

COWEN INC.  
Form 10-Q  
October 30, 2017  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from to

Commission File Number: 001-34516

Cowen Inc.

(Exact name of registrant as specified in its charter)

Delaware 27-0423711

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

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

(Address of Principal Executive Offices)

(646) 562-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>	Non-accelerated filer <input type="radio"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="radio"/>	Emerging growth company <input type="radio"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 27, 2017, there were 31,087,677 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 September 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 nine months ended September 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)

	As of September 30, 2017	As of December 31, 2016
Assets		
Cash and cash equivalents	\$117,824	\$110,990
Cash collateral pledged	16,995	13,342
Segregated cash	140,656	1,024
Securities owned, at fair value	659,772	700,876
Receivable on derivative contracts, at fair value	32,105	22,901
Securities borrowed	371,367	—
Other investments	141,180	157,279
Deposits with clearing organizations, brokers and banks	84,161	8,939
Receivable from brokers, dealers and clearing organizations	247,136	78,898
Receivable from customers, net of allowance of \$1,556 and \$0 respectively	45,509	—
Fees receivable, net of allowance of \$1,648 and \$0, respectively	110,954	45,883
Due from related parties	37,407	39,629
Fixed assets, net of accumulated depreciation and amortization of \$26,831 and \$23,867, respectively	35,817	42,408
Goodwill	60,678	60,678
Intangible assets, net of accumulated amortization of \$29,643 and \$29,418, respectively	31,705	25,769
Deferred tax asset, net	158,617	165,656
Other assets	75,729	38,406
Consolidated Funds		
Cash and cash equivalents	11,156	17,761
Securities owned, at fair value	117,630	79,237
Receivable on derivative contracts, at fair value	1,042	893
Other investments	401,348	401,465
Receivable from brokers	8,334	5,978
Other assets	289	511
Total Assets	\$2,907,411	\$2,018,523
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$305,267	\$266,090
Payable for derivative contracts, at fair value	26,317	20,762
Securities loaned	414,957	—
Payables to brokers, dealers and clearing organizations	156,103	210,309
Payable to customers	202,727	—
Commission management payable	77,851	3,590
Compensation payable	102,508	98,084
Notes payable and other debt	101,267	77,030
Convertible debt	136,189	130,029
Fees payable	11,493	3,272
Due to related parties	567	573
Accounts payable, accrued expenses and other liabilities	103,036	47,525

Consolidated Funds		
Securities sold, not yet purchased, at fair value	—	883
Payable for derivative contracts, at fair value	1,747	572
Payable to brokers	1,411	3,700
Contributions received in advance	—	2,000
Capital withdrawals payable	580	1,408
Accounts payable, accrued expenses and other liabilities	214	841
Total Liabilities	1,642,234	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 September 30, 2017	As of December 31, 2016
(continued)		
Commitments and Contingencies (Note 16)		
Redeemable non-controlling interests	421,661	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 September 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, 41,689,987 shares issued and 31,087,458 outstanding as of September 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 as of September 30, 2017 and December 31, 2016, respectively	—	—
Additional paid-in capital	1,000,923	928,646
(Accumulated deficit) retained earnings	7,554	(2,442 )
Accumulated other comprehensive income (loss)	(8 )	(2 )
Less: Class A common stock held in treasury, at cost, 10,602,529 and 9,810,802 shares, respectively	(165,278 )	(153,845 )
Total Stockholders' Equity	843,516	772,650
Total Liabilities and Stockholders' Equity	\$2,907,411	\$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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Investment banking	\$57,383	\$36,722	\$158,082	\$98,156
Brokerage	84,220	49,605	198,599	147,640
Management fees	8,223	10,272	25,587	31,951
Incentive income	1,945	1,284	6,217	2,823
Interest and dividends	14,318	3,906	27,324	11,664
Reimbursement from affiliates	484	2,140	2,631	8,268
Aircraft lease revenue	934	1,089	3,036	3,071
Reinsurance premiums	7,186	8,905	21,957	23,243
Other revenues	3,402	16,207	6,147	17,940
Consolidated Funds				
Interest and dividends	871	904	4,253	3,518
Other revenues	(136 )	(7 )	498	1,023
Total revenues	178,830	131,027	454,331	349,297
Expenses				
Employee compensation and benefits	103,282	98,501	282,066	217,309
Floor brokerage and trade execution	25,817	8,224	48,218	23,887
Interest and dividends	15,132	7,612	37,273	21,866
Professional, advisory and other fees	7,001	5,305	23,344	16,585
Service fees	3,983	2,075	9,927	6,334
Communications	6,423	4,619	17,186	13,287
Occupancy and equipment	9,656	8,033	25,252	23,911
Depreciation and amortization	3,452	3,174	9,612	9,654
Client services and business development	5,551	6,349	20,505	20,335
Reinsurance claims, commissions and amortization of deferred acquisition costs	7,157	8,595	20,610	20,924
Restructuring costs	222	—	8,763	—
Other expenses	4,960	3,303	12,550	11,404
Consolidated Funds				
Interest and dividends	1,234	1,665	7,325	4,292
Professional, advisory and other fees	205	337	901	959
Floor brokerage and trade execution	64	173	278	306
Other expenses	209	294	919	871
Total expenses	194,348	158,259	524,729	391,924
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	18,326	26,153	63,101	9,123
Bargain purchase gain, net of tax	—	—	7,946	—
Consolidated Funds				
Net realized and unrealized gains (losses) on investments and other transactions	9,073	19,755	48,154	(6,543 )
Net realized and unrealized gains (losses) on derivatives	220	5,368	5,405	13,525



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Net gains (losses) on foreign currency transactions	8	(26 )	(299 )	72
Total other income (loss)	27,627	51,250	124,307	16,177
Income (loss) before income taxes	12,109	24,018	53,909	(26,450 )
Income tax expense (benefit)	2,281	8,759	3,407	(6,553 )
Net income (loss)	9,828	15,259	50,502	(19,897 )
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	5,162	18,478	35,412	(2,524 )
Net income (loss) attributable to Cowen Inc.	4,666	(3,219 )	15,090	(17,373 )
Preferred stock dividends	1,698	1,698	5,094	5,094
Net income (loss) attributable to Cowen Inc. common stockholders	\$2,968	\$(4,917 )	\$9,996	\$(22,467)

(continued)

Weighted average common shares outstanding:

Basic (a)	31,271	26,993	29,004	26,818
Diluted (a)	32,246	26,993	30,011	26,818
Earnings (loss) per share:				
Basic (a)	\$0.09	\$(0.18 )	\$0.34	\$(0.84 )
Diluted (a)	\$0.09	\$(0.18 )	\$0.33	\$(0.84 )

(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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	\$9,828	\$15,259	\$50,502	\$(19,897)
Other comprehensive income (loss), net of tax:				
Foreign currency translation	—	2	(6)	(3)
Total other comprehensive income (loss), net of tax	—	2	(6)	(3)
Comprehensive income (loss)	\$9,828	\$15,261	\$50,496	\$(19,900)

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.	—	—	—	—	—	—	—	15,090	15,090	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	35,412
Foreign currency translation	—	—	—	—	—	—	(6 )	—	(6 )	—
Capital contributions	—	—	—	—	—	—	—	—	—	60,322
Capital withdrawals	—	—	—	—	—	—	—	—	—	(53,278 )
Common stock issuance upon acquisition (See Note 2)	3,162,278	32	—	—	—	47,575	—	—	47,607	—
Restricted stock awards issued	1,985,618	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(791,727 )	—	—	—	(11,433 )	—	—	—	(11,433 )	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(5,094 )	(5,094 )	—