COWEN INC.
Form 10-Q
April 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2018
or

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

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

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

(646) 562-1000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q No o
Indicate by check mark whether the registrant has submitted electronically 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 April 27, 2018, there were 29,517,261 shares of the registrant's common stock outstanding.

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Special Note Regarding Forward-Looking Statements

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

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

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

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

Assets	As of March 31, 2018	As of December 31, 2017
Cash and cash equivalents	$117,680	$130,052
Cash collateral pledged	14,786	17,888
Segregated cash	131,444	116,268
Securities owned, at fair value	543,740	673,221
Receivable on derivative contracts, at fair value	34,913	69,177
Securities borrowed	598,090	443,148
Other investments	157,293	141,548
Deposits with clearing organizations, brokers and banks	101,399	93,996
Receivable from brokers, dealers and clearing organizations	562,341	508,178
Receivable from customers, net of allowance of $570 and $1,550, respectively	45,966	49,891
Fees receivable, net of allowance of $1,916 and $1,736, respectively	136,541	111,784
Due from related parties	30,400	34,814
Fixed assets, net of accumulated depreciation and amortization of $29,982 and $28,355, respectively	39,827	40,496
Goodwill	60,678	60,678
Intangible assets, net of accumulated amortization of $34,487 and $33,081, respectively	28,550	29,955
Deferred tax asset, net	109,208	116,323
Other assets	81,667	88,268
Consolidated Funds		
Cash and cash equivalents	3,666	21,988
Securities owned, at fair value	107,482	165,916
Receivable on derivative contracts, at fair value	1,866	2,520
Other investments	376,886	374,111
Receivable from brokers	3,913	5,644
Other assets	260	388
Total Assets	$3,288,596	$3,296,252
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$261,586	$342,527
Payable for derivative contracts, at fair value	48,875	42,750
Securities loaned	462,854	456,831
Payables to brokers, dealers and clearing organizations	247,621	252,153
Payable to customers	412,646	352,467
Commission management payable	79,805	70,451
Compensation payable	85,675	150,206
Notes payable and other debt	260,244	173,458
Convertible debt	142,962	141,502
Fees payable	19,230	8,047
Due to related parties	544	570
Accounts payable, accrued expenses and other liabilities	110,536	96,533

Consolidated Funds		
Payable for derivative contracts, at fair value	1,980	7,130
Payable to brokers	1,616	751
Contributions received in advance	670	—
Capital withdrawals payable	511	11,931
Accounts payable, accrued expenses and other liabilities	128	322
Total Liabilities	$2,137,483	$2,107,629

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

	As of March 31, 2018	As of December 31, 2017
(continued)		
Commitments and Contingencies (Note 16)		
Redeemable non-controlling interests	$392,326	$440,604
Stockholders' equity		
Preferred stock, par value $0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of March 31, 2018 (aggregate liquidation preference of $120,750,000) and 10,000,000 shares authorized, 120,750 shares issued and outstanding as of as of December 31, 2017 (aggregate liquidation preference of $120,750,000), respectively	$1	$1
Class A common stock, par value $0.01 per share: 62,500,000 shares authorized, 42,646,328 shares issued and 29,517,218 outstanding as of March 31, 2018 and 62,500,000 shares authorized, 41,765,296 shares issued and 29,632,020 outstanding as of December 31, 2017, respectively (including 191,962 restricted shares, respectively)	324	324
Class B common stock, par value $0.01 per share: 62,500,000 authorized, no shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	1,014,904	1,004,664
(Accumulated deficit) retained earnings	(55,520)	(70,116)
Accumulated other comprehensive income (loss)	(7)	(8)
Less: Class A common stock held in treasury, at cost, 13,129,110 and 12,133,276 shares, respectively	(200,915)	(186,846)
Total Stockholders' Equity	$758,787	$748,019
Total Liabilities and Stockholders' Equity	$3,288,596	$3,296,252

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

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues		
Investment banking	$97,988	$36,553
Brokerage	105,733	50,534
Management fees	7,417	8,708
Incentive income	16	546
Interest and dividends	25,954	5,089
Reimbursement from affiliates	377	1,652
Aircraft lease revenue	715	1,059
Reinsurance premiums	8,647	7,089
Other revenues	1,336	1,400
Consolidated Funds		
Interest and dividends	3,196	1,994
Other revenues	5	347
Total revenues	251,384	114,971
Expenses		
Employee compensation and benefits	135,140	76,673
Floor brokerage and trade execution	30,198	8,323
Underwriting expenses	4,063	—
Interest and dividends	24,540	9,930
Professional, advisory and other fees	7,024	5,816
Service fees	5,195	2,616
Communications	7,566	4,760
Occupancy and equipment	9,861	7,063
Depreciation and amortization	3,225	3,028
Client services and business development	8,231	7,762
Reinsurance claims, commissions and amortization of deferred acquisition costs	8,731	6,178
Other expenses	4,081	3,261
Consolidated Funds		
Interest and dividends	1,911	3,983
Professional, advisory and other fees	212	392
Floor brokerage and trade execution	64	109
Other expenses	244	479
Total expenses	250,286	140,373
Other income (loss)		
Net gains (losses) on securities, derivatives and other investments	15,969	26,056
Consolidated Funds		
Net realized and unrealized gains (losses) on investments and other transactions	15,736	9,578
Net realized and unrealized gains (losses) on derivatives	2,475	3,865
Net gains (losses) on foreign currency transactions	(346)	(97)
Total other income (loss)	33,834	39,402
Income (loss) before income taxes	34,932	14,000
Income tax expense (benefit)	6,923	1,911

Net income (loss)	28,009	12,089
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	11,156	9,105
Net income (loss) attributable to Cowen Inc.	16,853	2,984
Preferred stock dividends	1,698	1,698
Net income (loss) attributable to Cowen Inc. common stockholders	$ 15,155	$ 1,286

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

	Three Months Ended March 31,	
	2018	2017
(continued)		
Weighted average common shares outstanding:		
Basic	29,625	27,061
Diluted	30,492	28,401
Earnings (loss) per share:		
Basic	$0.51	$0.05
Diluted	$0.50	$0.05

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

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

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income (loss)	$28,009	$12,089
Other comprehensive income (loss), net of tax:		
Foreign currency translation	1	(2)
Total other comprehensive income (loss), net of tax	1	(2)
Comprehensive income (loss)	$28,010	$12,087

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

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

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Stockholders' Equity	Redeemable Non-controlling Interest
Balance, December 31, 2017	29,632,020	$ 324	120,750	$ 1	$ (186,846)	$ 1,004,664	$ (8)	$ (70,116)	$ 748,019	$ 440,604
Cumulative effect of the adoption of the new revenue recognition standard (See Note 3)								(559)	(559)	
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	16,853	16,853	—
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	11,156
Foreign currency translation	—	—	—	—	—	—	1	—	1	—
Capital contributions	—	—	—	—	—	—	—	—	—	8,259
Capital withdrawals	—	—	—	—	—	—	—	—	—	(35,134)
Deconsolidation of entity	—	—	—	—	—	—		—	—	(32,559)
Restricted stock awards issued	881,032	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(995,834)	—	—	—	(14,069)	—	—	—	(14,069)	—
Preferred stock dividends (See	—	—	—	—	—	—	—	(1,698)	(1,698)	—

Note 18)										
Amortization of share based compensation	—	—	—	—	—	10,240	—	—	10,240	—
Balance, March 31, 2018	29,517,218	$ 324	120,750	$ 1	$ (200,915)	$ 1,014,904	$ (7)	$ (55,520)	$ 758,787	$ 392,326

	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.	—	—	—	—	—	—	—	2,984	2,984	
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds										9,105
Foreign currency translation	—	—	—	—	—	—	(2)	—	(2)	—
Capital contributions	—	—	—	—	—	—	—	—	—	16,099
Capital withdrawals	—	—	—	—	—	—	—	—	—	(10,277)
Restricted stock awards issued	909,442	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(328,238)	—	—	—	(4,455)	—	—	—	(4,455)	—
Preferred stock dividends (See Note 18)	—	—	—	—	—	—	—	(1,698)	(1,698)	—
Amortization of share based compensation	—	—	—	—	—	8,779	—	—	8,779	—
Balance, March 31, 2017	27,312,493	$ 292	120,750	$ 1	$ (158,300)	$ 937,425	$ (4)	$ (1,156)	$ 778,258	$ 394,132

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

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$28,009	$12,089
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Depreciation and amortization	3,225	3,028
Amortization of debt issuance costs	322	304
Amortization of debt discount	1,442	1,840
Share-based compensation	10,241	8,779
Deferred tax benefit	7,115	1,782
Deferred rent obligations	(888)	(225)
Purchases of securities owned, at fair value	(1,943,349)	(1,215,330)
Proceeds from sales of securities owned, at fair value	2,060,263	1,324,115
Proceeds from sales of securities sold, not yet purchased, at fair value	1,276,205	710,012
Payments to cover securities sold, not yet purchased, at fair value	(1,386,253)	(673,243)
Net (gains) losses on securities, derivatives and other investments	(7,924)	(33,493)
Consolidated Funds		
Purchases of securities owned, at fair value	(148,548)	(63,563)
Proceeds from sales of securities owned, at fair value	175,010	55,704
Proceeds from sales of securities sold, not yet purchased, at fair value	—	217
Payments to cover securities sold, not yet purchased, at fair value	—	(899)
Purchases of other investments	(81)	(8,578)
Proceeds from sales of other investments	4,774	14,788
Net realized and unrealized (gains) losses on investments and other transactions	(18,304)	(11,138)
(Increase) decrease in operating assets:		
Cash acquired through acquisition	—	—
Securities owned, at fair value, held at broker-dealer	13,197	(30,255)
Receivable on derivative contracts, at fair value	34,265	4,764
Securities borrowed	(154,942)	—
Deposits with clearing organizations, brokers and banks	(7,403)	(4,048)
Receivable from brokers, dealers and clearing organizations	(54,163)	(71,737)
Receivable from customers, net of allowance	3,925	—
Fees receivable, net of allowance	(30,996)	(4,042)
Due from related parties	4,874	(3,163)
Other assets	8,062	(20,199)
Consolidated Funds		
Cash and cash equivalents	18,322	7,468
Receivable on derivative contracts, at fair value	654	(16)
Receivable from brokers	1,731	(3,311)
Other assets	(58)	(7)
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker-dealer	40,622	22,772
Payable for derivative contracts, at fair value	6,125	(6,619)

Securities loaned	6,023	—
Payable to brokers, dealers and clearing organizations	(4,532)	(85,858)
Payable to customers	60,179	70,480
Commission management payable	9,354	1,229
Compensation payable	(69,441)	(70,745)
Fees payable	11,183	4,604
Due to related parties	(26)	—
Accounts payable, accrued expenses and other liabilities	13,193	13,234

(continued)

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

	Three Months Ended March 31,	
	2018	2017
(continued)		
Consolidated Funds		
Contributions received in advance	$670	$(2,048)
Payable to brokers	865	(1,950)
Payable for derivative contracts, at fair value	(5,150)	304
Due to related parties	—	(189)
Accounts payable, accrued expenses and other liabilities	73	(211)
Net cash provided by / (used in) operating activities	(35,506)	(53,354)
Cash flows from investing activities:		
Purchases of other investments	(11,475)	(4,934)
Proceeds from sales of other investments	10,271	16,180
Loans issued	(3,050)	—
Proceeds from loans held for investment	10	1,200
Purchase of fixed assets	(1,151)	(150)
Net cash provided by / (used in) investing activities	(5,395)	12,296
Cash flows from financing activities:		
Deferred debt issuance cost	(104)	—
Borrowings on notes and other debt	88,061	2,247
Repayments on notes and other debt	(1,475)	(1,504)
Purchase of treasury stock	(7,584)	—
Cash paid to acquire net assets (contingent liability payment)	—	(167)
Capital contributions by redeemable non-controlling interests in operating entities	200	—
Capital withdrawals to redeemable non-controlling interests in operating entities	(513)	(2,059)
Consolidated Funds		
Capital contributions by redeemable non-controlling interests in Consolidated Funds	8,059	23,198
Capital withdrawals to redeemable non-controlling interests in Consolidated Funds	(46,041)	(12,357)
Net cash provided by / (used in) financing activities	40,603	9,358
Change in cash and cash equivalents	(298)	(31,700)
Cash and cash equivalents, including cash collateral pledged and segregated cash, beginning of period	264,208	125,355
Cash and equivalents at end of period:		
Cash and cash equivalents	117,680	77,456
Cash collateral pledged	14,786	14,696
Segregated cash	131,444	1,503
Cash and cash equivalents, including cash collateral pledged and segregated cash, end of period	$263,910	$93,655
Supplemental non-cash information		
Purchase of treasury stock, at cost, through net settlement (See Note 18)	$4,910	$4,455
Preferred stock dividends declared (See Note 18)	$1,698	$1,698

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

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

1. Organization and Business

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

2. Acquisition

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

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

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

Subsequent to the acquisition, certain of Convergex Group's businesses were integrated within the investment bank businesses of the Company and therefore they are included within their respective line items in the accompanying condensed consolidated statements of operations. The following table provides unaudited supplemental pro forma financial information for the three months ended March 31, 2017, as if the acquisition were completed as of January 1, 2017. This unaudited supplemental pro forma information has been prepared for comparative purposes only and is not intended to be indicative of what the Company's financial results would have been had the acquisition been completed on January 1, 2017, nor does it purport to be indicative of any future results.

	For the three months ended March 31, 2017 (dollars in thousands, except per share data) (unaudited)
Revenues	$ 162,773

Net income (loss) attributable to Cowen Inc. stockholders	(7,899	)
Net income (loss) per common share:		
Basic	$ (0.26	)
Diluted	(0.26	)

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In conjunction with the integration of the acquired businesses of Convergex Group, the Company evaluated the combined broker-dealer businesses and operations and, during 2017, incurred approximately $8.8 million of integration and restructuring costs which primarily related to exit and disposal costs, discontinuation of redundant technology services and severance costs. During the three months ended March 31, 2018, the Company continued to integrate the businesses acquired through Convergex Group and consolidated certain similar businesses.

3. Significant Accounting Policies

a. Basis of Presentation

These unaudited condensed consolidated financial statements are prepared in accordance with US GAAP as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification 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.

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

b. Principles of consolidation

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

In accordance with these standards, the Company consolidates five funds for which it acts (or acted) as the general partner and investment manager. As of or during the three months ended March 31, 2018 the Company consolidated the following funds: Ramius Enterprise LP (“Enterprise LP”), Ramius Merger Fund LLC (the "Merger Fund"), Cowen Private Investments LP ("Cowen Private"), Cowen Healthcare Investments Fund II LP ("Cowen Healthcare II") (through January 31, 2018 when it was deconsolidated upon the final closing of Cowen Healthcare II), 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 March 31, 2018 and December 31, 2017, the total net assets of the consolidated VIEs were $425.0 million and $482.8 million, respectively. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company.

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

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

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

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

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

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

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

US GAAP. The Company also retains specialized accounting upon consolidation.

c. Use of estimates

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, Exchange Traded Funds ("ETFs"), mutual funds and certain money market securities. The Company does not adjust the quoted price for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

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

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

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

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

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

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

The Company's real estate investments are typically categorized as level 3 investments within the fair value hierarchy as management uses significant unobservable inputs in determining their estimated fair value.
See Notes 6 and 7 for further information regarding the Company's investments, including equity method investments and fair value measurements.
f. Fees receivable
Fees related to security transactions are reported net of an allowance for doubtful accounts. An allowance for doubtful accounts is taken on any commission receivables aged over 180 days.
Corporate finance and syndicate receivables, include receivables relating to the Company’s investment banking and advisory engagements net of allowance for doubtful accounts. The Company records this allowance for doubtful accounts on these receivables on a specific identification basis. The future collectability of the receivables is reviewed on a monthly basis based on the following factors: aging (usually if outstanding greater than 90 days), known financial stability of the paying company, as well as any other factors that might impact the collection of the outstanding fees.
Management and incentive fees are earned as the managing member, general partner and/or investment manager to the Company's funds and are recognized on an accrual basis when earned.
g. Securities borrowed and securities loaned
Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received on a gross basis. The related rebates are recorded in the accompanying condensed consolidated statements of operations as interest and dividends income and interest and dividends expense. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary. Securities borrowed and loaned may also result in credit exposures for the Company in an event that the counterparties are unable to fulfill their contractual obligations. The Company minimizes its credit risk by continuously monitoring its credit exposure and collateral values by demanding additional or returning excess collateral in accordance with the netting provisions available in the master securities lending contracts in place with the counterparties.
Fees and interest received or paid are recorded in interest and dividends income and interest and dividends expense, respectively, on an accrual basis in the accompanying condensed consolidated statements of operations. In cases where the fair value basis of accounting is elected, any resulting change in fair value would be reported in net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations. Accrued interest income and expense are recorded in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, on an accrual basis in the accompanying condensed consolidated statements of financial condition. At March 31, 2018 and December 31, 2017, the Company did not have any securities lending transactions for which fair value basis of accounting was elected.
h. Fixed Assets
Fixed assets are stated at cost less accumulated depreciation or amortization. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful life or lease term. When the Company commits to a plan to abandon fixed assets or leasehold improvements before the end of its original useful life, the estimated depreciation or amortization period is revised to reflect the shortened useful life of the asset. Other fixed assets are depreciated on a straight-line basis over their estimated useful lives.
Aircraft and related equipment, which are leased out under operating leases, are carried at cost less accumulated depreciation and are depreciated to estimated residual value using the straight-line method over the lease term or estimated useful life of the asset. Any assets received at the end of the lease are marked to the lower of cost or fair value with the adjustment recorded in other income.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

i. Debt

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

j. Deferred rent

Deferred rent primarily consists of step rent, allowances from landlords and valuing the Company's lease properties acquired through business combinations in accordance with US GAAP. Step rent represents the difference between actual operating lease payments due and straight-line rent expense, which is recorded by the Company over the term of the lease, including the build-out period. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight-line expense. Landlord allowances are generally comprised of amounts received and/or promised to the Company by landlords and may be received in the form of cash or free rent. These allowances are part of the negotiated terms of the lease. The Company records a receivable from the landlord and a deferred rent liability when the allowances are earned. This deferred rent is amortized into income (through lower rent expense) over the term (including the pre-opening build-out period) of the applicable lease, and the receivable is reduced as amounts are received from the landlord. Liabilities resulting from valuing the Company's leased properties acquired through business combinations are quantified by comparing the current fair value of the leased space to the current rental payments on the date of acquisition. Deferred rent, included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition, as of March 31, 2018 and December 31, 2017 is $11.9 million and $12.8 million, respectively.

k. Revenue recognition

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

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

Investment Management

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

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

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

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

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

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

In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to such investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a "high-water mark."
The management companies of the real estate funds and HealthCare Royalty Partners funds are private companies and therefore have not adopted the new revenue recognition guidance. Generally, incentive income on real estate funds is earned after the investor has received a full return of their invested capital, plus a preferred return. However, for certain real estate funds, the Company is entitled to receive incentive fees earlier, provided that the investors have received their preferred return on a current basis or on an investor by investor basis. These funds are generally subject to a potential clawback of these incentive fees upon the liquidation of the fund if the investor has not received a full return of its invested capital plus the preferred return thereon. Incentive income in the HealthCare Royalty Partners funds is generally earned only after investors receive a full return of their capital plus a preferred return. With the adoption of ASC Topic 606, the Company will now recognize incentive income at the end of the performance period.
Several general partners of the Company's private funds are jointly owned by the Company and third parties. Accordingly, the incentive fees generated by these funds are split between the Company and these third parties. Pursuant to US GAAP, incentive income received by the general partners that are accounted for under the equity method of accounting are reflected under net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.
Investment Bank
Investment Banking
The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from small- and mid-capitalization companies within the Company's Target Sectors.
Investment banking revenue consists of underwriting fees, strategic/financial advisory fees and placement and sales agent fees.

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

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

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

Brokerage

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

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

Investment Income

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

Interest and dividends

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

Reimbursement from affiliates

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

Aircraft lease revenue

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

Reinsurance-related contracts

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

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

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

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

The following table summarizes the impacts of adopting ASC Topic 606 on the Company’s condensed consolidated financial statements.

Condensed Consolidated Statements of Financial Condition	As of March 31, 2018		
	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)		
Assets			
Fees receivable, net of allowance	$136,541	$6,399	$142,940
Other investments	157,293	(6,399)	150,894
Stockholders' equity	$758,787	$1,412	$760,199

Condensed Consolidated Statements of Operations	Three Months Ended March 31, 2018		
	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)		
Revenues			
Investment banking	$97,988	$(4,063)	$93,925
Incentive income	16	2,307	2,323
Total revenues	251,384	(1,756)	249,628
Expenses			
Underwriting expenses	4,063	(4,063)	—
Total expenses	250,286	(4,063)	246,223
Net gains (losses) on securities, derivatives and other investments	15,969	1,454	17,423
Net income (loss) attributable to Cowen Inc. common stockholders	$15,155	$853	$16,008

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Condensed Consolidated Statements of Cash Flows	Three Months Ended March 31, 2018		
	As reported	ASC 606 Impact	Adjusted (a)
	(dollars in thousands)		
Cash flows from operating activities:			
Net income (loss)	$28,009	$858	$28,867
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:			
Net (gains) losses on securities, derivatives, and other investments	(7,924)	735	(7,189)
(Increase) decrease in operating assets:			
Fees receivable, net of allowance	(30,996)	(781)	(31,777)
Net cash provided by / (used in) operating activities	(35,506)	812	(34,694)
Cash flows from investing activities:			
Purchase of other investments	(11,475)	(812)	(12,287)
Net cash provided by / (used in) investing activities	$(5,395)	$(812)	$(6,207)

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

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

l. Recently issued accounting pronouncements

In February 2018, the FASB issued guidance to clarify the guidance relating to the recognition and measurement of financial instruments without readily determinable fair value. The guidance allows entities to change the measurement alternative and requires that entities should measure those financial instruments either using the new measurement alternative or at fair value. Any entity electing to change its measurement approach to fair value would be required to fair value all similar investments from the same issuers. 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 beginning after June 15, 2018. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements and does not expect this guidance to have a material impact on its condensed consolidated statements of financial condition or its condensed consolidated statement of operations as the Company does not hold any equity investments which are measured using measurement alternatives.

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

In January 2018, the FASB issued guidance to amend its new leasing standard to add an optional practical expedient for land easements that permits entities to continue to apply their current accounting policies for land easements that expire before the effective date of the new standard. The guidance is effective on the same date as the new leasing standard. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements and does not expect this guidance to have a material impact on its condensed consolidated statements of financial condition or its condensed consolidated statements of operations as the Company does not hold any land easements.

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

In January 2017, the FASB issued guidance that simplifies the subsequent measurement of goodwill. The new guidance eliminated Step 2 from the goodwill impairment test which was required in computing the implied fair value of goodwill. Instead, under the new amendments, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. If applicable, an entity should consider income tax effects from any tax 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 November 2016, the FASB issued guidance which reduced the diversity in practice as to how changes in restricted cash are presented and classified in the statement of cash flows. The guidance required that the statement of cash flows explain the change during the period in the total 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 Company adopted the guidance retrospectively as of January 1, 2018. Upon adoption, changes in restricted cash, which had previously been presented as operating activities, are now included within beginning and ending cash and equivalents, including restricted cash equivalents in our condensed consolidated statements of 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 US GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous US GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial condition. For public business entities the guidance is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact of this guidance on the Company's financial condition and its disclosures. The Company notes that a significant majority of the Company's leases represent operating real estate leases for its respective offices and will require the gross up on its statement of financial condition.

4. Cash Collateral Pledged

As of March 31, 2018 and December 31, 2017, the Company pledged cash collateral in the amount of $5.9 million and $6.1 million, respectively, which relates to letters of credit issued to the landlords of the Company's premises in New York City, Boston, Stamford and San Francisco. The Company also has pledged as collateral, $8.9 million, as of March 31, 2018, and $11.8 million, as of December 31, 2017, anticipated to be due March 2021, for reinsurance agreements (see Note 17).

5. Segregated Cash

As of March 31, 2018 and December 31, 2017, cash segregated in compliance with federal regulations and other restricted deposits of $131.4 million and $116.3 million, respectively, consisted of cash deposited in special bank accounts for the benefit of customers under SEC Rule 15c3-3 and cash held in accounts designated as Special Reserve Bank Accounts for Proprietary Accounts of Broker-Dealers ("PAB").

6. Investments of Operating Entities and Consolidated Funds

a. Operating Entities

Securities owned, at fair value

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

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

	As of March 31, 2018	As of December 31, 2017
	(dollars in thousands)	
Common stocks (b)	$500,157	$640,065
Preferred stock (b)	12,397	9,604
Warrants and rights (b)	11,781	9,604
U.S. Government securities (a)	1,791	2,807
Corporate bonds (d)	11,659	4,909
Convertible bonds (c)	—	282
Trade claims	5,955	5,950
	$543,740	$673,221

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

(b) The Company has elected the fair value option for investments in securities of preferred and common stocks with a fair value of $7.3 million and $5.5 million, respectively, at March 31, 2018 and $6.0 million and $5.2 million, respectively, at December 31, 2017. At March 31, 2018 and December 31, 2017, the Company elected the fair value option for investments in warrants and rights with a fair value of $1.3 million and $2.4 million.

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

(d) As of March 31, 2018, maturities ranged from October 2018 to February 2048 and interest rates ranged from 2.63% to 12.50%. As of December 31, 2017, maturities ranged from October 2018 to May 2040 and interest rates ranged from 0.00% to 10.75%.

Receivable on and Payable for derivative contracts, at fair value

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

Upon issuance of the Company's 3% cash convertible senior notes due 2022 in December 2017 ("2022 Convertible Notes") (see Note 17), the Company recognized the embedded cash conversion option at fair value of $23.4 million which is

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valued as of March 31, 2018 at $20.9 million and is included in payable for derivative contracts, at fair value in the accompanying condensed consolidated statements of financial condition.
Upon issuance of the Company's 3% cash convertible senior notes due 2019 in March 2014 ("2019 Convertible Notes") (see Note 17), the Company recognized the embedded cash conversion option at fair value of $35.7 million which is valued as of March 31, 2018 at $0.5 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 2019 Convertible Notes, the Company entered into a separate cash convertible note economic hedge transaction (the "Hedge Transaction") with a counterparty (the “Option Counterparty”) whereby, the Company purchased a cash settled option contract with terms identical to the conversion option embedded in the 2019 Convertible Notes and simultaneously sold an equity settled warrant with a higher strike price. The Hedge Transaction was expected to reduce the Company’s exposure to potential cash payments in excess of the principal amount of converted notes that the Company may be required to make upon conversion of the 2019 Convertible Notes. The Company paid a premium of $35.7 million for the option under the Hedge Transaction and received a premium of $15.2 million for the equity settled warrant transaction, for a net cost of $20.5 million. During January 2018, the Company terminated the Hedge Transaction for a loss of $0.6 million.
The Company's long and short exposure to derivatives is as follows:

Receivable on derivative contracts	As of March 31, 2018		As of December 31, 2017	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$3,979	$748	$3,819	$58
Currency forwards	$1,775	520	$233	5
Swaps	$64,489	1,631	$164,664	10,942
Options other (a)	268,231	31,216	283,112	58,172
Pay to hold	—	798	—	—
		$34,913		$69,177

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

Payable for derivative contracts	As of March 31, 2018		As of December 31, 2017	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	$26,583	$209	$16,796	$242
Currency forwards	$77,431	620	$62,439	874
Swaps	$27,927	623	$11,595	71
Options other (a)	63,328	47,423	57,043	41,563
		$48,875		$42,750

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

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

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				Gross amounts not offset in the Condensed Consolidated Statement of Financial Condition		
	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	Financial instruments	Cash Collateral pledged (b)	Net amounts
	(dollars in thousands)					
As of March 31, 2018						
Receivable on derivative contracts, at fair value	$34,913	$ —	$ 34,913	$ —	$ 2,095	$32,818
Payable for derivative contracts, at fair value	48,875	—	48,875	—	1,314	47,561
As of December 31, 2017						
Receivable on derivative contracts, at fair value	69,177	—	69,177	—	10,948	58,229
Payable for derivative contracts, at fair value	42,750	—	42,750	—	1,031	41,719

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

The realized and unrealized gains/(losses) related to derivatives trading activities were $7.9 million and $(8.6) million for the three months ended March 31, 2018 and 2017, respectively, and are included in other income in the accompanying condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, except for the cash convertible note hedge (see Note 17) and exchange traded derivatives, the Company is required to post/receive collateral. As of March 31, 2018 and December 31, 2017, collateral consisting of $11.9 million and $13.5 million of cash, respectively, is included in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations on the accompanying condensed consolidated statements of financial condition. As of March 31, 2018 and December 31, 2017 all derivative contracts were with multiple major financial institutions.

Other investments

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

	As of March 31, 2018	As of December 31, 2017
	(dollars in thousands)	
Portfolio Funds, at fair value (1)	$111,810	$100,148
Equity method investments (2)	45,171	41,099
Lehman claims, at fair value	312	301
	$157,293	$141,548

(1) Portfolio Funds, at fair value

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

	As of March 31, 2018	As of December 31, 2017
	(dollars in thousands)	
Starboard Value and Opportunity Fund LP (c)(*)	$32,267	$ 32,079
Formation8 Partners Fund I, L.P. (f)	28,243	28,243
RCG Longview Debt Fund V, L.P. (g)(*)	7,386	8,892
RCG Longview II LP (g) (*)	4,121	131
Cowen Healthcare Investments II LP (j) (*)	4,669	—
Eclipse Ventures Fund I, L.P. (b)	3,494	3,428
HealthCare Royalty Partners LP (a)(*)	3,048	3,452
Lagunita Biosciences, LLC (d)	2,856	2,400
RCG IO Renergys Sarl (j) (*)	2,254	—
Starboard Leaders Fund LP (e)(*)	1,314	1,276
RCG Longview Equity Fund, LP (g) (*)	1,221	—
RCG Longview Debt Fund VI, LP (g) (*)	1,042	1,022
RCG Park Liberty GP Member LLC (g) (*)	908	750
HealthCare Royalty Partners II LP (a)(*)	836	873
RCG LPP2 PNW5 Co-Invest, L.P. (h)(*)	309	3,493
Quadratic Fund LLC (i)(*)	45	906
Other private investment (k)(*)	14,271	10,133
Other affiliated funds (l)(*)	3,526	3,070
	$111,810	$ 100,148

* These portfolio funds are affiliates of the Company.

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

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

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

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

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

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

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

(g) RCG Longview Debt Fund V, L.P., RCG Longview II LP, RCG Park Liberty GP Member LLC, RCG Longview Equity Fund, LP and RCG Longview Debt Fund VI, LP are real estate private equity structures and therefore distributions will be made when the underlying investments are liquidated.

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

(i) Quadratic Fund LLC permits redemptions 30 days prior written notice.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(j) Cowen Healthcare Investments II LP and RCG IO Renergys Sarl are private equity funds. Distributions are made from these funds when cash flows are received from the underlying investments. Investors do not have redemption rights.
(k) Other private investment represents the Company's closed end investment in a portfolio fund that invests in a wireless broadband communication provider in Italy.
(l) The majority of these funds are affiliates of the Company or are managed by the Company and the investors can redeem from these funds as investments are liquidated.

(2) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day to day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 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 43% in Surf House Ocean Views Holdings, LLC (which is a joint venture in a real estate development project). The operating agreement that governs the management of day-to-day operations and affairs of these entities stipulates that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these entities requires the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current accounting standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) HealthCare Royalty Partners General Partners and (b) Starboard Value (and certain related parties) which serves as an operating company whose operations primarily include the day to day management (including portfolio management) of several activist private funds and related managed accounts. As part of its equity method investment in operating companies, the Company incurs certain expenses on behalf of its equity method investees. These expenses reflect direct and indirect costs associated with the respective business and are included in their respective line items in the accompanying condensed consolidated statements of operations. For the three months ended March 31, 2018 and 2017, the Company incurred $1.9 million and $1.1 million of these costs, respectively. The Company recorded no impairment charges in relation to its equity method investments for the three months ended March 31, 2018 and 2017.

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

	As of March 31, 2018	As of December 31, 2017
	(dollars in thousands)	
Surf House Ocean Views Holdings, LLC	$14,179	$ 14,179
Starboard Value LP	16,274	13,202
RCG Longview Debt Fund V Partners, LLC	9,306	9,284
RCG Longview Management, LLC	1,212	1,149
HealthCare Royalty GP, LLC	249	281
HealthCare Royalty GP II, LLC	142	148
RCG Longview Debt Fund IV Management, LLC	331	331
HealthCare Royalty GP III, LLC	1,108	764
RCG Kennedy House, LLC	119	154
RCG Longview Equity Management, LLC	114	114

RCG LPP II GP, LLC	270	487
RCG Park Liberty GP Member Manager, LLC	1,018	428
Other	849	578
	$45,171	$ 41,099

For the three months ended March 31, 2018 and 2017 none of the equity method investments held by the Company met the significance criteria as defined under SEC guidance, respectively.
As of March 31, 2018 and December 31, 2017, the Company's share of losses in its equity method investment in RCG Longview Partners II, LLC has exceeded the carrying amount recorded in this investee. These amounts are included in accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. RCG Longview Partners II, LLC, as general partner to a real estate fund, has reversed previously recorded incentive income allocations and has recorded a current clawback obligation to the limited partners in the fund. This obligation is due to a change

in unrealized value of the fund on which there have previously been distributed carried interest realizations; however, the settlement of a potential obligation is not due until the end of the life of the respective fund. As the Company is obligated to return previous distributions it received from RCG Longview Partners II, LLC, it has continued to record its share of gains/losses in the investee including reflecting its share of the clawback obligation in the amount of $6.2 million.

The Company's income (loss) from equity method investments was $3.9 million and $3.1 million for the three months ended March 31, 2018 and 2017, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations.

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the accompanying condensed consolidated statements of financial condition. Substantially all equity securities and options are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations. As of March 31, 2018 and December 31, 2017, securities sold, not yet purchased, at fair value consisted of the following:

	As of March 31, 2018	As of December 31, 2017
	(dollars in thousands)	
Common stocks	$ 252,585	$ 342,328