value basis of accounting was elected.

g. Fixed Assets

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

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

Asset	Depreciable Lives	Principal Method
Telephone and computer equipment	3-5 years	Straight-line
Computer software	3-8 years	Straight-line
Furniture and fixtures	5 years	Straight-line
Leasehold improvements	2-15 years	Straight-line
Capitalized lease asset	5 years	Straight-line
Aircraft and related equipment	10-20 years	Straight-line
Modifications to aircraft	4-10 years	Straight-line

h. Debt

Long-term debt is carried at the principal amount borrowed net of any 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 accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. The Company adopted a new accounting pronouncement, during the first quarter of 2016, which reclassified the unamortized debt issuance costs in the Company's previously reported condensed consolidated statements of financial condition from other assets to a direct reduction from the carrying amount of the debt.

i. Deferred rent

Deferred rent primarily consists of step rent, allowances from landlords and valuing the Company's lease properties in accordance with US GAAP. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received and/or promised to the Company by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. The Company records a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition, as of June 30, 2017 and December 31, 2016 is $14.6 million and $10.3 million, respectively.

j. Recently issued accounting pronouncements

In May 2017, the FASB issued guidance to clarify the application of modification accounting for stock compensation. The guidance was issued to reduce the diversity in practice under the current guidance. The new guidance requires an entity to apply modification accounting when there is a change in the fair value of the modified award and the original award, vesting conditions and the classification of the original awards. The amendments in this guidance are effective prospectively for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance and will consider the new guidance for any modifications on or after the adoption date.

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

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

In January 2017, the FASB issued guidance which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current guidance, there are three elements of a business-inputs, processes, and outputs. While an integrated set of assets and activities (collectively, a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The new guidance provides a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. For public business entities, the guidance is effective prospectively for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements and may use the new definition for its future business combination activities.

In November 2016, the FASB issued guidance which reduces the diversity in practice as to how changes in restricted cash are presented and classified in the statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance does not provide a definition of restricted cash or restricted cash equivalents. For public business entities, the guidance is effective prospectively for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company currently presents its restricted cash and changes in its restricted cash, separately on its condensed consolidated statements of financial condition and condensed consolidated statements of cash flows respectively. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements. Since the guidance only affects the presentation of restricted cash on the statement of cash flows, the Company does not expect this guidance to have any impact on its condensed consolidated financial statements.

In August 2016, the FASB issued guidance which reduces the diversity in practice as to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance addresses eight specific cash flow issues with the objective of reducing the existing and potential future diversity in practice. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on the Company's cash flows presentation. Since the guidance only affects the presentation of statement of cash flows, the Company does not expect this guidance to have any impact on condensed consolidated financial statements. The Company notes that its current presentation is already in line with most of the specific cash flow issues identified in the guidance.

In May 2014, the FASB issued guidance which amends and supersedes the revenue recognition requirements and most industry-specific guidance and creates a single source of revenue guidance. The new guidance outlines the principles an entity must apply to measure and recognize revenue and related cash flows. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets. The guidance is effective for reporting periods beginning after December 15, 2017. In July 2015, the FASB confirmed a deferral of the effective date by one year, with early adoption on the original effective date permitted. In 2016, the FASB issued various new guidance to clarify the implementation guidance on principal versus agent considerations, revenue from contracts with customers and identifying performance obligations and licensing implementation. The Company is currently evaluating the impact of this guidance on the Company's financial condition, results of operations and cash flows.

In February 2016, the FASB issued guidance which amends and supersedes its previous guidance regarding leases. The new guidance requires the lessee to recognize the right to use assets and lease liabilities that arise from leases and present them in its statement of financial condition. The recognition of these lease assets and lease liabilities represents a change from previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial condition. For public business entities the guidance is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosures. The Company notes that a significant majority of the Company's leases represent operating real estate leases for its respective offices and will require the gross up on its statement of financial conditions.

In January 2016, as a joint project with International Accounting Standards Board (IASB), the FASB issued a new accounting pronouncement to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in the update made improvements to US GAAP for equity investments and investments carried at amortized cost. The guidance also simplifies the impairment assessment for equity investments and clarifies the need for valuation allowance on deferred tax asset related to available for sale securities. For public business entities the guidance is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosure and does not expect the guidance to have a material impact as the Company does not own any significant investments carried at amortized cost.

4. Cash Collateral Pledged

As of June 30, 2017 and December 31, 2016, the Company pledged cash collateral in the amount of $6.6 million and $7.8 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 as collateral, $8.9 million, as of June 30, 2017, and $5.5 million, as of December 31, 2016, due between March 2018 and December 2019, for reinsurance agreements (See Note 17).

5. Segregated Cash

As of June 30, 2017 and December 31, 2016, cash segregated in compliance with federal regulations and other restricted deposits of $87.1 million and $1.0 million, respectively, consisted of cash deposited in special bank accounts for the benefit of customers under SEC Rule 15c3-3 and cash held in accounts designated as Special Reserve

Bank Accounts for Proprietary Accounts of Broker-Dealers (PAB).

6. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

Securities owned, at fair value are held by the Company and are considered held for trading. Substantially all equity securities are pledged to the clearing brokers under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations.

As of June 30, 2017 and December 31, 2016, securities owned, at fair value consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Common stocks (b)	$602,650	$669,655
Preferred stock (b)	18,576	15,811
Warrants and rights	11,786	8,335
U.S. Government securities (a)	3,800	3,780
Corporate bonds (d)	54,801	2,477
Convertible bonds (c)	282	250
Trade claims	4,648	562
Mutual funds (b)	—	6
	$696,543	$700,876

(a) As of June 30, 2017, maturities ranged from August 2017 to June 2018 with an interest rate of 0%. As of December 31, 2016, maturities ranged from February 2017 to December 2017 with an interest rate of 0%.

(b) The Company has elected the fair value option for investments in securities of preferred and common stocks with a fair value of $4.5 million and $4.9 million, respectively, at June 30, 2017 and $7.0 million and $5.2 million, respectively at, December 31, 2016. At December 31, 2016 the Company elected the fair value option for investments in mutual funds with a fair value of $0.1 million.

(c) As of June 30, 2017, maturities ranged from February 2018 to March 2018 and interest rates ranged from 5% to 8%. As of December 31, 2016, the maturity was March 2018 with an interest rate of 8%.

(d) As of June 30, 2017, maturities ranged from July 2018 to February 2046 and interest rates ranged from 3.25% to 9.00%. As of December 31, 2016, maturities ranged from January 2017 to January 2036 and interest rates ranged from 6.25% to 13.00%.

Receivable on and Payable for derivative contracts, at fair value

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

Upon issuance of the Company's cash convertible unsecured senior notes ("Convertible Notes") (See Note 17), the Company recognized the embedded cash conversion option at fair value of $35.7 million which is valued as of June 30, 2017 at

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$9.9 million and is included in payable for derivative contracts in the accompanying condensed consolidated statement of financial condition. Also, on the date of issuance of the Convertible Notes, the Company entered into a separate cash convertible note economic hedge transaction (the "Hedge Transaction") with a counterparty (the “Option Counterparty”) whereby, the Company purchased a cash settled option contract with terms identical to the conversion option embedded in the Convertible Notes and simultaneously sold an equity settled warrant with a higher strike price. The Hedge Transaction is expected to reduce the Company’s exposure to potential cash payments in excess of the principal amount of converted notes that the Company may be required to make upon conversion of the Convertible Notes. The Company paid a premium of $35.7 million for the option under the Hedge Transaction and received a premium of $15.2 million for the equity settled warrant transaction, for a net cost of $20.5 million. The Hedge Transaction is valued at $9.9 million as of June 30, 2017 and is included in receivable on derivative contracts in the accompanying condensed consolidated statement of financial condition. Aside from the initial premium paid, the Company will not be required to make any cash payments under the Hedge Transaction and could be entitled to receive an amount of cash from the Option Counterparty generally equal to the amount by which the market price per share of common stock exceeds the strike price of the Hedge Transaction during the relevant valuation period. The warrants cover 7,012,196 shares of the Company's Class A common stock and have an initial exercise price of $28.72 per share (share and per share amounts have been retroactively updated to reflect the one-for-four reverse stock split effective as of December 5, 2016). The warrants expire over a period of 80 trading days beginning on November 14, 2018. The warrant transaction could have a dilutive effect to the extent that the market value per share of the Company’s Class A common stock exceeds the applicable strike price of the warrants.
The Company's long and short exposure to derivatives is as follows:

Receivable on derivative contracts	As of June 30, 2017		As of December 31, 2016	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$6,525	$35	$12,421	$104
Currency forwards	$52,217	77	$80,608	592
Swaps	$140,388	4,803	$46,462	468
Options other (a)	279,002	25,824	256,097	21,539
Foreign currency options	$44,201	90	$57,051	198
		$30,829		$22,901

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

Payable for derivative contracts	As of June 30, 2017		As of December 31, 2016	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$6,590	$133	$38,345	$642
Currency forwards	$21,590	214	$—	—

Swaps	$83,355	925	$9,533	181
Options other (a)	67,551	24,669	23,726	19,939
		$25,941		$20,762

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

The following tables present the gross and net derivative positions and the related offsetting amount, as of June 30, 2017 and December 31, 2016. 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 June 30, 2017						
Receivable on derivative contracts, at fair value	$30,829	$ —	$ 30,829	$ —	$ 5,033	$25,796
Payable for derivative contracts, at fair value	25,941	—	25,941	—	1,139	24,802
As of December 31, 2016						
Receivable on derivative contracts, at fair value	22,901	—	22,901	—	1,382	21,519
Payable for derivative contracts, at fair value	20,762	—	20,762	—	181	20,581

(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 $3.1 million and $(9.9) million for the three months ended June 30, 2017 and 2016, and $(5.4) million and $(7.5) million for the six months ended June 30, 2017 and 2016, respectively, and are included in other income in the accompanying condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, except for the cash convertible note hedge (see Note 17) and exchange traded derivatives, the Company is required to post/receive collateral. As of June 30, 2017 and December 31, 2016, collateral consisting of $36.9 million and $17.1 million of cash, respectively, is included in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations on the accompanying condensed consolidated statements of financial condition. As of June 30, 2017 and December 31, 2016 all derivative contracts were with multiple major financial institutions.

Other investments

As of June 30, 2017 and December 31, 2016, other investments included the following:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Portfolio Funds, at fair value (1)	$94,092	$ 120,023
Equity method investments (2)	41,959	36,991
Lehman claims, at fair value	309	265
	$136,360	$ 157,279

(1) Portfolio Funds, at fair value

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The Portfolio Funds, at fair value as of June 30, 2017 and December 31, 2016, included the following:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Starboard Value and Opportunity Fund LP (c)(*)	$30,150	$ 27,424
Formation8 Partners Fund I, L.P. (f)	21,144	22,234
RCG Longview Debt Fund V, L.P. (i) (*)	11,413	16,187
Green Energy Metals Fund, LP (h)	—	6,241
HealthCare Royalty Partners LP (a)(*)	6,557	7,147
RCG LPP2 PNW5 Co-Invest, L.P. (j) (*)	1,966	3,152
HealthCare Royalty Partners II LP (a)(*)	1,974	2,091
Eclipse Ventures Fund I, L.P. (g)	3,017	1,790
Lagunita Biosciences, LLC (n)	2,159	1,698
Starboard Leaders Fund LP (e)(*)	1,178	1,231
Quadratic Fund LLC (k) (*)	938	6,729
RCGL 12E13th LLC (i) (*)	289	348
Starboard Partners Fund LP (d)(*)	—	5,067
Orchard Square Partners Credit Fund LP (b)	—	4,327
Other private investment (l) (*)	9,601	8,548
Other affiliated funds (m)(*)	3,706	5,809
	$94,092	$ 120,023

* These portfolio funds are affiliates of the Company.

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

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

(b) Orchard Square Partners Credit Fund LP had a quarterly redemption policy with a 60 day notice period and a 4% penalty on redemptions of investments of less than a year in duration.

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

(d) Starboard Partners Fund LP permitted redemptions on a semi-annual basis on 180 days' prior written notice subsequent to an initial two year lock up.

(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) 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.

(h) The Green Energy Metals Fund, LP invested the vast majority of its capital in physical off-exchange traded minor metals that are crucial to the production and sustainability of clean energy, emerging technology and energy efficiency. The Company was invested in a managed account specifically targeting cobalt. The Green Energy Metals Fund, LP is a private equity structure and therefore distributions were made when the underlying investments were liquidated.

(i) RCGL 12E13th LLC and RCG Longview Debt Fund V, L.P. are real estate private equity structures and therefore distributions will be made when the underlying investments are liquidated.

(j) 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.

(k) Quadratic Fund LLC permits redemptions on a 30 day prior written notice.
(l) Other private investment represents the Company's closed end investment in a portfolio fund that invests in a wireless broadband communication provider in Italy.
(m) The majority of these funds are affiliates of the Company or are managed by the Company and the investors can redeem from these funds as investments are liquidated.
(n) Lagunita Biosciences, LLC, 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.
(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 20% to 57%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in RCG Longview Partners II, LLC and in Surf House Ocean Views Holdings, LLC. The operating agreement that governs the management of day-to-day operations and affairs of these entities stipulates that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these entities requires the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) HealthCare Royalty Partners General Partners and (b) Starboard Value (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of several activist private funds and related managed accounts and c) Surf House Ocean Views Holdings, LLC which is a joint venture in a real estate development project. 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 June 30, 2017 and June 30, 2016, the Company incurred $1.4 million and $1.8 million of these costs, respectively. For the six months ended June 30, 2017 and June 30, 2016, the Company incurred $2.6 million and $5.1 million of these costs, respectively. The Company recorded no impairment charges in relation to its equity method investments for the six months ended June 30, 2017 and 2016.

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

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Surf House Ocean Views Holdings, LLC	$14,179	$ 13,522
Starboard Value LP	15,131	12,501
RCG Longview Debt Fund V Partners, LLC	8,008	7,256
RCG Longview Management, LLC	859	656
HealthCare Royalty GP, LLC	535	583
HealthCare Royalty GP II, LLC	334	354
RCG Longview Debt Fund IV Management, LLC	331	331
HealthCare Royalty GP III, LLC	1,252	208
RCG Kennedy House, LLC	136	183

RCG Longview Equity Management, LLC	114	114
HealthCare Overflow Fund GP, LLC	67	68
Other	1,013	1,215
	$41,959	$ 36,991

For the period ended June 30, 2017, one equity method investment has met the significance criteria as defined under Regulation S-X Rule 4-08(g) of the SEC guidance. As such, the Company is presenting the following summarized financial information for the significant investee for the three and six months ended June 30, 2017 and 2016, and such information is as follows:

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)			
Revenues	$14,498	$(1,178)	$17,912	$2,727
Expenses	—	—	—	—
Net realized and unrealized gains (losses)	73	13	75	173
Net Income	$14,571	$(1,165)	$17,987	$2,900

As of June 30, 2017 and December 31, 2016, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million.

The Company's income (loss) from equity method investments was $4.9 million and $0.2 million for the three months ended June 30, 2017 and 2016, and $8.1 million and $4.9 million, for the six months ended June 30, 2017 and 2016, 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 June 30, 2017 and December 31, 2016, securities sold, not yet purchased, at fair value consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Common stocks	$201,692	$263,460
Corporate bonds (a)	51,689	2,591
Warrants and rights	696	39
	$254,077	$266,090

(a) As of June 30, 2017, the maturities ranged from April 2017 to October 2026 with interest rates ranged from 2.38% to 5.55%. As of December 31, 2016, the maturities ranged from April 2021 to January 2036 with interest rates ranged from 5.50% to 6.25%.

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 June 30, 2017.

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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 on the Condensed Consolidated Statements of Financial Condition			
				Additional Amounts Available	Financial instruments	Cash Collateral pledged (b)	Net amounts
	(dollars in thousands)						
As of June 30, 2017							
Securities borrowed	$ 100,845	$ —	$ 100,845	$ (3,934)	$ (96,911)	$ —	$ —
Securities loaned	142,434	—	142,434	(6,605)	(135,829)	—	—

(a) Includes financial instruments subject to enforceable master netting provisions that are permitted to be offset to the extent an event of default has occurred.
(b) Includes the amount of cash collateral held/posted.

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

	Open and Overnight	Up to 30 days	31 - 90 days	Greater than 90 days	Total
	(dollars in thousands)				
As of June 30, 2017					
Stocks	$ 142,434	$ —	$ —	$ —	$ 142,434

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 $5.0 billion and $0.4 billion as of June 30, 2017 and $5.3 billion and $1.0 billion as of December 31, 2016, respectively. In addition, the maximum exposure relating to these variable interest entities as of June 30, 2017 was $500.0 million, and as of December 31, 2016 was $508.1 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 Feeder Funds' investment in their Unconsolidated Master Funds and the Company's investment in unconsolidated investment companies.

b. Consolidated Funds

Securities owned, at fair value

As of June 30, 2017 and December 31, 2016, securities owned, at fair value, held by the Consolidated Funds consisted of the following:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	

Preferred stock	$18,431	$ 37,343
Common stocks	61,856	28,474
U.S. Government securities (a)	7,487	6,994
Corporate bonds (b)	2,658	4,214
Term Loan	873	2,209
Warrants and rights	3,369	3
	$94,674	$ 79,237

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

(a) As of June 30, 2017, the maturity was September 2017 with an interest rate of 0%. As of December 31, 2016, the maturity was March 2017 with an interest rate of 0%.
(b) As of June 30, 2017, maturities ranged from October 2017 to October 2028 and interest rates ranged from 5.25% to 14.37%. As of December 31, 2016, maturities ranged from October 2017 to June 2038 and interest rates ranged from 0% and 14.37%.

Securities sold, not yet purchased, at fair value

As of June 30, 2017, there were no securities sold, not yet purchased, at fair value. As of December 31, 2016, securities sold, not yet purchased, at fair value, held by the Consolidated Funds consisted of the following:

	As of December 31, 2016
	(dollars in thousands)
Corporate bonds (a)	$ 672
Common stocks	211
	$ 883

(a) As of December 31, 2016, maturities ranged from September 2019 to September 2023 and interest rates ranged from 4.38% to 9.25%.

Receivable on derivative contracts

As of June 30, 2017 and December 31, 2016, receivable on derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Currency forwards	$148	$ 18
Equity swaps	693	731
Options	174	144
	$1,015	$ 893

Payable for derivative contracts

As of June 30, 2017 and December 31, 2016, payable for derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Currency forwards	$15	$ 10
Equity swaps	552	495
Options	53	67
	$620	$ 572

Other investments, at fair value

Investments in Portfolio Funds, at fair value

As of June 30, 2017 and December 31, 2016, investments in Portfolio Funds, at fair value, included the following:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Investments of Enterprise LP	$99,373	$ 114,159
Investments of Merger Fund	305,117	281,572
Investments of Caerus LP	—	5,734
	$404,490	$ 401,465

Consolidated portfolio fund investments of Enterprise LP

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Enterprise LP operates under a “master-feeder” structure, whereby Enterprise Master's shareholders are Enterprise LP and RCG II Intermediate Fund, L.P. The consolidated investments in Portfolio Funds include Enterprise LP's investment of $99.4 million and $114.2 million in Enterprise Master as of June 30, 2017 and December 31, 2016, respectively. On May 12, 2010, the Company announced its intention to close Enterprise Master. Prior to this announcement, strategies utilized by Enterprise Master included merger arbitrage and activist investing, investments in distressed securities, convertible hedging, capital structure arbitrage, equity market neutral, investments in private placements of convertible securities, proprietary mortgages, structured credit investments, investments in mortgage backed securities and other structured finance products, investments in real estate and real property interests, structured private placements and other relative value strategies. Enterprise Master had broad investment powers and maximum flexibility in seeking to achieve its investment objective. Enterprise Master was permitted to invest in equity securities, debt instruments, options, futures, swaps, credit default swaps and other derivatives. As Enterprise Master winds down its positions, it will return capital to its investors. There are no unfunded commitments at Enterprise LP.

Consolidated portfolio fund investments of Merger Fund

The Merger Fund operates under a “master-feeder” structure, whereby Ramius Merger Master Ltd's ("Merger Master") shareholders are Merger Fund and Ramius Merger Fund Ltd. The consolidated investments in Portfolio Funds include Merger Fund's investment of $305.1 million and $281.6 million in Merger Master as of June 30, 2017 and December 31, 2016, 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.

Consolidated portfolio fund investments of Caerus LP

Prior to Caerus LP being liquidated on March 1, 2017, it operated under a “master-feeder” structure, whereby Caerus Select Master Fund Ltd's ("Caerus Master") shareholder was Caerus LP. The consolidated investments in Portfolio Funds included Caerus LP's investment of $5.7 million in Caerus Master as of December 31, 2016. Caerus Master’s investment objective was to achieve superior risk-adjusted rates of return that bear little correlation to the overall market. Caerus Master sought to achieve this objective by utilizing a long/short investment strategy, investing primarily in equities and options on equities that trade on major global market exchanges. Caerus Master focused on investments in the global consumer sector, including, but not limited to, securities in sub-sectors such as retail, apparel and footwear, restaurants, gaming and lodging, consumer products, food and beverage, consumer technology, media, transportation and homebuilding and building materials.

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 June 30, 2017 and December 31,

2016, 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 June 30, 2017 and none at December 31, 2016.
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.

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Investments percentage of the Company's equity at June 30, 2017

Issuer	Security Type	Country	Industry	Percentage of Equity		Market Value (dollars in thousands)
Linkem	Equity	Italy	Wireless Broadband	6.03	%	$ 50,291

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds
Enterprise Master and Merger Master
Enterprise LP's investment in Enterprise Master represents Enterprise LP's proportionate share of Enterprise Master's net assets; as a result, the investment balances of Enterprise Master reflected below may exceed the net investment which Enterprise LP has recorded. Merger Fund's investment in Merger Master represents Merger Fund's proportionate share of 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 June 30, 2017 and December 31, 2016:
Securities owned by Enterprise Master, at fair value

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Preferred stock	$1,479	$ 1,581
Common stock	897	835
	$2,376	$ 2,416

Portfolio Funds, owned by Enterprise Master, at fair value

	Strategy	As of June 30, 2017	As of December 31, 2016
		(dollars in thousands)	
RCG Special Opportunities Fund, Ltd*	Multi-Strategy	$100,846	$101,832
RCG Longview Equity Fund, LP*	Real Estate	1,525	4,744
RCG Longview Debt Fund IV, LP*	Real Estate	934	1,637
RCG Longview II, LP*	Real Estate	223	836
RCG Renergys, LLC*	Energy	1	1
Other Private Investments	Various	8,107	8,682
Other Real Estate Investments *	Real Estate	—	295
		$111,636	$118,027

* Affiliates of the Company.

Merger Master
As of June 30, 2017, Merger Master held common stock, securities owned, of $673.2 million and common stock, sold not yet purchased, of $113.8 million. As of December 31, 2016, Merger Master held common stock, securities owned, of $835.7 million and common stock, sold not yet purchased, of $395.5 million, respectively.
Receivable on derivative contracts, at fair value, owned by Merger Master

Description	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Options	$3,449	$ 4,264
Equity swaps	2,987	255
	$6,436	$ 4,519

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

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

Description	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Options	$980	$ 2,285
Currency forwards	226	—
Equity swaps	2,394	123
	$3,600	$ 2,408

Caerus Master
As of December 31, 2016, Caerus Master held common stock, of $3.2 million and common stock, sold not yet purchased, of $2.6 million.
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 June 30, 2017 and December 31, 2016:

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	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Operating Entities				
Securities owned				
US Government securities	$3,800	$—	$—	$3,800
Preferred stock	—	—	18,576	18,576
Common stocks	583,632	5,343	13,675	602,650
Convertible bonds	—	—	282	282
Corporate bonds	—	54,801	—	54,801
Trade claims	—	—	4,648	4,648
Warrants and rights	8,377	—	3,409	11,786
Receivable on derivative contracts, at fair value				
Futures	35	—	—	35
Currency forwards	—	77	—	77
Swaps	—	4,803	—	4,803
Options	15,965	89	9,860	25,914
Other investments				
Lehman claim	—	—	309	309
Consolidated Funds				
Securities owned				
US Government securities	7,487	—	—	7,487
Preferred stock	—	207	18,224	18,431
Common stocks	44,809	16,199	848	61,856
Corporate bonds	—	2,658	—	2,658
Warrants and rights	—	—	3,369	3,369
Term loan	—	671	202	873
Receivable on derivative contracts, at fair value				
Currency forwards	—	148	—	148
Equity swaps	—	693	—	693
Options	174	—	—	174
	$664,279	$85,689	$73,402	$823,370
Percentage of total assets measured at fair value	80.7 %	10.4 %	8.9 %	
Portfolio funds measured at net asset value (a)				94,092
Consolidated funds' portfolio funds measured at net asset value (a)				404,490
Equity method investments				41,959
Total investments				$1,363,911

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

	Liabilities at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased				
Common stocks	$201,692	$—	$—	$201,692
Corporate bonds	—	51,689	—	51,689
Warrants and rights	696	—	—	696
Payable for derivative contracts, at fair value				
Futures	133	—	—	133
Currency forwards	—	214	—	214
Swaps	—	925	—	925
Options	14,809	—	9,860	24,669
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	5,174	5,174
Consolidated Funds				
Payable for derivative contracts, at fair value				
Currency forwards	—	15	—	15
Options	53	—	—	53
Equity swaps	—	552	—	552
	$217,383	$53,395	$15,034	$285,812
Percentage of total liabilities measured at fair value	76.1 %	18.7 %	5.3 %	

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

(b) In accordance with the terms of the purchase agreements for acquisitions that closed during the third and fourth quarter of 2015 and the second quarter of 2016, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 2018, December 2020, and June 2018, respectively. The Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of June 30, 2017 can range from $0.1 million to $15.0 million.

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

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Operating Entities				
Securities owned				
US Government securities	$3,780	$—	$—	$3,780
Preferred stock	—	—	15,811	15,811
Common stocks	658,179	1,355	10,121	669,655
Convertible bonds	—	—	250	250
Corporate bonds	—	2,477	—	2,477
Trade claims	—	—	562	562
Warrants and rights	4,616	—	3,719	8,335
Mutual funds	6	—	—	6
Receivable on derivative contracts, at fair value				
Futures	104	—	—	104
Currency forwards	—	592	—	592
Swaps	—	468	—	468
Options	6,662	322	14,753	21,737
Other investments				
Lehman claim	—	—	265	265
Consolidated Funds				
Securities owned				
US Government securities	6,994	—	—	6,994
Preferred stock	—	415	36,928	37,343
Common stocks	19,467	8,712	295	28,474
Corporate bonds	—	4,214	—	4,214
Warrants and rights	—	—	3	3
Term loan	—	1,552	657	2,209
Receivable on derivative contracts, at fair value				
Currency forwards	—	18	—	18
Equity swaps	—	731	—	731
Options	132	12	—	144
	$699,940	$20,868	$83,364	$804,172
Percentage of total assets measured at fair value	87.0 %	2.6 %	10.4 %	
Portfolio funds measured at net asset value (a)				120,023
Consolidated funds' portfolio funds measured at net asset value (a)				401,465
Equity method investments				36,991
Total investments				$1,362,651

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

	Liabilities at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased				
Common stocks	$263,460	$—	$—	$263,460
Corporate bonds	—	2,591	—	2,591
Warrants and rights	39	—	—	39
Payable for derivative contracts, at fair value				
Futures	642	—	—	642
Swaps	—	181	—	181
Options	5,186	—	14,753	19,939
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	5,997	5,997
Consolidated Funds				
Securities sold, not yet purchased				
Common stocks	211	—	—	211
Corporate bonds	—	672	—	672
Payable for derivative contracts, at fair value				
Currency forwards	—	10	—	10
Options	67	—	—	67
Equity swaps	—	495	—	495
	$269,605	$3,949	$20,750	$294,304
Percentage of total liabilities measured at fair value	91.6 %	1.3 %	7.1 %	

(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 2012 and the third and fourth quarter of 2015, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 2018, and December 2020, respectively. The Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of December 31, 2016 can range from $0.1 million to $15.1 million.

The following table includes a rollforward of the amounts for the three and six months ended June 30, 2017 and 2016, 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 June 30, 2017							
	Balance at March 31, 2017	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at June 30, 2017	Change in unrealized gains/losses relati to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$16,516	$ —	$(4,204)(a)	$ 7,999	$ —	$(1,735)	$18,576	$ (1,735)
Common stocks	10,504	—	—	3,087	(123)	207	13,675	205
Convertible bonds	250	—	—	32	—	—	282	—
Options, asset	6,971	—	—	—	—	2,889	9,860	2,889
Options, liability	6,971	—	—	—	—	2,889	9,860	2,889
Warrants and rights	4,139	2,741(d)	—	—	(4,118)	647	3,409	72
Trade claims	703	—	—	3,940	—	5	4,648	5
Lehman claim	297	—	—	—	—	12	309	12
Contingent consideration liability	5,274	—	—	—	(100)	—	5,174	—
Consolidated Funds								
Preferred stock	40,315	—	(13,668)(a)	—	(11,853)	3,430	18,224	(2,423)
Common stocks	296	—	—	476	—	76	848	76
Warrants and rights	2	—	—	—	—	3,367	3,369	3,367
Term Loan	711	—	—	202	(821)	110	202	—

	Three Months Ended June 30, 2016							
	Balance at March 31, 2016	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at June 30, 2016	Change in unrealized gains/losses relati to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$13,646	$ —	$(1,000)(c)	$ 200	$ —	$ 396	$13,242	$ 394
Common stocks	4,765	—	—	1,204	(135)	411	6,245	276
Convertible bonds	250	—	—	—	—	—	250	—
Options, asset	20,892	—	—	—	—	(12,345)	8,547	(12,345)
Options, liability	20,892	—	—	—	—	(12,345)	8,547	(12,345)
Warrants and rights	2,505	—	—	1,914	(817)	(299)	3,303	402
Lehman claim	293	—	—	—	—	(23)	270	(23)
Contingent consideration liability	8,293	—	—	2,397	(3,493)	—	7,197	—
Consolidated Funds								
Preferred Stock	28,000	—	—	13,000	—	—	41,000	—

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

	Six Months Ended June 30, 2017							
	Balance at December 31, 2016	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at June 30, 2017	Change in unrealized gains/losses rela to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$15,811	$ —	$(4,204) (a)	$ 9,731	$ (31)	$ (2,731)	$18,576	$ (2,731)
Common stocks	10,121	—	—	3,118	(175)	611	13,675	611
Convertible bonds	250	—	—	32	—	—	282	—
Options, asset	14,753	—	—	—	—	(4,893)	9,860	(4,893)
Options, liability	14,753	—	—	—	—	(4,893)	9,860	(4,893)
Warrants and rights	3,719	3,192 (b)(d)	—	—	(4,118)	616	3,409	42
Trade claims	562	—	—	3,940	(70)	216	4,648	195
Lehman claim	265	—	—	—	—	44	309	44
Contingent consideration liability	5,997	—	—	—	(267)	(556)	5,174	(556)
Consolidated Funds								
Preferred stock	36,928	—	(13,668) (a)	—	(11,853)	6,817	18,224	964
Common stocks	295	—	—	476	—	77	848	77
Warrants and rights	3	—	—	—	—	3,366	3,369	3,366
Term Loan	657	—	—	202	(821)	164	202	—

	Six Months Ended June 30, 2016							
	Balance at December 31, 2015	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at June 30, 2016	Change in unrealized gains/losses relat to instruments still held (1)
	(dollars in thousands)							
Operating Entities								
Preferred stock	$12,872	$ —	$(1,000) (c)	$ 200	$ (218)	$ 1,388	$13,242	$ 960
Common stocks	2,278	—	—	1,773	(135)	2,329	6,245	2,330
Convertible bonds	819	—	—	—	(569)	—	250	—
Options, asset	18,194	—	—	—	—	(9,647)	8,547	(9,647)
Options, liability	18,194	—	—	—	—	(9,647)	8,547	(9,647)
Warrants and rights	2,572	—	—	1,914	(817)	(366)	3,303	(353)
Lehman claim	299	—	—	—	—	(29)	270	(29)
Contingent consideration liability	6,158	—	—	2,397	(3,493)	2,135	7,197	2,135
Consolidated Funds								
Preferred stock	32,000	—	(4,000) (a)	13,000	—	—	41,000	—

(1) Unrealized gains/losses are reported in other income (loss) in the accompanying condensed consolidated statements of operations.
(a) The investments were converted to common stock.
(b) The Company received warrants as part of a transaction.
(c) The entity in which the Company is invested completed an initial public offering.
(d) As part of the preferred stock sale, the sellers received contingent value rights to be paid in the event certain

milestones are reached.

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.

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

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 six months ended June 30, 2017 and 2016, there were no transfers between level 1 and level 2 assets and liabilities.
The following table includes quantitative information as of June 30, 2017 and December 31, 2016 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 June 30, 2017 (dollars in thousands)	Valuation techniques	Unobservable Inputs	Range
Common and preferred stocks	$10,802	Guideline companies/transaction price Option pricing method, discounted cash flow	Volatility Market multiples Discount rate	37% 0.8x to 9.3x 9.5% to 22%
Trade claims	67	Discounted cash flows	Discount rate	20%
Warrants and rights	1,208	Model based	Volatility	30% to 75% (weighted average 75%)
Options	9,860	Option pricing models	Volatility	33%
Other level 3 assets (a)	51,465			
Total level 3 assets	73,402			
Level 3 Liabilities				
Options	9,860	Option pricing models	Volatility	33%
Contingent consideration liability	5,174	Discounted cash flows	Projected cash flow and discount rate	7% - 23.5% (weighted average 22%)
Total level 3 liabilities	$15,034			

	Quantitative Information about Level 3 Fair Value Measurements			
Level 3 Assets	Fair Value at December 31, 2016 (dollars in thousands)	Valuation techniques	Unobservable Inputs	Range
Common and preferred stocks	$10,917	Guideline companies/transaction price Option pricing method, discounted cash flow	Volatility Market multiples Discount rate	37% 0.8x to 9.3x 9.5% to 10%
Trade claims	520	Discounted cash flows		6x 20%

			Market multiples Discount rate	
Warrants and rights	3,719	Model based	Volatility	30% to 85% (weighted average 73%)
Options	14,753	Option pricing models	Volatility	40%
Other level 3 assets (a)	53,455			
Total level 3 assets	83,364			
Level 3 Liabilities				
Options	14,753	Option pricing models	Volatility	40%
Contingent consideration liability	5,997	Discounted cash flows	Projected cash flow and discount rate	8% - 25% (weighted average 23%)
Total level 3 liabilities	$20,750			

(a) The quantitative disclosures exclude financial instruments for which the determination of fair value is based on prices from recent transactions.

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

The Company has established valuation policies and procedures and an internal control infrastructure over its fair value measurement of financial instruments which includes ongoing oversight by the valuation committee as well as periodic audits performed by the Company's internal audit group. The valuation committee is comprised of senior management, including non-investment professionals, who are responsible for overseeing and monitoring the pricing of the Company's investments, including the review of the results of the independent price verification process, approval of new trading asset classes and use of applicable pricing models and approaches.
The US GAAP fair value leveling hierarchy is designated and monitored on an ongoing basis. In determining the designation, the Company takes into consideration a number of factors including the observability of inputs, liquidity of the investment and the significance of a particular input to the fair value measurement. Designations, models, pricing vendors, third party valuation providers and inputs used to derive fair market value are subject to review by the valuation committee and the internal audit group. The Company reviews its valuation policy guidelines on an ongoing basis and may adjust them in light of, improved valuation metrics and models, the availability of reliable inputs and information, and prevailing market conditions. The Company reviews a daily profit and loss report, as well as other periodic reports, and analyzes material changes from period-to-period in the valuation of its investments as part of its control procedures. The Company also performs back testing on a regular basis by comparing prices observed in executed transactions to previous valuations.
The fair market value for level 3 securities may be highly sensitive to the use of industry standard models, unobservable inputs and subjective assumptions. The degree of fair market value sensitivity is also contingent upon the subjective weight given to specific inputs and valuation metrics. The Company holds various equity and debt instruments where different weight may be applied to industry standard models representing standard valuation metrics such as: discounted cash flows, market multiples, comparative transactions, capital rates, recovery rates and timing, and bid levels. Generally, changes in the weights ascribed to the various valuation metrics and the significant unobservable inputs in isolation may result in significantly lower or higher fair value measurements. Volatility levels for warrants and options are not readily observable and subject to interpretation. Changes in capital rates, discount rates and replacement costs could significantly increase or decrease the valuation of the real estate investments. The interrelationship between unobservable inputs may vary significantly amongst level 3 securities as they are generally highly idiosyncratic. Significant increases (decreases) in any of those inputs in isolation can result in a significantly lower (higher) fair value measurement.
Other financial assets and liabilities
The following table presents the carrying values and fair values, at June 30, 2017 and December 31, 2016, of financial assets and liabilities and information on their classification within the fair value hierarchy which are not measured at fair value on a recurring basis. For additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value see Note 3.

	June 30, 2017			December 31, 2016			
	Carrying Amount	Fair Value		Carrying Amount	Fair Value		Fair Value Hierarchy
		(dollars in thousands)					
Financial Assets							
Operating companies							
Cash and cash equivalents	$165,474	$165,474		$110,990	$110,990		Level 1
Cash collateral pledged	15,473	15,473		13,342	13,342		Level 2
Securities borrowed	100,845	96,911		—	—		Level 1
Loans receivable	23,590	23,590	(d)	31,088	31,088	(d)	Level 3
Consolidated funds							
Cash and cash equivalents	34,407	34,407		17,761	17,761		Level 1
Financial Liabilities							
Securities loaned	142,434	135,829		—	—		Level 1

Convertible debt	134,100	(a)	155,208	(b)	130,029	(a)	149,545	(b) Level 2
Notes payable and other debt	107,119		113,190	(c)	77,030		80,817	(c) Level 2

(a) The carrying amount of the convertible debt includes an unamortized discount of $14.1 million and $17.8 million as of June 30, 2017 and December 31, 2016.
(b) The convertible debt includes the conversion option and is based on the last broker quote available.
(c) Notes payable and other debt are based on the last broker quote available.
(d) The fair market value of level 3 loans is calculated using discounted cash flows.

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

8. Deposits with Clearing Organizations, Brokers and Banks

Under the terms of agreements between the Company and some of its clearing organizations, brokers and banks, balances owed are collateralized by certain of the Company's cash and securities balances. As of June 30, 2017 and December 31, 2016, the Company had a total of $79.2 million and $8.9 million, respectively, in deposit accounts with clearing organizations, brokers and banks that could be used as collateral to offset losses incurred by the clearing organizations, brokers and banks, on behalf of the Company's activities, if such losses were to occur.

9. Receivables From and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payable to brokers, dealers and clearing organizations includes cash held at the clearing brokers, amounts receivable or payable for unsettled transactions, monies borrowed and proceeds from short sales equal to the fair value of securities sold, not yet purchased, which are restricted until the Company purchases the securities sold short. Pursuant to the master netting agreements the Company entered into with its brokers, dealers and clearing organizations, these balances are presented net (assets less liabilities) across balances with the same counterparty. The Company's receivables from and payables to brokers, dealers and clearing organizations balances are held at multiple financial institutions.

As of June 30, 2017 and December 31, 2016, amounts receivable from brokers, dealers and clearing organizations include:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Broker-dealers	$116,812	$ 78,898
Securities failed to deliver	26,887	—
Clearing organizations	1,090	—
Stock borrow interest receivable	596	—
	$145,385	$ 78,898

As of June 30, 2017 and December 31, 2016, amounts payable to brokers, dealers and clearing organizations include:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Broker-dealers	$219,741	$210,309
Securities failed to receive	45,736	—
Clearing organizations	2,001	—
Stock loan interest payable	456	—
	$267,934	$210,309

10. Receivable From and Payable to Customers

As of June 30, 2017, receivable from customers of $64.2 million consists of amounts owed by customers relating to securities transactions not completed on settlement date and receivables arising from the prepayment of a Commission Sharing Agreement ("CSA"), net of an allowance for doubtful accounts. A prepaid CSA is established for research-related disbursements in advance of anticipated customer commission volumes. Such receivables may not be evidenced by contractual obligations.

As of June 30, 2017, payable to customers of $114.4 million include amounts due on cash and margin transactions to the Company's clients, some of which have their assets held by a Company omnibus account, which are included within receivables from brokers, dealers and clearing organizations in the accompanying condensed consolidated statements of financial condition. In the omnibus structure, positions that are owned by CIL are fully cross collateralized by client funds, meaning that the Company, for all intents and purposes, has no market risk. Additionally, CIL has no obligation to settle any trade that it deems inappropriate from a risk perspective, adding an

important market and counterparty risk mitigating factor.
11. Commission Management Payable
The Company receives a gross commission from various clearing brokers, which is then used to fund commission sharing and recapture arrangements, less the portion retained as income to the Company. Accrued commission sharing and commission recapture payable of $88.9 million as of June 30, 2017 and $3.6 million as of December 31, 2016 are classified as commission management payable in the accompanying condensed consolidated statements of financial condition.

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

12. Redeemable Non-Controlling Interests in Consolidated Subsidiaries and Funds
Redeemable non-controlling interests in consolidated subsidiaries and funds and the related net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds are comprised as follows:

	As of June 30, 2017	As of December 31, 2016
	(dollars in thousands)	
Redeemable non-controlling interests in consolidated subsidiaries and funds		
Operating companies	$5,584	$7,638
Consolidated Funds	412,425	371,567
	$418,009	$379,205

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds				
Operating companies	$1,006	$1,525	$1,723	$1,447
Consolidated Funds	20,139	(18,230)	28,527	(22,449)
	$21,145	$(16,705)	$30,250	$(21,002)

13. Reinsurance
The Company's wholly-owned Luxembourg subsidiary, Hollenfels Re SA ("Hollenfels") provides reinsurance to third party insurance and reinsurance companies. As Hollenfels started its operations during 2016, all claims it experienced (reported or not reported) were from the 2016 accident year through June 30, 2017. During the three and six months ended June 30, 2017, Hollenfels' share of incurred and paid claims, as reported to it by the underlying insurance and reinsurance companies, amounted to $0.5 million and $1.1 million, respectively. During the same period, Hollenfels' share of claims incurred but not reported plus expected development on reported claims totaled $1.2 million and $2.1 million, respectively. Hollenfels generally employs an estimation methodology whereby historical average claims ratios over a period of 5 or 10 years, based on availability of data, are utilized. In cases where an event may have occurred that could give rise to claims in excess of the amount calculated using the above-mentioned methodology, then actuarial methods are used to calculate the impact of such an event. During the quarter, Hollenfels did not change its methodology for determining claim liability or claim adjustment expenses and calculated them using the above-mentioned methods.
While Hollenfels typically settles its premiums and claim payments on a quarterly basis, the frequency of claims in the underlying policies is impractical for Hollenfels to obtain. This is because certain contracts Hollenfels has written are on a quota-share basis while the other policies provide aggregate loss protection, rendering the collection of information for all underlying contracts impracticable. Hollenfels did not discount any of its reserves and did not cede any portion of its exposures during the three and six months ended June 30, 2017.
14. Share-Based and Deferred Compensation and Employee Ownership Plans
On December 5, 2016, the Company effected a one-for-four reverse stock split of the Company's class A and class B common stock. All share and per share information has been retroactively adjusted to reflect the reverse stock split.
The Company issues share based compensation under the 2006 Equity and Incentive Plan, the 2007 Equity and Incentive Plan (both established prior to the November 2009 transaction between Ramius Capital Group LLC and Cowen) and the Cowen Group, Inc. 2010 Equity and Incentive Plan (collectively, the "Equity Plans"). The Equity Plans permit the grant of options, restricted shares, restricted stock units, stock appreciation rights ("SAR's") and other equity based awards to the Company's employees and directors. Stock options granted generally vest over

two-to-five-year periods and expire seven years from the date of grant. Restricted shares and restricted share units issued may be immediately vested or may generally vest over a two-to-five-year period. SAR's vest and expire after five years from grant date. Awards are subject to the risk of forfeiture. As of June 30, 2017, there were approximately 0.2 million shares available for future issuance under the Equity Plans.

Under the 2010 Equity Plan, the Company awarded $24.1 million of deferred cash awards to its employees during the three and six months ended June 30, 2017. These awards vest over a four year period and accrue interest at 0.70% per year. As of June 30, 2017, the Company had unrecognized compensation expense related to the 2010 Equity Plan deferred cash awards of $44.0 million.

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Subsequent to the acquisition of Convergex Group (see Note 2) the Company maintains the Convergex Nonqualified Deferred Compensation Plan, which is a deferred cash award plan that is expensed over the 27 month service period requirement. As of June 30, 2017, the Company had unrecognized compensation expense related to former Convergex Group deferred cash awards of $4.3 million.

The Company measures compensation cost for share based awards according to the equity method. In accordance with the expense recognition provisions of those standards, the Company amortizes unearned compensation associated with share based awards on a straight-line basis over the vesting period of the option or award. In relation to awards under the Equity Plans, the Company recognized compensation expense of $9.1 million and $6.6 million for the three months ended June 30, 2017 and 2016, and $17.9 million and $13.0 million, for the six months ended June 30, 2017 and 2016, respectively. The income tax effect recognized for the Equity Plans was a benefit of $4.5 million and $2.9 million for the three months ended June 30, 2017 and 2016, and $7.0 million and $6.0 million, for the six months ended June 30, 2017 and 2016, respectively.

Stock Options and Stock Appreciation Rights

The Company values options and SAR's on grant date using the Black-Scholes valuation model which requires the Company to make assumptions regarding the expected term, volatility, risk-free rate and dividend yield:

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

Expected volatility. The Company bases its expected volatility on its own stock price history.

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

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

The following table summarizes the Company's stock option activity for the six months ended June 30, 2017:

	Shares Subject to Option	Weighted Average Exercise Price/Share	Weighted Average Remaining Term	Aggregate Intrinsic Value(1)
			(in years)	(dollars in thousands)
Balance outstanding at December 31, 2016	4,167	$ 19.56	0.10	$ —
Options granted	—	—	—	—
Options exercised	—	—	—	—
Options expired	(4,167)	19.56	—	—
Balance outstanding at June 30, 2017	—	$ —	0	$ —
Options exercisable at June 30, 2017	—	$ —	0	$ —

(1) Based on the Company's closing stock price of $16.25 on June 30, 2017 and $15.50 on December 31, 2016.

As of June 30, 2017, the Company's stock options were fully expensed.

The following table summarizes the Company's SAR's for the six months ended June 30, 2017:

	Shares Subject to Option	Weighted Average Exercise Price/Share	Weighted Average Remaining Term	Aggregate Intrinsic Value(1)
			(in years)	(dollars in thousands)
Balance outstanding at December 31, 2016	100,000	$ 11.60	1.21	$ 435

SAR's granted	—	—