

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 8-K/A**

**Current Report  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): June 1, 2017**

**COWEN INC.**

(Exact Name of Registrant as Specified in Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation)

**001-34516**  
(Commission File Number)

**27-0423711**  
(I.R.S. Employer  
Identification No.)

**599 Lexington Avenue**  
**New York, NY 10022**  
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: **(212) 845-7900**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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.

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## EXPLANATORY NOTE

On June 5, 2017, Cowen Inc. (the "Company") filed, with the Securities and Exchange Commission, a Current Report on Form 8-K (the "Initial Form 8-K") regarding the closing of its acquisition of all of the issued and outstanding equity securities of Convergenx Group, Inc. ("Convergenx Group") on June 1, 2017 pursuant to a Securities Purchase Agreement between the Company and Convergenx Group dated as of April 2, 2017.

This Current Report on Form 8-K/A ("Amendment No. 1") amends Item 9.01 of the Initial Form 8-K is being filed to present certain financial statements of the Company and to present certain unaudited pro forma combined financial information, which financial statements and unaudited pro forma information are filed as exhibits hereto, in accordance with the requirements of Item 9.01 of Form 8-K.

### Item 9.01. Financial Statements and Exhibits

#### (a) *Financial statements of business acquired.*

The audited consolidated financial statements of Convergenx Group as of December 31, 2016 and 2015, and the results of its operations for each of the three years in the period ended December 31, 2016 and the unaudited condensed consolidated interim financial statements of Convergenx Group as of March 31, 2017 and for the three month periods ended March 31, 2017 and 2016 are attached as Exhibits 99.1 and 99.2, respectively, to this Amendment No. 1.

#### (b) *Pro Forma Financial Information.*

The unaudited pro forma condensed combined financial statements and explanatory notes relating to the acquisition and related transactions as of March 31, 2017, for the three month period ended March 31, 2017 and for the year ended December 31, 2016 are attached as Exhibit 99.3 to this Amendment No. 1 and are incorporated herein by reference

#### (d) Exhibits. The following exhibits are filed herewith:

<b>Exhibit No.</b>	<b>Description</b>
23.1	Consent of Ernst & Young, Independent Registered Public Accounting Firm for Convergenx Group, LLC and Subsidiaries. *
99.1	Audited consolidated financial statements of Convergenx Group, LLC and Subsidiaries as of December 31, 2016 and 2015 and the results of its operations for each of the three years in the period ended December 31, 2016. *
99.2	Unaudited consolidated interim financial statements of Convergenx Group, LLC and Subsidiaries as of March 31, 2017 and for the three month periods ended March 31, 2017 and 2016. *
99.3	Unaudited pro forma condensed combined financial statements as of and for the three month period ended March 31, 2017 and for the year ended December 31, 2016. *

\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

COWEN INC.

By: /s/ STEPHEN A. LASOTA

Name: Stephen A. Lasota

Title: *Chief Financial Officer (principal financial officer and principal accounting officer)*

Date: August 17, 2017

**Consent of Independent Auditor**

We hereby consent to the inclusion in the current report on Form 8-K/A of Cowen Inc. of our Auditor's Report dated May 15, 2017, with respect to the consolidated balance sheets of Convergenx Group, LLC and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive loss, changes in members' equity, and cash flows and notes to consolidated financial statements for each of the years in the three-year period ended December 31, 2016, and are included as an exhibit in the Form 8-K/A of Cowen Inc. dated August 17, 2017.

/s/ Ernst & Young

New York, New York  
August 17, 2017

CONSOLIDATED FINANCIAL STATEMENTS

Convergex Group, LLC and Subsidiaries

As of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015, and 2014

With Report of Independent Auditors

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# Convergex Group, LLC and Subsidiaries

## Consolidated Financial Statements

As of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015, and 2014

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## Report of Independent Auditors

The Board of Managers of  
Convergex Group, LLC

We have audited the accompanying consolidated financial statements of Convergex Group, LLC and Subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive loss, changes in members’ equity and cash flows for each of the three years in the period ended December 31, 2016, and the related notes to the consolidated financial statements.

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of Convergex Group, LLC and Subsidiaries at December 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP  
New York, New York  
May 15, 2017

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Convergenx Group, LLC and Subsidiaries

Consolidated Balance Sheets

(In Millions)

	December 31, 2016	December 31, 2015
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 147.0	\$ 134.9
Restricted cash and securities	136.3	154.0
Receivables related to securities transactions, net of allowance for prepaid research of \$2.1 (2016) and \$2.8 (2015)	469.4	298.1
Accounts receivable and accrued revenue, net of allowance for doubtful accounts of \$1.0 (2016) and \$1.0 (2015)	5.0	4.2
Prepaid expenses	4.3	4.2
Other current assets	0.8	2.4
Current assets of discontinued operations (Note 4)	12.8	12.6
<b>Total Current Assets</b>	<b>\$ 775.6</b>	<b>\$ 610.4</b>
Fixed assets, at cost, net of accumulated depreciation & amortization of \$62.1 (2016) and \$57.3 (2015)	\$ 19.8	\$ 23.2
Intangible assets, net of accumulated amortization of \$201.8 (2016) and \$198.5 (2015)	3.0	6.3
Other assets	3.8	4.9
Assets of discontinued operations (Note 4)	8.1	8.9
<b>Total Assets</b>	<b>\$ 810.3</b>	<b>\$ 653.7</b>
<b>Liabilities and members' equity</b>		
<b>Current Liabilities:</b>		
Payables related to securities transactions	\$ 460.0	\$ 268.0
Commission management payable	92.7	85.3
Accrued expenses & compensation	48.5	54.1
Payable to Parent (Note 13)	26.1	27.6
Short term borrowings	-	6.6
Subordinated debt (Note 9)	10.0	15.0
Other current liabilities	0.4	0.3
Current liabilities of discontinued operations (Note 4)	6.9	5.9
<b>Total Current Liabilities</b>	<b>\$ 644.6</b>	<b>\$ 462.8</b>
Deferred tax liabilities	0.1	0.1
Other liabilities	18.3	19.7
Liabilities of discontinued operations (Note 4)	2.8	2.5
<b>Total Liabilities</b>	<b>\$ 665.8</b>	<b>\$ 485.1</b>
<b>Members' equity</b>	<b>\$ 144.5</b>	<b>\$ 168.6</b>
<b>Total Liabilities and members' equity</b>	<b>\$ 810.3</b>	<b>\$ 653.7</b>

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



Convergex Group, LLC and Subsidiaries  
Consolidated Statements of Comprehensive Loss  
(In Millions)

	Year Ended December 31,		
	2016	2015	2014
<b>Revenues</b>			
Commissions and fees, net	\$ 187.8	\$ 191.5	\$ 179.2
Expense reimbursements	37.3	32.4	30.6
Interest income	14.5	13.2	11.8
Other income	7.8	11.8	8.2
<b>Total Revenues</b>	<b>\$ 247.4</b>	<b>\$ 248.9</b>	<b>\$ 229.8</b>
<b>Expenses</b>			
Compensation and benefits	\$ 99.7	\$ 109.0	\$ 107.4
Brokerage, clearing and exchange fees	58.9	60.1	54.6
Cost of expense reimbursements	37.3	32.4	30.6
Communications and technology	40.3	40.4	40.2
General & administrative	15.6	18.3	20.5
Depreciation and amortization	8.9	12.7	11.3
Occupancy	8.5	8.8	7.5
Interest	7.1	7.0	6.6
Amortization of intangible assets	3.2	3.4	10.2
Restructuring	1.5	3.1	15.2
Other expenses	7.7	11.0	8.2
<b>Total Expenses</b>	<b>\$ 288.7</b>	<b>\$ 306.2</b>	<b>\$ 312.3</b>
Loss from Continuing Operations before taxes	\$ (41.3)	\$ (57.3)	\$ (82.5)
Provision for income taxes	(0.4)	(0.3)	(4.3)
<b>Net Loss from Continuing Operations</b>	<b>\$ (41.7)</b>	<b>\$ (57.6)</b>	<b>\$ (86.8)</b>
Income from Discontinued Operations, net of tax	18.4	14.3	9.3
<b>Net Loss</b>	<b>\$ (23.3)</b>	<b>\$ (43.3)</b>	<b>\$ (77.5)</b>
Other comprehensive (loss) income from continuing operations			
Foreign currency translation adjustment	(0.8)	(0.2)	0.2
Total other comprehensive (loss) income	(0.8)	(0.2)	0.2
<b>Total comprehensive (loss) income</b>	<b>\$ (24.1)</b>	<b>\$ (43.5)</b>	<b>\$ (77.3)</b>

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

Convergenx Group, LLC and Subsidiaries  
 Consolidated Statements of Changes in Members' Equity  
 (In Millions)

	Year Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 168.6	\$ 212.1	\$ 269.4
Contribution from Holdings	-	-	20.0
Comprehensive Loss	(24.1)	(43.5)	(77.3 )
Balance, end of year	<b>\$ 144.5</b>	<b>\$ 168.6</b>	<b>\$ 212.1</b>

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

Convergenx Group, LLC and Subsidiaries

Consolidated Statements of Cash Flows

(In Millions)

	Year Ended December 31,		
	2016	2015	2014
<b>Cash flows from operating activities</b>			
Net loss	\$ (23.3)	\$ (43.3)	\$ (77.5)
Minus: Income from discontinued operations	18.4	14.3	9.3
Net loss from continuing operations	(41.7)	(57.6)	(86.8)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization of fixed assets	8.9	12.7	11.3
Amortization of intangible assets	3.2	3.4	10.2
Loss on disposition of fixed assets	-	-	0.5
Deferred income taxes	0.1	0.1	4.5
Change in operating assets and liabilities:			
Non securities clearing current assets and current liabilities:			
Accounts receivable and accrued revenue	(0.8 )	(0.6)	0.2
Prepaid expenses	(0.1)	0.2	0.7
Other current assets	1.6	(1.2)	5.0
Accrued expenses and compensation	(5.6)	(6.3)	(10.9)
Other current liabilities	0.1	(1.0)	(28.7)
Securities clearing assets and liabilities:			
Restricted cash and securities	17.7	100.1	(121.5)
Receivables related to securities transactions	(171.3)	3.6	175.7
Payables related to securities transactions	192.0	(2.5)	(55.3)
Commission management payable	7.4	7.7	(0.2)
Non-current assets and liabilities:			
Other assets	1.1	(2.3)	(0.6 )
Other liabilities	(1.4)	(2.0)	(3.6 )
Net cash flow provided by (used in) operating activities from continuing operations	11.2	54.3	(99.5)
Net cash flow provided by operating activities from discontinued operations	22.6	17.6	20.6
<b>Net cash flow provided by (used in) operating activities</b>	<b>33.8</b>	<b>71.9</b>	<b>(78.9)</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets, including internally developed software	(5.5)	(4.6)	(11.6)
Cash received from divestitures	-	2.5	-
Net cash used in investing activities from continuing operations	(5.5)	(2.1)	(11.6)
Net cash used in investing activities from discontinued operations	(2.3)	(2.7)	(1.1)
<b>Net cash used in investing activities</b>	<b>(7.8)</b>	<b>(4.8)</b>	<b>(12.7)</b>
<b>Cash flows from financing activities</b>			
Repayment of short term borrowings	(8.1)	(56.8)	-
Repayment of subordinated liabilities	(5.0)	(5.0)	-
Capital contribution	-	-	20.0
Principal payments on capital lease obligations	(0.8)	(0.8)	(0.5)
Drawdown of short term borrowings	-	-	90.6
Net cash provided by (used in) financing activities	(13.9)	(62.6)	110.1
Net increase in cash and cash equivalents	12.1	4.5	18.5
Cash and cash equivalents, at beginning of year	134.9	130.4	111.9



Convergenx Group, LLC and Subsidiaries

Consolidated Statements of Cash Flows

(In Millions)

Cash and cash equivalents, at end of year	\$	147.0	\$	134.9	\$	130.4
<b>Supplemental cash flow information</b>						
Cash paid during the year for interest	\$	6.6	\$	6.4	\$	6.9
Cash paid during the year for income taxes, net	\$	0.6	\$ -	\$	0.1	

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

## **1. Business Description**

Convergex Group, LLC (the “Company”), is an agency focused global brokerage and trading related service provider with subsidiaries in the global high-touch and electronic trading, prime brokerage, clearing, and commission management business lines. It is a Delaware limited liability company, formed on June 26, 2006, and commenced operations on October 2, 2006. The Company is 99% owned by Convergex Holdings, LLC (“Holdings”), a holding company entity formed in 2006 upon completing the acquisitions of Eze Castle Software, Inc. and certain subsidiaries of the Bank of New York Company, Inc., a predecessor to The Bank of New York Mellon Corporation (“BNYM”). The remaining 1% is owned by GTCR Golder Rauner II, L.L.C. (“GTCR”), a private equity firm.

Holdings is authorized to issue equity interests in the Company designed as units. The total number of units that Holdings has the authority to issue is 100. All 100 units have been issued and are outstanding.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and were developed in accordance with the Accounting Standards Codification (“ASC”), as set forth by the Financial Accounting Standards Board (“FASB”). Significant accounting policies are as follows:

## **2. Significant Accounting Policies**

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

### **Discontinued Operations**

On December 24, 2016, Holdings entered into an Asset Purchase Agreement with Dash Financial Holdings LLC (“Dash”), whereby the Company would contribute the assets and liabilities of the Options Technology Trading business (“contributed net assets”) to two new entities controlled by Dash in exchange for 65% of the equity interests of Dash. A subsidiary of Dash contributed their agency execution and analytics platform in return for a 35% ownership in Dash. The contributed net assets are presented as a discontinued operation in the Company’s consolidated financial statements for all periods presented (See Note 4).

### **Use of Estimates**

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. These estimates and assumptions are based on the best available information but actual results could be different.

## 2. Significant Accounting Policies (continued)

### Revenue Recognition

The Company provides trade execution, routing, commission management, and other services to clients using the Company's technology infrastructure. The Company typically enters into agreements with clients to provide services on a fee for services basis, a monthly flat fee or a combination of fee for service and flat fees. Fees for services are generally calculated based on transactions processed through our systems or technology-enabled services and may include periodic minimum usage fees, which are generally determined on a monthly basis before revenue is recorded. Periodic minimum usage fees apply to connectivity and routing commissions, which are generally determined on a monthly basis.

The Company recognizes revenue for its services, provided that persuasive evidence of the arrangement exists, related fees are fixed or determinable, and collection of the related receivable is reasonably assured. The Company adjusts revenue in situations where client concessions, rebates or volume based discounts may be offered. Revenue is only recognized if the estimates of such modifications can be reasonably and reliably determined. The Company bases its estimates on historical results taking into consideration the type of client, the type of transaction and the specifics of each arrangement.

Clients are offered the opportunity to initiate transactions directly through software provided by the Company or through interfaces to client systems provided by the Company. Alternatively, the Company can initiate transactions on the client's behalf. Revenues related to securities transactions are generally recognized on a trade date basis. Fees are collected directly from the client's account on settlement date or billed monthly in arrears.

The Company allows institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties under Section 28(e) of the Securities Exchange Act of 1934, commission recapture payments to be paid to plan sponsors, and other payments as directed by the customer. The amounts allocated for those purposes are commonly referred to as soft dollar and commission recapture arrangements.

#### *Commissions and Fees, Net*

Commission revenue is recorded when earned on a trade date basis and the costs of soft dollar and commission recapture arrangements are recorded on an accrual basis for each eligible trade and netted against commission revenue on the consolidated statements of comprehensive loss. Accrued soft dollar research and commission recapture payable is classified as commission management payable on the consolidated balance sheet.

The Company earns options routing fees by directing trading volume to options exchanges and market makers. Fees are recorded as revenue when the service is delivered, provided that persuasive evidence of the agreement exists, related fees are fixed or determinable, and collection of the related receivable is reasonably assured.

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

*Expense Reimbursements*

Commissions and fees, net, does not include reimbursement for certain expenses such as exchange fees and fees due to regulatory or governmental agencies. Regulatory agencies view the Company as the primary obligor for these items and consequently these reimbursements are recorded as revenue when the transaction that generates the surcharge occurs and the related expense is recognized. Additionally, the Company contracts with certain clients on a cost-plus basis and engages with contractors from time to time to perform services directly for clients. When separate execution fees are charged directly to a client or a contractor is paid a fixed percentage of the revenue they generate, the separate execution fees or contractor's portion of revenue is classified as reimbursed expenses and recorded when the services are delivered or transactions occur. Reimbursed expenses are either deducted directly from the settlement value of transactions or billed monthly in arrears.

*Interest income*

Interest income consists of interest earned from securities borrowed transactions, client deposits, other client financing activities with clearing brokers and deposits held at financial institutions and clearing organizations. Interest income is recorded on an accrual basis.

*Other Income*

Other income on the consolidated statements of comprehensive loss primarily includes software technology fees, service fee income and interest income. Software technology fees include revenues from software licenses, maintenance, facilities management and custom development. Fixed-term software licensing fees are recognized as revenue on a straight-line basis over the term of the agreement after installation is complete. Custom work projects are recognized as revenue when the project is completed and accepted by the customer. Service fee income is for management and technical services and is recorded when the services are delivered. Interest income consists of interest earned from securities borrowed transactions and deposits held at financial institutions and clearing organizations. The Company also charges sweep fees related to deposits or balances maintained by customers. Sweep fees are determined based on the difference between what the Company earns or pays related to the balance relative to what the Company pays to or is paid by the customer. Interest income is recorded on an accrual basis.

**Cash and Cash Equivalents**

All unrestricted highly liquid investments with initial or remaining maturities of less than 90 days at the time of purchase are considered cash and cash equivalents. These investments include demand deposits and money market accounts.

**Restricted Cash and Securities**

Restricted cash and securities include cash pledged as security for letters of credit, cash deposited in special reserve bank accounts in accordance with broker-dealer regulatory requirements, and cash on deposit with

Convergenx Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

clearing organizations to collateralize outstanding trade settlements at year end. Such deposits may earn interest which is recorded on an accrual basis.

**Securities Transactions**

Securities transactions are recorded on a trade date basis. Receivables related to securities transactions include amounts receivable for fails to deliver, cash deposits for securities borrowed plus the related interest receivable, amounts receivable from clearing organizations, and commissions receivable from broker dealers.

The Company typically borrows securities when securities are needed to deliver against a settling transaction, such as non-standard settlements requested by a customer or a fail to receive, or to facilitate securities lending to customers. Securities borrowed transactions require the Company to deposit cash or other collateral that has a fair market value equal to or greater than the fair market value of the securities borrowed. The Company monitors the fair value of the securities borrowed or loaned on a regular basis and adjusts the collateral, as appropriate.

Securities held by the Company and intended for settlement against customer orders are held as collateral for customer receivables. Securities owned by customers, including those that collateralize margin, are not reflected as assets of the Company in the consolidated financial statements.

Payables related to securities transactions include amounts payable for fails to receive, cash received for securities loaned plus the related interest payable, and amounts payable to broker-dealers and clearing organizations on open transactions. The Company typically loans securities in order to fund non-standard settlements requested by a customer or a fail to deliver, or to assist clients to help fulfill their short selling requirements, or to facilitate securities borrowing from customers. Securities loaned transactions allow the Company to receive cash that is less than or equal to the market value of the securities loaned. Securities loaned transactions are recorded at the value of the cash received by the Company. The Company monitors the fair value of the securities loaned on a regular basis and adjusts the cash received, as appropriate. Interest on securities loaned transactions is included in interest expense on the consolidated statements of comprehensive loss.

For consolidated financial statement purposes, we do not offset our securities borrowing or securities lending transactions because the conditions for netting as specified by U.S. GAAP are not met. Our securities borrowing and securities lending transactions are governed by master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. A

prepaid research asset is established for research and research related services disbursed in advance of anticipated customer commission volumes. Such receivables may not be evidenced by contractual obligations.

Prepaid research is included in receivables related to securities transactions, net of allowance on the consolidated balance sheet. Accruals for commission sharing arrangements, commission recapture payments

## 2. Significant Accounting Policies (continued)

owed to asset owners, and other payments directed by the customers are classified as commission management payable on the consolidated balance sheets.

### 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 also evaluates the business operations, as well as its 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 general and administrative expenses on the consolidated statements of comprehensive loss.

### Fair Value of Financial Instruments

The carrying amounts reported on the consolidated balance sheets for cash and cash equivalents approximate fair value based on the on-demand nature of cash and the short-term maturity and the daily pricing mechanisms for cash equivalents. Securities owned and securities sold short, not yet purchased are recorded at fair value on a trade date basis and reported at quoted market prices for identical assets or liabilities in active markets.

### Fixed Assets

Fixed assets are reported at cost, net of accumulated depreciation and amortization. Furniture and equipment and computer hardware are depreciated on a straight-line basis over estimated useful lives between three and fifteen years. Purchased software costs are amortized on a straight-line basis over useful lives between three and five years. Leasehold improvements are amortized on a straight-line basis over the life of the lease or the improvement, whichever is shorter.

### Internally Developed Software Costs

The Company capitalizes certain costs incurred in connection with developing or modifying software for internal use. Qualifying internally developed software costs are capitalized and amortized over the estimated useful life of the software ranging from three to ten years. The Company evaluates internally developed software for impairment on at least an annual basis and whenever changes in circumstances indicate impairment could exist.

### Intangible Assets

Identifiable intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, which are one to twelve years from the date of the original acquisition, and are also reviewed at least annually for impairment or whenever changes in circumstances indicate impairment can exist. Identifiable intangible assets consist of customer lists, acquired technology, and tradenames.

## 2. Significant Accounting Policies (continued)

### Deferred Compensation

The Company provides a portion of each highly compensated individual's annual bonus as a long-term cash award. The Company has two deferred compensation plans, the Convergenx Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan") and the LiquidPoint Supplemental Retention Plan (the "Supplemental Retention Plan").

Under the Deferred Compensation Plan, employees vest over 40 months of service, including the year for which the award was granted, and are payable at the end of that period. Compensation expense is accrued ratably over that period. As part of the Deferred Compensation Plan, employees can elect to index their deferral to various investment options. Increases (decreases) in amounts owed to employees based on the performance of their investment elections are included in compensation and benefits expense in the consolidated statements of comprehensive loss. Payments to the employees are made on the payment date in the amount of the initial award adjusted by the percentage change in value of any elected investment options. In order to hedge the risk associated with changes in the amounts due to employees upon vesting, the Company may purchase investments similar to the elected options. The plan investments had no material effect on the Company's financial position in 2016 and 2015.

Under the Supplemental Retention Plan, awards are paid at the beginning of the year following the year the award was granted and in each of the two subsequent years. Expense related to these awards is recognized ratably over the service period of three years including the year for which the award was granted.

### Derivatives

The Company's subsidiaries utilize foreign exchange forward contracts from time to time to reduce its exposure to fluctuations in foreign exchange rates. These instruments are recorded at fair value based on industry standard pricing services. Gains and losses on these contracts are recorded on a trade date basis.

### Foreign Currency Translation

Certain subsidiaries of the Company have functional currencies other than U.S. dollars ("USD"). Asset and liability accounts for these subsidiaries are translated into USD using the exchange rate in effect at each consolidated balance sheet date. Income and expense accounts are translated using an average rate of exchange during each monthly accounting period. Foreign currency translation adjustments are accumulated as a component of other comprehensive loss within members' equity.

### Income Taxes

The Company, as a multi-member limited liability company, is treated as a partnership for federal, state and local income tax purposes and is not subject to U.S. federal income tax. Certain other subsidiaries are subject to unincorporated business taxes in applicable jurisdictions, including New York City, or income taxes in foreign jurisdictions in which they conduct business.

## 2. Significant Accounting Policies (continued)

The Company accounts for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the expected future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when those temporary differences are expected to reverse. A valuation allowance is established when management believes it is more likely than not that a deferred tax asset will not be realized.

In accordance with ASC 740, *Accounting for Income Taxes*, an entity is permitted to recognize the benefits of uncertain tax positions only where the position is “more likely than not” to be sustained in the event of examination by tax authorities based on the technical merits of the position. The maximum tax benefit recognized is limited to the amount that is greater than 50% likely to be realized upon ultimate settlement. The Company’s policy is to record interest and penalties related to income taxes as a component of the provision for income tax.

## 3. Recent Accounting Developments

### Recently Issued Accounting Pronouncements

ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), provides principles that govern the recognition of revenue at an amount an entity expects to be entitled to when goods or services are promised to customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted. Subsequently, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”). The Company is currently assessing the future impact these standards will have on the Company’s consolidated financial statements.

ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (“ASU 2014-11”), which amends the accounting guidance for certain repurchase agreement transactions and repurchase agreements executed as repurchase financings and requires enhanced disclosures. The impact of adopting this ASU did not have a material impact on the Company’s consolidated balance sheets. See Note 18 for disclosures required by this ASU.

ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”), provides guidance for management to evaluate whether there is a substantial doubt about an entity’s going concern and to provide related footnote disclosures. In connection with preparing consolidated financial statements for each reporting period, an entity’s management should evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**4. Discontinued Operations**

On December 24, 2016, Holdings entered into an Asset Purchase Agreement with Dash and its subsidiaries, whereby Group would contribute the contributed net assets to two new entities controlled by Dash in exchange for 65% of the equity interests of Dash. Dash Financial contributed their agency execution and analytics platform in return for a 35% ownership in Dash to Group, which was then immediately contributed to Holdings. The contributed net assets are presented as a discontinued operation in the Company's consolidated financial statements for all periods presented.

The transaction resulted in a transfer of \$14.2 million in net assets from the Company's subsidiaries to the two new entities.

In connection with this transaction, both the Company and Dash agreed to provide certain support services for varying periods of time up to 12 months after the closing date pursuant to transaction services agreements. Services provided include human resources, finance, tax, billing, compliance, legal, and technology assistance.

The Company also agreed to provide certain post-trade operational, trade reporting, clearance, and settlement support to Dash.

The following table sets forth details of net income from discontinued operations for the years ended December 31, 2016, 2015, and 2014 (amounts in millions):

	For the Years Ended December 31,		
	2016	2015	2014
<b>Revenues</b>			
Commissions and fees, net	\$ 39.8	\$ 31.4	\$ 31.0
Expense reimbursements	15.8	14.9	8.0
Other income	9.7	9.1	8.4
<b>Total Revenues</b>	<b>\$ 65.3</b>	<b>\$ 55.4</b>	<b>\$ 47.4</b>
<b>Expenses</b>			
Compensation and benefits	\$ 20.0	\$ 15.0	\$ 15.4
Brokerage, clearing and exchange fees	3.2	2.7	4.3
Cost of expense reimbursements	15.8	14.9	8.0
Communications and technology	3.2	3.0	2.8
General & administrative	1.0	1.1	1.7
Depreciation and amortization	1.7	1.5	1.5
Occupancy	0.3	0.7	0.8
Amortization of intangible assets	1.5	2.0	2.5
Restructuring	0.2	0.2	1.1
Other expenses	—	—	—
<b>Total Expenses</b>	<b>\$ 46.9</b>	<b>\$ 41.1</b>	<b>\$ 38.1</b>
(Provision)/benefit for income taxes	—	—	—
<b>Net Gain from Discontinued Operations</b>	<b>\$ 18.4</b>	<b>\$ 14.3</b>	<b>\$ 9.3</b>

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**4. Discontinued Operations (continued)**

The following table sets forth details of the classes of assets and liabilities of discontinued operations as of December 31, 2016 and 2015 (amounts in millions):

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Current Assets:		
Receivables related to securities transactions, net of allowance for prepaid research	\$ 6.8	\$ 6.4
Accounts receivable and accrued revenue, net of allowance for	6.0	6.2
<b>Total Current Assets</b>	<b>\$ 12.8</b>	<b>\$ 12.6</b>
Fixed assets, at cost, net of accumulated depreciation & amortization	\$ 4.9	\$ 4.3
Intangible assets, net of accumulated amortization	2.8	4.3
Other assets	0.4	0.3
<b>Total Assets</b>	<b>\$ 20.9</b>	<b>\$ 21.5</b>
<b>Liabilities</b>		
Current Liabilities:		
Accrued expenses & compensation	\$ 6.9	\$ 5.9
<b>Total Current Liabilities</b>	<b>\$ 6.9</b>	<b>\$ 5.9</b>
Other liabilities	2.8	2.5
<b>Total Liabilities</b>	<b>\$ 9.7</b>	<b>\$ 8.4</b>

**5. Financial Instruments**

All financial instruments are measured and reported on a fair value basis. ASC 820, Fair Value Measurement, defines fair value and establishes a framework for measuring fair value, as well as a fair value hierarchy based on inputs used to measure fair value.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

**Fair Value Hierarchy**

Financial assets and liabilities are classified based on inputs used to establish fair value as follows:

Level 1: Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets. Level 1 financial instruments consist of securities owned and securities sold not yet purchased and consist of US equity securities positions temporarily held by the Company that result from the normal course of agency brokerage.

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**5. Financial Instruments (continued)**

Level 2: Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other valuation techniques utilizing observable inputs directly or indirectly related to the asset or liability being measured. Level 2 financial instruments consist of a certificate of deposit the Company has pledged as security for an outstanding letter of credit. The fair value of certificates of deposit is determined by using a discounted cash flow methodology.

Level 3: Valuation techniques utilize inputs that are unobservable and significant to the fair value measurement.

As of December 31, 2016 and 2015, there were no material assets or liabilities measured at fair value.

Other financial instruments are recorded by the Company at contract amounts, which approximate fair value and include cash (Level 1); receivables from and payables to broker, dealers, and clearing organizations (Level 2); deposits with clearing organizations; and receivables from and payables to customers (Level 2). These financial instruments are considered to approximate their carrying amounts because they have limited counterparty credit risk, are short-term, or bear interest at market rates and, accordingly, are carried at amounts which are a reasonable estimate of fair value.

There were no transfers among levels during 2016 and 2015.

**6. Consolidated Balance Sheet Detail**

**Receivables Related to Securities Transactions**

Amounts receivable related to securities transactions include: (all amounts in millions)

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Customers	\$ 25.2	\$ 44.2
Broker-dealers, net of allowance of \$0.1 and \$0.2, respectively	55.4	77.8
Clearing organizations	21.6	22.1
Securities borrowed	357.2	143.4
Prepaid research, net of allowance of \$1.9 and \$2.6, respectively	9.7	9.9
Other	0.3	0.7
Total receivables related to securities transactions	<u>\$ 469.4</u>	<u>\$ 298.1</u>

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**6. Consolidated Balance Sheet Detail (continued)**

All material unsettled customer securities, broker-dealer and clearing organization transactions included above, settled subsequent to year end without any material financial effect.

**Fixed Assets**

Fixed assets are as follows: (all amounts in millions)

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Internally developed software	\$ 46.3	\$ 41.7
Computer hardware	22.1	23.4
Leasehold improvements	7.8	7.9
Purchased software	4.4	6.2
Furniture and equipment	1.3	1.3
	<u>81.9</u>	<u>80.5</u>
Accumulated depreciation and amortization	(62.1)	(57.3)
Total fixed assets	<u>\$ 19.8</u>	<u>\$ 23.2</u>

Included in computer hardware and the related accumulated depreciation are \$5.5 million and \$4.3 million, and \$5.5 million and \$3.6 million as of December 31, 2016 and 2015, respectively, related to assets acquired under capital lease arrangements. Included in the consolidated statements of comprehensive loss is \$0.7 million, \$0.7 million and \$0.9 million relating to the year ended December 31, 2016, 2015 and 2014, respectively, of depreciation expense related to these capital leases.

Included in other liabilities on the consolidated balance sheet are \$0.7 million due in 2017 and \$0.4 million due in 2018, which represents remaining principal payments due under capital lease obligations at December 31, 2016.

The Company capitalized \$4.7 million, \$3.8 million and \$9.1 million in years ended December 31, 2016, 2015, and 2014 of internally developed software costs. The Company removed fully depreciated fixed assets totaling \$4.1 million, \$5.5 million and \$5.3 million for the years ended December 31, 2016, 2015, and 2014.

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**7. Intangible Assets**

Intangible assets are as follows: (all amounts in millions)

	<b>At Acquisition Value</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Initial Weighted Average Useful Life (Years)</b>
<b>Customer lists</b>				
December 31, 2016	\$ 204.8	\$ (201.8)	\$ 3.0	9
December 31, 2015	\$ 204.8	\$ (198.5)	\$ 6.3	9
<b>Acquired Technology</b>				
December 31, 2015	\$ 5.7	\$ (5.7)	\$ 0.0	4

Future amortization expense of acquired intangible assets: (all amounts in millions)

**December 31, 2016**

Year Ending December 31:	
2017	\$ 2.8
2018	0.2
Total	<u>\$ 3.0</u>

**8. Payables Related to Securities Transactions**

Amounts payable related to securities transactions include: (all amounts in millions)

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Customers	\$ 13.1	\$ 29.4
Broker-dealers	56.7	64.4
Clearing organizations	9.6	38.6
Securities loaned	380.6	135.6
Total payables related to securities transactions	<u>\$ 460.0</u>	<u>\$ 268.0</u>

All material unsettled customer securities and broker-dealer transactions included above, settled subsequent to year end without any material financial effect.



Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**9. Subordinated Liabilities and Liquidity Arrangements**

**Subordinated Liabilities**

At December 31, 2016 and 2015, one of the Company's broker-dealer subsidiaries, Convergex Execution Solutions ("CES"), maintained a separate \$10 million and \$15 million, respectively, floating rate revolving term subordinated note with BNY Mellon scheduled to expire on December 18, 2017 and 2016, respectively. The subordinated borrowing facility has an interest rate of LIBOR plus 6.00%, or the alternative base rate "ABR" plus 4.75%. In addition, this subordinated borrowing facility has an annual commitment fee of 0.50% on the unutilized amount of the note which is payable quarterly. The subordinated borrowing facility is available in computing CES' net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. To the extent that such borrowing is required for the Company's continued compliance with minimum net capital requirements, it may not be repaid. The subordinated borrowing facility was fully drawn as of December 31, 2016 and 2015. Included in interest expense on the consolidated statements of comprehensive loss is interest expense of \$0.9 million, \$0.9 million and \$0.5 million for the years ended December 31, 2016, 2015 and 2014, related to this subordinated note and a payable of \$0.03 million and \$0.1 million, was included, net of other receivables from BNY Mellon, in other assets on the consolidated balance sheets, at December 31, 2016 and 2015.

**Financing Arrangements**

The Company enters into secured and unsecured borrowing agreements to obtain funding necessary to cover daily securities settlements with clearing corporations. Funding is required for unsettled customer delivery versus payment and riskless principal transactions, as well as to meet deposit requirements with clearing organizations. Secured financing arrangements are collateralized by the unsettled customer securities.

The Company maintains uncommitted financing arrangements with affiliates and non-affiliates, the details of which are summarized below as of December 31, 2016. All non-affiliated arrangements are with large financial institutions.

	Maturity Date	Rate	Total Amount Available	Amount Outstanding
<b>Affiliates</b>				
Unsecured				
BNY Mellon	None	Various + 2%	\$ 15,000,000	-
Secured				
BNY Mellon	None	Rate set by Bank	100,000,000	-
BNY Mellon	None	Various + 2.25%	125,000,000	-
Total affiliates			240,000,000	-
<b>Non-affiliates</b>				
Secured	August 31, 2017	Libor + 0.75%	50,000,000	-
Secured	None	Fed funds effective rate plus 1%	100,000,000	-
Unsecured	July 1, 2017	Fed funds effective rate plus 2.5%	30,000,000	-
Total non-affiliates			180,000,000	-
Total			\$ 420,000,000	-

**9. Subordinated Liabilities and Liquidity Arrangements (continued)**

Included in interest expense on the consolidated statements of comprehensive loss are \$0.3 million, \$1.0 million and \$1.1 million for all periodic borrowings under the liquidity facilities for the years ended December 31, 2016, 2015, and 2014.

**10. Retirement Plans**

The Company has two defined contribution retirement plans. Employees of the Company's United States of America ("US") businesses who meet eligibility requirements have the option of contributing to the US plan. The Company makes contributions at its discretion to the US plan in the form of profit sharing and/or matching contributions. Profit sharing percentages and Company match formulas are determined based on employee groups. Additionally, the Company also has one United Kingdom ("UK") defined contribution plan. The cost for these benefit plans was \$0.7 million, \$0.3 million and \$0.3 million for the years ended December 31, 2016, 2015 and 2014.

**11. Impairment of Intangible Assets and Restructuring**

The Company's intangible assets are tested for impairment whenever events or changes in circumstances indicate that an asset's or asset group's carrying value may not be fully recoverable.

To the extent the carrying value of an asset exceeds the projected undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group, the Company determines the asset is impaired and records an impairment loss equal to the difference between the estimated fair value and the carrying value of the asset or asset group. As of December 31, 2016 and 2015, the Company has determined that there is no impairment to the intangible assets.

As a result of a rebranding initiative during 2014, the Company determined it will no longer use the trade name of one of its former subsidiaries for marketing purposes and recorded an impairment charge of \$0.6 million.

**12. Income Taxes**

The Company is a limited liability company that is treated as a partnership for federal, state, and local income tax purposes, and as such, is generally not liable for federal and state income taxes as an entity. The Company is subject to New York City unincorporated business tax ("UBT") on their U.S. earnings apportioned to New York City based on a statutory rate of 4%. Certain of its subsidiaries are subject to income tax of the foreign countries in which they conduct business.

The components of loss before income taxes were as follows (in millions):

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**12. Income Taxes (continued)**

	<b>Year Ended December 31, 2016</b>	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>
Total	\$ (41.3)	\$ (57.3)	\$ (82.5)

The components of the provision for (benefit from) income taxes consist of the following (in millions):

	<b>Year Ended December 31, 2016</b>	<b>Year Ended December 31, 2015</b>	<b>Year Ended December 31, 2014</b>
<b>Current:</b>			
State and local expense (benefit)	\$ 0.3	\$ 0.2	\$ (0.2)
Total current income tax expense (benefit)	\$ 0.3	\$ 0.2	\$ (0.2)
<b>Deferred:</b>			
State and local expense (benefit)	\$ (0.2)	\$ 3.6	\$ 2.2
Foreign expense	0.1	0.1	(0.2)
Change in valuation allowance	0.2	(3.6)	2.5
Total deferred income tax expense (benefit)	0.1	0.1	4.5
Total income tax expense (benefit)	\$ 0.4	\$ 0.3	\$ 4.3

The effective tax rate differs from the federal statutory rate of 35% primarily due to state and local taxes, income passed through and taxed at the partner level, and changes in valuation allowance.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's gross deferred tax assets include amortization of intangibles and net operating losses. The total deferred tax assets, liabilities and valuation allowance are as follows (in millions):

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**12. Income Taxes (continued)**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Deferred tax assets	\$ 7.2	\$ 7.0
Valuation allowance	(7.2)	(7.0)
Total deferred tax assets	0.0	0.0
Deferred tax liabilities	(0.1)	(0.1)
Total deferred tax liabilities	(0.1)	(0.1)
Total deferred taxes	(0.1)	(0.1)

A valuation allowance was recorded against the deferred tax assets for the years ended December 31, 2016, 2015 and 2014, as management believes that it is “more likely than not” that the deferred tax assets will not be realized in a future period. The net change in the valuation allowance for the year ended December 31, 2016, was an increase of \$0.2 million, the net change for the year ended December 31, 2015, was a decrease of \$3.6 million and the net change for the year ended December 31, 2014, was an increase of \$2.5 million.

Long term income taxes payable includes a reserve for uncertain tax positions of \$4.6 million as of December 31, 2016, and the reserve was \$5.2 million as of December 31, 2015.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. As of December 31, 2016, the Company had recognized \$2.3 million of interest accrued on unrecognized tax benefits, which was included in long-term income taxes payable. The Company recognized \$2.8 million for the year ended December 31, 2015, and \$2.2 million for the year ended December 31, 2014. While Management believes it has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the accrued estimates. Accordingly, the provisions on tax-related matters may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of December 31, 2016, 2015 and 2014, the Company does not believe the estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

The Company is subject to examination by the IRS for tax years ended 2013 through 2016. The Company is also subject to examination by various state and local jurisdictions for tax years ended 2007 through 2016. If additional tax is assessed upon conclusion of the audits, an additional tax provision may need to be recorded. The impact of such adjustments in the Company’s tax accounts could have a material impact on the consolidated results of the operations in future periods. The total Company’s net operating loss balance is \$151.3 million, due to expire beginning in 2033 through 2036.

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**13. Related Party Transactions**

The Company enters into intercompany borrowings with Holdings in the normal course of business. The balances outstanding at December 31, 2016 and 2015, was \$26.1 million and \$27.6 million, respectively and is shown as Payable to Parent on the balance sheet. The interest expense related to these borrowing was \$0.6 million, \$0.6 million and \$0.06 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company generates revenues from BNYM for trade execution and clearing services, commission management tools and payment processing services. The Company provides commission management tools and payment processing services to certain unrelated customers where the Company invoices BNYM for the services provided; the revenues generated under these arrangements are not reflected below since BNYM is not the user of the services.

BNYM provides trade execution and clearing services to the Company. As part of its daily operations, the Company enters into securities borrowed and securities loaned transactions with BNYM. The Company provides and receives certain management, administrative, and technical services from BNYM and sub-leases office space to BNYM.

The following table sets forth the Company's related party assets and liabilities: (all amounts in millions)

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Restricted cash and securities	\$ 1.5	\$ 1.6
Receivables related to securities transactions	11.6	32.3
Other assets	0.1	—
Total assets	\$ 13.2	33.9
<b>Liabilities</b>		
Payables related to securities transactions	\$ 26.9	\$ —
Accrued expenses and compensation	—	0.1
Short term borrowings	—	6.6
Subordinated debt	10.0	15.0
Total liabilities	\$ 36.9	\$ 21.7

The following table sets forth the Company's related party revenues and expenses between the Company and BNYM and its subsidiaries for the years ended December 31, 2016, 2015, and 2014. Expense reimbursement revenues are excluded from the following table: (all amounts in millions)

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**13. Related Party Transactions (continued)**

		<u>2016</u>		<u>2015</u>		<u>2014</u>
Revenues	\$	9.1	\$	9.0	\$	8.6
Expenses	\$	(8.0)	\$	(1.6)	\$	(1.6)

**14. Derivatives**

The Company utilizes foreign exchange forward contracts from time to time to reduce its exposure to fluctuations in foreign exchange rates. These instruments are recorded at fair value based on industry standard pricing services. Gains and losses on these contracts are recorded on a trade date basis and are included in other income, net on the consolidated statements of comprehensive loss. As of December 31, 2016 and 2015, the notional value of the foreign exchange forward contracts was \$0.8 million and \$2.6 million. The fair value of these outstanding foreign exchange forward contracts entered into with third parties was \$0.8 million and \$2.6 million, respectively. The Company recorded an immaterial net gain on foreign exchange forward contracts on the consolidated statements of comprehensive loss for the years ended December 31, 2016, 2015, and 2014. The Company had no items designated as hedging instruments as of December 31, 2016, 2015 and 2014 or any time during any of these years.

**15. Commitments and Contingencies**

**Leases**

The Company leases office space and certain equipment under non-cancelable operating lease arrangements. Rent expense of \$7.7 million, \$11.0 million and \$13.0 million, was recorded as occupancy expense under these leases for the years ended December 31, 2016, 2015, and 2014, respectively. This is inclusive of escalation clauses and real estate taxes, and sublease revenue of \$0.1 million, \$2.8 million and \$5.6 million for the years ended December 31, 2016, 2015 and 2014.

The Company is obligated under non-cancelable operating leases to pay the following minimum rentals: (all amounts in millions)

	<u>Lease Payments</u>	<u>Sublease Rentals Income</u>	<u>Net Lease Payments</u>
2017	7.8	0.1	7.7
2018	8.0	0.1	7.9
2019	4.6	0.1	4.5
2020	1.1	0.1	1.0
2021	0.7	-	0.7
Thereafter	0.7	-	0.7
	<u>\$22.9</u>	<u>\$0.4</u>	<u>\$22.5</u>

### **15. Commitments and Contingencies (continued)**

The operating leases are subject to periodic escalation charges. The Company's operating leases expire on various dates between July 2018 and August 2022.

### **16. Deferred Compensation**

Convergex provides a portion of each executive's and other highly compensated individual's annual bonus as a long-term cash award. Employees, who meet the required 40 months of service, including the year for which the award was granted, are vested and paid at the end of that period. Compensation expense is accrued ratably over that period. As part of the programs, employees can elect to index their deferral to various investment options. Payments to the employees are made on the payment date in the amount of the initial award adjusted by the percentage change in value of any elected investment options. In order to hedge the risk associated with changes in the amounts due to employees upon vesting, Group may purchase investments similar to the elected options. The plan had no material effect on the Company's financial position in 2016 and 2015. Including the performance of the employees' investment elections to date, the Company plans to make payments related to these deferred bonus programs of \$5.1 million in 2017, \$7.9 million in 2018 and \$6.4 million in 2019.

### **17. Legal Contingencies**

In the ordinary course of business, the Company and its subsidiaries are named as defendants in, or made parties to, pending and potential legal actions and regulatory matters. Claims for monetary damages are often asserted in many of these legal actions, while claims for disgorgement, penalties and/or other remedial sanctions, including business restrictions, may be sought in regulatory matters. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue.

The Company establishes accruals for litigation and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. If a loss contingency is not both probable and reasonably estimable, the Company does not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. If it becomes a reasonable possibility that a loss will exceed an amount recognized, the Company will accrue the estimated additional loss. The Company believes that no actions, other than the matters described below, depart from the customary litigation or regulatory inquiries incidental to its business.

In December 2013, the Company and certain subsidiaries (the "defendants") were named in a lawsuit filed in the United States District Court for the Southern District of New York. The lawsuit is a purported class action brought on behalf of all participants, beneficiaries and named fiduciaries of ERISA plans affected by net trading by Convergex Global Markets ("CGM") in Bermuda from 2006 to 2011. The lawsuit alleges breach of fiduciary duty and prohibited transactions under ERISA. The Company believes that it has numerous defenses to these claims and the defendants filed a motion to dismiss the complaint in March 2014. Thereafter, an amended complaint was filed in April 2014, with an additional named plaintiff but setting forth the same essential facts and causes of action as in the original complaint. The defendants filed a motion to dismiss and for summary

## 17. Legal Contingencies (continued)

judgment on June 9, 2014. In June 2015, the claims asserted on behalf of the second plaintiff, who had been added in the amended complaint, were voluntarily withdrawn without prejudice and the plaintiff filed a brief in opposition to defendants' dispositive motion. On February 17, 2016, the court issued an opinion and order granting the defendants' motion and dismissing the complaint with prejudice. The plaintiff subsequently filed a notice of appeal. On February 10, 2017, the Court of Appeals for the Second Circuit reversed the district court, ruling that the plaintiff as standing to pursue claims, in a "representative capacity," on behalf of the ERISA plan in which he is a participant, and remanded to the district court for further proceedings on the question whether the plaintiff has standing to pursue claims on behalf of plans in which he is not a participant. On February 24, 2017, the defendants filed a petition for rehearing or rehearing en banc; that petition remains pending.

The Company's subsidiary, Convergex Prime Services LLC ("CPS") and the FDIC agreed in December 2015 to a settlement in principle resolving claims threatened by the FDIC to recover losses incurred by Montgomery Bank & Trust ("MBT") as a result of the misconduct of Aubrey Lee Price; Price's firm, PFG, was a client of CPS, which introduced PFG's accounts to another firm for clearance and settlement on a fully disclosed basis. The FDIC is acting in its capacity as receiver of MBT. The settlement agreement has been finalized and the settlement amount paid. In addition, CPS and Convergex Execution Solutions LLC, another subsidiary of the Company, were named in a FINRA arbitration filed in March 2013 by the court-appointed receiver of PFG, in connection with trading losses allegedly suffered by investors in the PFG hedge fund separate and apart from the MBT losses. CPS and CES intend to vigorously defend against these claims in the arbitration, which is scheduled to take place in October-November 2017.

On the basis of the Company's current knowledge and understanding, the Company does not believe that judgments or settlements, if any, arising from any other matter, either individually or in the aggregate, will have a material effect on the Company.

## 18. Off-Balance-Sheet Credit Risk

### Customer Activities and Credit Risk

In securities transactions, the Company's customer and correspondent clearance activities involve the execution and settlement of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligations.

The Company's customer securities activities are transacted on a delivery versus payment, cash or margin basis. In delivery versus payment transactions, the Company is exposed to risk of loss in the event of the customers' or brokers' inability to meet the terms of their contracts.

In margin transactions, the Company extends credit to clients collateralized by cash and securities in their account. In the event the customers or brokers fail to satisfy their obligations, the Company may be required to purchase or sell securities at prevailing market prices in order to fulfill the obligations.

The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its

**18. Off-Balance-Sheet Credit Risk (continued)**

credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the customers' financial condition and credit ratings. The Company seeks to control the risk associated with its customer margin transactions by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company also monitors required margin levels daily and, pursuant to its guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

The Company typically enters into securities lending transactions in order to fund non-standard settlements and to earn residual interest rate spreads. Under these transactions, the Company receives cash collateral. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. The Company mitigates the risk of the counterparty not returning the loaned securities by monitoring the market values daily and requiring additional cash as collateral when necessary, and when applicable, participating in a risk-sharing program offered through the OCC. The Company had gross obligations relating to securities loaned of \$365.6 million and \$129.5 million, of which cash collateral totaling \$380.0 million and \$135.3 million, was received at December 31, 2016 and 2015. These securities loaned are domestic equities that have no contractual maturity and may be recalled on demand at any time, subject to a three day notice period.

In the normal course of business, the Company obtains securities under securities borrowed, resale agreements, and custody agreements on terms which permit the Company to repledge or resell the securities to others. At December 31, 2016 and 2015, the Company had borrowed securities of \$366.3 million and \$136.9 million, of which cash collateral totaling \$356.4 million and \$142.8 million, was given to counterparties. Additional collateral of \$24.2 million was held in the Company's reserve bank, included on the consolidated balance sheets in restricted cash and securities at December 31, 2016. The Company obtained securities with a fair value of \$9.3 million under fully disclosed clearing agreements at December 31, 2015.

The Company provides access to execution venues for certain customers via sponsored line agreements. These customers transmit non-solicited trade orders directly to the execution venue. The Company monitors the activity but does not have the ability to stop the activity, and is therefore exposed to risk of loss should the customer not meet its obligations. The Company is billed for activity flowing through these lines, and is reimbursed by the client. The Company is exposed to credit risk in the event that the client is unable to fulfill its obligations with respect to these charges. The Company may maintain cash and cash equivalents at financial institutions in excess of federally insured limits. The Company has not experienced any material losses in such accounts and does not believe it is exposed to significant credit risks.

In the normal course of business, certain activities of the Company involve the execution and clearance of customer securities transactions through clearing brokers. These activities may expose the Company to off-balance-sheet risk in the event a customer is unable to fulfill its contractual obligation since, pursuant to the clearing agreement, the Company has agreed to indemnify the clearing brokers without limit for losses that the clearing brokers may sustain from the clients introduced by the Company. However, the transactions are collateralized by the underlying security, thereby reducing the associated risk of the position to the changes in the market value of the security through settlement date. At December 31, 2016 and 2015, there were no amounts to be indemnified to these clearing brokers pursuant to these agreements.

Convergenx Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**19. Other Expenses**

The following table summarizes the components of other expenses: (all amounts in millions)

	<b>Year Ended December 31, 2016</b>	
Professional fees, net of insurance recoveries of \$5.3	\$	2.7
Other		5.0
Other expenses	\$	7.7

	<b>Year Ended December 31, 2015</b>	
Professional fees, net of insurance recoveries of \$1.6	\$	6.3
Other		4.7
Other expenses	\$	11.0

	<b>Year Ended December 31, 2014</b>	
Professional fees, net of insurance recoveries of \$3.5	\$	7.6
Other		0.6
Other expenses	\$	8.2

**20. Regulatory Requirements**

CES and Westminster Research Associates LLC (“WRA”) are subject to the SEC’s Uniform Net Capital Rule 15c3-1.

As of December 31, 2016, CES and WRA had regulatory net capital, regulatory net capital requirements, and excess regulatory net capital as follows: (all amounts in millions)

	<b>Net Capital</b>	<b>Net Capital Requirement</b>	<b>Excess Net Capital</b>
CES	\$ 87.9	\$ 1.0	\$ 86.9
WRA	12.7	0.3	12.4

Convergex Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**20. Regulatory Requirements (continued)**

Convergex, Ltd (“CLtd”) is subject to the rules of the FCA in the United Kingdom regarding minimum capital. At December 31, 2016, CLtd had capital of £2.7 million (approximately \$3.4 million), a minimum capital requirement as determined by CLtd’s internal capital adequacy assessment process of £1.3 million (approximately \$1.6 million), and excess share capital of £1.4 million (approximately \$1.8 million).

As of December 31, 2015, CES and WRA had regulatory net capital, regulatory net capital requirements, and excess regulatory net capital as follows: (all amounts in millions)

Subsidiary	Net Capital	Net Capital Requirement	Excess Net Capital
CES	\$ 96.0	\$ 2.1	\$ 93.9
WRA	13.9	0.2	13.7

At December 31, 2015, CLtd had capital of £2.7 million (approximately \$4.0 million), a minimum capital requirement as determined by CLtd’s internal capital adequacy assessment process of £0.9 million (approximately \$1.3 million), and excess share capital of £1.8 million (approximately \$2.6 million).

To the extent capital in these subsidiaries is restricted due to regulatory or other requirements, net capital and excess net capital may not be available to other entities to satisfy their obligations.

**21. Settlement agreements with the SEC and DOJ**

In December 2013, certain of the Company’s direct and indirect subsidiaries were parties to resolutions of parallel investigations by the SEC and the DOJ. The investigations were primarily related to certain global trading and transition management customer orders that had been routed to the former Bermuda trading desk of CGM, and the misconduct of certain former employees who at times between 2006 and 2011, concealed this activity and the compensation generated by CGM on those orders.

**22. Insurance Recoveries**

Included as a reduction to other expenses, on the consolidated statements of comprehensive loss was \$5.3 million, \$1.6 million and \$3.5 million, of insurance recoveries related to the Company’s reimbursement of legal costs of certain former employees in connection with the inquiries discussed above for the years ended December 31, 2016, 2015 and 2014.

Convergenx Group, LLC and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**23. Subsequent Events**

On December 24, 2016, Holdings entered into an Asset Purchase Agreement with Dash, whereby Group would contribute the assets and liabilities of the Options Technology Trading business to two new entities not controlled by the Company in exchange for 65% of the equity interests of Dash. The transaction closed on March 1, 2017.

On April 1, 2017, GTCR transferred the one unit of Group which it owned to Holdings. The result was Group was 100% owned by Holdings.

On April 3, 2017, Cowen Group, Inc. (“Cowen”) announced the signing of a definitive agreement under which Cowen will acquire Group for a total consideration, less certain closing adjustments, of \$116 million in cash and Cowen common stock. The transaction is expected to close by the end of the second quarter of 2017.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Convergex Group, LLC and Subsidiaries

As of March 31, 2017 and December 31, 2016

and the three month periods ended March 31, 2017 and 2016

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Convergex Group, LLC and Subsidiaries

Unaudited Consolidated Financial Statements

As of March 31, 2017 and December 31, 2016  
and the three month periods ended March 31, 2017 and 2016

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Convergenx Group, LLC and Subsidiaries  
Consolidated Balance Sheets  
(In Millions)  
(Unaudited)

	March 31, 2017	December 31, 2016
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 105.9	\$ 147.0
Restricted cash and securities	147.3	136.3
Receivables related to securities transactions, net of allowance for prepaid research of \$1.9 and \$2.1, respectively	469.7	469.4
Accounts receivable and accrued revenue, net of allowance for doubtful accounts of \$0.8 and \$1.0, respectively	3.7	5.0
Prepaid expenses	3.2	4.3
Other current assets	3.3	0.8
Current assets of discontinued operations (Note 4)	-	12.8
<b>Total Current Assets</b>	<b>733.1</b>	<b>775.6</b>
Fixed assets, at cost, net of accumulated depreciation & amortization of \$64.2 and \$62.1, respectively	18.7	19.8
Intangible assets, net of accumulated amortization of \$211.9 and \$201.8, respectively	2.4	3.0
Other assets	3.9	3.8
Assets of discontinued operations (Note 4)	-	8.1
<b>Total Assets</b>	<b>\$ 758.1</b>	<b>\$ 810.3</b>
<b>Liabilities and members' equity</b>		
Current Liabilities:		
Payables related to securities transactions	\$ 463.5	\$ 460.0
Commission management payable	88.7	92.7
Accrued expenses & compensation	34.1	48.5
Payable to Parent (Note 13)	1.5	26.1
Subordinated debt (Note 9)	-	10.0
Other current liabilities	0.4	0.4
Current liabilities of discontinued operations (Note 4)	-	6.9
<b>Total Current Liabilities</b>	<b>588.2</b>	<b>644.6</b>
Deferred tax liabilities	0.1	0.1
Other liabilities	20.3	18.3
Liabilities of discontinued operations (Note 4)	-	2.8
<b>Total Liabilities</b>	<b>608.6</b>	<b>665.8</b>
<b>Members' equity</b>	<b>149.5</b>	<b>144.5</b>
<b>Total Liabilities and members' equity</b>	<b>\$ 758.1</b>	<b>\$ 810.3</b>

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

Convergenx Group, LLC and Subsidiaries  
Consolidated Statements of Comprehensive Loss  
(In Millions)  
(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Commissions and fees, net	\$ 42.1	\$ 53.0
Expense reimbursements	10.0	7.9
Interest income	4.4	3.1
Other income	1.3	1.9
<b>Total Revenues</b>	<b>57.8</b>	<b>65.9</b>
<b>Expenses</b>		
Compensation and benefits	28.0	27.4
Brokerage, clearing and exchange fees	12.9	15.7
Cost of expense reimbursements	10.0	7.9
Communications and technology	10.6	10.1
General & administrative	3.7	3.9
Depreciation and amortization	2.1	2.3
Occupancy	2.1	2.1
Interest	2.1	1.4
Amortization of intangible assets	0.7	0.8
Restructuring	0.1	0.4
Other expenses	(1.7)	2.1
<b>Total Expenses</b>	<b>70.6</b>	<b>74.1</b>
Loss from Continuing Operations before taxes	(12.8)	(8.2)
Provision for income taxes	0.0	(0.1)
<b>Net Loss from Continuing Operations</b>	<b>(12.8)</b>	<b>(8.3)</b>
Income from Discontinued Operations, net of tax	2.2	5.3
<b>Net Loss</b>	<b>(10.6)</b>	<b>(3.0)</b>
Other comprehensive (loss) income from continuing operations		
Foreign currency translation adjustment	0.1	(0.1)
Total other comprehensive (loss) income	0.1	(0.1)
<b>Total comprehensive (loss) income</b>	<b>\$ (10.5)</b>	<b>\$ (3.1)</b>

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

Convergenx Group, LLC and Subsidiaries  
Consolidated Statements of Changes in Members' Equity  
(In Millions)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Balance, beginning of period	\$ 144.5	\$ 168.6
Contribution from Holdings	29.7	-
Non-Cash Distribution	(14.2)	-
Comprehensive Loss	(10.5)	(3.1)
Balance, end of period	<b>\$ 149.5</b>	<b>\$ 165.5</b>

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

Convergenx Group, LLC and Subsidiaries  
Consolidated Statements of Cash Flows  
(In Millions)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (10.6)	\$ (3.0)
Minus: Income from discontinued operations	2.2	5.3
Net loss from continuing operations	(12.8)	(8.3)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization of fixed assets	2.1	2.3
Amortization of intangible assets	0.7	0.8
Deferred income taxes	-	0.1
Change in operating assets and liabilities:		
Non securities clearing current assets and current liabilities:		
Accounts receivable and accrued revenue	1.3	(1.4)
Prepaid expenses	1.1	(0.3)
Other current assets	(2.5)	0.6
Accrued expenses and compensation	(14.4)	(14.0)
Other current liabilities	0.0	0.4
Securities clearing assets and liabilities:		
Restricted cash and securities	(11.0)	13.6
Receivables related to securities transactions	(0.3)	(138.2)
Payables related to securities transactions	3.5	137.4
Commission management payable	(4.0)	5.7
Non-current assets and liabilities:		
Other assets	(0.1)	0.1
Other liabilities	2.0	1.8
Net cash flow provided by (used in) operating activities from continuing operations	(34.4)	0.4
Net cash flow provided by operating activities from discontinued operations	(0.8)	7.5
<b>Net cash flow provided by (used in) operating activities</b>	(35.2)	7.9
<b>Cash flows from investing activities</b>		
Purchase of fixed assets, including internally developed software	(1.0)	(1.2)
<b>Net cash used in investing activities</b>	(1.0)	(1.2)
<b>Cash flows from financing activities</b>		
Repayment of short term borrowings	(24.6)	(6.6)
Repayment of subordinated liabilities	(10.0)	-
Capital contribution	29.7	-
Principal payments on capital lease obligations	-	(0.8)
<b>Net cash used in financing activities</b>	(4.9)	(7.4)
Net increase in cash and cash equivalents	(41.1)	(0.7)
Cash and cash equivalents, at beginning of period	147.0	134.9
Cash and cash equivalents, at end of period	105.9	134.2
<b>Supplemental cash flow information</b>		
Cash paid during the year for interest	\$ 2.4	\$ 1.4
Cash paid during the year for income taxes, net	\$ —	\$ —

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



## Convergex Group, LLC and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements

#### **1. Business Description**

Convergex Group, LLC (the “Company”), is an agency focused global brokerage and trading related service provider with subsidiaries in the global high-touch and electronic trading, prime brokerage, clearing, and commission management business lines. It is a Delaware limited liability company, formed on June 26, 2006, and commenced operations on October 2, 2006. The Company is 99% owned by Convergex Holdings, LLC (“Holdings”), a holding company entity formed in 2006 upon completing the acquisitions of Eze Castle Software, Inc. and certain subsidiaries of the Bank of New York Company, Inc., a predecessor to The Bank of New York Mellon Corporation (“BNYM”). The remaining 1% is owned by GTCR Golder Rauner II, L.L.C. (“GTCR”), a private equity firm.

Holdings is authorized to issue equity interests in the Company designed as units. The total number of units that Holdings has the authority to issue is 100. All 100 units have been issued and are outstanding.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and were developed in accordance with the Accounting Standards Codification (“ASC”), as set forth by the Financial Accounting Standards Board (“FASB”).

#### **2. Significant Accounting Policies**

##### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

##### **Discontinued Operations**

On March 1, 2017, Holdings completed its Asset Purchase Agreement with Dash Financial Holdings LLC (“Dash”), whereby the Company contributed the assets and liabilities of the Options Technology Trading business (“contributed net assets”) to two new entities controlled by Dash in exchange for 65% of the equity interests of Dash. A subsidiary of Dash contributed their agency execution and analytics platform in return for a 35% ownership in Dash. The contributed net assets are presented as a discontinued operation in the Company’s consolidated financial statements for all periods presented (See Note 4).

##### **Use of Estimates**

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and the accompanying notes. These estimates and assumptions are based on the best available information but actual results could be different.

## 2. Significant Accounting Policies (continued)

### Revenue Recognition

The Company provides trade execution, routing, commission management, and other services to clients using the Company's technology infrastructure. The Company typically enters into agreements with clients to provide services on a fee for services basis, a monthly flat fee or a combination of fee for service and flat fees. Fees for services are generally calculated based on transactions processed through our systems or technology-enabled services and may include periodic minimum usage fees, which are generally determined on a monthly basis before revenue is recorded. Periodic minimum usage fees apply to connectivity and routing commissions, which are generally determined on a monthly basis.

The Company recognizes revenue for its services, provided that persuasive evidence of the arrangement exists, related fees are fixed or determinable, and collection of the related receivable is reasonably assured. The Company adjusts revenue in situations where client concessions, rebates or volume based discounts may be offered. Revenue is only recognized if the estimates of such modifications can be reasonably and reliably determined. The Company bases its estimates on historical results taking into consideration the type of client, the type of transaction and the specifics of each arrangement.

Clients are offered the opportunity to initiate transactions directly through software provided by the Company or through interfaces to client systems provided by the Company. Alternatively, the Company can initiate transactions on the client's behalf. Revenues related to securities transactions are generally recognized on a trade date basis. Fees are collected directly from the client's account on settlement date or billed monthly in arrears.

The Company allows institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties under Section 28(e) of the Securities Exchange Act of 1934, commission recapture payments to be paid to plan sponsors, and other payments as directed by the customer. The amounts allocated for those purposes are commonly referred to as soft dollar and commission recapture arrangements.

#### *Commissions and Fees, Net*

Commission revenue is recorded when earned on a trade date basis and the costs of soft dollar and commission recapture arrangements are recorded on an accrual basis for each eligible trade and netted against commission revenue on the consolidated statements of comprehensive loss. Accrued soft dollar research and commission recapture payable is classified as commission management payable on the consolidated balance sheet.

The Company earns options routing fees by directing trading volume to options exchanges and market makers. Fees are recorded as revenue when the service is delivered, provided that persuasive evidence of the agreement exists, related fees are fixed or determinable, and collection of the related receivable is reasonably assured.

## 2. Significant Accounting Policies (continued)

### *Expense Reimbursements*

Commissions and fees, net, does not include reimbursement for certain expenses such as exchange fees and fees due to regulatory or governmental agencies. Regulatory agencies view the Company as the primary obligor for these items and consequently these reimbursements are recorded as revenue when the transaction that generates the surcharge occurs and the related expense is recognized. Additionally, the Company contracts with certain clients on a cost-plus basis and engages with contractors from time to time to perform services directly for clients. When separate execution fees are charged directly to a client or a contractor is paid a fixed percentage of the revenue they generate, the separate execution fees or contractor's portion of revenue is classified as reimbursed expenses and recorded when the services are delivered or transactions occur. Reimbursed expenses are either deducted directly from the settlement value of transactions or billed monthly in arrears.

### *Interest income*

Interest income consists of interest earned from securities borrowed transactions, client deposits, other client financing activities with clearing brokers and deposits held at financial institutions and clearing organizations. Interest income is recorded on an accrual basis.

### *Other Income*

Other income on the consolidated statements of comprehensive loss primarily includes software technology fees, service fee income and interest income. Software technology fees include revenues from software licenses, maintenance, facilities management and custom development. Fixed-term software licensing fees are recognized as revenue on a straight-line basis over the term of the agreement after installation is complete. Custom work projects are recognized as revenue when the project is completed and accepted by the customer. Service fee income is for management and technical services and is recorded when the services are delivered. Interest income consists of interest earned from securities borrowed transactions and deposits held at financial institutions and clearing organizations. The Company also charges sweep fees related to deposits or balances maintained by customers. Sweep fees are determined based on the difference between what the Company earns or pays related to the balance relative to what the Company pays to or is paid by the customer. Interest income is recorded on an accrual basis.

### **Cash and Cash Equivalents**

All unrestricted highly liquid investments with initial or remaining maturities of less than 90 days at the time of purchase are considered cash and cash equivalents. These investments include demand deposits and money market accounts.

### **Restricted Cash and Securities**

Restricted cash and securities include cash pledged as security for letters of credit, cash deposited in special reserve bank accounts in accordance with broker-dealer regulatory requirements, and cash on deposit with

## 2. Significant Accounting Policies (continued)

clearing organizations to collateralize outstanding trade settlements at year end. Such deposits may earn interest which is recorded on an accrual basis.

### Securities Transactions

Securities transactions are recorded on a trade date basis. Receivables related to securities transactions include amounts receivable for fails to deliver, cash deposits for securities borrowed plus the related interest receivable, amounts receivable from clearing organizations, and commissions receivable from broker dealers.

The Company typically borrows securities when securities are needed to deliver against a settling transaction, such as non-standard settlements requested by a customer or a fail to receive, or to facilitate securities lending to customers. Securities borrowed transactions require the Company to deposit cash or other collateral that has a fair market value equal to or greater than the fair market value of the securities borrowed. The Company monitors the fair value of the securities borrowed or loaned on a regular basis and adjusts the collateral, as appropriate.

Securities held by the Company and intended for settlement against customer orders are held as collateral for customer receivables. Securities owned by customers, including those that collateralize margin, are not reflected as assets of the Company in the consolidated financial statements.

Payables related to securities transactions include amounts payable for fails to receive, cash received for securities loaned plus the related interest payable, and amounts payable to broker-dealers and clearing organizations on open transactions. The Company typically loans securities in order to fund non-standard settlements requested by a customer or a fail to deliver, or to assist clients to help fulfill their short selling requirements, or to facilitate securities borrowing from customers. Securities loaned transactions allow the Company to receive cash that is less than or equal to the market value of the securities loaned. Securities loaned transactions are recorded at the value of the cash received by the Company. The Company monitors the fair value of the securities loaned on a regular basis and adjusts the cash received, as appropriate. Interest on securities loaned transactions is included in interest expense on the consolidated statements of comprehensive loss.

For consolidated financial statement purposes, we do not offset our securities borrowing or securities lending transactions because the conditions for netting as specified by U.S. GAAP are not met. Our securities borrowing and securities lending transactions are governed by master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. A

prepaid research asset is established for research and research related services disbursed in advance of anticipated customer commission volumes. Such receivables may not be evidenced by contractual obligations.

Prepaid research is included in receivables related to securities transactions, net of allowance on the consolidated balance sheet. Accruals for commission sharing arrangements, commission recapture payments

## **2. Significant Accounting Policies (continued)**

owed to asset owners, and other payments directed by the customers are classified as commission management payable on the consolidated balance sheets.

### **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 also evaluates the business operations, as well as its 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 general and administrative expenses on the consolidated statements of comprehensive loss.

### **Fair Value of Financial Instruments**

The carrying amounts reported on the consolidated balance sheets for cash and cash equivalents approximate fair value based on the on-demand nature of cash and the short-term maturity and the daily pricing mechanisms for cash equivalents. Securities owned and securities sold short, not yet purchased are recorded at fair value on a trade date basis and reported at quoted market prices for identical assets or liabilities in active markets.

### **Fixed Assets**

Fixed assets are reported at cost, net of accumulated depreciation and amortization. Furniture and equipment and computer hardware are depreciated on a straight-line basis over estimated useful lives between three and fifteen years. Purchased software costs are amortized on a straight-line basis over useful lives between three and five years. Leasehold improvements are amortized on a straight-line basis over the life of the lease or the improvement, whichever is shorter.

### **Internally Developed Software Costs**

The Company capitalizes certain costs incurred in connection with developing or modifying software for internal use. Qualifying internally developed software costs are capitalized and amortized over the estimated useful life of the software ranging from three to ten years. The Company evaluates internally developed software for impairment on at least an annual basis and whenever changes in circumstances indicate impairment could exist.

### **Intangible Assets**

Identifiable intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives, which are one to twelve years from the date of the original acquisition, and are also reviewed at least annually for impairment or whenever changes in circumstances indicate impairment can exist. Identifiable intangible assets consist of customer lists, acquired technology, and tradenames.

## 2. Significant Accounting Policies (continued)

### Deferred Compensation

The Company provides a portion of each highly compensated individual's annual bonus as a long-term cash award. The Company has two deferred compensation plans, the Convergex Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan") and the LiquidPoint Supplemental Retention Plan (the "Supplemental Retention Plan").

Under the Deferred Compensation Plan, employees vest over 40 months of service, including the year for which the award was granted, and are payable at the end of that period. Compensation expense is accrued ratably over that period. As part of the Deferred Compensation Plan, employees can elect to index their deferral to various investment options. Increases (decreases) in amounts owed to employees based on the performance of their investment elections are included in compensation and benefits expense in the consolidated statements of comprehensive loss. Payments to the employees are made on the payment date in the amount of the initial award adjusted by the percentage change in value of any elected investment options. In order to hedge the risk associated with changes in the amounts due to employees upon vesting, the Company may purchase investments similar to the elected options. The plan investments had no material effect on the Company's financial position in 2017 and 2016.

Under the Supplemental Retention Plan, awards are paid at the beginning of the year following the year the award was granted and in each of the two subsequent years. Expense related to these awards is recognized ratably over the service period of three years including the year for which the award was granted.

### Derivatives

The Company's subsidiaries utilize foreign exchange forward contracts from time to time to reduce its exposure to fluctuations in foreign exchange rates. These instruments are recorded at fair value based on industry standard pricing services. Gains and losses on these contracts are recorded on a trade date basis.

### Foreign Currency Translation

Certain subsidiaries of the Company have functional currencies other than U.S. dollars ("USD"). Asset and liability accounts for these subsidiaries are translated into USD using the exchange rate in effect at each consolidated balance sheet date. Income and expense accounts are translated using an average rate of exchange during each monthly accounting period. Foreign currency translation adjustments are accumulated as a component of other comprehensive loss within members' equity.

### Income Taxes

The Company, as a multi-member limited liability company, is treated as a partnership for federal, state and local income tax purposes and is not subject to U.S. federal income tax. Certain other subsidiaries are subject to unincorporated business taxes in applicable jurisdictions, including New York City, or income taxes in foreign jurisdictions in which they conduct business.

## 2. Significant Accounting Policies (continued)

The Company accounts for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the expected future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when those temporary differences are expected to reverse. A valuation allowance is established when management believes it is more likely than not that a deferred tax asset will not be realized.

In accordance with ASC 740, *Accounting for Income Taxes*, an entity is permitted to recognize the benefits of uncertain tax positions only where the position is “more likely than not” to be sustained in the event of examination by tax authorities based on the technical merits of the position. The maximum tax benefit recognized is limited to the amount that is greater than 50% likely to be realized upon ultimate settlement. The Company’s policy is to record interest and penalties related to income taxes as a component of the provision for income tax.

## 3. Recent Accounting Developments

### Recently Issued Accounting Pronouncements

ASU 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), provides principles that govern the recognition of revenue at an amount an entity expects to be entitled to when goods or services are promised to customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017 and early adoption is permitted. Subsequently, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”). The Company is currently assessing the future impact these standards will have on the Company’s consolidated financial statements.

ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (“ASU 2014-11”), which amends the accounting guidance for certain repurchase agreement transactions and repurchase agreements executed as repurchase financings and requires enhanced disclosures. The impact of adopting this ASU did not have a material impact on the Company’s consolidated balance sheets. See Note 18 for disclosures required by this ASU.

ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”), provides guidance for management to evaluate whether there is a substantial doubt about an entity’s going concern and to provide related footnote disclosures. In connection with preparing consolidated financial statements for each reporting period, an entity’s management should evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

## 4. Discontinued Operations

On March 1, 2017, Holdings completed its Asset Purchase Agreement with Dash and its subsidiaries, whereby Group contributed the contributed net assets to two new entities controlled by Dash in exchange for 65% of the

Convergenx Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**4. Discontinued Operations (continued)**

equity interests of Dash. Dash Financial contributed their agency execution and analytics platform in return for a 35% ownership in Dash to Group, which was then immediately contributed to Holdings. The contributed net assets are presented as a discontinued operation in the Company's consolidated financial statements for all periods presented.

The transaction resulted in a transfer of \$14.2 million in net assets from the Company's subsidiaries to the two new entities.

In connection with this transaction, both the Company and Dash agreed to provide certain support services for varying periods of time up to 12 months after the closing date pursuant to transaction services agreements. Services provided include human resources, finance, tax, billing, compliance, legal, and technology assistance.

The Company also agreed to provide certain post-trade operational, trade reporting, clearance, and settlement support to Dash.

The following table sets forth details of net income from discontinued operations for the three months ended March 31, 2017 and 2016, (amounts in millions):

	<b>For the Three Months Ended March 31,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Revenues</b>		
Commissions and fees, net	\$ 5.5	\$ 12.1
Expense reimbursements	2.4	4.5
Other income	2.1	2.6
<b>Total Revenues</b>	<b>\$ 10.0</b>	<b>\$ 19.2</b>
<b>Expenses</b>		
Compensation and benefits	\$ 3.0	\$ 6.1
Brokerage, clearing and exchange fees	0.9	1.2
Cost of expense reimbursements	2.4	4.5
Communications and technology	0.7	0.8
General & administrative	0.2	0.2
Depreciation and amortization	0.3	0.5
Occupancy	0.1	0.1
Amortization of intangible assets	0.2	0.4
Restructuring	0.0	0.1
Other expenses	-	-
<b>Total Expenses</b>	<b>\$ 7.8</b>	<b>\$ 13.9</b>
(Provision)/benefit for income taxes	-	-
<b>Net Gain from Discontinued Operations</b>	<b>\$ 2.2</b>	<b>\$ 5.3</b>

Convergenx Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**4. Discontinued Operations (continued)**

The following table sets forth details of the classes of assets and liabilities of discontinued operations as of March 31, 2017 and December 31, 2016 (amounts in millions):

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
Current Assets:		
Receivables related to securities transactions, net of allowance for prepaid research	\$ 0.0	\$ 6.8
Accounts receivable and accrued revenue, net of allowance for	0.0	6.0
<b>Total Current Assets</b>	<b>\$ 0.0</b>	<b>\$ 12.8</b>
Fixed assets, at cost, net of accumulated depreciation & amortization	\$ 0.0	\$ 4.9
Intangible assets, net of accumulated amortization	0.0	2.8
Other assets	0.0	0.4
<b>Total Assets</b>	<b>\$ 0.0</b>	<b>\$ 20.9</b>
<b>Liabilities</b>		
Current Liabilities:		
Accrued expenses & compensation	\$ 0.0	\$ 6.9
<b>Total Current Liabilities</b>	<b>\$ 0.0</b>	<b>\$ 6.9</b>
Other liabilities	\$ 0.0	\$ 2.8
<b>Total Liabilities</b>	<b>\$ 0.0</b>	<b>\$ 9.7</b>

**5. Financial Instruments**

All financial instruments are measured and reported on a fair value basis. ASC 820, Fair Value Measurement, defines fair value and establishes a framework for measuring fair value, as well as a fair value hierarchy based on inputs used to measure fair value.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

**Fair Value Hierarchy**

Financial assets and liabilities are classified based on inputs used to establish fair value as follows:

Level 1: Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets. Level 1 financial instruments consist of securities owned and securities sold not yet purchased and consist of US equity securities positions temporarily held by the Company that result from the normal course of agency brokerage.

**5. Financial Instruments (continued)**

Level 2: Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other valuation techniques utilizing observable inputs directly or indirectly related to the asset or liability being measured. Level 2 financial instruments consist of a certificate of deposit the Company has pledged as security for an outstanding letter of credit. The fair value of certificates of deposit is determined by using a discounted cash flow methodology.

Level 3: Valuation techniques utilize inputs that are unobservable and significant to the fair value measurement.

As of March 31, 2017 and December, 31, 2016, there were no material assets or liabilities measured at fair value.

Other financial instruments are recorded by the Company at contract amounts, which approximate fair value and include cash (Level 1); receivables from and payables to broker, dealers, and clearing organizations (Level 2); deposits with clearing organizations; and receivables from and payables to customers (Level 2). These financial instruments are considered to approximate their carrying amounts because they have limited counterparty credit risk, are short-term, or bear interest at market rates and, accordingly, are carried at amounts which are a reasonable estimate of fair value.

There were no transfers among levels during 2017 and 2016.

**6. Consolidated Balance Sheet Detail**

**Receivables Related to Securities Transactions**

Amounts receivable related to securities transactions include: (all amounts in millions)

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Customers	\$ 40.2	\$ 25.2
Broker-dealers, net of allowance of \$0.0 and \$0.1, respectively	84.2	55.4
Clearing organizations	23.3	21.6
Securities borrowed	312.1	357.2
Prepaid research, net of allowance of \$1.9 and \$1.9, respectively	9.7	9.7
Other	0.2	0.3
Total receivables related to securities transactions	<u>\$ 469.7</u>	<u>\$ 469.4</u>

Convergex Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**6. Consolidated Balance Sheet Detail (continued)**

All material unsettled customer securities, broker-dealer and clearing organization transactions included above, settled subsequent to year end without any material financial effect.

**Fixed Assets**

Fixed assets are as follows: (all amounts in millions)

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Internally developed software	\$ 47.2	\$ 46.3
Computer hardware	22.1	22.1
Leasehold improvements	7.8	7.8
Purchased software	4.5	4.4
Furniture and equipment	1.3	1.3
	<u>82.9</u>	<u>81.9</u>
Accumulated depreciation and amortization	(64.2)	(62.1)
Total fixed assets	<u>\$ 18.7</u>	<u>\$ 19.8</u>

Included in computer hardware and the related accumulated depreciation are \$5.5 million and \$4.4 million, and \$5.5 million and \$4.3 million as of March 31, 2017 and December 31, 2016, respectively, related to assets acquired under capital lease arrangements. Included in the consolidated statements of comprehensive loss is \$0.2 million and \$0.2 million relating to the three months ended March 31, 2017 and March 31, 2016, respectively, of depreciation expense related to these capital leases.

Included in other liabilities on the consolidated balance sheet are \$0.7 million due in 2017 and \$0.4 million due in 2018, which represents remaining principal payments due under capital lease obligations at March 31, 2017.

The Company capitalized \$0.9 million and \$0.8 million in the three months ended March 31, 2017 and 2016 of internally developed software costs.

Convergex Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**7. Intangible Assets**

Intangible assets are as follows: (all amounts in millions)

	<b>At Acquisition Value</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>Initial Weighted Average Useful Life (Years)</b>
<b>Customer lists</b>				
March 31, 2017	\$ 206.4	\$ (204.0)	\$ 2.4	9
December 31, 2016	\$ 204.8	\$ (201.8)	\$ 3.0	9

Future amortization expense of acquired intangible assets: (all amounts in millions)

Year Ending December 31:	
2017	\$ 2.2
2018	0.2
Total	<u>\$ 2.4</u>

**8. Payables Related to Securities Transactions**

Amounts payable related to securities transactions include: (all amounts in millions)

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Customers	\$ 19.0	\$ 13.1
Broker-dealers	61.3	56.7
Clearing organizations	23.0	9.6
Securities loaned	360.2	380.6
Total payables related to securities transactions	<u>\$ 463.5</u>	<u>\$ 460.0</u>

All material unsettled customer securities and broker-dealer transactions included above, settled subsequent to year end without any material financial effect.

Convergex Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**9. Subordinated Liabilities and Liquidity Arrangements**

**Subordinated Liabilities**

On February 28, 2017, one of the Company's broker-dealer subsidiaries, Convergex Execution Solutions ("CES"), repaid its \$10 million floating rate revolving term subordinated note with BNY Mellon scheduled to expire on December 18, 2017. At December 31, 2016, this subordinated borrowing facility was fully drawn to \$10 million. The subordinated borrowing facility had an interest rate of LIBOR plus 6.00%, or the alternative base rate "ABR" plus 4.75%. In addition, this subordinated borrowing facility had an annual commitment fee of 0.50% on the unutilized amount of the note which was payable quarterly. The subordinated borrowing facility was available in computing CES' net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. To the extent that such borrowing is required for the Company's continued compliance with minimum net capital requirements, it may not be repaid. Included in interest expense on the consolidated statements of comprehensive loss is interest expense of \$0.1 million and \$0.1 million for the three months ended March 31, 2017 and 2016, related to this subordinated note and a payable of \$0.0 million and \$0.03 million, was included, net of other receivables from BNY Mellon, in other assets on the consolidated balance sheets, at March 31, 2017 and December 31, 2016.

**Financing Arrangements**

The Company enters into secured and unsecured borrowing agreements to obtain funding necessary to cover daily securities settlements with clearing corporations. Funding is required for unsettled customer delivery versus payment and riskless principal transactions, as well as to meet deposit requirements with clearing organizations. Secured financing arrangements are collateralized by the unsettled customer securities.

The Company maintains uncommitted financing arrangements with affiliates and non-affiliates, the details of which are summarized below as of March 31, 2017. All non-affiliated arrangements are with large financial institutions.

	Maturity Date	Rate	Total Amount Available	Amount Outstanding
<b>Affiliates</b>				
Unsecured				
BNY Mellon	None	Various + 2%	\$ 15,000,000	–
Secured				
BNY Mellon	None	Rate set by Bank	100,000,000	–
BNY Mellon	None	Various + 2.25%	125,000,000	–
Total affiliates			<u>240,000,000</u>	–
<b>Non-affiliates</b>				
Secured	August 31, 2017	Libor + 0.75%	50,000,000	–
Secured	None	Fed funds effective rate plus 1%	100,000,000	–
Unsecured	July 1, 2017	Fed funds effective rate plus 2.5%	30,000,000	–
Total non-affiliates			<u>180,000,000</u>	–
Total			<u>\$ 420,000,000</u>	–

**9. Subordinated Liabilities and Liquidity Arrangements (continued)**

Included in interest expense on the consolidated statements of comprehensive loss are \$0.1 million and \$0.0 million for all periodic borrowings under the liquidity facilities for the three months ended March 31, 2017 and 2016.

**10. Retirement Plans**

The Company has two defined contribution retirement plans. Employees of the Company’s United States of America (“US”) businesses who meet eligibility requirements have the option of contributing to the US plan. The Company makes contributions at its discretion to the US plan in the form of profit sharing and/or matching contributions. Profit sharing percentages and Company match formulas are determined based on employee groups. Additionally, the Company also has one United Kingdom (“UK”) defined contribution plan. The cost for these benefit plans was \$0.1 million and \$0.2 million for the three months ended March 31, 2017 and 2016.

**11. Impairment of Intangible Assets and Restructuring**

The Company’s intangible assets are tested for impairment whenever events or changes in circumstances indicate that an asset’s or asset group’s carrying value may not be fully recoverable.

To the extent the carrying value of an asset exceeds the projected undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group, the Company determines the asset is impaired and records an impairment loss equal to the difference between the estimated fair value and the carrying value of the asset or asset group. As of March 31, 2017 and December 31, 2016, the Company has determined that there is no impairment to the intangible assets.

**12. Income Taxes**

The Company is a limited liability company that is treated as a partnership for federal, state, and local income tax purposes, and as such, is generally not liable for federal and state income taxes as an entity. The Company is subject to New York City unincorporated business tax (“UBT”) on their U.S. earnings apportioned to New York City based on a statutory rate of 4%. Certain of its subsidiaries are subject to income tax of the foreign countries in which they conduct business.

The components of loss before income taxes were as follows (in millions):

	<b>Three Months Ended March 31, 2017</b>	<b>Three Months Ended March 31, 2016</b>
Total	\$ (12.8)	\$ (8.2)

Convergenx Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**12. Income Taxes (continued)**

The components of the provision for (benefit from) income taxes consist of the following (in millions):

	<b>Three Months Ended March 31, 2017</b>	<b>Three Months Ended March 31, 2016</b>
<b>Current:</b>		
State and local expense (benefit)	\$ 0.0	\$ 0.0
Total current income tax expense (benefit)	<u>\$ 0.0</u>	<u>\$ 0.0</u>
<b>Deferred:</b>		
State and local expense (benefit)	\$ 0.1	\$ 0.3
Foreign expense	0.0	0.1
Change in valuation allowance	(0.1)	(0.3)
Total deferred income tax expense (benefit)	<u>0.0</u>	<u>0.1</u>
Total income tax expense (benefit)	<u>\$ 0.0</u>	<u>\$ 0.1</u>

The effective tax rate differs from the federal statutory rate of 35% primarily due to state and local taxes, income passed through and taxed at the partner level, and changes in valuation allowance.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's gross deferred tax assets include amortization of intangibles and net operating losses. The total deferred tax assets, liabilities and valuation allowance are as follows (in millions):

	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Deferred tax assets	\$ 7.0	\$ 7.6
Valuation allowance	(7.0)	(7.6)
Total deferred tax assets	<u>0.0</u>	<u>0.0</u>
Deferred tax liabilities	0.1	0.0
Total deferred tax liabilities	<u>0.1</u>	<u>0.0</u>
Net total deferred taxes	<u>0.1</u>	<u>0.0</u>

## 12. Income Taxes (continued)

A valuation allowance was recorded against the deferred tax assets for the years ended March 31, 2017 and 2016, as management believes that it is “more likely than not” that the deferred tax assets will not be realized in a future period. The net change in the valuation allowance for the year ended March 31, 2017, was a decrease of \$0.1 million and the net change for the year ended March 31, 2016 was an increase of \$0.4 million.

Long term income taxes payable includes a reserve for uncertain tax positions of \$4.6 million as of March 31, 2017, and the reserve was \$4.7 million as of March 31, 2016.

The Company recognizes interest and penalties related to uncertain tax positions as a component of the income tax provision. As of March 31, 2017, the Company had recognized \$2.7 million of interest accrued on unrecognized tax benefits, which was included in long-term income taxes payable. The Company recognized \$3.1 million for the year ended March 31, 2016. While Management believes it has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the accrued estimates. Accordingly, the provisions on tax-related matters may change as revised estimates are made or the underlying matters are settled or otherwise resolved. As of March 31, 2017 and 2016, the Company does not believe the estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months.

The Company is subject to examination by the IRS for tax years ended 2013 through 2016. The Company is also subject to examination by various state and local jurisdictions for tax years ended 2007 through 2016. If additional tax is assessed upon conclusion of the audits, an additional tax provision may need to be recorded. The impact of such adjustments in the Company’s tax accounts could have a material impact on the consolidated results of the operations in future periods. The total Company’s net operating loss balance is \$151.3 million, due to expire beginning in 2033 through 2036.

## 13. Related Party Transactions

The Company enters into intercompany borrowings with Holdings in the normal course of business. The balances outstanding at March 31, 2017 and December 31, 2016, was \$0.0 million and \$26.1 million, respectively and is shown as Payable to Parent on the balance sheet. The interest expense related to these borrowing was \$0.0 million and \$0.2 million for the three months ended March 31, 2017 and 2016, respectively.

The Company generates revenues from BNYM for trade execution and clearing services, commission management tools and payment processing services. The Company provides commission management tools and payment processing services to certain unrelated customers where the Company invoices BNYM for the services provided; the revenues generated under these arrangements are not reflected below since BNYM is not the user of the services.

BNYM provides trade execution and clearing services to the Company. As part of its daily operations, the Company enters into securities borrowed and securities loaned transactions with BNYM. The Company provides and receives certain management, administrative, and technical services from BNYM and sub-leases office space to BNYM.

Convergex Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**13. Related Party Transactions (continued)**

The following table sets forth the Company's related party assets and liabilities: (all amounts in millions)

	<u>March 31,</u> <u>2017</u>		<u>December 31,</u> <u>2016</u>
<b>Assets</b>			
Restricted cash and securities	\$ 1.5	\$	1.5
Receivables related to securities transactions	9.1		11.6
Other assets	0.1		0.1
Total assets	<u>\$ 10.7</u>	<u>\$</u>	<u>13.2</u>
<b>Liabilities</b>			
Payables related to securities transactions	\$ 0.7	\$	26.9
Subordinated debt	-		10.0
Total liabilities	<u>\$ 0.7</u>	<u>\$</u>	<u>36.9</u>

The following table sets forth the Company's related party revenues and expenses between the Company and BNYM and its subsidiaries for the three months ended March 31, 2017 and 2016. Expense reimbursement revenues are excluded from the following table: (all amounts in millions)

	<u>2017</u>	<u>2016</u>
Revenues	\$1.0	\$2.0
Expenses	\$(2.0)	\$(1.4)

**14. Derivatives**

The Company utilizes foreign exchange forward contracts from time to time to reduce its exposure to fluctuations in foreign exchange rates. These instruments are recorded at fair value based on industry standard pricing services. Gains and losses on these contracts are recorded on a trade date basis and are included in other income, net on the consolidated statements of comprehensive loss. As of March 31, 2017 and December 31, 2016, the notional value of the foreign exchange forward contracts was \$0.8 million and \$0.8 million. The fair value of these outstanding foreign exchange forward contracts entered into with third parties was \$0.8 million and \$0.8 million, respectively. The Company recorded an immaterial net gain on foreign exchange forward contracts on the consolidated statements of comprehensive loss for the three months ended March 31, 2017 and 2016. The Company had no items designated as hedging instruments as of March 31, 2017 and December 31, 2016, or any time during this period.

**15. Commitments and Contingencies**

**Leases**

The Company leases office space and certain equipment under non-cancelable operating lease arrangements. Rent expense of \$2.1 million and \$2.1 million, was recorded as occupancy expense under these leases for the three months ended March 31, 2017 and 2016, respectively.

**15. Commitments and Contingencies (continued)**

The Company is obligated under non-cancelable operating leases to pay the following minimum rentals as of March 31: (all amounts in millions)

	<b>Lease Payments</b>	<b>Sublease Rentals Income</b>	<b>Net Lease Payments</b>
2017	5.9	0.1	5.8
2018	8.0	0.1	7.9
2019	4.6	0.1	4.5
2020	1.1	0.1	1.0
2021	0.7	-	0.7
Thereafter	0.7	-	0.7
	<u>\$21.0</u>	<u>\$0.4</u>	<u>\$20.6</u>

The operating leases are subject to periodic escalation charges. The Company's operating leases expire on various dates between July 2018 and August 2022.

**16. Deferred Compensation**

Convergex provides a portion of each executive's and other highly compensated individual's annual bonus as a long-term cash award. Employees, who meet the required 40 months of service, including the year for which the award was granted, are vested and paid at the end of that period. Compensation expense is accrued ratably over that period. As part of the programs, employees can elect to index their deferral to various investment options. Payments to the employees are made on the payment date in the amount of the initial award adjusted by the percentage change in value of any elected investment options. In order to hedge the risk associated with changes in the amounts due to employees upon vesting, Group may purchase investments similar to the elected options. The plan had no material effect on the Company's financial position in 2017 and 2016. Including the performance of the employees' investment elections to date, the Company plans to make payments related to these deferred bonus programs of \$5.1 million in 2017, \$7.9 million in 2018 and \$6.4 million in 2019.

**17. Legal Contingencies**

In the ordinary course of business, the Company and its subsidiaries are named as defendants in, or made parties to, pending and potential legal actions and regulatory matters. Claims for monetary damages are often asserted in many of these legal actions, while claims for disgorgement, penalties and/or other remedial sanctions, including business restrictions, may be sought in regulatory matters. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue.

The Company establishes accruals for litigation and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. If a loss contingency is not both probable and reasonably estimable, the Company does not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. If it becomes a reasonable possibility that a loss will exceed an amount recognized, the Company will accrue the estimated

## 17. Legal Contingencies (continued)

additional loss. The Company believes that no actions, other than the matters described below, depart from the customary litigation or regulatory inquiries incidental to its business.

In December 2013, the Company and certain subsidiaries (the “defendants”) were named in a lawsuit filed in the United States District Court for the Southern District of New York. The lawsuit is a purported class action brought on behalf of all participants, beneficiaries and named fiduciaries of ERISA plans affected by net trading by Convergex Global Markets (“CGM”) in Bermuda from 2006 to 2011. The lawsuit alleges breach of fiduciary duty and prohibited transactions under ERISA. The Company believes that it has numerous defenses to these claims and the defendants filed a motion to dismiss the complaint in March 2014. Thereafter, an amended complaint was filed in April 2014, with an additional named plaintiff but setting forth the same essential facts and causes of action as in the original complaint. The defendants filed a motion to dismiss and for summary judgment on June 9, 2014. In June 2015, the claims asserted on behalf of the second plaintiff, who had been added in the amended complaint, were voluntarily withdrawn without prejudice and the plaintiff filed a brief in opposition to defendants’ dispositive motion. On February 17, 2016, the court issued an opinion and order granting the defendants’ motion and dismissing the complaint with prejudice. The plaintiff subsequently filed a notice of appeal. On February 10, 2017, the Court of Appeals for the Second Circuit reversed the district court, ruling that the plaintiff as standing to pursue claims, in a “representative capacity,” on behalf of the ERISA plan in which he is a participant, and remanded to the district court for further proceedings on the question whether the plaintiff has standing to pursue claims on behalf of plans in which he is not a participant. On February 24, 2017, the defendants filed a petition for rehearing or rehearing en banc; that petition remains pending.

The Company’s subsidiary, Convergex Prime Services LLC (“CPS”) and the FDIC agreed in December 2015 to a settlement in principle resolving claims threatened by the FDIC to recover losses incurred by Montgomery Bank & Trust (“MBT”) as a result of the misconduct of Aubrey Lee Price; Price’s firm, PFG, was a client of CPS, which introduced PFG’s accounts to another firm for clearance and settlement on a fully disclosed basis. The FDIC is acting in its capacity as receiver of MBT. The settlement agreement has been finalized and the settlement amount paid. In addition, CPS and Convergex Execution Solutions LLC, another subsidiary of the Company, were named in a FINRA arbitration filed in March 2013 by the court-appointed receiver of PFG, in connection with trading losses allegedly suffered by investors in the PFG hedge fund separate and apart from the MBT losses. CPS and CES intend to vigorously defend against these claims in the arbitration, which is scheduled to take place in October-November 2017.

On the basis of the Company’s current knowledge and understanding, the Company does not believe that judgments or settlements, if any, arising from any other matter, either individually or in the aggregate, will have a material effect on the Company.

## 18. Off-Balance-Sheet Credit Risk

### Customer Activities and Credit Risk

In securities transactions, the Company’s customer and correspondent clearance activities involve the execution and settlement of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligations.

**18. Off-Balance-Sheet Credit Risk (continued)**

The Company's customer securities activities are transacted on a delivery versus payment, cash or margin basis. In delivery versus payment transactions, the Company is exposed to risk of loss in the event of the customers' or brokers' inability to meet the terms of their contracts.

In margin transactions, the Company extends credit to clients collateralized by cash and securities in their account. In the event the customers or brokers fail to satisfy their obligations, the Company may be required to purchase or sell securities at prevailing market prices in order to fulfill the obligations.

The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the customers' financial condition and credit ratings. The Company seeks to control the risk associated with its customer margin transactions by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company also monitors required margin levels daily and, pursuant to its guidelines, requires customers to deposit additional collateral, or reduce positions, when necessary.

The Company typically enters into securities lending transactions in order to fund non-standard settlements and to earn residual interest rate spreads. Under these transactions, the Company receives cash collateral. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. The Company mitigates the risk of the counterparty not returning the loaned securities by monitoring the market values daily and requiring additional cash as collateral when necessary, and when applicable, participating in a risk-sharing program offered through the OCC. The Company had gross obligations relating to securities loaned of \$347.7 million and \$365.6 million, of which cash collateral totaling \$359.6 million and \$380.0 million, was received at March 31, 2017 and December 31, 2016. These securities loaned are domestic equities that have no contractual maturity and may be recalled on demand at any time, subject to a three day notice period.

In the normal course of business, the Company obtains securities under securities borrowed, resale agreements, and custody agreements on terms which permit the Company to repledge or resell the securities to others. At March 31, 2017 and December 31, 2016, the Company had borrowed securities of \$335.6 million and \$366.3 million, of which cash collateral totaling \$311.2 million and \$356.4 million, was given to counterparties. Additional collateral of \$35.1 and \$24.2 million was held in the Company's reserve bank, included on the consolidated balance sheets in restricted cash and securities at March 31, 2017 and December 31, 2016. The Company obtained securities with a fair value of \$27.0 and \$9.3 million under fully disclosed clearing agreements at March 31, 2017 and December 31, 2016.

The Company provides access to execution venues for certain customers via sponsored line agreements. These customers transmit non-solicited trade orders directly to the execution venue. The Company monitors the activity but does not have the ability to stop the activity, and is therefore exposed to risk of loss should the customer not meet its obligations. The Company is billed for activity flowing through these lines, and is reimbursed by the client. The Company is exposed to credit risk in the event that the client is unable to fulfill its obligations with respect to these charges. The Company may maintain cash and cash equivalents at financial institutions in excess of federally insured limits. The Company has not experienced any material losses in such accounts and does not believe it is exposed to significant credit risks.

In the normal course of business, certain activities of the Company involve the execution and clearance of customer securities transactions through clearing brokers. These activities may expose the Company to off-balance-sheet

Convergex Group, LLC and Subsidiaries

Notes to Unaudited Consolidated Financial Statements (continued)

**18. Off-Balance-Sheet Credit Risk (continued)**

risk in the event a customer is unable to fulfill its contractual obligation since, pursuant to the clearing agreement, the Company has agreed to indemnify the clearing brokers without limit for losses that the clearing brokers may sustain from the clients introduced by the Company. However, the transactions are collateralized by the underlying security, thereby reducing the associated risk of the position to the changes in the market value of the security through settlement date. At March 31, 2017 and December 31, 2016, there were no amounts to be indemnified to these clearing brokers pursuant to these agreements.

**19. Other Expenses**

The following table summarizes the components of other expenses: (all amounts in millions)

	<b>Quarter Ended March 31, 2017</b>	
Professional fees, net of insurance recoveries of \$0.1	\$	(1.7)
Other		0.0
Other expenses	\$	(1.7)
	<b>Quarter Ended March 31, 2016</b>	
Professional fees, net of insurance recoveries of \$1.6	\$	2.1
Other		0.0
Other expenses	\$	2.1

**20. Regulatory Requirements**

CES and Westminster Research Associates LLC (“WRA”) are subject to the SEC’s Uniform Net Capital Rule 15c3-1.

As of March 31, 2017, CES and WRA had regulatory net capital, regulatory net capital requirements, and excess regulatory net capital as follows: (all amounts in millions)

	<b>Net Capital</b>	<b>Net Capital Requirement</b>	<b>Excess Net Capital</b>
CES	\$ 72.8	\$ 1.7	\$ 71.1
WRA	10.1	0.3	9.8

Convergex, Ltd (“CLtd”) is subject to the rules of the FCA in the United Kingdom regarding minimum capital. At March 31, 2017, CLtd had capital of £2.9 million (approximately \$3.2 million), a minimum capital requirement as determined by CLtd’s internal capital adequacy assessment process of £1.3 million (approximately \$1.5 million), and excess share capital of £1.6 million (approximately \$1.9 million).

To the extent capital in these subsidiaries is restricted due to regulatory or other requirements, net capital and excess net capital may not be available to other entities to satisfy their obligations.

**21. Settlement agreements with the SEC and DOJ**

In December 2013, certain of the Company's direct and indirect subsidiaries were parties to resolutions of parallel investigations by the SEC and the DOJ. The investigations were primarily related to certain global trading and transition management customer orders that had been routed to the former Bermuda trading desk of CGM, and the misconduct of certain former employees who at times between 2006 and 2011, concealed this activity and the compensation generated by CGM on those orders.

**22. Insurance Recoveries**

Included as a reduction to other expenses, on the consolidated statements of comprehensive loss was \$0.1 million and \$0.0 million, of insurance recoveries related to the Company's reimbursement of legal costs of certain former employees in connection with the inquiries discussed above for the three months ended March 31, 2017 and 2016.

**23. Subsequent Events**

On April 1, 2017, GTCR transferred the one unit of Group which it owned to Holdings. The result was Group was 100% owned by Holdings.

On April 3, 2017, Cowen Group, Inc. ("Cowen") announced the signing of a definitive agreement under which Cowen will acquire Group for a total consideration, less certain closing adjustments, for \$116 million in cash and Cowen common stock. The transaction closed on June 1, 2017.

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The accompanying unaudited pro forma condensed combined financial statements and explanatory notes presented below, which we refer to as the pro forma financial statements, have been prepared by Cowen Inc. (the “Company”) to reflect its completed acquisition of Convergenx Group, Inc (“Convergenx Group”), as described in Item 2.01 of the Current Report on Form 8-K filed on June 5, 2017.

The unaudited pro forma condensed combined financial statements and explanatory notes as of and for the year ended December 31, 2016, and the three months ended March 31, 2017, respectively, combine the historical consolidated financial condition and statements of operations of the Company with the historical consolidated statements of operations of Convergenx Group for the year ended December 31, 2016 and for the three months ended March 31, 2017. The unaudited pro forma condensed combined balance sheet as of March 31, 2017 is presented as if the acquisition of Convergenx had occurred on March 31, 2017. The unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2017 and fiscal year ended December 31, 2016 is presented as if the acquisition of Convergenx had occurred on January 1, 2016, the first day of the Company's 2016 fiscal year.

The unaudited pro forma condensed combined statements of operations have been prepared based on available information, using assumptions that the Company's management believes are reasonable. The unaudited pro forma condensed combined statements of operations are provided for illustrative purposes only and are not necessarily indicative of the results of operations that would have been achieved had the transaction been consummated as of January 1, 2016, nor are they necessarily indicative of future results. The historical combined financial information has been adjusted to reflect factually supportable items that are directly attributable to the acquisition and, with respect to the statement of operations only, expected to have a continuing impact on combined results of operations. The unaudited pro forma condensed combined statements of operations do not reflect any operating efficiencies and associated cost savings that the Company may achieve with respect to the consolidated companies. The adjustments included in these pro forma financial statements are preliminary and may be revised.

The assumptions used and adjustments made in preparing the unaudited pro forma condensed combined statements of financial condition and statements of operations are described in the notes herein, and should be read in conjunction with the historical consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K for the year ended December 31, 2016, and in the Company's quarterly report on Form 10-Q for the three months ended March 31, 2017 and March 31, 2016 as well as Convergenx Group's historical audited financial statements and accompanying notes for the year ended December 31, 2016, included as Exhibit 99.1 in this Current Report on Form 8-K/A.

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**Cowen Inc.**  
**Unaudited Pro Forma Condensed Combined Statements of Financial Condition**  
(dollars in thousands, except share and per share data)  
As of March 31, 2017

	Cowen Inc.	Convergex Group, LLC	Pro Forma Adjustments	Pro Forma Total
<b>Assets</b>				
Cash and cash equivalents	\$ 77,456	\$ 105,897	\$ (48,620) (a)	\$ 134,733
Cash collateral pledged	14,696	—	—	14,696
Segregated Cash	1,503	78,359	—	79,862
Securities owned, at fair value	656,381	3,384	—	659,765
Receivable on derivative contracts, at fair value	18,137	—	—	18,137
Securities borrowed	—	312,051	—	312,051
Other investments	150,813	—	—	150,813
Deposits with clearing organizations, brokers and banks	12,987	68,973	—	81,960
Receivable from brokers, dealers and clearing organizations	150,635	91,590	—	242,225
Receivable from customers		32,106		32,106
Fees receivable, net of allowance	49,925	35,661	—	85,586
Due from related parties	42,792	—	—	42,792
Fixed assets, net of accumulated depreciation	40,836	18,622	(17,297) (b)	42,161
Goodwill	60,678	—	—	60,678
Intangible assets, net of accumulated amortization	24,465	2,358	7,912 (b)	34,735
Deferred tax asset, net	163,873	—	660 (c)	164,533
Other assets	62,074	8,898	(775) (d)	70,197
<b>Consolidated Funds</b>				
Cash and cash equivalents	10,293	—	—	10,293
Securities owned, at fair value	91,759	—	—	91,759
Receivable on derivative contracts, at fair value	909	—	—	909
Other investments	401,528	—	—	401,528
Receivable from brokers	9,289	—	—	9,289
Other assets	518	—		518
<b>Total Assets</b>	<b>\$ 2,041,547</b>	<b>\$ 757,899</b>	<b>\$ (58,120)</b>	<b>\$ 2,741,326</b>
<b>Liabilities and Stockholders' Equity</b>				
Securities sold, not yet purchased, at fair value	335,676	—	—	335,676
Payable for derivative contracts, at fair value	14,143	—	—	14,143
Securities Loaned	—	360,204	—	360,204
Payables to brokers, dealers and clearing organizations	124,451	84,217	—	208,668
Payable to customers	70,479	19,155	—	89,634
Commission management payable	4,819	88,738	—	93,557
Compensation payable	31,794	21,463	12,833 (e)	66,090
Notes payable and other debt	77,890	976	—	78,866
Convertible debt	132,055	—	—	132,055
Fees payable	7,876	128	—	8,004
Due to related parties	573	—	—	573
Accounts payable, accrued expenses	62,014	33,551	3,179 (f)	98,744
			(944) (g)	(944)
<b>Consolidated Funds</b>				
Payable for derivative contracts, at fair value	876	—	—	876
Payable to brokers	1,652	—	—	1,652
Contributions received in advance	50	—	—	50
Capital withdrawals payable	4,368	—	—	4,368
Accounts payable, accrued expenses and other liabilities	441	—	—	441
<b>Total Liabilities</b>	<b>869,157</b>	<b>608,432</b>	<b>15,068</b>	<b>1,492,657</b>

**Cowen Inc.**  
**Unaudited Pro Forma Condensed Combined Statements of Financial Condition**  
(dollars in thousands, except share and per share data)  
As of March 31, 2017

(Continued)

	Cowen Inc.	Convergex Group, LLC	Pro Forma Adjustments	Pro Forma Total
<b>Commitments and Contingencies</b>				
<b>Redeemable non-controlling interests</b>	<b>394,132</b>	—	—	<b>394,132</b>
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of March 31, 2017 (aggregate liquidation preference of \$120,750,000) and 120,750 shares issued and outstanding as of as of December 31, 2016 (aggregate liquidation preference of \$120,750,000), respectively	1	—	—	<b>1</b>
Class A common stock, par value \$0.01 per share: 62,500,000 shares authorized, 37,451,533 shares issued and 27,312,493 outstanding as of March 31, 2017 and 36,542,091 shares issued and 26,731,289 outstanding as of December 31, 2016, respectively (including 162,176 and 162,176 restricted shares, respectively)	292	—	32 (h)	<b>324</b>
Class B common stock, par value \$0.01 per share: 62,500,000 authorized, no shares issued and outstanding	—	—	—	—
Additional paid-in capital	937,425		76,247 (h)	<b>1,013,672</b>
(Accumulated deficit) retained earnings	(1,156)	149,467	(149,467) (h)	<b>(1,156)</b>
Accumulated other comprehensive income (loss)	(4)	—	—	<b>(4)</b>
Less: Class A common stock held in treasury, at cost, 10,593,191 and 9,810,802 shares, respectively	(158,300)	—	—	<b>(158,300)</b>
<b>Total Stockholders' Equity</b>	<b>778,258</b>	<b>149,467</b>	<b>(73,188)</b>	<b>854,537</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 2,041,547</b>	<b>\$ 757,899</b>	<b>\$ (58,120)</b>	<b>\$ 2,741,326</b>
<b>Common shares outstanding</b>	<b>27,312,493</b>		<b>3,162,278</b>	<b>30,474,771</b>

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

**Cowen Inc.**  
**Unaudited Pro Forma Condensed Combined Statements of Operations**  
(dollars in thousands, except per share data)  
For the three months ended March 31, 2017

	Cowen Inc.	Convergenx Group, LLC	Pro Forma Adjustments		Pro Forma Total
<b>Revenues</b>					
Investment banking	\$ 36,553	\$ —	\$ —		\$ 36,553
Brokerage	50,534	42,073	—		92,607
Management fees	8,708	—	—		8,708
Incentive income	546	—	—		546
Interest and dividends	5,089	4,378	—		9,467
Reimbursement from affiliates	1,652	—	—		1,652
Aircraft lease revenue	1,059	—	—		1,059
Reinsurance premiums	7,089	—	—		7,089
Other revenues	1,400	1,352	—		2,752
<i>Consolidated Funds</i>					
Interest and dividends	1,994	—	—		1,994
Other revenues	347	—	—		347
<b>Total revenues</b>	<b>114,971</b>	<b>47,803</b>	<b>—</b>		<b>162,774</b>
<b>Expenses</b>					
Employee compensation and benefits	76,673	27,942	(655)	(i)	103,960
Floor brokerage and trade execution	8,323	12,883	—		21,206
Interest and dividends	9,930	2,133	—		12,063
Professional, advisory and other fees	5,816	954	(600)	(j)	6,170
Service fees	2,616	—	—		2,616
Communications	4,760	10,622	—		15,382
Occupancy and equipment	7,063	2,099	(71)	(k)	9,091
Depreciation and amortization	3,028	2,792	(2,379)	(l)	3,441
Client services and business development	7,762	779	—		8,541
Reinsurance claims, commissions and amortization of deferred acquisition costs	6,178	—	—		6,178
Restructuring costs	—	87	—		87
Other expenses	3,261	273	—		3,534
<i>Consolidated Funds</i>					
Interest and dividends	3,983	—	—		3,983
Professional, advisory and other fees	392	—	—		392
Floor brokerage and trade execution	109	—	—		109
Other expenses	479	—	—		479
<b>Total expenses</b>	<b>140,373</b>	<b>60,564</b>	<b>(3,705)</b>		<b>197,232</b>
<b>Other income (loss)</b>					
Net gains (losses) on securities, derivatives and other investments	26,056	—	—		26,056
<i>Consolidated Funds</i>					
Net realized and unrealized gains (losses) on investments and other transactions	9,578	—	—		9,578
Net realized and unrealized gains (losses) on derivatives	3,865	—	—		3,865
Net gains (losses) on foreign currency transactions	(97)	—	—		(97)
<b>Total other income (loss)</b>	<b>39,402</b>	<b>—</b>	<b>—</b>		<b>39,402</b>
<b>Income (loss) before income taxes</b>	<b>14,000</b>	<b>(12,761)</b>	<b>3,705</b>		<b>4,944</b>
Income tax expense (benefit)	1,911	13	116	(m)	2,040

**Cowen Inc.**  
**Unaudited Pro Forma Condensed Combined Statements of Operations**  
(dollars in thousands, except per share data)  
For the three months ended March 31, 2017

(Continued)

	Cowen Inc.	Convergenx Group, LLC	Pro Forma Adjustments	Pro Forma Total	
<b>Net income (loss)</b>	<b>12,089</b>	<b>(12,774)</b>	<b>3,589</b>	<b>2,904</b>	
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	9,105	—	—	9,105	
<b>Net income (loss) attributable to Cowen Inc.</b>	<b>2,984</b>	<b>(12,774)</b>	<b>3,589</b>	<b>(6,201)</b>	
Preferred stock dividends	1,698	—	—	1,698	
<b>Net income (loss) attributable to Cowen Inc. common stockholders</b>	<b>\$ 1,286</b>	<b>\$ (12,774)</b>	<b>\$ 3,589</b>	<b>\$ (7,899)</b>	
Weighted average common shares outstanding:					
Basic	27,061		3,127	30,188	(n)
Diluted	28,401		1,787	30,188	(n)
Earnings (loss) per share:					
Basic	\$ 0.05			\$ (0.26)	
Diluted	\$ 0.05			\$ (0.26)	

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

**Cowen Inc.**  
**Unaudited Pro Forma Condensed Combined Statements of Operations**  
(dollars in thousands, except per share data)  
For the twelve months ended December 31, 2016

	Cowen Inc.	Convergenx Group, LLC	Pro Forma Adjustments		Pro Forma Total
<b>Revenues</b>					
Investment banking	\$ 133,279	\$ —	\$ —		\$ 133,279
Brokerage	199,180	187,794	—		386,974
Management fees	40,612	—	—		40,612
Incentive income	8,334	—	—		8,334
Interest and dividends	14,732	14,467	—		29,199
Reimbursement from affiliates	10,504	—	—		10,504
Aircraft lease revenue	4,161	—	—		4,161
Reinsurance premiums	32,459	—	—		32,459
Other revenues	22,355	7,829	—		30,184
<i>Consolidated Funds</i>					
Interest and dividends	4,792	—	—		4,792
Other revenues	1,157	—	—		1,157
<b>Total revenues</b>	<b>471,565</b>	<b>210,090</b>	<b>—</b>		<b>681,655</b>
<b>Expenses</b>					
Employee compensation and benefits	310,038	99,664	(6,159)	(i)	403,543
Floor brokerage and trade execution	32,286	58,872	—		91,158
Interest and dividends	29,308	7,109	—		36,417
Professional, advisory and other fees	23,190	4,106	—		27,296
Service fees	7,918	—	—		7,918
Communications	17,768	40,299	—		58,067
Occupancy and equipment	32,286	8,528	(531)	(k)	40,283
Depreciation and amortization	12,713	12,183	(9,834)	(l)	15,062
Client services and business development	27,828	3,071	—		30,899
Reinsurance claims, commissions and amortization of deferred acquisition costs	29,904	—	—		29,904
Restructuring costs	—	1,507	—		1,507
Other expenses	14,815	16,055	—		30,870
<i>Consolidated Funds</i>					
Interest and dividends	6,434	—	—		6,434
Professional, advisory and other fees	1,148	—	—		1,148
Floor brokerage and trade execution	431	—	—		431
Other expenses	1,051	—	—		1,051
<b>Total expenses</b>	<b>547,118</b>	<b>251,394</b>	<b>(16,524)</b>		<b>781,988</b>
<b>Other income (loss)</b>					
Net gains (losses) on securities, derivatives and other investments	23,381	—	—		23,381
<i>Consolidated Funds</i>					
Net realized and unrealized gains (losses) on investments and other transactions	7,085	—	—		7,085
Net realized and unrealized gains (losses) on derivatives	13,503	—	—		13,503
Net gains (losses) on foreign currency transactions	97	—	—		97
<b>Total other income (loss)</b>	<b>44,066</b>	<b>—</b>	<b>—</b>		<b>44,066</b>
<b>Income (loss) before income taxes</b>	<b>(31,487)</b>	<b>(41,304)</b>	<b>16,524</b>		<b>(56,267)</b>
Income tax expense (benefit)	(19,092)	442	(776)	(m)	(19,426)

**Cowen Inc.**  
**Unaudited Pro Forma Condensed Combined Statements of Operations**  
(dollars in thousands, except per share data)  
For the twelve months ended December 31, 2016

(Continued)

	Cowen Inc.	Convergenx Group, LLC	Pro Forma Adjustments	Pro Forma Total	
<b>Net income (loss)</b>	<b>(12,395)</b>	<b>(41,746)</b>	<b>17,300</b>	<b>(36,841)</b>	
Net income (loss) attributable to redeemable non-controlling interests in consolidated subsidiaries and funds	6,882	—	—	6,882	
<b>Net income (loss) attributable to Cowen Inc.</b>	<b>(19,277)</b>	<b>(41,746)</b>	<b>17,300</b>	<b>(43,723)</b>	
Preferred stock dividends	6,792	—	—	6,792	
<b>Net income (loss) attributable to Cowen Inc. common stockholders</b>	<b>\$ (26,069)</b>	<b>\$ (41,746)</b>	<b>\$ 17,300</b>	<b>\$ (50,515)</b>	
Weighted average common shares outstanding:					
Basic	26,857		3,154	30,011	(n)
Diluted	26,857		3,154	30,011	(n)
Earnings (loss) per share:					
Basic	\$ (0.97)			\$ (1.68)	
Diluted	\$ (0.97)			\$ (1.68)	

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

**Cowen Inc.**  
**Notes to Unaudited Condensed Combined Financial Statements**

***1. Description of the acquisition***

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

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

***2. Basis of Presentation***

The unaudited pro forma condensed combined financial statements were prepared using the acquisition method of accounting in accordance with generally accepted accounting principles in the United States ("GAAP") and were derived based on the historical financial statements of the Company and the financial statements of Convergenx Group after giving effect to the Acquisition and after applying the reclassifications and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined balance sheet as of March 31, 2017 is presented as if the acquisition of Convergenx had occurred on March 31, 2017. The unaudited pro forma condensed combined statement of operations for the three months ended March 31, 2017 and fiscal year ended December 31, 2016 is presented as if the acquisition of Convergenx had occurred on January 1, 2016, the first day of the Company's 2016 fiscal year.

The unaudited pro forma condensed combined financial statements are presented for information purposes only and are not intended to reflect the results of operations or financial position of the combined company that would have resulted had the Acquisition been effective during the period presented or the results that may be obtained by the combined company in the future. Additionally, the unaudited pro forma condensed combined financial statements should be read in conjunction with the historical audited consolidated financial statements and accompanying notes of the Company included in the Annual Report on Form 10-K for the year ended December 31, 2016 as well as Convergenx Group's historical audited financial statements and accompanying notes for the year ended December 31, 2016, included as Exhibit 99.1 in this Current Report on Form 8-K/A.

***3. Net Assets Acquired***

The Company is currently in the process of finalizing its purchase price allocation of Convergenx Group; therefore, the purchase price adjustments and allocation of the purchase price to the net assets acquired, as filed in our Quarterly Report on Form 10-Q for the period ended June 30, 2017, are preliminary and subject to measurement period adjustments and will be finalized as necessary, up to one year after the acquisition's closing date, as the information becomes available. The adjusted aggregate estimated purchase price was \$96.2 million, which was determined based on closing date tangible book value of Convergenx Group, less certain closing adjustments. A portion of the preliminary purchase price was deposited into escrow as a reserve for any future claims against the sellers of Convergenx Group. On closing, the Company paid cash of \$48.6 million and issued 3,162,278 of the Company's Class A common stock determined based on the 30-day volume-weighted average price per share of \$15.05 as of May 30, 2017.

#### **4. Pro Forma Adjustments and Assumptions**

***The following is a summary of pro forma adjustments reflected in the Unaudited Pro Forma Condensed Combined Statements of Financial Condition as of March 31, 2017:***

- (a) Reflects the portion of the purchase price paid in cash.
- (b) Reflects the estimated fair value of Convergenx Group's fixed assets and intangible assets. Convergenx Group's fixed assets and intangibles assets, which had a net books value of \$18.6 million and \$2.4 million, respectively, on the date of the acquisition were adjusted to reflect a fair value of \$1.3 million and \$10.3 million, respectively.
- (c) Represents the tax impact of the Pro Forma Adjustments which was primarily offset by a valuation allowance adjustment that was determined based on Cowen's and Convergenx Group's historical valuation allowance positions.
- (d) Reflects an adjustment to the fair value of software.
- (e) Represents adjustments for change of control, acceleration of vested deferred compensation awards, pre-acquisition severance, and other compensation issued to certain Convergenx Group employees.
- (f) Represents the impact of an unfavorable lease liability related to certain of Convergenx Group's real estate leases that were at higher than market rates at the closing date, partially offset by the removal of Convergenx Groups deferred rent balances on the date of the acquisition.
- (g) Reflects an accrual for certain pre-acquisition discontinued contracts and an elimination of an amount due to sellers.
- (h) Reflects the issuance of the par value of common stock issued during the acquisition and the elimination of historical retained earnings of Convergenx Group.

***The following is a summary of pro forma adjustments reflected in the Unaudited Pro Forma Condensed Combined Statements of Operations for the three month period ended March 31, 2017 and the twelve month period ended December 31, 2016:***

- (i) Reflects an acceleration of vested deferred compensation expense, pre-acquisition severance, and other compensation issued to certain Convergenx Group employees.
- (j) Represents the elimination of nonrecurring charges included in the Company's historical results of operations which resulted directly from the acquisition. These amounts primarily related to legal and other professional fees.
- (k) Reflects the adjustment to amortization, over the remaining lease term of 25 months using the straight line method, of the fair value of lease obligation related to Convergenx Group's real estate leases that were at higher than market rates at the closing date.
- (l) Reflects the reduction in depreciation and amortization expense, using the straight line method, related to the fair value of fixed and intangible assets recognized in connection with the acquisition. The estimated useful lives of the fixed assets range from 2 to 5 years. The estimated useful lives of the intangible assets range from 6 months to 9 years.
- (m) Represents the tax impact of the Pro Forma Adjustments which was primarily offset by a valuation allowance adjustment that was determined based on Cowen's and Convergenx Group's historical valuation allowance positions.
- (n) As the unaudited pro forma condensed combined statements of operations assume that the acquisition occurred as of the beginning of the period presented, all 3,162,278 shares of Cowen Class A common stock that were issued to the sellers of Convergenx Group are assumed to be outstanding for the entire period for the unaudited pro forma net loss per share calculation of the combined company. An adjustment has been made to the weighted average shares outstanding since, due to the pro forma combined losses, the outstanding restricted stock and stock options would be anti-dilutive.