

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from to

Commission File Number: 001-34516

Cowen Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
599 Lexington Avenue
New York, New York
(Address of Principal Executive Offices)

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

10022
(Zip Code)

(646) 562-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Exchange on Which Registered</u>
Class A Common Stock, par value \$0.01 per share	COWN	The Nasdaq Global Market
7.35% Senior Notes due 2027	COWNZ	The Nasdaq Global Market
7.75% Senior Notes due 2033	COWNL	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company 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.

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

As of October 28, 2020, there were 26,568,614 shares of the registrant's common stock outstanding.

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Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q (including in "Management's Discussion and Analysis of Financial Condition and Results of Operations") that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by forward-looking terms such as "may," "might," "will," "would," "could," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "possible," "potential," "intend," "seek" or "continue," the negative of these terms and other comparable terminology or similar expressions. In addition, our management may make forward-looking statements to analysts, representatives of the media and others. These forward-looking statements represent only the Company's beliefs regarding future events (many of which, by their nature, are inherently uncertain and beyond our control) and are predictions only, based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from those expressed or implied by the forward-looking statements. In particular, you should consider the risks contained in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 and the risks contained in Item 1A of this periodic report on Form 10-Q for the three and nine months ended September 30, 2020.

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

Unaudited Condensed Consolidated Financial Statements are presented for the three and nine months ended September 30, 2020 and 2019. The Consolidated Financial Statements as of December 31, 2019 were audited.

PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

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

Assets	As of September 30, 2020	As of December 31, 2019
Cash and cash equivalents	\$ 539,733	\$ 301,123
Cash collateral pledged	110,666	6,563
Segregated cash	139,152	107,328
Securities owned, at fair value (\$254,383 and \$941,595 were pledged to various parties)	1,088,566	1,633,552
Receivable on derivative contracts, at fair value	58,194	62,977
Securities borrowed	1,272,428	754,441
Other investments (\$123,787 and \$114,504 at fair value, respectively)	204,610	185,722
Deposits with clearing organizations, brokers and banks	90,075	91,755
Receivable from brokers, dealers and clearing organizations, net of allowance of \$730 and \$721, respectively	1,390,821	681,695
Receivable from customers, net of allowance of \$653 and \$650, respectively	83,208	105,647
Fees receivable, net of allowance of \$3,677 and \$2,620, respectively	138,234	126,358
Due from related parties	23,480	26,749
Fixed assets, net of accumulated depreciation and amortization of \$38,347 and \$32,846, respectively	37,052	33,661
Operating lease right-of-use assets	80,805	92,852
Goodwill	137,728	137,728
Intangible assets, net of accumulated amortization of \$34,746 and \$26,395, respectively	26,043	35,200
Deferred tax asset, net	31,110	79,166
Other assets	50,917	84,158
<i>Consolidated Funds</i>		
Cash and cash equivalents	946	30,874
Securities owned, at fair value	187,991	375,278
Receivable on derivative contracts, at fair value	—	5,833
Other investments	98,267	175,769
Receivable from brokers	—	25,964
Other assets	692	1,632
Total Assets	\$ 5,790,718	\$ 5,162,025
Liabilities, Temporary Equity and Permanent Equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$ 440,930	\$ 451,836
Securities sold under agreements to repurchase	6,218	23,244
Payable for derivative contracts, at fair value	62,054	60,761
Securities loaned	1,326,917	1,601,866
Payable to brokers, dealers and clearing organizations	312,850	271,018
Payable to customers	1,151,139	430,224
Commission management payable	117,778	71,620
Compensation payable	345,470	223,139
Operating lease liabilities	84,044	97,581
Notes payable and other debt	383,722	345,451
Convertible debt	122,485	118,688
Fees payable	81,851	21,540
Accounts payable, accrued expenses and other liabilities	173,706	141,557

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

<i>(continued)</i>	As of September 30, 2020	As of December 31, 2019
Consolidated Funds		
Due to related parties	136	581
Payable for derivative contracts, at fair value	—	4,769
Payable to brokers	—	864
Capital withdrawals payable	—	1,276
Accounts payable, accrued expenses and other liabilities	217	560
Total Liabilities	\$ 4,609,517	\$ 3,866,575
Commitments and Contingencies (Note 17)		
Temporary Equity		
Redeemable non-controlling interests	\$ —	\$ 391,275
Permanent Equity		
Cowen Inc. stockholders' equity		
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized, 120,750 shares issued and outstanding as of September 30, 2020 (aggregate liquidation preference of \$120,750) and 10,000,000 shares authorized, 120,750 shares issued and outstanding as of December 31, 2019 (aggregate liquidation preference of \$120,750), respectively	\$ 1	\$ 1
Class A common stock, par value \$0.01 per share: 62,500,000 shares authorized, 48,662,355 shares issued and 26,569,335 outstanding as of September 30, 2020 and 62,500,000 shares authorized, 47,215,938 shares issued and 28,610,357 outstanding as of December 31, 2019, respectively (including 334,230 and 216,912 restricted shares, respectively)	334	334
Class B common stock, par value \$0.01 per share: 62,500,000 authorized, no shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	—	—
Additional paid-in capital	1,146,848	1,110,635
(Accumulated deficit) retained earnings	98,139	(16,809)
Accumulated other comprehensive income (loss)	(7)	(5)
Less: Class A common stock held in treasury, at cost, 22,093,020 and 18,605,581 shares as of September 30, 2020 and December 31, 2019, respectively	(334,135)	(284,301)
Total Cowen Inc. Stockholders' Equity	911,180	809,855
Nonredeemable non-controlling interests	270,021	94,320
Total Permanent Equity	\$ 1,181,201	\$ 904,175
Total Liabilities, Temporary Equity and Permanent Equity	\$ 5,790,718	\$ 5,162,025

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues				
Investment banking	\$ 194,341	\$ 77,292	\$ 503,351	\$ 272,103
Brokerage	138,483	93,995	425,069	302,840
Management fees	11,954	7,300	35,211	21,480
Incentive income	127	701	127	724
Interest and dividends	37,552	60,707	127,547	129,846
Reimbursement from affiliates	269	238	777	780
Reinsurance premiums	2,505	8,146	18,943	29,068
Other revenues	1,369	1,237	4,709	3,228
<i>Consolidated Funds</i>				
Interest and dividends	1,135	2,374	3,992	8,148
Other revenues	—	57	658	91
Total revenues	387,735	252,047	1,120,384	768,308
Interest and dividends expense	37,754	56,477	125,850	125,089
Total net revenues	349,981	195,570	994,534	643,219
Expenses				
Employee compensation and benefits	153,427	120,320	583,137	388,611
Brokerage and trade execution costs	33,660	25,808	101,412	78,578
Underwriting expenses	4,013	2,846	16,524	12,383
Professional, advisory and other fees	15,085	15,535	40,519	39,396
Service fees	4,727	5,943	18,332	17,266
Communications	7,992	8,295	24,241	24,654
Occupancy and equipment	9,096	9,784	27,599	30,160
Depreciation and amortization	5,682	5,082	17,324	14,990
Client services and business development	2,343	10,364	16,906	33,549
Goodwill impairment	—	—	—	4,100
Reinsurance claims, commissions and amortization of deferred acquisition costs	4,852	8,195	21,716	25,139
Other expenses	7,868	5,276	19,417	14,929
<i>Consolidated Funds</i>				
Interest and dividends	—	1,153	2,064	3,376
Professional, advisory and other fees	334	857	1,598	1,375
Brokerage and trade execution costs	—	15	37	103
Other expenses	160	491	1,094	1,375
Total expenses	249,239	219,964	891,920	689,984
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	(68,781)	18,446	83,738	61,440
<i>Consolidated Funds</i>				
Net realized and unrealized gains (losses) on investments and other transactions	6,385	13,613	(31,222)	22,793
Net realized and unrealized gains (losses) on derivatives	—	293	1,850	(1,188)
Net gains (losses) on foreign currency transactions	—	(10)	(38)	(69)
Total other income (loss)	(62,396)	32,342	54,328	82,976
Income (loss) before income taxes	38,346	7,948	156,942	36,211
Income tax expense (benefit)	8,830	1,365	52,589	9,615
Net income (loss)	29,516	6,583	104,353	26,596

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(continued)</i>				
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds	9,232	2,770	(19,843)	7,188
Net income (loss) attributable to Cowen Inc.	20,284	3,813	124,196	19,408
Preferred stock dividends	1,698	1,698	5,094	5,094
Net income (loss) attributable to Cowen Inc. common stockholders	\$ 18,586	\$ 2,115	\$ 119,102	\$ 14,314
Weighted average common shares outstanding:				
Basic	27,663	29,529	28,078	29,687
Diluted	29,970	31,264	29,646	31,381
Earnings (loss) per share:				
Basic	\$ 0.67	\$ 0.07	\$ 4.24	\$ 0.48
Diluted	\$ 0.62	\$ 0.07	\$ 4.02	\$ 0.46

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 29,516	\$ 6,583	\$ 104,353	\$ 26,596
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(2)	(2)	(2)	—
Total other comprehensive income (loss), net of tax	(2)	(2)	(2)	—
Comprehensive income (loss)	\$ 29,514	\$ 6,581	\$ 104,351	\$ 26,596
Less: Comprehensive income attributable to non-controlling interests	9,232	2,770	(19,843)	7,188
Comprehensive income (loss) attributable to Cowen Inc.	\$ 20,282	\$ 3,811	\$ 124,194	\$ 19,408

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

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

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Cowen Inc. Stockholders' Equity	Nonredeemable Non-controlling Interests	Total Permanent Equity	Redeemable Non-controlling Interest
Balance, June 30, 2020	27,641,600	\$ 334	120,750	\$ 1	\$ (314,971)	\$ 1,135,141	\$ (5)	\$ 81,185	\$ 901,685	\$ 188,925	\$ 1,090,610	\$ —
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	20,284	20,284	—	20,284	—
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds	—	—	—	—	—	—	—	—	—	9,232	9,232	—
Foreign currency translation	—	—	—	—	—	—	(2)	—	(2)	—	(2)	—
Capital contributions	—	—	—	—	—	—	—	—	—	74,337	74,337	—
Capital withdrawals	—	—	—	—	—	—	—	—	—	(2,473)	(2,473)	—
Restricted stock awards issued	88,811	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(1,161,076)	—	—	—	(19,164)	—	—	—	(19,164)	—	(19,164)	—
Preferred stock dividends (See Note 19)	—	—	—	—	—	—	—	(1,698)	(1,698)	—	(1,698)	—
Cash dividends to common stockholders (See Note 19)	—	—	—	—	—	—	—	(1,632)	(1,632)	—	(1,632)	—
Amortization of share-based awards	—	—	—	—	—	11,707	—	—	11,707	—	11,707	—
Balance, September 30, 2020	26,569,335	\$ 334	120,750	\$ 1	\$ (334,135)	\$ 1,146,848	\$ (7)	\$ 98,139	\$ 911,180	\$ 270,021	\$ 1,181,201	\$ —
	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Cowen Inc. Stockholders' Equity	Nonredeemable Non-controlling Interests	Total Permanent Equity	Redeemable Non-controlling Interest
Balance, June 30, 2019	29,480,287	\$ 334	120,750	\$ 1	\$ (254,357)	\$ 1,093,898	\$ (3)	\$ (22,449)	\$ 817,424	\$ 75,923	\$ 893,347	\$ 359,643
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	3,813	3,813	—	3,813	—
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	9,618	9,618	(6,848)
Foreign currency translation	—	—	—	—	—	—	(2)	—	(2)	—	(2)	—
Capital contributions	—	—	—	—	—	—	—	—	—	332	332	21,905
Capital withdrawals	—	—	—	—	—	—	—	—	—	(1,114)	(1,114)	(26,276)
Restricted stock awards issued	331,213	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(798,363)	—	—	—	(12,525)	—	—	—	(12,525)	—	(12,525)	—
Preferred stock dividends (See Note 19)	—	—	—	—	—	—	—	(1,698)	(1,698)	—	(1,698)	—
Amortization of share-based awards	—	—	—	—	—	10,043	—	—	10,043	—	10,043	—
Balance, September 30, 2019	29,013,137	\$ 334	120,750	\$ 1	\$ (266,882)	\$ 1,103,941	\$ (5)	\$ (20,334)	\$ 817,055	\$ 84,759	\$ 901,814	\$ 348,424

	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Cowen Inc. Stockholders' Equity	Nonredeemable Non-controlling Interests	Total Permanent Equity	Redeemable Non-controlling Interest
Balance, December 31, 2019	28,610,357	\$ 334	120,750	\$ 1	\$ (284,301)	\$ 1,110,635	\$ (5)	\$ (16,809)	\$ 809,855	\$ 94,320	\$ 904,175	\$ 391,275
Cumulative effect of the adoption of the new current expected credit loss standard (See Note 2d)	—	—	—	—	—	—	—	(10)	(10)	—	(10)	—
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	124,196	124,196	—	124,196	—
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	13,081	13,081	(32,924)
Foreign currency translation	—	—	—	—	—	—	(2)	—	(2)	—	(2)	—
Capital contributions	—	—	—	—	—	—	—	—	—	163,019	163,019	184,223
Capital withdrawals	—	—	—	—	—	—	—	—	—	(48,995)	(48,995)	(181,863)
Consolidation of entity	—	—	—	—	—	—	—	—	—	48,596	48,596	—
Deconsolidation of entities	—	—	—	—	—	—	—	—	—	—	—	(360,711)
Common stock issuance related to acquisition (See Note 3)	74,694	—	—	—	—	926	—	—	926	—	926	—
Restricted stock awards issued	1,371,723	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(3,487,439)	—	—	—	(49,834)	—	—	—	(49,834)	—	(49,834)	—
Preferred stock dividends (See Note 19)	—	—	—	—	—	—	—	(5,094)	(5,094)	—	(5,094)	—
Cash dividends to common stockholders (See Note 19)	—	—	—	—	—	—	—	(4,144)	(4,144)	—	(4,144)	—
Amortization of share-based awards	—	—	—	—	—	35,287	—	—	35,287	—	35,287	—
Balance, September 30, 2020	26,569,335	\$ 334	120,750	\$ 1	\$ (334,135)	\$ 1,146,848	\$ (7)	\$ 98,139	\$ 911,180	\$ 270,021	\$ 1,181,201	\$ —
	Common Shares Outstanding	Common Stock	Preferred Shares Outstanding	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated deficit)	Total Cowen Inc. Stockholders' Equity	Nonredeemable Non-controlling Interests	Total Permanent Equity	Redeemable Non-controlling Interest
Balance, December 31, 2018	28,437,860	\$ 324	120,750	\$ 1	\$ (234,142)	\$ 1,062,877	\$ (5)	\$ (34,648)	\$ 794,407	\$ 64,880	\$ 859,287	\$ 216,923
Net income (loss) attributable to Cowen Inc.	—	—	—	—	—	—	—	19,408	19,408	—	19,408	—
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and funds	—	—	—	—	—	—	—	—	—	11,375	11,375	(4,187)
Capital contributions	—	—	—	—	—	—	—	—	—	11,442	11,442	213,391
Capital withdrawals	—	—	—	—	—	—	—	—	—	(2,938)	(2,938)	(77,703)
Common stock issued upon acquisition (See Note 3)	1,033,350	10	—	—	—	14,436	—	—	14,446	—	14,446	—
Restricted stock awards issued	1,668,032	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock, at cost	(2,126,105)	—	—	—	(32,740)	—	—	—	(32,740)	—	(32,740)	—
Preferred stock dividends (See Note 19)	—	—	—	—	—	—	—	(5,094)	(5,094)	—	(5,094)	—
Embedded cash conversion option (See Note 19)	—	—	—	—	—	(596)	—	—	(596)	—	(596)	—
Amortization of share-based awards	—	—	—	—	—	27,224	—	—	27,224	—	27,224	—
Balance, September 30, 2019	29,013,137	\$ 334	120,750	\$ 1	\$ (266,882)	\$ 1,103,941	\$ (5)	\$ (20,334)	\$ 817,055	\$ 84,759	\$ 901,814	\$ 348,424

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

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ 104,353	\$ 26,596
Adjustments to reconcile net income (loss) to net cash provided by / (used in) operating activities:		
Depreciation and amortization	17,324	14,990
Goodwill impairment	—	4,100
Amortization of debt issuance costs	1,023	804
Amortization of debt discount (premium)	3,393	3,511
Noncash lease expense	(1,490)	(2,607)
Share-based compensation	35,287	27,224
Change in deferred taxes	48,056	8,420
Net loss (gain) on disposal of fixed assets	—	(367)
Purchases of securities owned, at fair value	(1,275,400)	(1,405,478)
Proceeds from sales of securities owned, at fair value	1,318,623	1,282,527
Proceeds from sales of securities sold, not yet purchased, at fair value	729,526	902,271
Payments to cover securities sold, not yet purchased, at fair value	(745,683)	(939,072)
Proceeds from other investments	21,964	19,693
Net (gains) losses on securities, derivatives and other investments	(80,533)	(57,808)
<i>Consolidated Funds</i>		
Purchases of securities owned, at fair value	(1,912,137)	(2,016,225)
Proceeds from sales of securities owned, at fair value	1,793,399	1,880,160
Purchases of other investments	(2,090)	(2,798)
Proceeds from other investments	6,734	23,865
Net realized and unrealized (gains) losses on investments and other transactions	27,216	(51,925)
(Increase) decrease in operating assets:		
Securities owned, at fair value, held at broker-dealer	603,885	(250,579)
Receivable on derivative contracts, at fair value	4,783	(14,629)
Securities borrowed	(517,987)	(820,241)
Deposits with clearing organizations, brokers and banks	1,680	(2,027)
Receivable from brokers, dealers and clearing organizations	(709,126)	68,479
Receivable from customers, net of allowance	22,439	(8,268)
Fees receivable, net of allowance	(11,876)	17,707
Due from related parties	3,086	6,020
Other assets	69,185	1,038
<i>Consolidated Funds</i>		
Cash and cash equivalents	8,989	34,809
Receivable on derivative contracts, at fair value	(19,710)	531
Receivable from brokers	(961)	(9,579)
Other assets	273	10
Increase (decrease) in operating liabilities:		
Securities sold, not yet purchased, at fair value, held at broker-dealer	2,302	191,640
Securities sold under agreement to repurchase	(17,026)	23,772
Payable for derivative contracts, at fair value	1,293	16,672
Securities loaned	(274,949)	924,795
Payable to brokers, dealers and clearing organizations	41,832	42,281
Payable to customers	720,915	(88)
Commission management payable	46,158	(6,146)
Compensation payable	116,035	(92,903)
Fees payable	60,311	11,060
Due to related parties	24	(4,402)
Accounts payable, accrued expenses and other liabilities	37,729	(2,679)
<i>Consolidated Funds</i>		
Contributions received in advance	450	—
Payable to brokers	8,560	(8,355)
Payable for derivative contracts, at fair value	11,967	6,115
Due to related parties	(257)	615

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

	Nine Months Ended September 30,	
	2020	2019
<i>(continued)</i>		
Accounts payable, accrued expenses and other liabilities	75	(184)
Net cash provided by / (used in) operating activities	299,644	(156,655)
Cash flows from investing activities:		
Purchases of other investments	(38,658)	(15,899)
Purchase of business (See Note 3)	—	(48,581)
Proceeds from sales of other investments	29,784	18,103
Purchase of fixed assets and intangibles	(11,558)	(7,862)
Net cash provided by / (used in) investing activities	(20,432)	(54,239)
Cash flows from financing activities:		
Repayments on convertible debt	—	(20,860)
Deferred debt issuance cost	(1,700)	(1,480)
Borrowings on notes and other debt	134,810	84,640
Repayments on notes and other debt	(95,458)	(2,740)
Purchase of treasury stock	(43,442)	(10,153)
Cash dividends paid	(3,433)	—
Preferred dividends paid	(5,094)	(5,094)
Contingent liability payment	(5,653)	(1,235)
Capital contributions by non-controlling interests in operating entities	7,276	11,110
Capital withdrawals to non-controlling interests in operating entities	(4,330)	(1,713)
<i>Consolidated Funds</i>		
Capital contributions by non-controlling interests in Consolidated Funds	339,966	213,723
Capital withdrawals to non-controlling interests in Consolidated Funds	(227,617)	(89,032)
Net cash provided by / (used in) financing activities	95,325	177,166
Change in cash and cash equivalents	374,537	(33,728)
Cash and cash equivalents, including cash collateral pledged and segregated cash, beginning of period	415,014	442,113
Cash and equivalents at end of period:		
Cash and cash equivalents	539,733	260,994
Cash collateral pledged	110,666	18,609
Segregated cash	139,152	128,782
Cash and cash equivalents, including cash collateral pledged and segregated cash, end of period	\$ 789,551	\$ 408,385
Supplemental information		
Cash paid during the year for interest	\$ 116,457	\$ 98,363
Cash paid during the year for taxes	\$ 1,984	\$ 3,815
Supplemental non-cash information		
Purchase of treasury stock, at cost, through net settlement (See Note 19)	\$ 6,296	\$ 22,420
Preferred stock dividends declared (See Note 18)	\$ 5,094	\$ 5,094
Net assets (liabilities) acquired upon acquisition (net of cash)	\$ —	\$ 90,727
Initial recognition of operating lease right-of-use assets	\$ —	\$ 103,694
Initial recognition of operating lease liabilities	\$ —	\$ 110,505
Noncash transfer of net assets from Unconsolidated Master Fund to Consolidated Fund	\$ —	\$ 97,655
Net decrease in non-controlling interests in Consolidated Funds due to deconsolidation of two Consolidated Funds (See Note 2)	\$ 360,711	\$ —
Net increase in non-controlling interests due to consolidation of operating entity	\$ 48,596	\$ —
Common stock issuance in relation to acquisition (See Note 3)	\$ 926	\$ 14,446

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

Cowen Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

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

1. Organization and Business

Cowen Inc., a Delaware corporation formed in 2009, is a diversified financial services firm that, together with its consolidated subsidiaries (collectively, "Cowen" or the "Company"), provides investment banking, research, sales and trading, prime brokerage, global clearing, commission management services and investment management through its two business segments: the Operating Company ("Op Co") and the Asset Company ("Asset Co").

The Op Co segment consists of four divisions: the Investment Banking division, the Markets division, the Research division and the Cowen Investment Management ("CIM") division. The Company refers to the Investment Banking division, the Markets division and the Research division combined as its investment banking businesses. Op Co's investment banking businesses offer advisory and global capital markets origination, domain knowledge-driven research, sales and trading platforms for institutional investors, global clearing, commission management services and also a comprehensive suite of prime brokerage service. Sectors covered by Op Co's investment banking business include healthcare, technology, media and telecommunications, consumer, industrials, information and technology services, and energy. Op Co's CIM division includes advisers to investment funds (including private equity structures and privately placed hedge funds) and registered funds.

The Asset Co segment consists of certain of the Company's private investments, private real estate investments and other legacy investment strategies. The focus of Asset Co is to drive future monetization of the invested capital of the segment.

2. Significant Accounting Policies

a. Basis of presentation

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

The accompanying financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the our Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K"). Certain footnote disclosures included in the 2019 Form 10-K have been condensed or omitted from these financial statements as they are not required for interim reporting under US GAAP or are insignificant to the interim reporting period.

b. Principles of consolidation

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

The Company consolidates five investment funds for which it acts as the managing member/general partner and investment manager. At September 30, 2020, the Company consolidated the following investment funds: Ramius Enterprise LP ("Enterprise LP"), Cowen Private Investments LP ("Cowen Private"), Cowen Sustainable Investments I LP ("CSI I LP"), CSI I Golden Holdco LP ("Golden HoldCo") and CSI I Prodigy Holdco LP ("Prodigy HoldCo") (each a "Consolidated Fund" and collectively the "Consolidated Funds").

During the second quarter of 2020, the Company deconsolidated Ramius Merger Fund LLC (the "Merger Fund") and UCITS Fund ("UCITS Fund") due to a partial redemption of the Company's direct portfolio fund investment in Merger Fund and a partial termination of the notional value of UCITS Fund units referenced in a total return swap with a third party. The Company continues to hold a direct retained portfolio fund investment in the Merger Fund and continues to have economic exposure to the returns of UCITS Fund through a total return swap with a third party. Both Merger Fund and UCITS Fund continue to be related parties of the Company after deconsolidation.

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

Voting Operating Entities—VOEs are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently, (ii) the equity holders at risk have the obligation to absorb losses, the right to receive

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

residual returns and the right to direct the activities of the entity that most significantly impact the entity's economic performance and (iii) voting rights of equity holders are proportionate to their obligation to absorb losses or the right to receive returns.

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

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

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE. As of September 30, 2020, the total assets and total liabilities of the consolidated VIEs were \$449.0 million and \$6.6 million, respectively. As of December 31, 2019, the total assets and total liabilities of the consolidated VIEs were \$685.4 million and \$24.9 million, respectively. The deconsolidation of two Consolidated Funds decreased the overall VIEs net assets. The VIEs act as investment managers and/or investment companies that may be managed by the Company or the Company may have equity interest in those investment companies. The VIEs are financed through their operations and/or loan agreements with the Company.

At December 31, 2019, the Company held a variable interest in Ramius Merger Master Fund Ltd ("Merger Master" or the "Unconsolidated Master Fund") through the consolidated Merger Fund. Investment companies, which account for their investments under the specialized industry accounting guidance for investment companies prescribed under US GAAP, are not subject to the consolidation provisions for their investments. Therefore, the Company had not consolidated the Unconsolidated Master Fund.

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

The Company does not consolidate the Unconsolidated Master Fund or real estate funds that are VIEs due to the Company's conclusion that it is not the primary beneficiary of these funds in each instance. Investment fund investors are entitled to all of the economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company has equity interests in the funds as both a general partner and a limited partner. In these instances the Company has concluded that the variable interests are not potentially significant to the VIE. Although the Company may advance amounts and pay certain expenses on behalf of the investment funds that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services (see Note 6 for additional disclosures on VIEs).

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

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

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

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

Retention of Specialized Accounting—The Consolidated Funds and certain other consolidated companies are investment companies and apply specialized industry accounting. The Company reports its investments on the condensed consolidated statements of financial condition at their estimated fair value, with unrealized gains (losses) resulting from changes in fair value reflected within net realized and unrealized gains (losses) on investments and other transactions. Accordingly, the accompanying condensed consolidated financial statements reflect different accounting policies for investments depending on whether or not they are held through a consolidated investment company.

In addition, the Company's broker-dealer subsidiaries, Cowen and Company, LLC ("Cowen and Company"), Westminster Research Associates LLC ("Westminster"), Cowen Execution Services Limited ("Cowen Execution Ltd"), ATM Execution LLC ("ATM Execution"), Cowen International Limited ("Cowen International Ltd"), and Cowen Prime Services LLC ("Cowen Prime") apply the specialized industry accounting for brokers and dealers in securities. The Company also retains specialized accounting upon consolidation.

c. Use of estimates

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

d. Allowance for credit losses

Effective January 1, 2020, the Company adopted ASC Topic 326, Financial Instruments – Credit Losses ("ASC 326"). ASC 326 impacts the impairment model for certain financial assets measured at amortized cost by requiring a current expected credit loss ("CECL") methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. Under the accounting update, the Company has the ability to determine there are no expected credit losses in certain circumstances (e.g., based on collateral arrangements or based on the credit quality of the borrower or issuer).

The Company identified securities borrowed and fees and other receivables carried at amortized cost (including, but not limited to, receivables related to securities transactions, corporate finance and syndicate receivables, management fees and incentive fees receivable) as impacted by the new guidance. ASC 326 specifies that the Company adopt the new guidance prospectively by means of a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period effective. Accordingly, the Company recognized a cumulative effective adjustment of \$0.01 million upon adoption.

The allowance for credit losses is based on the Company's expectation of the collectability of financial instruments carried at amortized cost, including securities borrowed and fees and other receivables utilizing the CECL framework. The Company considers factors such as historical experience, credit quality, age of balances and current and future economic conditions that may affect the Company's expectation of the collectability in determining the allowance for credit losses. The Company's expectation is that the credit risk associated with fees and other receivables is not significant until they are 90 days past due based on the contractual arrangement and expectation of collection in accordance with industry standards.

For securities borrowed, the Company applies a practical expedient to measure the allowance for credit losses based on the fair value of the collateral. If the fair value of the collateral held exceeds the amortized cost and the borrower is expected to continue to replenish the collateral as needed, the Company will not recognize an allowance. If the fair value of collateral is less than amortized cost and the borrower is expected to continue to replenish the collateral as needed, the Company applies the CECL model, utilizing a probability and loss given default methodology, only to the extent of the shortfall between the fair value of the collateral and amortized cost.

The credit loss expense related to the allowance for credit losses as well as any recoveries of amounts previously charged is reflected in other expenses in the accompanying condensed consolidated statements of operations.

e. Valuation of investments and derivative contracts

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

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

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

- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

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

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

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

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

Securities—Securities with values based on quoted market prices in active markets for identical assets are classified within level 1 of the fair value hierarchy. These securities primarily include active listed equities, certain U.S. government and sovereign obligations, Exchange Traded Funds ("ETFs"), mutual funds and certain money market securities.

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

Derivative Contracts—Derivative contracts can be exchange-traded or privately negotiated over-the-counter ("OTC"). Exchange-traded derivatives, such as futures contracts and exchange-traded option contracts, are typically classified within level 1 or level 2 of the fair value hierarchy depending on whether or not they are deemed to be actively traded. OTC derivatives, such as

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

generic forwards, swaps and options, are classified as level 2 when their inputs can be corroborated by market data. OTC derivatives, such as swaps and options, with significant inputs that cannot be corroborated by readily available or observable market data are classified as level 3.

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

- i. Portfolio Funds**—Portfolio funds (“Portfolio Funds”) include interests in private investment partnerships, foreign investment companies and other collective investment vehicles which may be managed by the Company or its affiliates. The Company applies the practical expedient provided by the US GAAP fair value measurements and disclosures guidance relating to investments in certain entities that calculate net asset value (“NAV”) per share (or its equivalent). The practical expedient permits an entity holding investments in certain entities that either are investment companies or have attributes similar to an investment company, and calculate NAV per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. Investments which are valued using NAV per share as a practical expedient are not categorized within the fair value hierarchy.
- ii. Real Estate Investments**—Real estate debt and equity investments are measured at fair value. The fair value of real estate investments is estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Real estate investments without a public market are valued based on assumptions and valuation techniques used by the Company. Such valuation techniques may include discounted cash flow analysis, prevailing market capitalization rates or earnings multiples applied to earnings from the investment, analysis of recent comparable sales transactions, actual sale negotiations and bona fide purchase offers received from third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a quarterly basis by the Company for significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.

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

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

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

- iii. Carried Interest**—For the private equity and debt fund products the Company offers, the Company is allocated incentive income by the investment funds based on the extent by which the investment funds performance exceeds predetermined thresholds. Carried interest allocations are generally structured from a legal standpoint as an allocation of capital in the Company's capital account. The Company accounts for carried interest allocations by applying an equity ownership model. Accordingly, the Company accrues performance allocations quarterly based on the fair value of the underlying investments assuming hypothetical liquidation at book value.
- iv. Equity Method Investments**—For operating entities over which the Company exercises significant influence but which do not meet the requirements for consolidation as outlined above, the Company applies the equity method of accounting. The Company's investments in equity method investees are recorded in other investments in the accompanying condensed consolidated statements of financial condition. The Company's share of earnings or losses from equity method investees is included in net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.

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

f. Receivable from and payable to brokers

Receivable from brokers, dealers, and clearing organizations includes amounts receivable for securities failed to deliver by the Company to a purchaser by the settlement date, amounts receivable from broker-dealers and clearing organizations, commissions receivable from broker-dealers, and interest receivable from securities financing arrangements.

Payable to brokers, dealers and clearing organizations includes amounts payable for securities failed to receive by the Company from a seller by the settlement date, amounts payable to broker-dealers and clearing organizations for unsettled trades, interest payable for securities financing arrangements, and payables of deposits held in proprietary account of brokers and dealers.

Pursuant to the master netting agreements the Company has entered into with its brokers, dealers and clearing organizations, receivables and payables arising from unsettled trade are presented net (assets less liabilities) across balances with the same counterparty. The Company's receivable from and payable to brokers, dealers and clearing organizations balances are held at multiple financial institutions.

g. Receivable from and payable to customers

Receivable from customers includes amounts owed by customers on cash and margin transactions, recorded on a settlement-date basis and prepaid research, net of allowance for credit losses. For prepaid research, a prepaid research asset is established for research and related services disbursed in advance of anticipated client commission volumes.

Payable to customers primarily consists of amounts owed to customers relating to securities transactions not completed on settlement date, recorded on a settlement-date basis on the statement of financial condition, and other miscellaneous customer payables.

Securities owned by customers, including those that collateralize margin, are not reflected as assets of the Company on the statement of financial condition. The Company holds these securities with the intention of settlement against customer orders and are held as collateral for customer receivables.

h. Fees receivable

Fees related to security transactions are reported net of an allowance for credit losses.

Management and incentive fees are earned as the managing member, general partner and/or investment manager to the Company's investment funds and are recognized in accordance with appropriate revenue recognition guidance (see Note 2m).

i. Securities financing arrangements

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received on a gross basis. The related rebates are recorded in the accompanying condensed consolidated statements of operations as interest and dividends income and interest and dividends expense. Securities borrowed transactions require the Company to deposit cash collateral with the lender. With respect to securities loaned, the Company receives cash or securities as collateral from the borrower. When the Company receives securities as collateral, and has concluded it (i) is the transferor and (ii) can pledge the securities to third parties, the Company recognizes the securities received as collateral at fair value in Securities owned, at fair value with the corresponding obligation to return the securities received as collateral at fair value in Securities sold, not yet purchased, at fair value. Securities received as collateral are not recognized when the Company either (i) is not the transferor or (ii) cannot pledge the securities to third parties. The initial collateral advanced or received approximates or is greater than the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or returned, as necessary. Securities borrowed and loaned may also result in credit exposures for the Company in an event that the counterparties are unable to fulfill their contractual obligations. See Note 2d for further information.

Fees and interest received or paid are recorded in interest and dividends income and interest and dividends expense, respectively, on an accrual basis in the accompanying condensed consolidated statements of operations. In cases where the fair value basis of accounting is elected, any resulting change in fair value would be reported in net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations. Accrued interest income and expense are recorded in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, on an accrual basis in the accompanying condensed consolidated statements of financial condition. At September 30, 2020 and December 31, 2019, the Company did not have any securities lending transactions for which fair value basis of accounting was elected.

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

j. Securities sold under agreements to repurchase

Securities sold under agreements to repurchase ("repos") are accounted for as collateralized financing transactions and are recorded at their contracted repurchase amount plus accrued interest. A repo is a transaction in which a firm sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from such buyer at a stated price plus accrued interest at a future date. When the Company receives securities as collateral, and has concluded it (i) is the transferor and (ii) can pledge the securities to third parties, the Company recognizes the securities received as collateral at fair value in Securities owned, at fair value with the corresponding obligation to return the securities received as collateral at fair value in Securities sold, not yet purchased, at fair value. Securities received as collateral are not recognized when the Company either (i) is not the transferor or (ii) cannot pledge the securities to third parties. The initial collateral advanced approximates or is greater than the market value of securities sold in the transaction. The Company typically enters into repo transactions with counterparties that prefer repo transactions to securities loaned transactions. The Company has executed master repo agreements with such counterparties and utilizes such counterparties to finance its own positions, or replace a securities lending transaction with a repo for matched book purposes. The Company monitors the market value of repos on a daily basis, with additional collateral obtained or returned, as necessary. Repos may also result in credit exposures for the Company in an event that the counterparties are unable to fulfill their contractual obligations. The Company mitigates its credit risk by continuously monitoring its credit exposure and collateral values by demanding additional collateral or returning excess collateral in accordance with the netting provisions available in the master repo contracts in place with the counterparties.

Interest paid is recorded in interest and dividends expense on an accrual basis in the accompanying condensed consolidated statements of operations. In cases where the fair value basis of accounting is elected, any resulting change in fair value would be reported in net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations. At September 30, 2020 and December 31, 2019, the Company did not have any repos for which fair value basis of accounting was elected.

k. Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price consideration of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. Goodwill is allocated to the Company's reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its identification with a particular acquisition but instead becomes identifiable with the reporting unit. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit.

In accordance with US GAAP requirements for testing for impairment of goodwill, the Company tests goodwill for impairment on an annual basis or at an interim period if events or changed circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. In testing for goodwill impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances led to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company concludes that fair value exceeds its carrying amount, then performing a quantitative impairment test is not necessary. If the Company concludes otherwise, the Company is required to perform a quantitative impairment test that requires a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the related goodwill is not considered impaired and no further analysis is required. If the carrying value of the reporting unit exceeds its fair value, then the Company recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

Intangible assets

Intangible assets with finite lives are amortized over their estimated average useful lives. The Company does not have any intangible assets deemed to have indefinite lives. Intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized in the accompanying condensed consolidated statements of operations if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. The Company continually monitors the estimated average useful lives of existing intangible assets.

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

I. Non-controlling interests in consolidated subsidiaries

Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities. When non-controlling interest holders have redemption features that can be exercised at the option of the holder currently or contingent upon the occurrence of future events, their ownership has been classified as temporary equity. The remaining non-controlling interests have been classified in permanent equity as the non-controlling interests are either not redeemable at the option of the holder or the holder does not have the unilateral right to redeem its ownership interests.

m. Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"), which requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company follows a five-step model to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, the Company includes variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. Significant judgments are required in the application of the five-step model including; when determining whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

The Company's principle sources of revenue are generated within two segments: Op Co and Asset Co as more fully described below. Revenue from contracts with customers includes management fees, incentive income, investment banking revenue and brokerage services revenue excluding principal transactions. ASC Topic 606 does not apply to revenue associated with financial instruments, interest income and expense, leasing and insurance contracts. The following is a description of principal activities, separated by business segments, from which the Company generates its revenue. For more detailed information about reportable segments, see Note 22.

Operating Company

The Op Co segment generates revenue through five principle sources: investment banking revenue, brokerage revenue, management fees, incentive income and investment income from the Company's own capital. Investment income is excluded from ASC Topic 606.

Asset Company

The Asset Co segment generates revenue through management fees, incentive income and investment income from the Company's own capital. Investment income is excluded from ASC Topic 606.

Investment banking

The Company earns investment banking revenue primarily from fees associated with public and private capital raising transactions and providing strategic advisory services. Investment banking revenues are derived primarily from public and private small- and mid-capitalization companies within the Company's sectors.

Investment banking revenue consists of underwriting fees, strategic/financial advisory fees, expenses reimbursed from clients and placement and sales agent fees.

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

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

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

- **Strategic/financial advisory fees.** The Company's strategic advisory revenue includes success fees earned in connection with advising companies, principally in mergers, acquisitions and restructuring transactions. The Company also earns fees for related advisory work such as providing fairness opinions. A significant portion of the Company's advisory revenue (i.e., success-related advisory fees) is considered variable consideration and recognized when it is probable that the variable consideration will not be reversed in a future period. The variable consideration is constrained until satisfaction of the performance obligation. The Company records strategic advisory revenues at the point in time, gross of related expenses, when the services for the transactions are completed or the contract is canceled under the terms of each assignment or engagement.
- **Placement and sales agent fees.** The Company earns placement agency fees and sales agent commissions in non-underwritten transactions, such as private placements of loans and debt and equity securities, including private investment in public equity transactions ("PIPEs"), and as sales agent in at-the-market offerings of equity securities. The Company records placement revenues (which may be in cash and/or securities) at the point in time when the services for the transactions are completed under the terms of each assignment or engagement. The Company records sales agent commissions on a trade-date basis.
- **Expense reimbursements from clients.** Investment banking revenue includes expense reimbursements for transaction-related expenses, primarily consisting of legal, travel and other costs directly associated with the transaction. Expense reimbursements associated with investment banking engagements are recognized in revenue at the point in time when the Company is contractually entitled to reimbursement. The related expenses are presented gross within their respective expense category in the accompanying condensed consolidated statements of operations.

Brokerage

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

- **Commissions.** Commission revenue includes fees from executing and clearing client transactions and commission sharing arrangements. Trade execution and clearing services, when provided together, represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commission revenues associated with combined trade execution and clearing services on a standalone basis, are recognized at a point in time on trade-date. Commission revenues are generally paid on settlement date and the Company records a receivable between trade-date and payment on settlement date. The Company permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as "soft dollar arrangements". The Company also offers institutional clients the ability to allocate a portion of their gross commissions incurred on trades executed with various brokers to pay for research products and other services provided by third parties by entering into commission sharing arrangements. The Company acts as an agent in the soft dollar and commission sharing arrangements as the customer controls the use of the soft dollars and directs payments to third-party service providers on its behalf. Accordingly, amounts allocated to soft dollar arrangements are netted against commission revenues and recorded on trade date. Commissions on soft dollar brokerage are recorded net of the related expenditures. The costs of commission sharing arrangements are recorded for each eligible trade and shown net of commission revenue.
- **Principal transactions.** Principal transactions revenue includes net trading gains and losses from the Company's market-making activities in over-the-counter equity and fixed income securities, trading of convertible securities, and trading gains and losses on inventory and other Company positions, which include securities previously received as part of investment banking transactions. In certain cases, the Company provides liquidity to clients by buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk. These positions are typically held for a short duration.
- **Equity research fees.** Equity research fees are paid to the Company for providing access to equity research. In the US, revenue is recognized once an arrangement exists, access to research has been provided and the customer has benefited from the research. As part of MiFID II, the international customers of the Company's broker-dealers have executed equity research contracts with its clients. The contracts either contain a fixed price for providing access to research or a price at the discretion of the customer with a contract minimum. Fixed equity research fees are recognized over the contract period as the customer is benefiting from the research throughout the contract term. When the equity research fees are based on the customer's discretion with a contract minimum, the Company recognizes the contract minimum

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

over the life of the contract as the customer benefits from the research provided and adjusts the revenue when the Company can estimate the amount of equity research fees over the contract minimum. Additionally, the Company earns variable consideration for attending client conferences and events. Revenue is recognized when the Company attends a client conference or event.

- **Trade conversion revenue.** Trade conversion revenue includes fees earned from converting foreign securities into an American Depository Receipt ("ADR") and fees earned from converting an ADR into foreign securities on behalf of customers, and margins earned from facilitating customer foreign exchange transactions. Trade conversion revenue is recognized on a trade-date basis.

Management fees

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

Several investment managers and/or general partners of the investment funds are owned jointly by the Company and third parties. Accordingly, the management fees generated by these funds are split between the Company and these third parties based on the proportionate ownership of the management company. Pursuant to US GAAP, these fees received by the management companies are accounted for under the equity method of accounting and are reflected under net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.

Management fees are generally paid on a quarterly basis and are prorated for capital inflows (or commitments) and redemptions (or distributions) and are recognized as revenue at that time as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods. While some investors may have separately negotiated fees, in general the management fees are as follows:

- **Private equity funds.** Management fees for the Company's private equity or debt funds are generally charged at an annual rate of 1% to 2% of committed capital during the investment period (as defined in the relevant partnership agreement). After the investment period, management fees for these private equity funds are generally charged at an annual rate of 1% to 2% of the net asset value or the aggregate cost basis of the unrealized investments held by the private equity funds. For certain other private equity funds (and managed accounts), the management fees range from 0.2% to 1% and there is no adjustment based on the investment period. Management fees for the Company's private equity funds are generally paid on a quarterly basis.
- **Hedge funds.** Management fees for the Company's hedge funds are generally charged at an annual rate of up to 2% of utilized invested capital, committed capital or notional trading level. Management fees are generally calculated monthly at the end of each month.
- **Cowen trading strategies.** Advisory fees for the Company's collateral management advisory business are typically paid quarterly based on utilized invested capital or committed capital, generally subject to a minimum fee.

Incentive income

The Company earns incentive income based on net profits (as defined in the respective investment management or partnership agreement) related to certain of the Company's investment funds and managed accounts. The incentive income is either allocated to the Company or is charged to the investment funds in accordance with their corresponding investment management or partnership agreement. For the hedge funds the Company offers, incentive income earned is typically up to 20% (in certain cases on performance in excess of a benchmark) of the net profits earned for the full year that are attributable to each fee-paying investor. For the private equity and debt fund products the Company offers, the carried interest earned is typically up to 30% of the distributions made to investors after return of their contributed capital and generally a preferred return.

In relation to ASC Topic 606, the Company applies an accounting policy election to recognize incentive income allocated to the Company under an equity ownership model as net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations. The Company previously recognized these amounts as incentive income. Under the equity method of accounting the Company recognizes its allocations of incentive income or carried interest within net gains (losses) along with the allocations proportionate to the Company's ownership interests in the investment funds.

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

The Company recognizes incentive income charged to the Company's hedge funds based on the net profits of the hedge funds. The Company recognizes such incentive income when the fees are no longer subject to reversal or are crystallized. For certain hedge funds, the incentive fee crystallizes annually when the high-water mark for such hedge funds is reset, which delays recognition of the incentive fee until year end. In periods following a period of a net loss attributable to an investor, the Company generally does not earn incentive income on any future profits attributable to such investor until the accumulated net loss from prior periods is recovered, an arrangement commonly referred to as a "high-water mark."

Generally, incentive income or carried interest is earned after the investor has received a full return of its invested capital, plus a preferred return. However, for certain private equity structures, the Company is entitled to receive incentive fees earlier, provided that the investors have received their preferred return on a current basis or on an investor by investor basis. These private equity structures are generally subject to a potential clawback of these incentive fees upon the liquidation of the private equity structure if the investor has not received a full return of its invested capital plus the preferred return thereon.

Several investment managers and/or general partners of the Company's investment funds are jointly owned by the Company and third parties. Accordingly, the incentive fees generated by these investment funds are split between the Company and these third parties. Pursuant to US GAAP, incentive income received by the general partners that are accounted for under the equity method of accounting are reflected under net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.

Investment income

Investment income earned by the Company is generated from investing the Company's capital in various strategies.

Investments transactions and related income/expenses

Purchases and sales of securities, net of commissions, derivative contracts, and the related revenues and expenses are recorded on a trade-date basis with net trading gains and losses included as a component of net gains (losses) on securities, derivatives and other investments, and with respect to the Consolidated Funds and other real estate entities as a component of net realized and unrealized gains (losses) on investments and other transactions and net realized and unrealized gains (losses) on derivatives, respectively, in the accompanying condensed consolidated statements of operations.

Interest and dividends

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

Reimbursement from affiliates

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

Reinsurance-related contracts

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

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

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

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

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

Interest and dividends expense

Interest and dividends expense relates primarily to securities finance activities, trading activity with respect to the Company's investments and interest expense on debt.

n. Income taxes

The Company accounts for income taxes in accordance with US GAAP which requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax basis of its assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to an amount that is more likely than not to be realized. The Company evaluates its deferred tax assets for recoverability considering negative and positive evidence, including its historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, and tax planning strategies. The Company records a valuation allowance against its deferred tax assets to bring them to a level that it is more likely than not to be utilized. In evaluating the need for a valuation allowance, the Company estimates future taxable income based on management approved business plans. This process involves significant management judgment about assumptions that are subject to change from period to period. Because the recognition of deferred tax assets requires management to make significant judgments about future earnings, the periods in which items will impact taxable income and the application of inherently complex tax laws the Company has identified the assessment of deferred tax assets and the need for any related valuation allowance as a critical accounting estimate.

US GAAP clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, requiring the Company to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company recognizes accrued interest and penalties related to its uncertain tax positions as a component of income tax expense.

In accordance with federal and state tax laws, the Company and its subsidiaries file consolidated federal, state, and local income tax returns as well as stand-alone state and local tax returns. The Company also has subsidiaries that are residents in foreign countries where tax filings have to be submitted on a stand-alone or combined basis. These subsidiaries are subject to taxes in their respective countries and the Company is responsible for and therefore reports all taxes incurred by these subsidiaries in the condensed consolidated statements of operations. The foreign jurisdictions where the Company owns subsidiaries and has tax filing obligations are the United Kingdom, Luxembourg, Gibraltar, Germany, Switzerland, South Africa, Canada and Hong Kong.

o. Recent pronouncements

Recently adopted

In October 2018, the FASB issued guidance that made targeted changes to the related party consolidation guidance. The accounting standard update aligns the evaluation of whether a decision maker's fee is a variable interest with the guidance in the primary beneficiary test by requiring the decision maker to consider an indirect interest in a VIE held by a related party under common control on a proportionate basis. The standard became effective for the Company in the first quarter of 2020 and was adopted retrospectively with no impact to current and previous consolidation conclusions.

In August 2018, the FASB issued guidance for accounting for upfront costs and fees paid by a customer in a cloud computing arrangement. The accounting standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or

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

obtain internal use software. The standard became effective for the Company in the first quarter of 2020 and was adopted prospectively.

In June 2016, the FASB issued guidance that impacts the impairment model for certain financial assets measured at amortized cost by requiring CECL methodology to estimate expected credit losses over the entire life of the financial asset, recorded at inception or purchase. The guidance became effective for the Company in the first quarter of 2020. Please refer to Note 2d. for more information.

In December 2019, the FASB issued guidance simplifying the accounting for income taxes. The guidance simplifies the accounting for income taxes by removing the following exceptions (i) the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income), (ii) the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, (iii) the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary and (iv) general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally the guidance requires that an entity (a) recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, (b) evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction and (c) reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date as well as specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority. The guidance also makes minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. For public business entities, the guidance is effective for reporting periods beginning after December 15, 2020 and interim periods within those fiscal years with early adoption permitted. The Company early adopted the guidance effective in the first quarter of 2020 and has determined no material impact from the adoption of this guidance on the Company's consolidated financial statements.

Recently issued

In August 2020, the FASB issued guidance simplifying an issuer's accounting for convertible instruments by eliminating two of the three models in *ASC 470-20* that require separate accounting for embedded conversion features; separate accounting is still required in certain cases. The guidance also simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. The guidance requires entities to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of potential share settlement (if the effect is more dilutive) for instruments that may be settled in cash or shares, except for certain liability-classified share-based payment awards. The guidance requires new disclosures about events that occur during the reporting period and cause conversion contingencies to be met and about the fair value of a public business entity's convertible debt at the instrument level. For public business entities, the guidance is effective for reporting periods beginning after December 15, 2021 and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact of the new guidance.

3. Acquisition

Quarton

On January 2, 2019 (the "Quarton Acquisition Date"), the Company, together with its indirect wholly owned subsidiaries, Cowen International Ltd and Cowen QN Acquisition LLC, completed its previously announced acquisition (the "Quarton Acquisition") of Quarton International AG through the acquisition of all of the outstanding equity interest of Quarton International AG's affiliated combining companies, Quarton Management AG, Quarton International Europe AG, Quarton Partners, LLC and Quarton Securities GP, LLC (which owns a formerly U.S. Securities Exchange Commission ("SEC") registered broker-dealer that was subsequently renamed to Cowen Securities L.P. ("Cowen Securities") (see Note 23), comprising the U.S. and European operations of the acquired combining companies (collectively "Quarton"). Quarton is a group of leading global financial advisory companies serving the middle market. Quarton's operations were primarily conducted through eight entities based in the United States, Switzerland, and Germany.

The Quarton Acquisition was accounted for under the acquisition method of accounting in accordance with US GAAP. As such, results of operations for Quarton are included in the accompanying condensed consolidated statements of operations since the Quarton Acquisition Date, and the assets acquired and liabilities assumed were recorded at their fair value as of the Quarton

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

Acquisition Date. Subsequent to the Quarton Acquisition, the operations of Quarton were integrated within the Company's existing businesses.

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

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

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

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

As of the Quarton Acquisition Date, the estimated fair value of the Company's intangible assets, as acquired through the Quarton Acquisition, was \$22.2 million and had a weighted average useful life of 2.8 years. The allocation of the intangible assets is shown within the following table:

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

Amortization expense for each of the three and nine months ended September 30, 2020 and 2019 was \$2.2 million and \$6.7 million, and is included in depreciation and amortization in the accompanying condensed consolidated statements of operations. The estimated amortization expense related to these intangible assets in future periods is as follows:

	(dollars in thousands)
2020	\$ 2,227
2021	2,608
2022	1,775
2023	—
2024	—
Thereafter	—
	\$ 6,610

In addition to the purchase price consideration, for the three and nine months ended September 30, 2019, the Company had incurred acquisition-related expenses of \$0.1 million and \$1.2 million, respectively, including financial advisory, legal and valuation services, which are included in professional, advisory and other fees in the accompanying condensed consolidated statements of operations.

4. Cash Collateral Pledged

As of September 30, 2020 and December 31, 2019, the Company pledged cash collateral in the amount of \$4.5 million and \$4.6 million respectively, which relates to letters of credit issued to the landlords of the Company's premises in New York City, Boston and San Francisco. The Company also has pledged cash collateral for reinsurance agreements which amounted to \$106.1 million, as of September 30, 2020, and \$2 million, as of December 31, 2019, which are expected to be released periodically as per the terms of the reinsurance policy between March 31, 2021 and March 31, 2024 (see Notes 14 and 18).

As of September 30, 2020, the Company has the following irrevocable letters of credit, related to leased office space, for which there is cash collateral pledged, which the Company pays a fee on the stated amount of the letter of credit.

Location	Amount (dollars in thousands)	Maturity
New York	\$ 358	April 2021
New York	1,424	October 2020
New York	1,637	November 2020
Boston	386	March 2021
San Francisco	712	October 2025
	\$ 4,517	

To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of September 30, 2020 and December 31, 2019 there were no amounts due related to these letters of credit.

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

5. Segregated Cash

As of September 30, 2020 and December 31, 2019, cash segregated in compliance with federal regulations and other restricted deposits of \$139.2 million and \$107.3 million, respectively, consisted of cash deposited in Special Reserve Bank Accounts for the exclusive benefit of customers under SEC Rule 15c3-3 and cash held in accounts designated as Special Reserve Bank Accounts for Proprietary Accounts of Broker-Dealers ("PAB").

6. Investments of Operating Entities and Consolidated Funds

a. Operating entities

Securities owned, at fair value

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

As of September 30, 2020 and December 31, 2019, securities owned, at fair value consisted of the following:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Common stock	\$ 920,849	\$ 1,546,484
Preferred stock	63,605	12,656
Warrants and rights	20,505	22,109
Government bonds	20,324	15,916
Corporate bonds	36,701	25,500
Convertible bonds	5,081	2,500
Term loan (*)	12,111	1,067
Trade claims (*)	9,390	7,320
	<u>\$ 1,088,566</u>	<u>\$ 1,633,552</u>

(*) The Company has elected the fair value option for securities owned, at fair value with a fair value of \$9.0 million and \$8.4 million, respectively, at September 30, 2020 and December 31, 2019.

Receivable on and Payable for derivative contracts, at fair value

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

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

	As of September 30, 2020		As of December 31, 2019	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Currency forwards	\$ 82,100	\$ 870	\$ —	\$ —
Swaps	\$ 244,090	4,644	\$ 383,752	2,911
Options other (a)	256,841	52,680	550,188	60,066
		<u>\$ 58,194</u>		<u>\$ 62,977</u>

(a) Includes the volume of contracts for index, equity, commodity future and cash conversion options.

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

Payable for derivative contracts

	As of September 30, 2020		As of December 31, 2019	
	Number of contracts / Notional Value	Fair value	Number of contracts / Notional Value	Fair value
	(dollars in thousands)			
Futures	\$ 9,895	\$ 123	\$ 10,224	\$ 217
Currency forwards	\$ 103,500	717	\$ 77,790	851
Swaps	\$ 376,331	7,514	\$ 607,717	23,169
Options other (a)	252,576	53,700	306,306	36,524
	\$ 62,054		\$ 60,761	

(a) Includes the volume of contracts for index, equity, commodity future and cash conversion options.

The following tables present the gross and net derivative positions and the related offsetting amount, as of September 30, 2020 and December 31, 2019. This table does not include the impact of over-collateralization.

	Gross amounts recognized	Gross amounts offset on the Condensed Consolidated Statements of Financial Condition (a)	Net amounts included on the Condensed Consolidated Statements of Financial Condition	Gross amounts not offset in the Condensed Consolidated Statements of Financial Condition			Net amounts
				Financial instruments	Cash Collateral pledged		
	(dollars in thousands)						
As of September 30, 2020							
Receivable on derivative contracts, at fair value	\$ 80,780	\$ 22,586	\$ 58,194	\$ 3,631	\$ 60		\$ 54,503
Payable for derivative contracts, at fair value	67,295	5,241	62,054	3,631	2,777		55,646
As of December 31, 2019							
Receivable on derivative contracts, at fair value	\$ 66,217	\$ 3,240	\$ 62,977	\$ —	\$ 2,911		\$ 60,066
Payable for derivative contracts, at fair value	64,001	3,240	60,761	—	24,020		36,741

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

The realized and unrealized gains/(losses) related to derivatives trading activities were \$(53.9) million and \$7.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$(63.2) million and \$2.3 million for the nine months ended September 30, 2020 and 2019, respectively, and are included in other income in the accompanying condensed consolidated statements of operations.

Pursuant to the various derivatives transactions discussed above, except for exchange traded derivatives and certain options, the Company is required to post/receive collateral. These amounts are recognized in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations respectively. As of September 30, 2020 and December 31, 2019, all derivative contracts were with major financial institutions.

Other investments

As of September 30, 2020 and December 31, 2019, other investments included the following:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Portfolio funds, at fair value (1)	\$ 123,787	\$ 114,504
Carried interest (2)	47,343	30,360
Equity method investments (3)	33,480	40,858
	\$ 204,610	\$ 185,722

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

(1) Portfolio Funds, at fair value

The Portfolio Funds, at fair value as of September 30, 2020 and December 31, 2019, included the following:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Starboard Value and Opportunity Fund (c)(*)	\$ 41,354	\$ 37,895
Formation8 Partners Fund I, L.P. (f)	31,916	33,613
Cowen Healthcare Investments II LP (i) (*)	20,691	14,652
Lagunita Biosciences, LLC (d)	4,124	4,802
Eclipse Ventures Fund I, L.P. (b)	4,464	3,960
HealthCare Royalty Partners II LP (a)(*)	1,627	1,781
RCG Longview Debt Fund V, L.P. (g)(*)	1,232	1,732
HealthCare Royalty Partners LP (a)(*)	1,157	1,326
Starboard Leaders Fund LP (e)(*)	1,656	1,560
Eclipse SPV I, LP (j)(*)	1,680	1,447
Ramius Merger Fund LLC (m)(*)	1,952	—
TriArtisan ES Partners LLC (k)(*)	1,342	1,082
Cowen Healthcare Investments III LP (i)(*)	4,346	1,398
TriArtisan PFC Partners LLC (l)(*)	628	909
RCG Longview Equity Fund, LP (g) (*)	445	835
Difesa Partners, LP (h) (*)	681	508
BDC Fund I Coinvest 1, L.P. (n) (*)	1,250	—
Other private investment (o)(*)	315	4,448
Other affiliated funds (p)(*)	2,927	2,556
	<u>\$ 123,787</u>	<u>\$ 114,504</u>

* These Portfolio Funds are affiliates of the Company.

The Company has no unfunded commitments regarding the Portfolio Funds held by the Company except as noted in Note 17.

- (a) HealthCare Royalty Partners, L.P. and HealthCare Royalty Partners II, L.P. are private equity funds and therefore distributions will be made when cash flows are received from the underlying investments, typically on a quarterly basis.
- (b) Eclipse Ventures Fund I, L.P. is a private equity fund which invests in early stage and growth hardware companies. Distributions will be made when the underlying investments are liquidated.
- (c) Starboard Value and Opportunity Fund permits quarterly withdrawals upon 90 days' notice.
- (d) Lagunita Biosciences, LLC, is a healthcare investment company that creates and grows early stage companies to commercialize impactful translational science that addresses significant clinical needs, is a private equity structure and therefore distributions will be made when the underlying investments are liquidated.
- (e) Starboard Leaders Fund LP does not permit withdrawals, but instead allows terminations with respect to capital commitments upon 30 days' prior written notice at any time following the first anniversary of an investor's initial capital contribution.
- (f) Formation8 Partners Fund I, L.P. is a private equity fund which invests in early stage and growth transformational information and energy technology companies. Distributions will be made when the underlying investments are liquidated.
- (g) RCG Longview Debt Fund V, L.P. and RCG Longview Equity Fund, LP are real estate private equity structures. The timing of distributions depends on the nature of the underlying investments and therefore will be made either quarterly or when the underlying investments are liquidated.
- (h) Difesa Partners, LP permits semi-annual withdrawals occurring on or after the anniversary of initial contribution upon 90 days written notice.
- (i) Cowen Healthcare Investments II LP and Cowen Healthcare Investments III LP are private equity funds. Distributions are made from the fund when cash flows or securities are received from the underlying investments. Investors do not have redemption rights.

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

- (j) Eclipse SPV I, L.P. is a co-investment vehicle organized to invest in a private company focused on software-driven automation projects. Distributions will be made when the underlying investments are liquidated.
- (k) TriArtisan ES Partners LLC is a co-investment vehicle organized to invest in a privately held nuclear services company. Distributions will be made when the underlying investment is liquidated.
- (l) TriArtisan PFC Partners LLC is a co-investment vehicle organized to invest in a privately held casual dining restaurant chain. Distributions will be made when the underlying investment is liquidated.
- (m) Ramius Merger Fund LLC permits monthly withdrawals on 45 days prior notice.
- (n) BDC Fund I Coinvest 1, L.P. is a private equity fund focused on investing in growth companies in industries disrupted by digitization. Distributions will be made when the underlying investments are liquidated.
- (o) Other private investment represents the Company's closed end investment in a Portfolio Fund that invests in a wireless broadband communication provider in Italy.
- (p) The majority of these investment funds are affiliates of the Company or are managed by the Company and the investors can redeem from these funds as investments are liquidated.

(2) Carried interest

The Company applies an accounting policy election to recognize incentive income allocated to the Company under an equity ownership model in other investments in the accompanying condensed consolidated statements of financial condition (see Note 2m). Carried interest allocated to the Company from certain Portfolio Funds represents Cowen's general partner capital accounts from those funds. These balances are subject to change upon cash distributions, additional allocations or reallocations back to limited partners within the respective funds. All carried interest balances are earned from affiliates of the Company.

A portion of the Company's carried interest is granted to employees through profit sharing awards designed to more closely align compensation with the overall realized performance of the Company. These arrangements enable certain employees to earn compensation based on performance revenue earned by the Company and are recorded within compensation payable in the accompanying condensed consolidated statements of financial condition and employee compensation and benefits expense in the accompanying condensed consolidated statements of operation based on the probable and estimable payments under the terms of the awards.

The carried interest as of September 30, 2020 and December 31, 2019, included the following:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Cowen Healthcare Investments II LP	\$ 35,829	\$ 23,759
Cowen Healthcare Investments III LP	5,357	—
TriArtisan TGIF Partners LLC	2,881	—
TriArtisan ES Partners LLC	1,354	—
TriArtisan PFC Partners LLC	1,116	—
Ramius Multi-Strategy Fund LP	612	—
Ramius Merger Fund LLC	13	—
Other private investment (a)	—	4,737
RCG IO Renergys Sarl	181	1,251
Ramius Multi-Strategy Fund LP	—	613
	<u>\$ 47,343</u>	<u>\$ 30,360</u>

- (a) Other private investment represents the Company's closed end investment in a Portfolio Fund that invests in a wireless broadband communication provider in Italy.

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

(3) Equity method investments

Equity method investments include investments held by the Company in several operating companies whose operations primarily include the day-to-day management of a number of real estate funds, including the portfolio management and administrative services related to the acquisition, disposition, and active monitoring of the real estate funds' underlying debt and equity investments. The Company's ownership interests in these equity method investments range from 15% to 55%. The Company holds a majority of the outstanding ownership interest (i.e., more than 50%) in RCG Longview Partners II, LLC and 40% in Surf House Ocean Views Holdings, LLC (which is a joint venture in a real estate development project). The operating agreement that governs the management of day-to-day operations and affairs of these entities stipulates that certain decisions require support and approval from other members in addition to the support and approval of the Company. As a result, all operating decisions made in these entities requires the support of both the Company and an affirmative vote of a majority of the other managing members who are not affiliates of the Company. As the Company does not possess control over any of these entities, the presumption of consolidation has been overcome pursuant to current Accounting Standards and the Company accounts for these investments under the equity method of accounting. Also included in equity method investments are the investments in (a) HealthCare Royalty Partners General Partners and (b) Starboard Value (and certain related parties) which serves as an operating company whose operations primarily include the day-to-day management (including portfolio management) of several activist investment funds and related managed accounts.

During the second quarter of 2020, the Company completed an assessment of the recoverability of the Company's equity method investments and determined that the carrying value of the investment in Surf House Ocean View Holdings, LLC exceeded the estimated fair value of the Company's interest, which was other than temporary. Accordingly, an other than temporary impairment charge of \$11.3 million was recognized to reduce the carrying value of the investment to fair value. The Company recorded no impairment charges in relation to its other equity method investments for the three and nine months ended September 30, 2020 and 2019.

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

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

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Starboard Value LP	\$ 25,392	\$ 24,292
Surf House Ocean Views Holdings, LLC	—	7,804
HealthCare Royalty GP III, LLC	2,198	2,230
RCG Longview Debt Fund V Partners, LLC	1,721	2,889
RCG Longview Management, LLC	253	583
HealthCare Royalty GP, LLC	675	108
HealthCare Royalty GP II, LLC	276	302
RCG Longview Debt Fund IV Management, LLC	331	331
RCG Longview Equity Management, LLC	105	105
HCR Stafford Fund GP, LLC	850	880
Liberty Harbor North	292	292
Other	1,387	1,042
	\$ 33,480	\$ 40,858

The Company's income (loss) from equity method investments was income of \$4.0 million and \$2.7 million for the three months ended September 30, 2020 and 2019 and \$10.5 million and \$23.1 million for the nine months ended September 30, 2020 and 2019, respectively, and is included in net gains (losses) on securities, derivatives and other investments on the accompanying condensed consolidated statements of operations.

Regulation S-X Rule 10-01(b)(1)

For the periods ended September 30, 2020 and December 31, 2019 and for the nine months periods ended September 30, 2020 and September 30, 2019, certain investments subject to Regulation S-X Rule 10-01(b)(1) of the SEC guidance held by the Company have met the significance criteria as defined thereunder. As such, the Company is required to present summarized

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

financial information for these significant investees as of September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and 2019, and such information is as follows:

Other equity method investments	As of September 30, 2020		As of December 31, 2019	
	(dollars in thousands)			
Assets	\$	59,379	\$	95,825
Liabilities		—		82,482
Equity	<u>\$</u>	<u>59,379</u>	<u>\$</u>	<u>13,343</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(dollars in thousands)				
Revenues	\$ 274	\$ 4,564	\$ 54,717	\$ 83,287
Expenses	—	—	—	—
Net realized and unrealized gains (losses)	77	55	412	717
Net income	<u>\$ 351</u>	<u>\$ 4,619</u>	<u>\$ 55,129</u>	<u>\$ 84,004</u>

Securities sold, not yet purchased, at fair value

Securities sold, not yet purchased, at fair value represent obligations of the Company to deliver a specified security at a contracted price and, thereby, create a liability to purchase that security at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the condensed consolidated financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold, not yet purchased, at fair value may exceed the amount reflected in the accompanying condensed consolidated statements of financial condition. As of September 30, 2020 and December 31, 2019, securities sold, not yet purchased, at fair value consisted of the following:

	As of September 30, 2020		As of December 31, 2019	
	(dollars in thousands)			
Common stock	\$	404,409	\$	425,448
Corporate bonds		15,324		5,933
Government bonds		1,500		1,950
Preferred stock		10,767		3,686
Warrants and rights		8,930		14,819
	<u>\$</u>	<u>440,930</u>	<u>\$</u>	<u>451,836</u>

Securities sold under agreements to repurchase and securities lending and borrowing transactions

The following tables present the contractual gross and net securities borrowing and lending agreements and securities sold under agreements to repurchase and the related offsetting amount as of September 30, 2020 and December 31, 2019.

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

	Gross amounts recognized, net of allowance	Gross amounts offset on the Condensed Consolidated Statements of Financial Condition (a)	Net amounts included on the Condensed Consolidated Statements of Financial Condition	Gross amounts not offset on the Condensed Consolidated Statements of Financial Condition			Net amounts
				Additional Amounts Available	Financial instruments	Cash Collateral pledged (b)	
(dollars in thousands)							
As of September 30, 2020							
Securities borrowed	\$ 1,272,428	\$ —	\$ 1,272,428	\$ —	\$ 1,213,253	\$ —	\$ 59,175
Securities loaned	1,326,917	—	1,326,917	—	1,278,129	—	48,788
Securities sold under agreements to repurchase	6,218	—	6,218	—	7,587	—	(1,369)
As of December 31, 2019							
Securities borrowed	\$ 754,441	\$ —	\$ 754,441	\$ —	\$ 751,913	\$ —	\$ 2,528
Securities loaned	1,601,866	—	1,601,866	—	1,585,036	—	16,830
Securities sold under agreements to repurchase	23,244	—	23,244	—	27,384	—	(4,140)

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

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

The following tables present gross obligations for securities loaned and securities sold under agreements to repurchase by remaining contractual maturity and class of collateral pledged as of September 30, 2020 and December 31, 2019:

	Open and Overnight	Up to 30 days	31 - 90 days	Greater than 90 days	Total
	(dollars in thousands)				
As of September 30, 2020					
<i>Securities loaned</i>					
Common stock	\$ 933,956	\$ —	\$ —	\$ —	\$ 933,956
Corporate bonds	392,961	—	—	—	392,961
<i>Securities sold under agreements to repurchase</i>	—	—	6,218	—	6,218
As of December 31, 2019					
<i>Securities loaned</i>					
Common stock	\$ 1,343,478	\$ —	\$ —	\$ —	\$ 1,343,478
Corporate bonds	258,388	—	—	—	258,388
<i>Securities sold under agreements to repurchase</i>	—	—	23,244	—	23,244

Variable Interest Entities

The total assets and liabilities of the variable interest entities for which the Company has concluded that it holds a variable interest, but for which it is not the primary beneficiary, are \$7.1 billion and \$1.1 billion as of September 30, 2020 and \$6.1 billion and \$617.5 million as of December 31, 2019, respectively. The carrying value of the Company's exposure to loss for these variable interest entities as of September 30, 2020 was \$127.6 million, and as of December 31, 2019 was \$241.2 million, all of which is included in other investments, at fair value in the accompanying condensed consolidated statements of financial condition. Additionally, the Company's maximum exposure to loss for the variable interest entities noted above as of September 30, 2020 and December 31, 2019, was \$244.5 million and \$261.7 million, respectively. The maximum exposure to loss often differs from the carrying value of exposure to loss of the variable interests. The maximum exposure to loss is dependent on the nature of the variable interests in the VIEs and is limited to the notional amounts of certain commitments and guarantees.

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

b. Consolidated Funds

Securities owned, at fair value

As of September 30, 2020 and December 31, 2019, securities owned, at fair value, held by the Consolidated Funds consisted of the following:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Preferred stock	\$ —	\$ 4,393
Common stock	106,549	200,306
Government bonds	—	161,607
Corporate bonds	—	3,405
Convertible bonds	75,538	—
Warrants and rights	5,904	5,567
	\$ 187,991	\$ 375,278

Receivable on derivative contracts

As of September 30, 2020 and December 31, 2019, receivable on derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Currency forwards	\$ —	\$ 3,302
Equity swaps	—	927
Options	—	1,604
	\$ —	\$ 5,833

Payable for derivative contracts

As of September 30, 2020 and December 31, 2019, payable for derivative contracts, at fair value, held by the Consolidated Funds are comprised of:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Currency forwards	\$ —	\$ 88
Equity swaps	—	3,931
Options	—	750
	\$ —	\$ 4,769

Other investments, at fair value

Investments in Portfolio Funds, at fair value

As of September 30, 2020 and December 31, 2019, investments in Portfolio Funds, at fair value, included the following:

	As of September 30, 2020	As of December 31, 2019
	As of December 31,	
	2020	2019
	(dollars in thousands)	
Investments of Enterprise LP	\$ 98,016	\$ 99,153
Investments of Merger Fund	—	76,616
Investment of Prodigy HoldCo	251	—
	\$ 98,267	\$ 175,769

Consolidated portfolio fund investments of Enterprise LP

On May 12, 2010, the Company announced its intention to close Enterprise Master. Enterprise LP operated under a "master-feeder" structure up until January 1, 2019, when Enterprise Master distributed its capital to each feeder and was liquidated. As of September 30, 2020 and December 31, 2019, the consolidated investments in Portfolio Funds include

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

Enterprise LP's investment in RCG Special Opportunities Fund, Ltd which is a portfolio fund that invests in a limited number of private equity investments directly as well as through affiliated portfolio funds.

Consolidated portfolio fund investments of Merger Fund

The Merger Fund, which was deconsolidated during the second quarter of 2020 (See Note 2b), operates under a "master-feeder" structure, whereby Merger Master shareholders are Merger Fund and Ramius Merger Fund Ltd. The consolidated investments in Portfolio Funds include Merger Fund's investment of \$76.6 million in Merger Master as of December 31, 2019. The Merger Master's investment objective is to achieve consistent absolute returns while emphasizing the preservation of investor capital. The Merger Master seeks to achieve these objectives by taking a fundamental, research-driven approach to investing, primarily in the securities of issuers engaged in, or subject to, announced (or unannounced but otherwise anticipated) extraordinary corporate transactions, which may include, but are not limited to, mergers, acquisitions, leveraged buyouts, tender offers, hostile takeover bids, sale processes, exchange offers, and recapitalizations. Merger Master invests in the securities of one or more issuers engaged in or subject to such extraordinary corporate transactions. Merger Master typically seeks to derive a profit by realizing the price differential, or "spread," between the market price of securities purchased or sold short and the market price or value of securities realized in connection with the completion or termination of the extraordinary corporate transaction, or in connection with the adjustment of market prices in anticipation thereof, while seeking to minimize the market risk associated with the aforementioned investment activities. Merger Master will, depending on market conditions, generally focus the majority of its investment program on announced transactions. If the investment manager of Merger Master considers it necessary, it may either alone or as part of a group, also initiate shareholder actions seeking to maximize value. Such shareholder actions may include, but are not limited to, re-orienting management's focus or initiating the sale of the company (or one or more of its divisions) to a third party.

Consolidated portfolio fund investment of Prodigy HoldCo

The Prodigy Holdco fund, which was consolidated upon its formation during the third quarter of 2020 (See Note 2b), invests, along with other securities, in a fund named CSI PRTA Co-Investment LP. CSI PRTA Co-Investment LP was organized to hold an investment in a manufacturer and technology provider of heavy-duty electric transportation. Prodigy HoldCo will receive distributable proceeds when CSI PRTA Co-Investment LP's underlying investment is monetized.

Indirect Concentration of the Underlying Investments Held by Consolidated Funds

From time to time, either directly held by the Company, indirectly through the Company's consolidated entities or indirectly through its investments in the Consolidated Funds, the Company may maintain exposure to a particular issue or issuer (both long and/or short) which may account for 5% or more of the Company's equity. Based on information that is available to the Company as of September 30, 2020 and December 31, 2019, the Company assessed whether or not its interests in an issuer for which the Company's pro-rata share exceeds 5% of the Company's equity. There was one indirect concentration that exceeded 5% of the Company's equity as of September 30, 2020 and December 31, 2019, respectively.

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

Investment's percentage of the Company's stockholders' equity						
	Issuer	Security Type	Country	Industry	Percentage of Stockholders' Equity	Market Value (dollars in thousands)
As of September 30, 2020	Linkem	Equity, loans and warrants	Italy	Wireless Broadband	9.01 %	\$ 82,074
As of December 31, 2019	Linkem	Equity, loans and warrants	Italy	Wireless Broadband	9.53 %	\$ 77,142

Underlying Investments of Unconsolidated Funds Held by Consolidated Funds

During the second quarter of 2020, the Company deconsolidated the Merger Fund due to a partial redemption of the Company's direct portfolio fund investment in Merger Fund. The Company continues to hold a direct retained portfolio fund investment in the Merger Fund.

Merger Master

As of December 31, 2019, Merger Fund's investment in Merger Master represented Merger Fund's proportionate share of Merger Master's net assets; as a result, the investment balances of Merger Master reflected below may exceed the net investment

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

which Merger Fund has recorded. The following tables present summarized investment information for the underlying investments and derivatives held by Merger Master as of December 31, 2019:

Merger Master

As of December 31, 2019

Securities owned by Merger Master, at fair value

(dollars in thousands)

Common stock	\$	76,531
Warrants and rights		748
Corporate bonds		2,074
	\$	79,353

Securities sold, not yet purchased, by Merger Master, at fair value

Common stock	\$	29,623
Exchange traded funds		38,527
	\$	68,150

Receivable on derivative contracts, at fair value, owned by Merger Master

As of December 31, 2019

Description		(dollars in thousands)
Options	\$	2,047
Equity swaps		406
	\$	2,453

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

As of December 31, 2019

Description		(dollars in thousands)
Options	\$	1,158
Equity swaps		268
	\$	1,426

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

7. Fair Value Measurements for Operating Entities and Consolidated Funds

The following table presents the assets and liabilities that are measured at fair value on a recurring basis on the accompanying condensed consolidated statements of financial condition by caption and by level within the valuation hierarchy as of September 30, 2020 and December 31, 2019:

	Assets at Fair Value as of September 30, 2020			Total
	Level 1	Level 2	Level 3	
(dollars in thousands)				
Operating Entities				
Securities owned, at fair value				
Government bonds	\$ 20,324	\$ —	\$ —	\$ 20,324
Preferred stock	10,187	—	53,418	63,605
Common stock	900,885	508	19,456	920,849
Convertible bonds	—	—	5,081	5,081
Corporate bonds	—	36,181	520	36,701
Trade claims	—	—	9,390	9,390
Term loan	—	—	12,111	12,111
Warrants and rights	15,522	—	4,983	20,505
Receivable on derivative contracts, at fair value				
Currency forwards	—	870	—	870
Swaps	—	4,644	—	4,644
Options	52,329	—	351	52,680
Consolidated Funds				
Securities owned, at fair value				
Common stock	3,598	—	102,951	106,549
Warrants and rights	—	—	5,904	5,904
Convertible bonds	—	—	75,538	75,538
	\$ 1,002,845	\$ 42,203	\$ 289,703	\$ 1,334,751
Percentage of total assets measured at fair value on a recurring basis	75.1 %	3.2 %	21.7 %	
Portfolio Funds measured at net asset value (a)				123,787
Carried interest (a)				47,343
Consolidated Funds' Portfolio Funds measured at net asset value (a)				98,267
Equity method investments				33,480
Total investments				\$ 1,637,628

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

	Liabilities at Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
(dollars in thousands)				
Operating Entities				
Securities sold, not yet purchased, at fair value				
Government bonds	\$ —	\$ —	\$ 1,500	\$ 1,500
Common stock	404,409	—	—	404,409
Corporate bonds	—	14,524	800	15,324
Preferred stock	10,767	—	—	10,767
Warrants and rights	8,930	—	—	8,930
Payable for derivative contracts, at fair value				
Futures	123	—	—	123
Currency forwards	—	717	—	717
Swaps	—	7,514	—	7,514
Options	50,746	—	2,954	53,700
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	30,024	30,024
	<u>\$ 474,975</u>	<u>\$ 22,755</u>	<u>\$ 35,278</u>	<u>\$ 533,008</u>
Percentage of total liabilities measured at fair value	<u>89.1 %</u>	<u>4.3 %</u>	<u>6.6 %</u>	

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

(b) In accordance with the terms of the purchase agreements for acquisitions that closed during the second quarter of 2016 and the first quarter of 2019, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 31, 2019 and December 31, 2023, respectively. For the acquisition that closed during 2016, the Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. For the acquisition that closed during 2019, the Company estimated the contingent consideration liability using the present value of the Monte Carlo simulated revenue. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of September 30, 2020 can range from \$0.9 million to \$35.1 million.

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

	Assets at Fair Value as of December 31, 2019			Total
	Level 1	Level 2	Level 3	
(dollars in thousands)				
Operating Entities				
Securities owned, at fair value				
Government bonds	\$ 15,916	\$ —	\$ —	\$ 15,916
Preferred stock	4,821	—	7,835	12,656
Common stock	1,527,769	1,249	17,466	1,546,484
Convertible bonds	—	—	2,500	2,500
Corporate bonds	—	23,079	2,421	25,500
Trade claims	—	—	7,320	7,320
Term loan	—	1,067	—	1,067
Warrants and rights	21,515	—	594	22,109
Receivable on derivative contracts, at fair value				
Swaps	—	2,911	—	2,911
Options	59,730	—	336	60,066
Consolidated Funds				
Securities owned, at fair value				
Government bonds	161,607	—	—	161,607
Preferred stock	—	—	4,393	4,393
Common stock	200,306	—	—	200,306
Corporate bonds	—	3,405	—	3,405
Warrants and rights	—	—	5,567	5,567
Receivable on derivative contracts, at fair value				
Currency forwards	—	3,302	—	3,302
Equity swaps	—	927	—	927
Options	1,604	—	—	1,604
	\$ 1,993,268	\$ 35,940	\$ 48,432	\$ 2,077,640
Percentage of total assets measured at fair value on a recurring basis	95.9 %	1.7 %	2.3 %	
Portfolio Funds measured at net asset value (a)				114,504
Carried interest (a)				30,360
Consolidated Funds' Portfolio Funds measured at net asset value (a)				175,769
Equity method investments				40,858
Total investments				\$ 2,439,131

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

	Liabilities at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Operating Entities				
Securities sold, not yet purchased, at fair value				
US Government securities	\$ —	\$ —	\$ 1,950	\$ 1,950
Common stock	425,448	—	—	425,448
Corporate bonds	—	4,933	1,000	5,933
Preferred stock	3,686	—	—	3,686
Warrants and rights	14,819	—	—	14,819
Payable for derivative contracts, at fair value				
Futures	217	—	—	217
Currency forwards	—	851	—	851
Swaps	—	23,169	—	23,169
Options	33,604	—	2,920	36,524
Accounts payable, accrued expenses and other liabilities				
Contingent consideration liability (b)	—	—	30,896	30,896
Consolidated Funds				
Payable for derivative contracts, at fair value				
Currency forwards	—	88	—	88
Options	750	—	—	750
Equity swaps	—	3,931	—	3,931
	<u>\$ 478,524</u>	<u>\$ 32,972</u>	<u>\$ 36,766</u>	<u>\$ 548,262</u>
Percentage of total liabilities measured at fair value	<u>87.3 %</u>	<u>6.0 %</u>	<u>6.7 %</u>	

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

(b) In accordance with the terms of the purchase agreements for acquisitions that closed during the second quarter of 2016 and the first quarter of 2019, the Company is required to pay to the sellers a portion of future net income and/or revenues of the acquired businesses, if certain targets are achieved through the periods ended December 31, 2019 and December 31, 2023, respectively. For the acquisition that closed during 2016, the Company estimated the contingent consideration liability using the income approach (discounted cash flow method) which requires the Company to make estimates and assumptions regarding the future cash flows and profits. For the acquisition that closed during 2019, the Company estimated the contingent consideration liability using the present value of the Monte Carlo simulated revenue. Changes in these estimates and assumptions could have a significant impact on the amounts recognized. The undiscounted amounts as of December 31, 2019 can range from \$1.3 million to \$40.0 million.

The following table includes a roll forward of the amounts for the three and nine months ended September 30, 2020 and 2019 for financial instruments classified within level 3. The classification of a financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

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

Three Months Ended September 30, 2020									
Balance at June 30, 2020	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2020	Change in unrealized gains/losses relating to instruments still held (1)		
(dollars in thousands)									
Operating Entities									
Preferred stock	\$ 51,480	\$ —	\$ (7,744) (b)	\$ 5,282	\$ (3,770)	\$ 8,170	\$ 53,418	\$	2,926
Common stock	14,816	—	(3) (e)	4,000	—	643	19,456	—	562
Convertible bonds	5,081	—	—	—	—	—	5,081	—	—
Corporate bonds	758	—	(312) (b)	72	—	2	520	—	22
Options, asset	337	—	—	—	—	14	351	—	14
Options, liability	2,177	—	—	—	—	777	2,954	—	777
Term Loan	11,359	—	—	245	—	507	12,111	—	506
Warrants and rights	4,625	3 (e)	—	—	—	355	4,983	—	337
Trade claims	7,587	—	—	2,690	(648)	(239)	9,390	—	(239)
Corporate bond, liability	800	—	—	—	—	—	800	—	—
Government bonds, liability	1,500	—	—	—	—	—	1,500	—	—
Contingent consideration liability	27,001	—	—	—	—	3,023	30,024	—	3,023
Consolidated Funds									
Common stock	102,951	—	—	—	—	—	102,951	—	—
Warrants and rights	5,858	—	—	—	—	46	5,904	—	46
Convertible bonds	—	—	—	75,000	—	538	75,538	—	538

Three Months Ended September 30, 2019									
Balance at June 30, 2019	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2019	Change in unrealized gains/losses relating to instruments still held (1)		
(dollars in thousands)									
Operating Entities									
Preferred stock	\$ 7,401	\$ —	\$ (1,000) (f)	\$ —	\$ —	\$ 1,434	\$ 7,835	\$	2,295
Common stock	11,006	—	—	2,579	(480)	208	13,313	—	210
Convertible bonds	6,318	—	(2,801) (f)	1,049	(2,072)	47	2,541	—	4
Corporate bonds	775	20 (e)	—	1,117	—	161	2,073	—	161
Options, liability	2,779	—	—	—	—	(279)	2,500	—	(279)
Warrants and rights	595	—	—	—	(72)	61	584	—	(12)
Trade claims	10,488	—	—	1,871	(5,354)	57	7,062	—	57
Corporate bond, liability	—	2,525 (e)	—	—	—	(1,325)	1,200	—	(1,325)
Government bonds, liability	—	4,681 (e)	—	—	—	(2,431)	2,250	—	(2,431)
Contingent consideration liability	29,536	—	—	—	—	298	29,834	—	298
Consolidated Funds									
Preferred stock	24,322	—	(19,929) (f)	—	—	—	4,393	—	—
Common stock	1,017	—	(94) (f)	—	(957)	34	—	—	—
Warrants and rights	6,274	—	—	—	(670)	(139)	5,465	—	(809)

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

Nine Months Ended September 30, 2020									
Balance at December 31, 2019	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2020	Change in unrealized gains/losses relating to instruments still held (1)		
(dollars in thousands)									
Operating Entities									
Preferred stock	\$ 7,835	\$ 45,530 (c)	\$ (7,744) (b)	\$ 5,647	\$ (5,870)	\$ 8,020	\$ 53,418	\$	5,337
Common stock	17,466	—	(29) (a)(e)	5,798	(3,712)	(67)	19,456		(1,023)
Convertible bonds	2,500	—	—	2,581	—	—	5,081		—
Corporate bond	2,421	—	(312) (b)	592	(1,938)	(243)	520		(180)
Options, asset	336	—	—	—	—	15	351		15
Options, liability	2,920	—	—	—	—	34	2,954		35
Term loan	—	11,149 (c)	—	245	—	717	12,111		717
Warrants and rights	594	3,636 (a)(c)	—	—	—	753	4,983		753
Trade claims	7,320	1,044 (a)(e)	—	4,663	(2,863)	(774)	9,390		(795)
Corporate bond, liability	1,000	—	—	—	—	(200)	800		(200)
Government bonds, liability	1,950	—	—	—	—	(450)	1,500		(450)
Contingent consideration liability	30,896	—	—	—	(5,653)	4,781	30,024		4,781
Consolidated Funds									
Preferred stock	4,393	—	(4,000) (d)	—	—	(393)	—		—
Common stock	—	4,000 (d)	—	100,000	—	(1,049)	102,951		(1,049)
Warrants and rights	5,567	—	—	—	—	337	5,904		337
Convertible bonds	\$ —	\$ —	\$ —	\$ 75,000	\$ —	\$ 538	\$ 75,538	\$	538

Nine Months Ended September 30, 2019									
Balance at December 31, 2018	Transfers in	Transfers out	Purchases/(covers)	(Sales)/shorts	Realized and Unrealized gains/losses	Balance at September 30, 2019	Change in unrealized gains/losses relating to instruments still held (1)		
(dollars in thousands)									
Operating Entities									
Preferred stock	\$ 5,168	\$ —	\$ (1,000) (f)	\$ 3,243	\$ (1,000)	\$ 1,424	\$ 7,835	\$	2,285
Common stock	9,850	—	—	16,737	(12,952)	(322)	13,313		(122)
Convertible bonds	3,000	—	(4,826) (b)(f)	16,021	(11,764)	110	2,541		41
Corporate bond	—	20 (e)	—	1,892	—	161	2,073		161
Options, liability	2,096	—	—	—	(4)	408	2,500		408
Warrants and rights	1,666	—	—	—	(188)	(894)	584		20
Trade claim	5,543	—	—	6,965	(5,506)	60	7,062		57
Corporate bond, liability	—	2,525 (e)	—	—	—	(1,325)	1,200		(1,325)
Government bonds, liability	—	4,681 (e)	—	—	—	(2,431)	2,250		(2,431)
Contingent consideration liability	3,070	—	—	27,700	(1,234)	298	29,834		298
Consolidated Funds									
Preferred stock	24,314	—	(19,929) (f)	—	—	8	4,393		8
Common stock	94	—	(94) (f)	407	(958)	551	—		—
Warrants and rights	\$ 5,279	\$ —	\$ —	\$ —	\$ (1,758)	\$ 1,944	\$ 5,465	\$	190

(1) Unrealized gains/losses are reported in other income (loss) in the accompanying condensed consolidated statements of operations.

(a) The security stopped trading on an open market.

(b) The investments were converted to common stock.

(c) The Company consolidated an operating entity which holds preferred stock, loans and warrants.

(d) The investment was involved in a reverse merger and preferred stock was converted to common shares.

(e) The transfers between level 1 and level 3 are due to the change in the availability of observable inputs.

(f) The entity in which the Company is invested completed an initial public offering.

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

All realized and unrealized gains (losses) in the table above are reflected in other income (loss) in the accompanying condensed consolidated statements of operations.

Certain assets and liabilities are measured at fair value on a nonrecurring basis and therefore are not included in the tables above.

The Company recognizes all transfers and the related unrealized gain (loss) at the beginning of the reporting period.

Transfers between level 2 and 3 generally relate to whether significant relevant observable inputs are available for the fair value measurements or due to change in liquidity restrictions for the investments.

The following table includes quantitative information as of September 30, 2020 and December 31, 2019 for financial instruments classified within level 3. The table below quantifies information about the significant unobservable inputs used in the fair value measurement of the Company's level 3 financial instruments.

	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value September 30, 2020 (dollars in thousands)	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
<i>Level 3 Assets</i>					
Common and preferred stocks	\$ 61,220	Discounted cash flows Guideline companies	Discount rate EBITDA Market Multiples	10% - 12% 6.25x - 6.75x	11% 6.5x
Options	352	Discounted cash flows Guideline companies	Discount rate EBITDA Market Multiples	10% - 12% 6.25x - 6.75x	11% 6.5x
Trade claims	3,446	Discounted cash flows	Discount rate	15%	15%
Warrants and rights	10,865	Discounted cash flows Guideline companies	Discount rate EBITDA Market Multiples	4% - 11% 6.25x - 6.75x	7.0% 6.5x
Corporate, convertible bonds and term loan	12,110	Discounted cash flows Guideline companies	Discount rate EBITDA Market Multiples	10% - 12% 6.25x - 6.75x	11% 6.5x
Other level 3 assets (a)	201,710				
Total level 3 assets	\$ 289,703				
<i>Level 3 Liabilities</i>					
Options	2,954	Option pricing models	Volatility	35%	35%
Contingent consideration liability	30,024	Discounted cash flows Monte Carlo simulation	Discount rate Volatility	15% - 22% 22%	15% 22%
Other level 3 liabilities (a)	2,300				
Total level 3 liabilities	\$ 35,278				

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

Quantitative Information about Level 3 Fair Value Measurements					
Level 3 Assets	Fair Value at December 31, 2019 (dollars in thousands)	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
Common and preferred stocks	\$ 10,876	Discounted cash flows Guideline companies	Discount rate EBITDA Market Multiples	8% - 11.25% 6.5x - 7x	10.4% 6.75x
Trade claims	24	Discounted cash flows	Discount rate	20%	20%
Warrants and rights	6,162	Model based Discounted cash flows	Volatility Discount rate	30% 6% - 7%	—% 6.1%
Options	336	Option pricing models	Discount rate EBITDA Market Multiples	9.75% - 11.25% 6.5x - 7x	10.5% 6.75x
Corporate and convertible bonds	311	Discounted cash flows Recovery	Discount rate Probability of recovery	20% 1% - 3%	20% 2.3%
Other level 3 assets (a)	30,723				
Total level 3 assets	\$ 48,432				
<i>Level 3 Liabilities</i>					
Options	2,920	Option pricing models	Volatility	35% to 40%	35%
Contingent consideration liability	30,896	Discounted cash flows	Discount rate Volatility	15% - 22% 17%	15% 17%
Other level 3 liabilities (a)	2,950				
Total level 3 liabilities	\$ 36,766				

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

The Company has established valuation policies, procedures and internal control infrastructure over the fair value measurement of financial instruments. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilized is applicable, reasonable and consistently applied. Where a pricing model is used to determine fair value, these control processes include reviews of the methodology and inputs for both reasonableness and applicability. Consistent with best practices, recently executed comparable transactions and other observable market data are used for the purposes of validating both the model and the assumptions used to calculate fair value. Independent of trading and valuation functions, the Company's Valuation Committee in conjunction with its Price Verification team, plays an important role in determining that financial instruments are appropriately valued and that fair value measurements are both reasonable and reliable. This is particularly important where prices or valuations that require inputs are less observable. The Valuation Committee is comprised of senior management, including non-investment professionals, who are responsible for overseeing and monitoring the pricing of the Company's investments.

The US GAAP fair value leveling hierarchy is designated and monitored on an ongoing basis. In determining the designation, the Company takes into consideration a number of factors including the observability of inputs, liquidity of the investment and the significance of a particular input to the fair value measurement. Designations, models, pricing vendors, third party valuation providers and inputs used to derive fair market value are subject to review by the valuation committee and the internal audit group. The Company reviews its valuation policy guidelines on an ongoing basis and may adjust them in light of improved valuation metrics and models, the availability of reliable inputs and information, and prevailing market conditions. The Company regularly reviews a profit and loss report, as well as other periodic reports, and analyzes material changes from period to period in the valuation of its investments as part of its control procedures. The Company also performs back testing on a regular basis by comparing prices observed in executed transactions to previous valuations.

The fair market value for level 3 securities may be highly sensitive to the use of industry-standard models, unobservable inputs and subjective assumptions. The degree of fair market value sensitivity is also contingent upon the subjective weight given to specific inputs and valuation metrics. The Company holds various equity and debt instruments where different weight may be applied to industry-standard models representing standard valuation metrics such as: discounted cash flows, market multiples, comparative transactions, capital rates, recovery rates and timing, and bid levels. Generally, changes in the weights ascribed to the various valuation metrics and the significant unobservable inputs in isolation may result in significantly lower or higher fair value measurements. Volatility levels for warrants and options are not readily observable and subject to interpretation. Changes in capital rates, discount rates and replacement costs could significantly increase or decrease the valuation of the real estate investments. The interrelationship between unobservable inputs may vary significantly amongst level 3 securities as they are

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

generally highly idiosyncratic. Significant increases (decreases) in any of those inputs in isolation can result in a significantly lower (higher) fair value measurement.

Other financial assets and liabilities

The following table presents the carrying values and fair values, at September 30, 2020 and December 31, 2019, of financial assets and liabilities and information on their classification within the fair value hierarchy which are not measured at fair value on a recurring basis. For additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value (see Note 2e).

	September 30, 2020		December 31, 2019		Fair Value Hierarchy
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
	(dollars in thousands)				
Financial Assets					
<i>Operating companies</i>					
Cash and cash equivalents	\$ 539,733 (f)	\$ 539,733 (f)	\$ 301,123	\$ 301,123	Level 1 & 2
Cash collateral pledged	110,666	110,666	6,563	6,563	Level 2
Segregated cash	139,152	139,152	107,328	107,328	Level 1
Securities borrowed	1,272,428	1,272,428	754,441	754,441	Level 2
Loans receivable	9,045	9,045 (d)	42,830	42,830 (d)	Level 3
<i>Consolidated Funds</i>					
Cash and cash equivalents	946	946	30,874	30,874	Level 1
Financial Liabilities					
Securities sold under agreements to repurchase	6,218	7,587	23,244	27,384	Level 2
Securities loaned	1,326,917	1,326,917	1,601,866	1,601,866	Level 2
Convertible debt	122,485 (a)	147,166 (b)	118,688 (a)	148,786 (b)	Level 2
Notes payable and other debt	383,722 (e)	406,309 (c)	345,451 (e)	372,591 (c)	Level 2

- (a) The carrying amount of the convertible debt includes an unamortized discount of \$11.4 million and \$14.9 million as of September 30, 2020 and December 31, 2019, respectively.
- (b) The convertible debt includes the conversion option and is based on the last broker quote available.
- (c) Notes payable and other debt are based on the last broker quote available.
- (d) The fair market value of level 3 loans is calculated using discounted cash flows where applicable.
- (e) The carrying amount of the notes payable and other debt includes an unamortized premium of \$0.4 million and \$0.5 million as of September 30, 2020 and December 31, 2019, respectively.
- (f) As of September 30, 2020, cash and cash equivalents include Level 1 cash in the amount of \$479.7 million and Level 2 certificates of deposit of \$60.0 million.

8. Deposits with Clearing Organizations, Brokers and Banks

Under the terms of agreements between the Company and some of its clearing organizations, brokers and banks, balances owed are collateralized by certain of the Company's cash and securities balances. As of September 30, 2020 and December 31, 2019, the Company had a total of \$90.1 million and \$91.8 million, respectively, in deposit accounts with clearing organizations, brokers and banks that could be used as collateral to offset losses incurred by the clearing organizations, brokers and banks, on behalf of the Company's activities, if such losses were to occur.

9. Receivable From and Payable To Brokers, Dealers and Clearing Organizations

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

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

As of September 30, 2020 and December 31, 2019, amounts receivable from brokers, dealers and clearing organizations include:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Broker-dealers	\$ 1,263,635	\$ 623,523
Securities failed to deliver	71,280	45,673
Clearing organizations	49,978	3,180
Securities borrowed interest receivable	5,928	9,319
	<u>\$ 1,390,821</u>	<u>\$ 681,695</u>

As of September 30, 2020 and December 31, 2019, amounts payable to brokers, dealers and clearing organizations include:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
Broker-dealers	\$ 228,628	\$ 185,838
Securities failed to receive	39,496	57,580
Clearing organizations	39,077	18,063
Securities loaned interest payable	5,649	9,537
	<u>\$ 312,850</u>	<u>\$ 271,018</u>

10. Receivable From and Payable To Customers

As of September 30, 2020 and December 31, 2019, receivable from customers of \$83.2 million and \$105.6 million, respectively, consist of amounts owed by customers relating to securities transactions not completed on settlement date and receivables arising from prepaid research.

As of September 30, 2020 and December 31, 2019, payable to customers of \$1.2 billion and \$430.2 million, respectively, include amounts due on cash and margin transactions to the Company's clients, some of which have their assets held by a Company omnibus account, which are included within receivables from brokers, dealers and clearing organizations in the accompanying condensed consolidated statements of financial condition. In the omnibus structure, positions that are owned by Cowen International Ltd are fully cross collateralized by client funds, meaning that the Company, for all intents and purposes, has no market risk. Additionally, Cowen International Ltd has no obligation to settle any trade that it deems inappropriate from a risk perspective, adding an important market and counterparty risk mitigating factor.

11. Commission Management Payable

The Company receives a gross commission from various brokers, which is then used to fund commission sharing and recapture arrangements, less the portion retained as income to the Company. Accrued commission sharing and commission recapture payable of \$117.8 million and \$71.6 million, as of September 30, 2020 and December 31, 2019, respectively, are classified as commission management payable in the accompanying condensed consolidated statements of financial condition.

12. Non-Controlling Interests in Consolidated Subsidiaries and Investment Funds

Redeemable and nonredeemable non-controlling interests in consolidated subsidiaries and investment funds and the related net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds are comprised as follows:

	As of September 30, 2020	As of December 31, 2019
	(dollars in thousands)	
<i>Redeemable non-controlling interests in consolidated subsidiaries and investment funds</i>		
Consolidated Funds	\$ —	\$ 391,275
<i>Nonredeemable non-controlling interests in consolidated subsidiaries and investment funds</i>		
Operating companies	72,569	11,513
Consolidated Funds	197,452	82,807
	<u>\$ 270,021</u>	<u>\$ 485,595</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds				
Operating companies	\$ 6,283	\$ (2,126)	\$ 9,514	\$ (1,586)
Consolidated Funds	2,949	4,896	(29,357)	8,774
	<u>\$ 9,232</u>	<u>\$ 2,770</u>	<u>\$ (19,843)</u>	<u>\$ 7,188</u>

13. Revenue from Contracts with Customers

For the three and nine months ended September 30, 2020 and 2019, the following tables presents revenues from contracts with customers disaggregated by fee type and segment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Operating Company				
Revenue from contracts with customers				
Investment banking				
Underwriting fees	\$ 121,390	\$ 38,936	\$ 318,355	\$ 162,140
Strategic/financial advisory fees	39,431	17,889	101,061	49,565
Placement and sales agent fees	28,427	15,842	71,999	48,855
Expense reimbursements from clients	5,093	4,625	11,936	11,543
<i>Total investment banking revenue</i>	<u>194,341</u>	<u>77,292</u>	<u>503,351</u>	<u>272,103</u>
Brokerage				
Commissions	112,953	82,715	367,564	263,831
Trade conversion revenue	3,404	3,700	12,370	12,364
Equity research fees	4,605	4,235	13,632	13,180
<i>Total brokerage revenue from customers</i>	<u>120,962</u>	<u>90,650</u>	<u>393,566</u>	<u>289,375</u>
Management fees	11,721	7,052	34,492	20,492
Incentive income	127	701	127	710
Total revenue from contracts with customers - Op Co	<u>\$ 327,151</u>	<u>\$ 175,695</u>	<u>\$ 931,536</u>	<u>\$ 582,680</u>
Asset Company				
Management fees	233	248	719	988
Incentive income	—	—	—	14
Total revenue from contracts with customers - Asset Co	<u>233</u>	<u>248</u>	<u>719</u>	<u>1,002</u>
Total revenue from contracts with customers	<u>\$ 327,384</u>	<u>\$ 175,943</u>	<u>\$ 932,255</u>	<u>\$ 583,682</u>

14. Reinsurance

The Company's wholly-owned Luxembourg subsidiary, Hollenfels Re SA ("Hollenfels") provides reinsurance to third party insurance and reinsurance companies. Hollenfels's share of claims incurred and paid during the periods below, as well as the change in claims outstanding or incurred but not reported ("Claims IBNR") during these periods were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Incurred and paid claims	\$ 2,570	\$ 126	\$ 10,498	\$ 7,046
Change in Claims IBNR	2,722	833	26,638	11,724

Hollenfels utilizes several methods to determine its Claims IBNR. It generally employs an estimation methodology whereby historical average claims ratios over a period of up to 10 years are utilized, based on availability of data. In cases where current claims development contradicts historical results, Hollenfels employs a method to average claims ratios derived through different actuarial calculation methods. Also, if an event occurs that may give rise to significant future claims in excess of the amount

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

calculated using the above-mentioned methodologies, the impact of such an event is calculated using existing claims data and actuarial estimation methods to adjust Hollenfels's Claims IBNR. During the three and nine months ended September 30, 2020, Hollenfels calculated its claim liability or claim adjustment expenses using the above-mentioned methods consistent with prior years.

While Hollenfels typically settles its premiums and claim payments on a quarterly basis, the frequency of claims in the underlying policies is impractical for Hollenfels to obtain. Certain contracts Hollenfels has written are on a quota-share basis while the rest of the policies provide aggregate loss protection, rendering the collection of information for all underlying contracts impracticable. Hollenfels did not discount any of its reserves and did not cede any portion of its exposures during the three and nine months ended September 30, 2020 and 2019.

From time to time, Hollenfels may enter into reinsurance agreements that require it to post collateral of cash or US government bonds to cover certain exposures as defined in the respective reinsurance agreements. As of September 30, 2020, Hollenfels pledged \$120.5 million of collateral towards such reinsurance obligations, of which \$106.1 million was cash and \$14.4 million was US government bonds. As of December 31, 2019, total collateral pledged was \$15.0 million, of which \$2.0 million was cash and \$13.0 million was US government bonds. Hollenfels expects \$101.2 million and none of the cash collateral pledged as of September 30, 2020 and December 31, 2019, respectively, to be released on September 30, 2023. The remaining cash collateral of \$4.9 million and all of the US government bonds pledged as of September 30, 2020 as well as all cash and US government bonds pledged as of December 31, 2019 are expected to be released periodically between March 31, 2021 and March 31, 2024 in accordance with the terms of the underlying reinsurance agreements.

15. Share-Based Payments, Deferred Compensation and Employee Ownership Plans

The Company has issued share-based compensation under the 2010 and 2020 Equity and Incentive Plan (the "Equity Plans"). The Equity Plans permits the grant of options, restricted shares, restricted stock units, and other equity-based awards to the Company's employees and directors. Stock options granted generally vest over two-to-five-year periods and expire seven years from the date of grant. Restricted shares and restricted share units issued, both of which are eligible to accrue dividend equivalents, may be immediately vested or may generally vest over a two-to five-year period. Awards are subject to the risk of forfeiture. As of September 30, 2020, there were 2.5 million shares available for future issuance under the Equity Plans.

Under the Equity Plan, the Company awarded \$0.1 million and \$50.3 million of deferred cash awards to its employees during the three and nine months ended September 30, 2020. These awards vest over a four-year period and accrue interest at 0.70% per year. As of September 30, 2020, the Company had unrecognized compensation expense related to the Equity Plan's deferred cash awards of \$79.4 million.

The Company measures compensation cost for share-based awards according to the equity method. In accordance with the expense recognition provisions of those standards, the Company amortizes unearned compensation associated with share-based awards on a straight-line basis over the vesting period of the option or award, net of estimated forfeitures. In relation to awards under the Equity Plan, the Company recognized compensation expense of \$11.6 million and \$10.0 million for the three months ended September 30, 2020 and 2019 and \$35.2 million and \$27.2 million for the nine months ended September 30, 2020 and 2019, respectively. The income tax effect recognized for the Equity Plans was a benefit of \$3.1 million and \$2.6 million for the three months ended September 30, 2020 and 2019 and \$8.4 million and \$6.8 million for the nine months ended September 30, 2020 and 2019, respectively.

Restricted Stock Units Granted to Employees

Restricted shares and restricted stock units are referred to collectively as restricted stock. The following table summarizes the Company's restricted share and restricted stock unit activity for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Nonvested Restricted Class A Common Shares and Class A Common Restricted Stock Units	Weighted-Average Grant Date Fair Value	Nonvested Restricted Class A Common Shares and Class A Common Restricted Stock Units	Weighted-Average Grant Date Fair Value
Beginning balance outstanding	5,364,486	\$ 16.67	5,962,295	\$ 15.73
Granted	2,638,544	17.14	2,322,996	16.62
Vested	(1,320,318)	15.20	(1,545,850)	16.26
Canceled	(87,348)	14.80	(584,333)	11.49
Forfeited	(111,212)	15.55	(156,528)	13.97
Ending balance outstanding	6,484,152	\$ 17.20	5,998,580	\$ 16.40

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Included in the restricted share and restricted stock unit activity are performance-linked restricted stock units of 1,366,666 which were awarded in March 2016, April 2019 and July 2020. Of the awards granted, 145,986 have vested and 320,681 have been canceled, as they did not meet the performance criteria, through September 30, 2020. The remaining awards, included in the outstanding balance as of September 30, 2020, vest between December 2020 and December 2022 and will be earned only to the extent that the Company attains specified market conditions relating to its volume-weighted average share price and total shareholder return in relation to certain benchmark indices and performance goals relating to aggregate net income and average return on shareholder equity. The actual number of RSUs ultimately earned could vary from zero, if performance goals are not met, to as much as 200% of the targeted award. Each RSU is equal to the one share of the Company's Class A common stock. Compensation expense is recognized to the extent that it is probable that the Company will attain the performance goals.

The fair value of restricted stock (excluding certain performance-linked units which are valued using the Monte Carlo valuation model) is determined based on the number of shares granted and the quoted price of the Company's common stock on the date of grant.

As of September 30, 2020, there was \$81.8 million of unrecognized compensation expense related to the Company's grant of nonvested restricted shares and restricted stock units to employees. Unrecognized compensation expense related to nonvested restricted shares and restricted stock units granted to employees is expected to be recognized over a weighted-average period of 2.24 years.

Restricted Shares and Restricted Stock Units Granted to Non-Employee Board Members

There were 90,645 restricted stock units awarded and 48,021 delivered to non-employee board members during the three and nine months ended September 30, 2020. As of September 30, 2020 there were 259,536 restricted stock units outstanding for non-employee board members. There were no restricted stock units awarded during the three and nine months ended September 30, 2019, and 120,430 were delivered. As of December 31, 2019 there were 216,912 restricted stock units outstanding.

Share Based Payments

In certain circumstances, the Company grants carried interest in consolidated managing member/general partner subsidiaries to third parties through the grant of equity awards in exchange for professional, advisory and other services. The equity awards are recorded within additional paid in capital in the accompanying condensed consolidated statements of financial condition and professional, advisory and other fees expense in the accompanying condensed consolidated statements of operations based on the fair value of the award granted and expensed over the terms of the award. In addition, the equity awards provide the third parties profit points aligned to the allocated carried interest distributions. Upon vesting of the awards, the third parties allocation of carried interest is determined by applying an equity ownership model. Accordingly, the Company accrues carried interest allocations based on the fair value of the underlying investments assuming hypothetical liquidation at book value upon vesting as non-redeemable non-controlling interest.

16. Income Taxes

The taxable results of the Company's U.S. operations are included in the consolidated income tax returns of Cowen, Inc. as well as stand-alone state and local tax returns. The Company has subsidiaries that are resident in foreign countries where tax filings are submitted on a stand-alone basis. These subsidiaries are subject to tax in their respective countries and the Company is responsible for and, thus, reports all taxes incurred by these subsidiaries. The countries where the Company owns subsidiaries that file tax returns are United Kingdom, Luxembourg, Gibraltar, Germany, Switzerland, South Africa, Canada and Hong Kong.

The Company calculates its U.S. tax provision using the estimated annual effective tax rate methodology. The tax expense or benefit caused by an unusual or infrequent item is recorded in the quarter in which it occurs. To the extent that information is not available for the Company to fully determine the full year estimated impact of an item of income or tax adjustment, the Company calculates the tax impact of such item discretely. Accordingly, the Company uses the discrete methodology to calculate the income tax provision for its foreign subsidiaries and the tax impact of income attributable to redeemable non-controlling interests in consolidated subsidiaries and investment funds. Based on these methodologies, the Company's effective income tax rate was 33.51% and 26.55% for the nine months ended September 30, 2020 and 2019, respectively. During the nine months ended September 30, 2020, the items whose tax impact were recorded discretely related primarily to foreign taxes, as well as stock compensation.

For the nine months ended September 30, 2020, the effective tax rate differs from the statutory rate of 21% primarily due to losses attributable to non-controlling interests in consolidated subsidiaries and investment funds, foreign taxes, stock compensation, as well as other nondeductible expenses. For the nine months ended September 30, 2019, the effective tax rate

differs from the statutory rate of 21% primarily due to income attributable to non-controlling interests in consolidated subsidiaries and funds, foreign taxes, goodwill impairment, as well as other nondeductible expenses.

As a result of the enactment of Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) signed on March 27, 2020, the Company is required to assess the tax impact of the Act in the quarter the law was enacted. Based on the management analysis, there was no material impact on the Company's financial statements as of September 30, 2020.

The Company maintained an uncertain tax position liability of \$0.3 million as of September 30, 2020 and December 31, 2019 related to New York State tax matters.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating or capital loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that, in management's view, is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. As of September 30, 2020, the Company recorded a valuation allowance against deferred tax assets related to its foreign tax credits and foreign net operating losses.

The Company is subject to examination by the United States Internal Revenue Service as well as state, local and foreign tax authorities in jurisdictions where the Company has significant business operations, such as New York, United Kingdom, Luxembourg, Germany and Switzerland. Currently, the Company is under audit by New York State and State of Massachusetts for the 2013 to 2017 tax years and 2016 to 2017 tax years, respectively. Management is not expecting a material tax liability from these audits.

The Company continues to permanently reinvest the capital and accumulated earnings of its subsidiaries in the United Kingdom, Germany, Switzerland, Canada, South Africa and Hong Kong.

17. Commitments and Contingencies

Operating Lease Obligations

The Company has entered into leases for real estate and other facilities. These leases contain rent escalation clauses and options to extend the lease term. The Company does not include renewal options in the lease term for calculating the Company's lease liability as the renewal options allow the Company operational flexibility and the Company is not reasonably certain to exercise these renewal options at this time. The Company records the expenses related to occupancy and equipment on a straight-line basis over the lease term and these expenses are included in occupancy and equipment expense and client services and business development expense in the accompanying condensed consolidated statements of operations.

For the three and nine months ended September 30, 2020 and 2019, quantitative information regarding the Company's operating lease obligations reflected in the accompanying condensed consolidated statements of operations were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Lease cost				
Operating lease cost	\$ 5,687	\$ 5,748	\$ 17,044	\$ 17,690
Short-term lease cost	52	23	155	113
Variable lease cost	829	1,156	2,431	2,668
Sublease income	(190)	(232)	(623)	(739)
Total lease costs	<u>\$ 6,378</u>	<u>\$ 6,695</u>	<u>\$ 19,007</u>	<u>\$ 19,732</u>

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

The following table summarizes the supplemental cash flow information and certain other information related to operating leases for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
	(dollars in thousands)	
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 20,228	\$ 19,103
Weighted average remaining lease term - operating leases (in years)	4.78	5.52
Weighted average discount rate - operating leases	3.69 %	4.14 %

As of September 30, 2020, maturities of the outstanding operating lease liabilities for the Company were as follows:

	Equipment Leases (operating)	Real Estate and Other Facility Rental (a) (b)
	(dollars in thousands)	
2020	\$ 90	\$ 4,302
2021	223	24,723
2022	91	21,484
2023	3	18,095
2024	—	14,784
Thereafter	—	10,166
Total operating leases	407	93,554
Less discount	25	9,816
Less short-term leases	—	76
Total lease liability	\$ 382	\$ 83,662

- (a) The Company has entered into various agreements to sublease certain of its premises.
- (b) During the nine months ended September 30, 2020, the Company recognized \$0.3 operating right-of-use assets and leases liabilities increases for facility leases.

See Note 18 for further information on the finance lease minimum payments.

Other Commitments

As of September 30, 2020, future minimum annual service payments for the Company were as follows:

	Service Payments
	(dollars in thousands)
2020	\$ 8,262
2021	23,563
2022	14,295
2023	7,188
2024	4,351
Thereafter	13,201
Total service payment commitments	\$ 70,860

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

Unfunded Commitments

The following table summarizes unfunded commitments as of September 30, 2020:

Entity	Unfunded Commitments (dollars in thousands)	Commitment Term
HealthCare Royalty Partners funds (a)	\$ 7,816	4.3 years
Eclipse Ventures Fund I, L.P.	\$ 59	4.3 years
Lagunita Biosciences, LLC	\$ 250	3.1 years
Eclipse Fund II, L.P.	\$ 110	5.3 years
Eclipse Continuity Fund I, L.P.	\$ 58	6.3 years
Cowen Healthcare Investments II LP	\$ 1,201	1.3 years
Cowen Healthcare Investments III LP	\$ 6,164	6.3 years
Cowen Sustainable Investments I LP	\$ 3,926	9.3 years

(a) The Company is a limited partner of the HealthCare Royalty Partners funds (which are managed by Healthcare Royalty Management) and is a member of HealthCare Royalty Partners General Partners. The Company will make its pro-rata investment in the HealthCare Royalty Partners funds along with the other limited partners.

Litigation

In the ordinary course of business, the Company and its affiliates, subsidiaries and current and former officers, directors and employees (the "Company and Related Parties") are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of securities, banking, anti-fraud, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

In the ordinary course of business, the Company and Related Parties are also subject to governmental and regulatory examinations, information gathering requests (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Certain of the Company's affiliates and subsidiaries are registered broker-dealers, futures commission merchants, investment advisers or other regulated entities and, in those capacities, are subject to regulation by various U.S., state and foreign securities, commodity futures and other regulators. In connection with formal and informal inquiries by these regulators, the Company receives requests and orders seeking documents and other information in connection with various aspects of the Company's regulated activities.

Due to the global scope of the Company's operations, and its presence in countries around the world, the Company and Related Parties may be subject to litigation, governmental and regulatory examinations, information gathering requests, investigations and proceedings (both formal and informal), in multiple jurisdictions with legal and regulatory regimes that may differ substantially, and present substantially different risks, from those to which the Company and Related Parties are subject in the United States.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

In accordance with US GAAP, the Company establishes reserves for contingencies when the Company believes that it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. The Company discloses a contingency if there is at least a reasonable possibility that a loss may have been incurred and there is no reserve for the loss because the conditions above are not met. The Company's disclosure includes an estimate of the reasonably possible loss or range of loss for those matters, for which an estimate can be made. Neither a reserve nor disclosure is required for losses that are deemed remote.

The Company appropriately reserves for certain matters where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Such amounts are included within accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters. The Company accrues legal fees as incurred.

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

18. Convertible Debt and Notes Payable

As of September 30, 2020 and December 31, 2019, the Company's outstanding debt was as follows:

	<u>As of September 30, 2020</u>	<u>As of December 31, 2019</u>
	<u>(dollars in thousands)</u>	
Convertible debt	\$ 122,485	\$ 118,688
Notes payable	307,437	306,818
Term loans	—	32,180
Other notes payable	73,253	2,516
Finance lease obligations	3,032	3,937
	<u>\$ 506,207</u>	<u>\$ 464,139</u>

Convertible Debt*December 2022 Convertible Notes*

The Company, on December 14, 2017, issued \$135.0 million aggregate principal amount of 3.0% convertible senior notes due December 2022 (the "December 2022 Convertible Notes"). The December 2022 Convertible Notes are due on December 15, 2022 unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such date. The interest on the December 2022 Convertible Notes is payable semi-annually on December 15 and June 15 of each year. The December 2022 Convertible Notes are senior unsecured obligations of Cowen. The December 2022 Convertible Notes may be converted into cash or shares of Class A common stock at the Company's election based on the current conversion price. The December 2022 Convertible Notes were issued with an initial conversion price of \$17.375 per share of Cowen's Class A common stock.

As of September 30, 2020, the outstanding principal amount of the December 2022 Convertible Notes was \$135.0 million. On June 26, 2018, the Company received shareholder approval for the Company to settle the December 2022 Convertible Notes entirely in Class A common stock. Upon receiving shareholder approval, the Company reclassified the separately recognized conversion option from a derivative liability to equity. Pursuant to the indenture governing the December 2022 Convertible Notes, conversions of the December 2022 Convertible Notes will be settled by the delivery and/or payment, as the case may be, of Cowen's Class A Common Stock, cash, or a combination thereof, at the Company's election. The Company has the intent and ability to settle the convertible notes in cash and, as a result, the convertible notes do not have an impact on the Company's diluted earnings per share calculation (See Note 21).

The Company recorded interest expense of \$1.0 million and \$1.0 million for the three months ended September 30, 2020 and 2019, and \$3.0 million and \$3.0 million for the nine months ended September 30, 2020 and 2019, respectively. The Company recognized the embedded cash conversion option at issuance date fair value, which also represents the initial unamortized discount on the December 2022 Convertible Notes of \$23.4 million and is shown net in convertible debt in the accompanying condensed consolidated statements of financial condition. Amortization on the discount, included within interest and dividends expense in the accompanying condensed consolidated statements of operations is \$1.2 million and \$1.1 million for the three months ended September 30, 2020 and 2019, and \$3.5 million and \$3.2 million for the nine months ended September 30, 2020 and 2019, respectively, based on an effective interest rate of 7.13%. The Company capitalized the debt issuance costs in the amount of \$2.2 million, which is a direct deduction from the carrying value of the debt and will be amortized over the life of the December 2022 Convertible Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations.

Notes Payable*May 2024 Notes*

On May 7, 2019, the Company completed its private placement of \$53.0 million aggregate principal amount of 7.25% senior notes due May 2024 (the "May 2024 Notes") with certain institutional investors. On September 30, 2019, the Company issued an additional \$25.0 million of the same series of notes. The additional May 2024 Notes were purchased at a premium of \$0.5 million, which is shown net in notes payable in the accompanying condensed consolidated statement of financial condition. To date the May 2024 Notes have maintained their initial private rating, and the interest rate has remained unchanged. Interest on the May 2024 Notes is payable semi-annually in arrears on May 6 and November 6. The Company recorded interest expense of \$1.4 million and \$0.9 million for three months ended September 30, 2020 and 2019, and \$4.2 million and \$1.5 million for the nine months ended September 30, 2020 and 2019, respectively. The Company capitalized debt issuance costs of approximately \$1.5 million in May 2019 and \$0.6 million in December 2019, which is a direct deduction from the carrying value of the debt and will

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Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

be amortized over the life of the May 2024 Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations.

June 2033 Notes

On June 11, 2018, the Company completed its public offering of \$90.0 million of 7.75% senior notes due June 2033 (the "June 2033 Notes") and subsequently the underwriters exercised in full their option to purchase an additional \$10.0 million principal amount of the June 2033 Notes. Interest on the June 2033 Notes is payable quarterly in arrears on March 15, June 15, September 15 and December 15. The Company recorded interest expense of \$1.9 million and \$1.9 million for the three months ended September 30, 2020 and 2019, and \$5.8 million and \$5.8 million for the nine months ended September 30, 2020 and 2019, respectively. The Company capitalized debt issuance costs of approximately \$3.6 million which is a direct deduction from the carrying value of the debt and will be amortized over the life of the June 2033 Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations.

December 2027 Notes

On December 8, 2017, the Company completed its public offering of \$120.0 million of 7.35% senior notes due December 2027 (the "December 2027 Notes") and subsequently the underwriters exercised in full their option to purchase an additional \$18.0 million principal amount of the December 2027 Notes. Interest on the December 2027 Notes is payable quarterly in arrears on March 15, June 15, September 15 and December 15. The Company recorded interest expense of \$2.5 million and \$2.5 million for the three months ended September 30, 2020 and 2019, and \$7.6 million and \$7.6 million for the nine months ended September 30, 2020 and 2019, respectively. The Company capitalized debt issuance costs of approximately \$5.0 million which is a direct deduction from the carrying value of the debt and will be amortized over the life of the December 2027 Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations. The net proceeds of the offering, after deducting the underwriting discount and estimated offering expenses payable by the Company were used to redeem all of its 8.25% senior notes due October 2021 and for general corporate purposes.

Term Loans

On June 30, 2017, a subsidiary of the Company borrowed \$28.2 million to fund general corporate purposes. In July 2019, the subsidiary of the Company borrowed separately, from the same lender, \$4.0 million to fund general corporate purposes. Each loan was secured by the value of the Company's limited partnership interests in two affiliated investment funds. The Company had provided a guarantee for these loans. Both loans had an effective interest rate of LIBOR plus 3.75% with a lump sum payment of the entire combined principal amount due (as amended) on June 26, 2020 when they were both fully repaid. The Company recorded interest expense of \$0.5 million for the three months ended September 30, 2019, and \$0.8 million and \$1.4 million for the nine months ended September 30, 2020 and 2019, respectively.

Other Notes Payable

During January 2020, the Company borrowed \$2.9 million to fund insurance premium payments. This note had an effective interest rate of 2.01% and was due in December 2020, with monthly payment requirements of \$0.3 million. As of September 30, 2020, the outstanding balance on this note was \$0.8 million. Interest expense for the three and nine months ended September 30, 2020 and 2019 was insignificant.

During November 2019, the Company borrowed \$2.6 million to fund general corporate capital expenditures. This note had an effective interest rate of 6% and is due in November 2024, with monthly payment requirements of \$0.1 million. As of September 30, 2020, the outstanding balance on this note was \$2.2 million. Interest expense for the nine months ended September 30, 2020 was \$0.1 million.

On September 30, 2020, the Company borrowed \$72 million from Purple Protected Asset S-91 ("PPA S-91"), a Luxembourg entity unrelated to Cowen. The loan is payable on September 30, 2023, has an interest rate of 1.4 times the Secured Overnight Financing Rate ("SOFR") plus 6.07% until December 31, 2020 and 1.4 times the SOFR plus 5.8% thereafter with quarterly interest payments. The loan obligation, as well as a loan issued by The Military Mutual Ltd (a United Kingdom company unrelated to Cowen) with principal of \$28.4 million that was sold by Hollenfels to PPA S-91 at fair value for no gain or loss on September 30, 2020, are fully cash collateralized through a reinsurance policy provided by Hollenfels which is reflected in cash collateral pledged in the consolidated statements of financial condition as of September 30, 2020 (see Notes 4 and 14). The Company capitalized debt issuance costs of approximately \$1.7 million which is a direct deduction from the carrying value of the loan and will be amortized over the life of the loan in interest and dividends expense in the accompanying condensed consolidated statements of operations. There was no interest expense as of September 30, 2020.

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

Spike Line

Pursuant to an amendment in May 2020, Cowen and Company replaced Cowen Execution as the borrower and accepted, reaffirmed and assumed all of Cowen Execution's rights, duties, obligations and liabilities under the spike line facility and the related loan documents. In August 2020, Cowen and Company renewed a one-year committed spike line facility to cover short term increases in National Securities Clearing Corporation margin deposit requirements. The spike line facility has a capacity of \$70 million. This facility has (i) an effective interest rate equal to the Federal Funds rate plus 2.50% on any money drawn from the liquidity facility and (ii) a commitment or unused line fee that is 50 basis points on the undrawn amount. All amounts outstanding under this facility were fully repaid during the second quarter of 2020. Interest expense for the three and nine months ended September 30, 2020 was \$0.0 million and \$0.2 million, respectively.

Revolving Credit Facility

In December 2019, the Company entered into a two-year committed corporate credit facility with a capacity of \$25 million. This credit facility has (i) an effective interest rate equal to LIBOR plus 3.25% on any money drawn from the credit facility and (ii) a commitment or unused line fee that is 50 basis points on the undrawn amount. All amounts outstanding under this corporate credit facility were fully repaid during the second quarter of 2020. Interest expense for the nine months ended September 30, 2020 was \$0.3 million.

Finance Lease Obligations

The Company has entered into various finance leases for computer equipment. These finance lease obligations are included in notes payable and other debt in the accompanying condensed consolidated statements of financial condition.

For the three and nine months ended September 30, 2020 and 2019, quantitative information regarding the Company's finance lease obligations reflected in the accompanying condensed consolidated statements of operations, the supplemental cash flow information and certain other information related to finance leases were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Lease cost				
Finance lease cost:				
Amortization of finance lease right-of-use assets	\$ 308	\$ 299	\$ 924	\$ 966
Interest on lease liabilities	\$ 42	\$ 54	\$ 134	\$ 172
Other information				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from finance leases			\$ 134	\$ 172
Financing cash flows from finance leases			\$ 901	\$ 951
Weighted average remaining lease term - operating leases (in years)			2.48	3.40
Weighted average discount rate - operating leases			4.89 %	4.93 %

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

Annual scheduled maturities of debt and minimum payments (of principal and interest) for all debt outstanding as of September 30, 2020, are as follows:

	Convertible Debt	Notes Payable	Other Notes Payable	Finance Lease Obligation
	(dollars in thousands)			
2020	\$ 2,025	\$ 7,300	\$ 933	\$ 251
2021	4,050	23,548	593	1,396
2022	139,050	23,548	593	1,165
2023	—	23,548	72,593	411
2024	—	98,721	543	11
Thereafter	—	334,304	—	—
Subtotal	145,125	510,969	75,255	3,234
Less (a)	(22,640)	(203,532)	(2,002)	(202)
Total	<u>\$ 122,485</u>	<u>\$ 307,437</u>	<u>\$ 73,253</u>	<u>\$ 3,032</u>

(a) Amount necessary to reduce net minimum payments to present value calculated at the Company's implicit rate at inception. This amount also includes capitalized debt costs and the unamortized discount on the Company's convertible debt.

Letters of Credit

As of September 30, 2020, the Company has six irrevocable letters of credit, related to leased office space, for which there is cash collateral pledged, which the Company pays a fee on the stated amount of the letter of credit. The Company also has pledged cash collateral for reinsurance agreements (See Note 4).

To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of September 30, 2020 and December 31, 2019 there were no amounts due related to these letters of credit.

19. Stockholder's Equity

Preferred Stock

On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock ("Series A Convertible Preferred Stock") that provided \$117.2 million of proceeds, net of underwriting fees and issuance costs of \$3.6 million. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum which will be payable, when and if declared by the board of directors of the Company, quarterly, in arrears, on February 15, May 15, August 15 and November 15 of each year. The Company may, at its option, pay dividends in cash, common stock or a combination thereof. The Company declared and accrued a cash dividend of \$1.7 million and \$1.7 million for the three months ended September 30, 2020 and 2019 and \$5.1 million and \$5.1 million for the nine months ended September 30, 2020 and 2019, respectively.

Each share of Series A Convertible Preferred Stock is non-voting and has a liquidity preference over the Company's Class A common stock and ranks senior to all classes or series of the Company's Class A common stock, but junior to all of the Company's existing and future indebtedness with respect to dividend rights and rights upon the Company's involuntary liquidation, dissolution or winding down.

Each share of Series A Convertible Preferred Stock is convertible, at the option of the holder, into a number of shares of the Company's Class A common stock equal to the liquidation preference of \$1,000 divided by the conversion rate. The initial conversion rate (subsequent to the December 5, 2016 reverse stock split) is 38.0619 shares (which equates to \$26.27 per share) of the Company's Class A common stock for each share of the Series A Convertible Preferred Stock. At any time on or after May 20, 2020, when the Company's capped call option expired, the Company may elect to convert all outstanding shares of the Series A Convertible Preferred Stock into shares of the Company's Class A common stock, cash or a combination thereof, at the Company's election, in each case, based on the then-applicable conversion rate, if the last reported sale price of the Company's Class A common stock equals or exceeds 150% of the then-current conversion price on at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days (including on the last trading day of such period) immediately prior to such election. At the time of conversion, the conversion rate may be adjusted based on certain events including but not limited to the issuance of cash dividends or Class A common stock as dividends to the Company's Class A common shareholders or a share split or combination. The Company has the intent and ability to settle the preferred shares in cash and, as a result, the preferred shares do not have an impact on the Company's diluted earnings per share calculation (See Note 21).

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

Embedded Cash Conversion Option on the December 2022 Convertible Notes

Upon issuance of the December 2022 Convertible Notes (see Note 18), the Company recognized the embedded cash conversion option at fair value of \$23.4 million which was valued as of June 26, 2018 at \$29.0 million. On June 26, 2018, the Company received shareholder approval for the Company to settle the December 2022 Convertible Notes entirely in Class A common stock. Upon receiving shareholder approval, the Company reclassified the separately recognized conversion option from a derivative liability to equity.

Cash Dividends to Common Stockholders

During the first quarter of 2020, the Company began the declaration of a quarterly cash dividend payable on its common stock. During March, June and July 2020, the Board of Directors declared a cash dividend of \$0.04 per common share. Dividends are payable on all outstanding shares and on granted but unvested shares under the Equity Plans on the date of record (See Note 15). During the three and nine months ended September 30, 2020, the Company paid \$1.1 million and \$3.4 million, respectively, of cash dividends to its common stockholders.

Treasury Stock

Treasury stock of \$334.1 million as of September 30, 2020, compared to \$284.3 million as of December 31, 2019, resulted from \$6.3 million acquired through repurchases of shares to cover employee minimum tax withholding obligations related to stock compensation vesting events under the Equity Plans or other similar transactions, \$0.10 million received from an escrow account established to satisfy the Company's indemnification claims arising under the terms of the purchase agreement entered into in connection with the Company's acquisition of Converge Group, LLC and \$43.4 million purchased in connection with a share repurchase program.

The following represents the activity relating to the treasury stock held by the Company during the nine months ended September 30, 2020:

	Treasury Stock Shares	Cost (dollars in thousands)	Average Cost per Share
Balance outstanding at December 31, 2019	18,605,581	\$ 284,301	\$ 15.28
Shares purchased for minimum tax withholding under the 2010 Equity Plan or other similar transactions	505,702	6,296	12.45
Shares of stock received in respect of indemnification claims	7,026	96	13.66
Purchase of treasury stock	2,974,711	43,442	14.60
Balance outstanding at September 30, 2020	22,093,020	\$ 334,135	\$ 15.12

20. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income includes the after tax change in unrealized gains and losses on foreign currency translation adjustments. During the periods presented, the Company did not have material reclassifications out of other comprehensive income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Beginning balance	\$ (5)	\$ (3)	\$ (5)	\$ (5)
Foreign currency translation	(2)	(2)	(2)	—
Ending balance	\$ (7)	\$ (5)	\$ (7)	\$ (5)

21. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the Company's common stockholders by the weighted average number of common shares outstanding for the period. As of September 30, 2020, there were 26,569,335 shares of Class A common stock outstanding. As of September 30, 2020, the Company has included 259,536 fully vested, unissued restricted stock units in its calculation of basic earnings per share. As of December 31, 2019, there were 28,610,357 shares of Class A common stock outstanding. As of December 31, 2019, the Company has included 216,912 fully vested, unissued restricted stock units in its calculation of basic earnings per share.

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

Diluted earnings per common share are calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive items. The Company uses the treasury stock method to reflect the potential dilutive effect of the unvested restricted shares, restricted stock units, and SARs. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares and restricted stock units are assumed to have been delivered, and options and warrants are assumed to have been exercised, for the entire period being presented. The number of performance-linked unvested restricted stock units that are included in the calculation are at the amount that could be earned using current payout rates. The assumed proceeds from the assumed vesting, delivery and exercising were calculated as the amount of compensation cost attributed to future services and not yet recognized.

The Company can elect to settle the Series A Convertible Preferred Stock in shares, cash, or a combination of both. The Company's intent is to settle in cash and, based on current and projected liquidity needs, the Company has the ability to do so.

The computation of earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars and share data in thousands, except per share data)			
Net income (loss)	\$ 29,516	\$ 6,583	\$ 104,353	26,596
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds	9,232	2,770	(19,843)	7,188
Net income (loss) attributable to Cowen Inc.	20,284	3,813	124,196	19,408
Preferred stock dividends	1,698	1,698	5,094	5,094
Net income (loss) attributable to Cowen Inc. common stockholders	\$ 18,586	\$ 2,115	\$ 119,102	\$ 14,314
Shares for basic and diluted calculations:				
Weighted average shares used in basic computation	27,663	29,529	28,078	29,687
Contingently issuable common stock in connection with an acquisition (see Note 3)	22	—	22	—
Restricted stock	2,285	1,735	1,546	1,694
Weighted average shares used in diluted computation	29,970	31,264	29,646	31,381
Earnings (loss) per share:				
Basic	\$ 0.67	\$ 0.07	\$ 4.24	\$ 0.48
Diluted	\$ 0.62	\$ 0.07	\$ 4.02	\$ 0.46

22. Segment Reporting

The Company has two reportable business segments: Op Co and Asset Co. The Op Co segment consists of CIM, Investment Banking, Markets and Research. The Asset Co segment consists of the Company's private investments, private real estate investments and other legacy investment strategies.

Performance measures

The performance measure for these segments is Economic Income (Loss), which management uses to evaluate the financial performance of and make operating decisions for the segments including determining appropriate compensation levels. Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.

In general, Economic Income (Loss) is a pre-tax measure that (i) includes management reclassifications which the Company believes provides additional insight on the performance of the Company's core businesses and divisions (ii) eliminates the impact of consolidation for Consolidated Funds and excludes (iii) goodwill and intangible impairment (iv) certain other transaction-related adjustments and/or reorganization expenses and (v) certain costs associated with debt.

As further stated below, one major difference between Economic Income (Loss) and US GAAP net income (loss) is that Economic Income (Loss) presents the segments' results of operations without the impact resulting from the full consolidation of any of the Consolidated Funds. Included in Economic Income (Loss) is the actual pro rata share of the income or loss attributable to the Company as an investor in such entities, excluding non-controlling interests, which is relevant in management making operating decisions and evaluating financial performance. The Company does not disclose total asset information for its business segments as the information is not reviewed by the CODM.

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

The following tables set forth operating results for the Company's consolidated US GAAP net income (loss) and related reclassifications and adjustments necessary to reconcile to the Company's Economic Income (Loss) measure which represents the Company's Op Co and Asset Co segments' results:

Three Months Ended September 30, 2020								
US GAAP	Reclassifications and Adjustments				Economic Income			
Net income (loss)	Management Reclassifications	Fund Consolidation Reclassifications (k)	Income Statement Adjustments			Operating Company	Asset Company	
(dollars in thousands)								
Revenues					Economic Proceeds			
Investment banking	\$ 194,341	\$ (9,190) a, b	\$ —	\$ —	Investment banking	\$ 185,151	\$ —	
Brokerage	138,483	28,601 c, h	—	—	Brokerage	167,084	—	
Management fees	11,954	2,519 d, e	163	—	Management fees	14,374	262	
Incentive income (loss)	127	(1,462) e	33	—	Incentive income (loss)	(2,621)	1,319	
	—	(90,488) f	—	—	Investment income (loss)	(90,364)	(124)	
Interest and dividends	37,552	(37,552) c	—	—		—	—	
Reimbursement from affiliates	269	(269) b	—	—		—	—	
Reinsurance premiums	2,505	(2,505) g	—	—		—	—	
Other revenue	1,369	(2,160) g	(3)	—	Other revenues	(796)	2	
<i>Consolidated Funds revenues</i>	1,135	—	(1,135)	—		—	—	
Total revenues	387,735	(112,506)	(942)	—	Total Economic proceeds	272,828	1,459	
Interest and dividend expense	37,754	(29,467) c	—	(1,152) l	Interest expense	6,026	1,109	
Total net revenues	349,981	(83,039)	(942)	1,152	Total Economic net proceeds	266,802	350	
Expenses					Economic Costs			
Compensation & benefits	153,427	359 i	—	—	Compensation & Benefits	152,829	957	
	—	37,708 e, j	—	(3,324) m	Fixed non-compensation expense	34,257	127	
	—	37,742 j	—	—	Variable non-compensation expense	37,736	6	
Other non-compensation expenses	89,636	(89,636) a, b, d, g, i	—	—		—	—	
Depreciation & amortization	5,682	—	—	(7) n	Depreciation & Amortization	5,670	5	
	—	2,105 j	—	—	Economic Non-Controlling Interest	2,105	—	
<i>Consolidated Funds expenses</i>	494	—	(494)	—		—	—	
Total expenses	249,239	(11,722)	(494)	(3,331)	Total Economic costs	232,597	1,095	
Other income (loss)	(62,396)	64,896 e, f, h	(2,500)	—		—	—	
	—	—	—	1,698	Preferred stock dividends	1,415	283	
Income (loss) before income taxes	\$ 38,346	\$ (6,421) *	\$ (2,948) *	\$ 2,785	Economic income (loss)	\$ 32,790	\$ (1,028)	

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

Three Months Ended September 30, 2019

US GAAP	Reclassifications and Adjustments				Economic Income		
	Net income (loss)	Management Reclassifications	Fund Consolidation Reclassifications (k)	Income Statement Adjustments		Operating Company	Asset Company
(dollars in thousands)							
Revenues						Economic Proceeds	
Investment banking	\$ 77,292	\$ (7,859) a, b	\$ —	\$ —	Investment banking	\$ 69,433	\$ —
Brokerage	93,995	16,183 c, h	—	—	Brokerage	110,178	—
Management fees	7,300	3,033 d, e	574	—	Management fees	10,321	586
Incentive income (loss)	701	13,675 e	13	—	Incentive income (loss)	15,251	(862)
	—	11,735 f	—	—	Investment income (loss)	10,913	822
Interest and dividends	60,707	(60,707) c	—	—		—	—
Reimbursement from affiliates	238	(265) b	27	—		—	—
Reinsurance premiums	8,146	(8,146) g	—	—		—	—
Other revenue	1,237	(1,389) g	26	—	Other revenues	(132)	6
Consolidated Funds revenues	2,431	—	(2,431)	—		—	—
Total revenues	252,047	(33,740)	(1,791)	—	Total Economic proceeds	215,964	552
Interest and dividend expense	56,477	(48,238) c	—	(1,092) l	Interest expense	5,758	1,389
Total net revenues	195,570	14,498	(1,791)	1,092	Total Economic net proceeds	210,206	(837)
Expenses						Economic Costs	
Compensation & benefits	120,320	2,299 i	—	—	Compensation & Benefits	121,890	729
	—	37,559 e, j	—	(476) m	Fixed non-compensation expense	36,458	625
	—	37,256 j	—	—	Variable non-compensation expense	37,216	40
Other non-compensation expense	92,046	(92,046) a, b, d, g, i	—	—		—	—
Depreciation & amortization	5,082	—	—	—	Depreciation & Amortization	5,073	9
	—	661 j	—	—	Economic Non-Controlling Interest	661	—
Consolidated Funds expenses	2,516	—	(2,516)	—		—	—
Total expenses	219,964	(14,271)	(2,516)	(476)	Total Economic costs	201,298	1,403
Other income (loss)	32,342	(26,721) e, f, h	(5,621)	—		—	—
	—	—	—	1,698	Preferred stock dividends	1,341	357
Income (loss) before income taxes	\$ 7,948	\$ 2,048 *	\$ (4,896) *	\$ (130)	Economic income (loss)	\$ 7,567	\$ (2,597)

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

Nine Months Ended September 30, 2020

US GAAP	Reclassifications and Adjustments				Economic Income		
	Net income (loss)	Management Reclassifications	Fund Consolidation Reclassifications (k)	Income Statement Adjustments	Operating Company	Asset Company	
(dollars in thousands)							
Revenues					Economic Proceeds		
Investment banking	\$ 503,351	\$ (28,573) a, b	\$ —	\$ —	Investment banking	\$ 474,778	\$ —
Brokerage	425,069	41,754 c, h	—	—	Brokerage	466,823	—
Management fees	35,211	5,672 d, e	1,475	—	Management fees	41,724	634
Incentive income (loss)	127	40,827 e	33	—	Incentive income (loss)	40,829	158
	—	18,895 f	—	—	Investment income (loss)	32,566	(13,671)
Interest and dividends	127,547	(127,547) c	—	—		—	—
Reimbursement from affiliates	777	(827) b	50	—		—	—
Reinsurance premiums	18,943	(18,943) g	—	—		—	—
Other revenue	4,709	(4,982) g	(21)	—	Other revenues	(298)	4
Consolidated Funds revenues	4,650	—	(4,650)	—		—	—
Total revenues	1,120,384	(73,724)	(3,113)	—	Total Economic proceeds	1,056,422	(12,875)
Interest and dividend expense	125,850	(99,971) c	—	(3,394) l	Interest expense	18,471	4,014
Total net revenues	994,534	26,247	(3,113)	3,394	Total Economic net proceeds	1,037,951	(16,889)
Expenses					Economic Costs		
Compensation & benefits	583,137	1,436 i	—	—	Compensation & Benefits	582,480	2,093
	—	111,880 e, j	—	(5,152) m	Fixed non-compensation expense	106,350	378
	—	121,864 j	—	—	Variable non-compensation expense	121,846	18
Other non-compensation expense	286,666	(286,666) a, b, d, g, i	—	—		—	—
Depreciation & amortization	17,324	—	—	(551) n	Depreciation & Amortization	16,756	17
	—	5,584 j	—	—	Economic Non-Controlling Interest	5,584	—
Consolidated Funds expenses	4,793	—	(4,793)	—		—	—
Total expenses	891,920	(45,902)	(4,793)	(5,703)	Total Economic costs	833,016	2,506
Other income (loss)	54,328	(82,006) e, f, h	27,678	—		—	—
	—	—	—	5,094	Preferred stock dividends	4,160	934
Income (loss) before income taxes	\$ 156,942	\$ (9,857) *	\$ 29,358 *	\$ 4,003	Economic income (loss)	\$ 200,775	\$ (20,329)

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

Nine Months Ended September 30, 2019

US GAAP	Reclassifications and Adjustments				Economic Income		
	Net income (loss)	Management Reclassifications	Fund Consolidation Reclassifications (k)	Income Statement Adjustments	Operating Company	Asset Company	
(dollars in thousands)							
Revenues					Economic Proceeds		
Investment banking	\$ 272,103	\$ (17,729) a, b	\$ —	\$ —	Investment banking	\$ 254,374	\$ —
Brokerage	302,840	43,255 c, h	—	—	Brokerage	346,095	—
Management fees	21,480	8,684 d, e	1,640	—	Management fees	30,016	1,788
Incentive income (loss)	724	33,479 e	557	—	Incentive income (loss)	33,998	762
	—	19,116 f	—	—	Investment income (loss)	13,827	5,289
Interest and dividends	129,846	(129,846) c	—	—		—	—
Reimbursement from affiliates	780	(874) b	94	—		—	—
Reinsurance premiums	29,068	(29,068) g	—	—		—	—
Other revenue	3,228	2,109 g	14	—	Other revenues	5,295	56
<i>Consolidated Funds revenues</i>	8,239	—	(8,239)	—		—	—
Total revenues	768,308	(70,874)	(5,934)	—	Total Economic proceeds	683,605	7,895
Interest and dividend expense	125,089	(101,464) c	—	(3,208) l	Interest expense	16,371	4,046
Total net revenues	643,219	30,590	(5,934)	3,208	Total Economic net proceeds	667,234	3,849
Expenses					Economic Costs		
Compensation & benefits	388,611	2,365 i	—	—	Compensation & Benefits	386,593	4,383
	—	112,038 e, j	—	(1,664) m	Fixed non-compensation expense	107,889	2,485
	—	113,855 j	—	—	Variable non-compensation expense	113,728	127
Other non-compensation expense	276,054	(276,054) a, b, d, g, i	—	—		—	—
Depreciation & amortization	14,990	(3)	—	—	Depreciation & Amortization	14,957	30
	—	2,944 j	—	—	Economic Non-Controlling Interest	2,944	—
Goodwill impairment	4,100	—	—	(4,100) n		—	—
<i>Consolidated Funds expenses</i>	6,229	—	(6,229)	—		—	—
Total expenses	689,984	(44,855)	(6,229)	(5,764)	Total Economic costs	626,111	7,025
Other income (loss)	82,976	(73,907) e, f, h	(9,069)	—		—	—
	—	—	—	5,094	Preferred stock dividends	4,058	1,036
Income (loss) before income taxes	\$ 36,211	\$ 1,538 *	\$ (8,774) *	\$ 3,878	Economic income (loss)	\$ 37,065	\$ (4,212)

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

Adjustments made to US GAAP Net Income (Loss) to arrive at Economic Income (Loss)**Management Reclassifications**

Management reclassification adjustments and fund consolidation reclassification adjustments have no effect on economic income. These adjustments are reclassifications to change the location of certain line items.

- a Economic Income (Loss) presents underwriting expenses net of investment banking revenues.
- b Economic Income (Loss) presents expenses reimbursed from clients and affiliates within their respective expense category but is included as a part of revenues under US GAAP.
- c Economic Income (Loss) brokerage revenues included net securities borrowed and securities loaned activities which are shown gross in interest income and interest expense for US GAAP.
- d Economic Income (Loss) presents revenues net of fund start-up costs and distribution fees paid to agents.
- e Economic Income (Loss) recognizes the Company's proportionate share of management and incentive fees and associated share of expenses on a gross basis for certain real estate operating entities, the healthcare royalty business and the activist business. Additionally, carried interest, which the Company applies an equity ownership model to, is recorded in other income (loss) for US GAAP and is shown as incentive income for Economic Income (Loss).
- f Economic Income (Loss) recognizes Company income from proprietary trading (including interest and dividends) for which the majority of this activity is shown in other income (loss) for US GAAP reporting.
- g Economic Income (Loss) recognizes underwriting income from the Company's insurance related activities, net of expenses, within other revenue. The costs are recorded within expenses for US GAAP reporting.
- h Economic Income (Loss) recognizes gains and losses on investments held as part of the Company's facilitation and trading business within brokerage revenues as these investments are directly related to the markets business activities.
- i Economic Income (Loss) presents certain payments to associated banking partners as compensation rather than non-compensation expenses.
- j Economic Income (Loss) presents US GAAP expenses as either Fixed non-compensation or Variable non-compensation expenses. The Company also presents US GAAP Income (loss) attributable to non-controlling interests within total other expenses for Economic Income (Loss).
- * The remainder primarily represents non-controlling interest which is excluded from this reconciliation to income (loss) before income taxes.

Fund Consolidation Reclassifications

- k The impacts of consolidation and the related elimination entries of the Consolidated Funds are not included in Economic Income (Loss). Adjustments to reconcile to US GAAP net income (loss) included elimination of incentive income and management fees earned from the Consolidated Funds and addition of investment fund expenses excluding management fees paid, investment fund revenues and investment income (loss).
- * The remainder primarily represents non-controlling interest which is excluded from this reconciliation to income (loss) before income taxes.

Income Statement Adjustments

- l Economic Income (Loss) excludes the amortization of discount on convertible debt.
- m Economic Income (Loss) excludes acquisition related adjustments as management does not consider these items when evaluating the performance of the Company.
- n Economic Income (Loss) excludes goodwill and intangible impairment.

23. Regulatory Requirements

As registered broker-dealers, Cowen and Company, ATM Execution, Cowen Prime and Westminster are subject to the SEC's Uniform Net Capital Rule 15c3-1 ("SEC Rule 15c3-1"), which requires the maintenance of minimum net capital. Each registered broker-dealer has elected to compute net capital under the alternative method permitted by that rule. Under the alternative method, Cowen and Company's minimum net capital requirement, as defined in (a)(4) of SEC Rule 15c3-1, is \$1.0 million or 2% of aggregate debits arising from customer transactions. ATM Execution, Cowen Prime and Westminster are required to maintain minimum net capital, as defined in (a)(1)(ii) of SEC Rule 15c3-1, equal to the greater of \$250,000 or 2% of aggregate debits arising from customer transactions. Advances to affiliates, repayment of borrowings, distributions, dividend payments and other equity withdrawals are subject to certain notification and other provisions of SEC Rule 15c3-1 and other regulatory bodies.

On May 1, 2020, Cowen and Company completed its merger with Cowen Execution. Cowen and Company is the surviving entity. The merger had no impact to the Company's financial results.

Cowen Inc.
Notes to Consolidated Financial Statements (Continued)

Cowen Prime is also subject to Commodity Futures Trading Commission ("CFTC") Regulation 1.17 ("Regulation 1.17"). Regulation 1.17 requires net capital equal to or in excess of \$45,000 or the amount of net capital required by SEC Rule 15c3-1, whichever is greater. Cowen and Company is also subject to Options Clearing Corporation ("OCC") Rule 302. OCC Rule 302 requires maintenance of net capital equal to the greater of \$2.0 million or 2% of aggregate debit items. At September 30, 2020, Cowen and Company had \$385.6 million of net capital in excess of this minimum requirement.

Cowen International Ltd and Cowen Execution Ltd are subject to the capital requirements of the FCA, as defined, and must exceed the minimum capital requirement set forth by the FCA.

Cowen Asia, a previously established entity, was re-registered with regulatory approval on May 17, 2019. Cowen Asia is subject to the financial resources requirements of the Securities and Futures Commission ("SFC") of Hong Kong. Financial Resources must exceed the Total Financial Resources requirement of the SFC.

As of September 30, 2020, these regulated broker-dealers had regulatory net capital or financial resources, regulatory net capital requirements or minimum FCA or SFC requirement and excess as follows:

Subsidiary	Net Capital	Minimum Net Capital Requirement	Excess Net Capital
	(dollars in thousands)		
Cowen and Company	\$ 388,606	\$ 3,043	\$ 385,563
ATM Execution	\$ 4,015	\$ 250	\$ 3,765
Cowen Prime	\$ 19,432	\$ 250	\$ 19,182
Westminster	\$ 5,305	\$ 250	\$ 5,055
Cowen International Ltd	\$ 22,892	\$ 17,882	\$ 5,010
Cowen Execution Ltd	\$ 11,501	\$ 4,333	\$ 7,168
Cowen Asia	\$ 1,394	\$ 387	\$ 1,007

The Company's U.S. broker-dealers must also comply with SEC Rule 15c3-3 or claim an exemption pursuant to subparagraphs (k)(2)(i) or (k)(2)(ii) of that rule. Firms can rely on more than one exemption. Cowen Prime and ATM Execution claim the (k)(2)(ii) exemption with regard to all of their customer accounts and transactions that are introduced on a fully-disclosed basis to their clearing agents for clearing, settlement and custody. Cowen Prime and Westminster claim the (k)(2)(i) exemption with regards to customer transactions and balances that are cleared, settled and custodied in bank accounts designated as Special Accounts for the Exclusive Benefit of Customers ("Special Bank Accounts").

In accordance with the requirements of SEC Rule 15c3-3, Cowen and Company may be required to deposit in a Special Reserve Account cash or acceptable qualified securities for the exclusive benefit of customers. As of September 30, 2020, Cowen and Company had segregated approximately \$43.9 million of cash, while its required deposit was \$20.5 million.

As a clearing broker-dealer, Cowen and Company is required to compute a reserve requirement for proprietary accounts of broker-dealers ("PAB"), as defined in SEC Rule 15c3-3. Cowen and Company conducts PAB reserve computations in order to determine the amount it is required to deposit in its PAB Reserve Bank Accounts pursuant to SEC Rule 15c3-3. This allows each correspondent firm that uses Cowen and Company as its clearing broker-dealer to classify its PAB account assets held at Cowen and Company as allowable assets in the correspondent's net capital calculation. At September 30, 2020, Cowen and Company had \$35.2 million of cash on deposit in PAB Reserve Bank Accounts, which was more than its required deposit of \$16.6 million. Cowen and Company, ATM Execution, and Cowen Prime also maintain certain assets in PAB accounts held at their respective clearing brokers. Each treats its assets held in those PAB accounts at the respective clearing brokers as allowable assets for net capital purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. The CFTC has finalized rules establishing capital requirements and financial reporting requirements for CFTC registered swap dealers not subject to regulation by a banking regulator, while the SEC is still finalizing its rules. The Company may be required in the future to register one or more subsidiaries as security-based swap dealers with the SEC and will result in some of the Company's subsidiaries becoming subject to regulatory capital requirements for the first time.

Cowen's Luxembourg reinsurance companies, Vianden RCG Re SCA and Hollenfels, individually and their Luxembourg parent holding company, Ramius Enterprise Luxembourg Holdco S.à r.l., on a combined basis with the reinsurance companies, are required to maintain a solvency capital ratio as calculated by relevant European Commission directives and local regulatory rules in Luxembourg. Each reinsurance company's individual solvency capital ratio as well as the combined solvency capital ratio of the holding and reinsurance companies calculated as of December 31 of each year must exceed a minimum requirement. As of

Cowen Inc.
Notes to Consolidated Financial Statements (Continued)

the last testing date, December 31, 2019, all of these entities were in excess of this minimum requirement. The companies are currently, and management expects they will be at the next testing date of December 31, 2020, in compliance with these requirements.

Based on minimum capital and surplus requirements pursuant to the laws of the state of New York that apply to captive insurance companies, RCG Insurance Company, Cowen's captive insurance company incorporated and licensed in the state of New York, was required to maintain capital and surplus of approximately \$0.3 million as of September 30, 2020. RCG Insurance Company's capital and surplus as of September 30, 2020 totaled approximately \$6.1 million.

24. Related Party Transactions

The Company and its affiliated entities are the managing member, general partner and/or investment manager to the Company's investment funds and certain managed accounts. Management fees and incentive income are primarily earned from affiliated entities. As of September 30, 2020 and December 31, 2019, \$22.6 million and \$20.5 million, respectively, included in fees receivable, are earned from related parties. The Company may, at its discretion, reimburse certain fees charged to the investment funds that it manages to avoid duplication of fees when such funds have an underlying investment in another affiliated investment fund. For the three and nine months ended September 30, 2020 and 2019, the amounts which the Company reimbursed the investment funds it manages were immaterial. Fees receivable and fees payable are recorded at carrying value, which approximates fair value.

The Company may also make loans to employees or other affiliates, excluding executive officers of the Company. These loans are interest bearing and settle pursuant to the agreed-upon terms with such employees or affiliates, and are included in due from related parties in the accompanying condensed consolidated statements of financial condition. As of September 30, 2020 and December 31, 2019, loans to employees of \$11.3 million and \$14.9 million, respectively, were included in due from related parties on the accompanying condensed consolidated statements of financial condition. Of these amounts \$4.9 million and \$7.1 million, respectively, are related to forgivable loans. These forgivable loans provide for a cash payment up-front to employees, with the amount due back to the Company forgiven over a vesting period. An employee that voluntarily ceases employment, or is terminated with cause, is generally required to pay back to the Company any unvested forgivable loans granted to them. The forgivable loans are recorded as an asset to the Company on the date of grant and payment, and then amortized to compensation expense on a straight-line basis over the vesting period. The vesting period on forgivable loans is generally one to three years. The Company recorded compensation expense of \$0.8 million and \$1.0 million for the three months ended September 30, 2020 and 2019 and \$2.8 million and \$2.8 million for the nine months ended September 30, 2020 and 2019, respectively. This expense is included in employee compensation and benefits in the accompanying condensed consolidated statements of operations. For the three months ended September 30, 2020, the interest income was immaterial and for the nine months ended September 30, 2020, the interest income was \$0.1 million for these related party loans and advances, and are included in interest and dividends in the accompanying condensed consolidated statements of operations. For the three and nine months ended September 30, 2019, the interest income was \$0.1 million for these related party loans and advances. This income is included in interest and dividends in the accompanying condensed consolidated statements of operations.

As of September 30, 2020 and December 31, 2019, included in due from related parties is \$4.8 million and \$6.5 million, respectively, related to the sales of portions of the Company's ownership interest in the activist business of Starboard Value to the Starboard principals. It is being financed through the profits of the relevant Starboard entities over a five-year period and earns interest at 5.0% per annum. The interest income for the three months ended September 30, 2020 and 2019 was \$0.1 million and \$0.1 million and for the nine months ended September 30, 2020 and 2019, was \$0.2 million and \$0.3 million, respectively.

The remaining balance included in due from related parties of \$7.4 million and \$5.3 million as of September 30, 2020 and December 31, 2019, respectively, relates to amounts due to the Company from affiliated investment funds and real estate entities due to expenses paid on their behalf. Included in due to related parties is approximately \$0.2 million and \$0.3 million as of September 30, 2020 and December 31, 2019, respectively, related to a subordination agreement with an investor in certain real estate funds. This total is based on a hypothetical liquidation of the real estate funds as of the balance sheet date.

Employees and certain other related parties invest on a discretionary basis within consolidated entities. These investments generally are subject to preferential management fee and performance fee arrangements. As of September 30, 2020 and December 31, 2019, such investments aggregated \$192.0 million and \$36.0 million, respectively, were included in non-controlling interests on the accompanying condensed consolidated statements of financial condition. Their share of the net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds aggregated \$6.7 million and \$3.6 million for the three months ended September 30, 2020 and 2019 and \$10.7 million and \$4.7 million for the nine months ended September 30, 2020 and 2019, respectively.

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Notes to Consolidated Financial Statements (Continued)

The Company may, at times, have unfunded commitment amounts pertaining to related parties. See Note 17 for amounts committed as of September 30, 2020.

25. Guarantees and Off-Balance Sheet Arrangements

Guarantees

US GAAP requires the Company to disclose information about its obligations under certain guarantee arrangements. Those standards define guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying security (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Those standards also define guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

The Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make significant payments under these arrangements and has not recorded any contingent liability in the condensed consolidated financial statements for these indemnifications.

The Company also provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the accompanying condensed consolidated financial statements for these indemnifications.

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 relation to such accounts.

Off-Balance Sheet Arrangements

The Company has no material off-balance sheet arrangements, which have not been disclosed, as of September 30, 2020 and December 31, 2019. Through indemnification provisions in clearing agreements with clients, customer activities may expose the Company to off-balance-sheet credit risk. Pursuant to the clearing agreement, the Company is required to reimburse the Company's clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

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

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Notes to Consolidated Financial Statements (Continued)

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.

In addition, during the normal course of business, the Company has exposure to a number of risks including market risk, currency risk, credit risk, operational risk, liquidity risk and legal risk. As part of the Company's risk management process, these risks are monitored on a regular basis throughout the course of the year.

The Company enters into secured and unsecured borrowing agreements to obtain funding necessary to cover daily securities settlements with clearing corporations. At times, funding is required for unsettled customer delivery versus payment and riskless principal transactions, as well as to meet deposit requirements with clearing organizations. Secured arrangements are collateralized by the securities. The Company maintains uncommitted financing arrangements with large financial institutions, the details of which are summarized below as of September 30, 2020.

Lender	Contractual Amount	Available Amount	Maturity Date	Description
Pledge Lines				
(dollars in thousands)				
Texas Capital Bank	\$ 75,000	\$ 75,000	None	Secured Depository Trust Company Pledge Line
BMO Harris Bank	75,000	75,000	None	Secured Tri-Party Pledge Facility
BMO Harris Bank	150,000	150,000	None	Secured Depository Trust Company Pledge Line
Total	<u>300,000</u>	<u>300,000</u>		
Spike Line				
BMO Harris Bank Canadian Imperial Bank of Commerce Texas Capital Bank	<u>70,000</u>	<u>70,000</u>	August 20, 2021	Unsecured committed spike line facility to cover short term increases in National Securities Clearing Corporation margin deposit requirements
Revolving Credit Facility				
BMO Harris Bank	<u>25,000</u>	<u>25,000</u>	December 2, 2021	Unsecured Corporate Revolver
Total Credit Lines	<u>\$ 395,000</u>	<u>\$ 395,000</u>		

26. Subsequent Events

On October 1, 2020 (the "MHT Acquisition Date"), the Company, through its indirect wholly owned subsidiary, Cowen and Company, completed its previously announced acquisition (the "MHT Acquisition") of specified net assets of MHT Partners, LP ("MHT Partners"). MHT Partners is an investment bank, based primarily in Dallas and San Francisco, focused on representing innovative companies in growing markets. The MHT Acquisition was completed for a combination of cash and contingent consideration. The contingent consideration is paid after December 2023 and is valued based on a multiple of three year average annual revenues of the acquired business less certain expenses.

Due to the limited time since the date of the MHT Acquisition, it is impractical for the Company to make certain business combination disclosures as of the date of this filing as the Company is still finalizing the analysis of the information necessary to provide these disclosures. As a result, the Company is unable to present the allocation of the preliminary purchase price to the fair value of assets acquired and liabilities assumed. The Company plans to provide this information in its annual report on Form 10-K for the year ended December 31, 2020. The MHT Acquisition will be accounted for under the acquisition method in accordance with US GAAP. As such, the results of operations associated with the specified net assets purchased from MHT Partners will be included in the Company's condensed consolidated statements of operations as of the MHT Acquisition Date, and the assets acquired and liabilities assumed will be recorded at their fair value as of the MHT Acquisition Date. Subsequent to the MHT Acquisition, the operations associated with the purchase of specified net assets from MHT Partners will be integrated within the Company's investment bank segment.

On October 21, 2020, the Board of Directors declared a quarterly cash dividend payable on its common stock of \$0.08 per common share, payable on December 15, 2020, to stockholders of record on December 1, 2020. During the same meeting, the Board of Directors also approved a \$19.7 million increase in the Company's share repurchase program (see Note 19) bringing the total remaining shares available for repurchase to \$25.0 million.

Cowen Inc.
Notes to Consolidated Financial Statements (Continued)

The Company has evaluated events that have occurred after the balance sheet date but before the financial statements are issued and has determined that there were no other subsequent events requiring adjustment or disclosure in the consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion contains forward-looking statements, which involve numerous risks and uncertainties, including, but not limited to, those described in the sections titled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K") and in Item 1A of this Quarterly Report on Form 10-Q, many of which risks are currently elevated by, and may or will continue to be elevated by, the COVID-19 pandemic. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements and related notes of Cowen Inc. included elsewhere in this quarterly report. Actual results may differ materially from those contained in any forward-looking statements.

Overview

Cowen Inc., a Delaware corporation formed in 2009, is a diversified financial services firm that, together with its consolidated subsidiaries (collectively, "Cowen" or the "Company"), provides investment banking, research, sales and trading, prime brokerage, global clearing, commission management services and investment management through its two business segments: the Operating Company ("Op Co") and the Asset Company ("Asset Co").

Operating Company

The Op Co segment consists of four divisions: the Cowen Investment Management ("CIM") division, the Investment Banking division, the Markets division and the Research division. The Company refers to the Investment Banking division, the Markets division and the Research division collectively as its investment banking businesses. Op Co's CIM division includes advisers to investment funds (including private equity structures and privately placed hedge funds), and registered funds. Op Co's investment banking businesses offer industry focused investment banking for growth-oriented companies including advisory and global capital markets origination, domain knowledge-driven research, sales and trading platforms for institutional investors, global clearing, commission management services and also a comprehensive suite of prime brokerage services.

The CIM division is the Company's investment management business, which operates primarily under the Cowen Investment Management name. CIM offers innovative investment products and solutions across the liquidity spectrum to institutional and private clients. The predecessor to this business was founded in 1994 and, through one of its subsidiaries, has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act") since 1997. The Company's investment management business offers investors access to a number of strategies to meet their specific needs including private healthcare investing, private sustainable investing, healthcare royalties, activism and merger arbitrage. A portion of the Company's capital is invested alongside the Company's investment management clients. The Company has also invested some of its capital in its reinsurance businesses.

Op Co's investment banking businesses include investment banking, research, sales and trading, prime brokerage, global clearing and commission management services provided primarily to companies and institutional investor clients. Sectors covered by Op Co's investment banking business include healthcare, technology, media and telecommunications, consumer, industrials, information and technology services, and energy. We provide research and brokerage services to over 6,000 domestic and international clients seeking to trade securities and other financial instruments, principally in our sectors. The investment banking businesses also offer a full-service suite of introduced prime brokerage services targeting emerging private fund managers. Historically, we have focused our investment banking efforts on small to mid-capitalization public companies as well as private companies. From time to time, the Company invests in private capital raising transactions of its investment banking clients.

Asset Company

The Asset Co segment consists of the Company's private investments, private real estate investments and other legacy investment strategies. The focus of Asset Co is to drive future monetization of the invested capital of the segment.

Certain Factors Impacting Our Business

Our Company's businesses and results of operations are impacted by the following factors:

- *Underwriting, private placement and strategic/financial advisory fees.* Our revenues from investment banking are directly linked to the underwriting fees we earn in equity and debt securities offerings in which the Company acts as an underwriter, private placement fees earned in non-underwritten transactions, sales commissions earned in at-the-market offerings and success fees earned in connection with advising both buyers and sellers, principally in mergers and acquisitions. As a result, the future performance of our investment banking business will depend on, among other things, our ability to secure lead manager and co-manager roles in clients' capital raising transactions as well as our ability to secure mandates as a client's strategic financial advisor.

- *Liquidity.* As a clearing broker-dealer in the U.S., we are subject to cash deposit requirements with clearing organizations, brokers and banks that may be large in relation to our total liquid assets.
- *Equity research fees.* Equity research fees are paid to the Company for providing access to equity research. The Company also permits institutional customers to allocate a portion of their commissions to pay for research products and other services provided by third parties. Our ability to generate revenues relating to our equity research depends on the quality of our research and its relevance to our institutional customers and other clients.
- *Principal transactions.* Principal transactions revenue includes net trading gains and losses from the Company's market-making activities and net trading gains and losses on inventory and other Company positions. Commissions associated with these transactions are also included herein. In certain cases, the Company provides liquidity to clients buying or selling blocks of shares of listed stocks without previously identifying the other side of the trade at execution, which subjects the Company to market risk.
- *Commissions.* Our commission revenues depend for the most part on our customer's trading volumes and on the notional value of the non-U.S. securities traded by our customers.
- *Investment performance.* Our revenues from incentive income are linked to the performance of the investment funds and accounts that we manage. Performance also affects assets under management because it influences investors' decisions to invest assets in, or withdraw assets from, the investment funds and accounts managed by us.
- *Fee and allocation rates.* Our management fee revenues are linked to the management fee rates we charge as a percentage of contributed and invested capital. Our incentive income revenues are linked to the incentive allocation rates we charge as a percentage of performance-driven asset growth. Our incentive allocations are generally subject to "high-water marks," whereby incentive income is generally earned by us only to the extent that the net asset value of an investment fund at the end of a measurement period exceeds the highest net asset value as of the end of the earlier measurement period for which we earned incentive income. Our incentive allocations, in some cases, are subject to performance hurdles. Additionally, our revenues from management fees are directly linked to assets under management. Positive performance in our legacy funds increases assets under management which results in higher management fees.
- *Investment performance of our own capital.* We invest our own capital and the performance of such invested capital affects our revenues. Investment income in the investment bank business includes gains and losses generated by the capital the Company invests in private capital raising transactions of its investment banking clients. Our revenues from investment income are linked to the performance of the underlying investments.

External Factors Impacting Our Business

Our financial performance is highly dependent on the environment in which our businesses operate. We believe a favorable business environment is characterized by many factors, including a stable geopolitical climate, transparent financial markets, low inflation, low interest rates, low unemployment, strong business profitability and high business and investor confidence. Unfavorable or uncertain economic or market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability (or increases in the cost of) credit and capital, increases in inflation or interest rates, exchange rate volatility, unfavorable global asset allocation trends, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in the capital markets, global health crisis, such as the ongoing COVID-19 pandemic, or a combination of these or other factors. Until the COVID-19 pandemic subsides, we expect reduced levels in certain of our investment banking activities, reduced revenues from incentive income in our investment management business and reduced investment income. Our businesses and profitability have been and may continue to be adversely affected by market conditions in many ways, including the following:

- Our investment bank business has been, and may continue to be, adversely affected by market conditions. Increased competition continues to affect our investment banking and capital markets businesses. The same factors also affect trading volumes in secondary financial markets, which affect our brokerage business. Commission rates, market volatility, increased competition from larger financial firms and other factors also affect our brokerage revenues and may cause these revenues to vary from period to period.
- Our investment management business can be adversely affected by unanticipated levels of requested redemptions. We experienced significant levels of requested redemptions during the 2008 financial crisis and, while the environment for investing in investment management products has since improved, it is possible that we could intermittently experience redemptions above historical levels, regardless of investment fund performance.
- Our investment bank business focuses primarily on small to mid-capitalization and private companies in specific industry sectors. These sectors may experience growth or downturns independent of general economic and market conditions, or may face market conditions that are disproportionately better or worse than those impacting the economy and markets generally. In addition, increased government regulation has had, and may continue to have, a disproportionate effect on

capital formation by smaller companies. Therefore, our investment bank business could be affected differently than overall market trends.

Our businesses, by their nature, do not produce predictable earnings. Our results in any period can be materially affected by conditions in global financial markets and economic conditions generally. We are also subject to various legal and regulatory actions that impact our business and financial results.

Recent Developments

The COVID-19 outbreak continues to cause significant disruption in business activity both globally and in the United States. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact our businesses, financial condition, results of operations, cash flows, strategies and prospects. The extent of the ultimate impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and impact on our clients, employees, vendors and the markets in which we operate our businesses, all of which is uncertain at this time and cannot be predicted.

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company in this Form 10-Q are prepared in accordance with Generally Accepted Accounting Principles in the United States ("US GAAP") as promulgated by the Financial Accounting Standards Board ("FASB") through Accounting Standards Codification (the "Accounting Standards") as the source of authoritative accounting principles in the preparation of financial statements and include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest or a substantive, controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. Certain fund entities that are consolidated in the condensed consolidated financial statements, are not subject to these consolidation provisions with respect to their own investments pursuant to their specialized accounting.

The Company serves as the managing member/general partner and/or investment manager to affiliated fund entities which it sponsors and manages. Certain of these funds in which the Company has a substantive, controlling general partner interest are consolidated with the Company pursuant to US GAAP as described below (the "Consolidated Funds"). Consequently, the Company's condensed consolidated financial statements reflect the assets, liabilities, income and expenses of these funds on a gross basis. The ownership interests in these funds which are not owned by the Company are reflected as redeemable and nonredeemable non-controlling interests in consolidated subsidiaries in the condensed consolidated financial statements appearing elsewhere in this Form 10-Q. The management fees and incentive income earned by the Company from these funds are eliminated in consolidation.

Expenses

The Company's expenses consist of compensation and benefits, reinsurance costs, general, administrative and other, and Consolidated Funds expenses.

- *Compensation and Benefits.* Compensation and benefits is comprised of salaries, benefits, discretionary cash bonuses and equity-based compensation. Annual incentive compensation is variable, and the amount paid is generally based on a combination of employees' performance, their contribution to their business segment, and the Company's performance. Generally, compensation and benefits comprise a significant portion of total expenses, with annual incentive compensation comprising a significant portion of total compensation and benefits expenses.
- *Reinsurance claims, commissions and amortization of deferred acquisition costs.* Reinsurance-related expenses reflect loss and claim reserves, acquisition costs and other expenses incurred with respect to our insurance and reinsurance operations.
- *Operating, General and Administrative.* General, administrative and other expenses are primarily related to professional services, occupancy and equipment, business development expenses, communications, expenses associated with our reinsurance business and other miscellaneous expenses. These expenses may also include certain one-time charges and non-cash expenses.
- *Depreciation and Amortization.* Depreciation and amortization is comprised of depreciation expense for tangible assets and the amortization of intangible assets. The depreciation of assets capitalized under finance leases is included in depreciation and amortization expenses as well.
- *Consolidated Funds Expenses.* The Company's condensed consolidated financial statements reflect the expenses of the Consolidated Funds and the portion attributable to other investors is allocated to a non-controlling interest.

Income Taxes

The taxable results of the Company's U.S. operations are subject to U.S. federal, state and local taxation as a corporation. The Company is also subject to foreign taxation on income it generates in certain countries.

The Company records deferred tax assets and liabilities for the future tax benefit or expense that will result from differences between the carrying value of its assets for income tax purposes and for financial reporting purposes, as well as for operating or capital loss and tax credit carryovers. A valuation allowance is recorded to bring the net deferred tax assets to a level that, in management's view, is more likely than not to be realized in the foreseeable future. This level will be estimated based on a number of factors, especially the amount of net deferred tax assets of the Company that are actually expected to be realized, for tax purposes, in the foreseeable future. Deferred tax liabilities that cannot be realized in a similar future time period and thus that cannot offset the Company's deferred tax assets are not taken into account when calculating the Company's net deferred tax assets.

Non-Controlling Interests

Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities. When non-controlling interest holders have redemption features that can be exercised at the option of the holder currently or contingent upon the occurrence of future events, their ownership has been classified as temporary equity. The remaining non-controlling interests have been classified in permanent equity as the non-controlling interests are either not redeemable at the option of the holder or the holder does not have the unilateral right to redeem its ownership interests.

Investment Fund Performance and Assets Under Management

For the three months ended September 30, 2020, the performance of the Company's activist strategy was modestly positive while the merger arbitrage investment strategies (including the merger arbitrage-focused UCITS Fund) had, in the aggregate, positive results. The Company's healthcare royalty strategy is now making allocations from the strategy's fourth fund. Our private healthcare strategy is now deploying capital from its third fund, having made fifteen investments by the end of the three months ended September 30, 2020, with a pipeline of opportunities ahead. Finally, our private sustainability strategy is now deploying capital. The liquidation of certain multi-strategy hedge funds advised by the Company also continues.

As of September 30, 2020, the Company had assets under management of \$11.8 billion.

Capability	Private Healthcare Investments	Healthcare Royalties	Activism	Merger Arbitrage	Sustainability	Other (a)
AUM	\$807	\$3,504	\$5,898	\$413	\$385	\$783
(dollars in millions)						
Team						
Private Equity	✓	✓			✓	
Hedge Fund			✓	✓		
Managed Account		✓	✓	✓	✓	
UCITS				✓		
Other						✓

(a) Other capabilities include private equity funds, legacy funds, and other trading strategies.

The Company's Invested Capital

The Company invests a significant portion of its capital base to help drive results and facilitate the growth of the Op Co and Asset Co business segments. Within Op Co, management allocates capital to three primary investment categories: (i) broker-dealer capital and related trading strategies; (ii) liquid alternative trading strategies; and (iii) public and private healthcare strategies. Broker-dealer capital and related trading strategies include capital investments in the Company's broker-dealers as well as securities finance and special purpose acquisition company trading strategies to grow liquidity and returns within operating businesses. Much of the Company's public and private healthcare strategies and liquid alternative trading strategies portfolios are invested alongside the Company's investment management clients. The Company's liquid alternative trading strategies include merger arbitrage and activist fund strategies. In addition, from time to time, the Company makes investments in private capital raising transactions of its investment banking clients.

The Company allocates capital to Asset Co's private investments. Asset Co's private investments include the Company's investment in Italian wireless broadband provider Linkem, private equity funds Formation8 and Eclipse and legacy real estate investments.

As of September 30, 2020, the Company's invested capital amounted to a net value of \$911.8 million (supporting a long market value of \$1,041.7 million), representing approximately 100% of Cowen's stockholders' equity presented in accordance with US GAAP. The table below presents the Company's invested equity capital by strategy and as a percentage of Cowen's stockholders' equity as of September 30, 2020. The total net values presented in the table below do not tie to Cowen's condensed consolidated statement of financial condition as of September 30, 2020 because they represent only some of the line items in the accompanying condensed consolidated statement of financial condition.

<u>Strategy</u>	<u>Net Value</u>	<u>% of Stockholders' Equity</u>
	<u>(dollars in millions)</u>	
Op Co		
Broker-dealer capital and related trading	\$ 624.4	69%
Public and Private Healthcare	62.1	7%
Liquid Alternative Trading	76.7	8%
Other	20.9	2%
Asset Co		
Private Investments	127.7	14%
Total	911.8	100%
Cowen Inc. Stockholders' Equity	\$ 911.2	100%

The allocations shown in the table above will change over time.

Results of Operations

To provide comparative information of the Company's operating results for the periods presented, a discussion of Economic Income (Loss) (which is a non-GAAP measure) of our Op Co and Asset Co segments follows the discussion of our total consolidated US GAAP results. Economic Income (Loss) reflects, on a consistent basis for all periods presented in the Company's condensed consolidated financial statements, income earned from the Company's investment funds and managed accounts and from its own invested capital. Economic Income (Loss) excludes certain adjustments required under US GAAP. See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company—Segment Analysis and Economic Income (Loss)," and Note 22 to the accompanying Company's condensed consolidated financial statements, appearing elsewhere in this Form 10-Q, for a reconciliation of Economic Income (Loss) to US GAAP income (loss) before income taxes.

Three Months Ended September 30, 2020 Compared with Three Months Ended September 30, 2019

	Condensed Consolidated Statements of Operations			
	Three Months Ended September 30,		Period to Period	
	2020	2019	\$ Change	% Change
	(dollars in thousands) (unaudited)			
Revenues				
Investment banking	\$ 194,341	\$ 77,292	\$ 117,049	151 %
Brokerage	138,483	93,995	44,488	47 %
Management fees	11,954	7,300	4,654	64 %
Incentive income	127	701	(574)	(82) %
Interest and dividends	37,552	60,707	(23,155)	(38) %
Reimbursement from affiliates	269	238	31	13 %
Reinsurance premiums	2,505	8,146	(5,641)	(69) %
Other revenues	1,369	1,237	132	11 %
<i>Consolidated Funds revenues</i>	1,135	2,431	(1,296)	(53) %
Total revenues	387,735	252,047	135,688	54 %
Interest and dividends expense	37,754	56,477	(18,723)	(33) %
Total net revenues	349,981	195,570	154,411	79 %
Expenses				
Employee compensation and benefits	153,427	120,320	33,107	28 %
Reinsurance claims, commissions and amortization of deferred acquisition costs	4,852	8,195	(3,343)	(41) %
Operating, general, administrative and other expenses	84,784	83,851	933	1 %
Depreciation and amortization expense	5,682	5,082	600	12 %
<i>Consolidated Funds expenses</i>	494	2,516	(2,022)	(80) %
Total expenses	249,239	219,964	29,275	13 %
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	(68,781)	18,446	(87,227)	473 %
<i>Consolidated Funds net gains (losses)</i>	6,385	13,896	(7,511)	54 %
Total other income (loss)	(62,396)	32,342	(94,738)	293 %
Income (loss) before income taxes	38,346	7,948	30,398	(382) %
Income tax expense (benefit)	8,830	1,365	7,465	(547) %
Net income (loss)	29,516	6,583	22,933	(348) %
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds	9,232	2,770	6,462	233 %
Net income (loss) attributable to Cowen Inc.	20,284	3,813	16,471	(432) %
Preferred stock dividends	1,698	1,698	—	— %
Net income (loss) attributable to Cowen Inc. common stockholders	\$ 18,586	\$ 2,115	\$ 16,471	(779) %

Revenues
Investment Banking

Investment banking revenues increased \$117.0 million to \$194.3 million for the three months ended September 30, 2020 compared with \$77.3 million in the prior year period. During the three months ended September 30, 2020, the Company completed 49 underwriting transactions, 18 strategic advisory transactions, and four debt capital markets transactions. During the three months ended September 30, 2019, the Company completed 25 underwriting transactions, 13 strategic advisory transactions and five debt capital markets transactions. The average underwriting fee per transaction was 29.5% greater for the three months ended September 30, 2020 as compared to the prior year period.

Brokerage

Brokerage revenues increased \$44.5 million to \$138.5 million for the three months ended September 30, 2020 compared with \$94.0 million in the prior year period. This was attributable to an increase in Institutional Brokerage, primarily Special Situations trading and Electronic trading commission revenue and an increase in Institutional Services, primarily Prime Brokerage and Securities Finance. Customer trading volumes across the industry (according to Bloomberg) increased 45% for the three months ended September 30, 2020 compared to the prior year period.

Management Fees

Management fees increased \$4.7 million to \$12.0 million for the three months ended September 30, 2020 compared with \$7.3 million in the prior year period. This increase in management fees was primarily related to an increase in management fees from the healthcare royalty and healthcare investments businesses.

Incentive Income

Due to revenue recognition standards, effective January 1, 2018, the Company recognizes the majority of incentive income allocated to the Company as net gains (losses) on securities, derivatives and other investments.

Interest and Dividends

Interest and dividends decreased \$23.1 million to \$37.6 million for the three months ended September 30, 2020 compared with \$60.7 million in the prior year period. Interest and dividends amounts are primarily attributable to securities finance activity. The decrease in the securities finance activity is due to lower customer demand which has created less matched book opportunities for international securities.

Reimbursements from Affiliates

Reimbursements from affiliates remained fairly flat at \$0.3 million for the three months ended September 30, 2020 and 2019, respectively.

Reinsurance Premiums

Reinsurance premiums decreased \$5.6 million to \$2.5 million for the three months ended September 30, 2020 compared with \$8.1 million in the prior year period. This decrease is because quarterly premiums from policies that were not renewed in 2020 outweighed quarterly premiums from new policies in 2020 and because of lower activity in certain existing contracts due to COVID-19.

Other Revenues

Other revenues increased \$0.2 million to \$1.4 million for the three months ended September 30, 2020 compared with \$1.2 million in the prior year period. The increase is primarily related to consulting fee income.

Consolidated Funds Revenues

Consolidated Funds revenues decreased \$1.3 million to \$1.1 million for the three months ended September 30, 2020 compared with \$2.4 million in the prior year period. The decrease is due to a decrease in interest and dividend income during the quarter in two of our consolidated funds.

Interest and Dividends Expense

Interest and dividend expense decreased \$18.7 million to \$37.8 million for the three months ended September 30, 2020 compared with \$56.5 million in the prior year period. Interest and dividends amounts are primarily attributable to securities finance activity. The decrease in the securities finance activity is due to lower customer demand which has created less matched book opportunities for international securities.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expenses increased \$33.1 million to \$153.4 million for the three months ended September 30, 2020 compared with \$120.3 million in the prior year period. The increase is primarily due to \$135.7 million higher revenues offset only partially with \$94.7 million lower other income (loss) during the third quarter of 2020 as compared to 2019 and thus resulting in a higher compensation and benefits accrual. The compensation to revenue ratio, including other income (loss), was 47% for the three months ended September 30, 2020, compared with 42.3% for the prior year period.

Reinsurance Claims, Commissions and Amortization of Deferred Acquisition Costs

Reinsurance related expenses decreased \$3.3 million to \$4.9 million for the three months ended September 30, 2020 compared with \$8.2 million in the prior year period. This decrease is due to fewer policies in force in the third quarter of 2020 compared to the same period in 2019 with lower loss ratios and because of less claim activity due to COVID-19.

Operating, General, Administrative and Other Expenses

General, administrative and other expenses increased \$0.9 million to \$84.8 million for the three months ended September 30, 2020 compared with \$83.9 million in the prior year period. The increase is primarily related to higher brokerage and trade execution costs as well as higher underwriting fees, due to higher brokerage and investment banking revenues, offset only partially by decreased marketing and business development expenses and occupancy costs.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased \$0.6 million to \$5.7 million for the three months ended September 30, 2020 compared with \$5.1 million in the prior year period. The increase is primarily related to an increase in tangible and intangible assets related to software purchases and recent acquisitions.

Consolidated Funds Expenses

Consolidated Funds expenses decreased \$2.0 million to \$0.5 million for the three months ended September 30, 2020 compared with \$2.5 million for the prior year period. The decrease is due to decreased interest and dividend expense in one of our consolidated funds.

Other Income (Loss)

Other income (loss) decreased \$94.7 million to a \$62.4 million loss for the three months ended September 30, 2020 compared with \$32.3 million of income in the prior year period. The decrease in other income (loss) was primarily attributable to the decrease in Net gains (losses) on securities, derivatives and other investments which relates to a \$96.6 million decrease in performance in our investment in electric truck maker Nikola, offset only partially with our investments in Cowen Healthcare (the healthcare investment strategy), merger strategies and our activist investments. The gains and losses shown under Consolidated Funds, which did not materially contribute to the change in other income during the three month periods ended September 30, 2020, reflect the consolidated total performance for such funds, and the portion of those gains or losses that are attributable to other investors is allocated to non-controlling interests.

Income Taxes

Income tax expense increased \$7.4 million to \$8.8 million for the three months ended September 30, 2020 compared with \$1.4 million in the prior year period. This change is primarily attributable to the change in the Company's income before income taxes for the respective periods.

Income (Loss) Attributable to Non-controlling Interests

Income (loss) attributable to non-controlling interests increased by \$6.4 million to \$9.2 million for the three months ended September 30, 2020 compared with \$2.8 million in the prior year period. The increase was primarily the result of gains in one of our consolidated funds in the current year period. Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities.

Preferred Stock Dividends

On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum. The Company may, at its option, pay dividends in cash, common stock or a combination thereof.

Nine Months Ended September 30, 2020 Compared with Nine Months Ended September 30, 2019

	Condensed Consolidated Statements of Operations			
	(unaudited)			
	Nine Months Ended September 30,		Period to Period	
	2020	2019	\$ Change	% Change
	(dollars in thousands)			
Revenues				
Investment banking	\$ 503,351	\$ 272,103	\$ 231,248	85 %
Brokerage	425,069	302,840	122,229	40 %
Management fees	35,211	21,480	13,731	64 %
Incentive income	127	724	(597)	(82) %
Interest and dividends	127,547	129,846	(2,299)	(2) %
Reimbursement from affiliates	777	780	(3)	— %
Reinsurance premiums	18,943	29,068	(10,125)	(35) %
Other revenues	4,709	3,228	1,481	46 %
<i>Consolidated Funds revenues</i>	4,650	8,239	(3,589)	(44) %
Total revenues	1,120,384	768,308	352,076	46 %
Interest and dividends expense	125,850	125,089	761	1 %
Total net revenues	994,534	643,219	351,315	55 %
Expenses				
Employee compensation and benefits	583,137	388,611	194,526	50 %
Reinsurance claims, commissions and amortization of deferred acquisition costs	21,716	25,139	(3,423)	(14) %
Operating, general, administrative and other expenses	264,950	250,915	14,035	6 %
Depreciation and amortization expense	17,324	14,990	2,334	16 %
Goodwill impairment	—	4,100	(4,100)	NM
<i>Consolidated Funds expenses</i>	4,793	6,229	(1,436)	(23) %
Total expenses	891,920	689,984	201,936	29 %
Other income (loss)				
Net gains (losses) on securities, derivatives and other investments	83,738	61,440	22,298	36 %
<i>Consolidated Funds net gains (losses)</i>	(29,410)	21,536	(50,946)	(237) %
Total other income (loss)	54,328	82,976	(28,648)	(35) %
Income (loss) before income taxes	156,942	36,211	120,731	333 %
Income tax expense (benefit)	52,589	9,615	42,974	447 %
Net income (loss)	104,353	26,596	77,757	292 %
Net income (loss) attributable to non-controlling interests in consolidated subsidiaries and investment funds	(19,843)	7,188	(27,031)	(376) %
Net income (loss) attributable to Cowen Inc.	124,196	19,408	104,788	540 %
Preferred stock dividends	5,094	5,094	—	— %
Net income (loss) attributable to Cowen Inc. common stockholders	\$ 119,102	\$ 14,314	\$ 104,788	732 %

Revenues
Investment Banking

Investment banking revenues increased \$231.3 million to \$503.4 million for the nine months ended September 30, 2020 compared with \$272.1 million in the prior year period. During the nine months ended September 30, 2020, the Company completed 121 underwriting transactions, 48 strategic advisory transactions and nine debt capital markets transactions. During the nine months ended September 30, 2019, the Company completed 96 capital markets transactions, 32 strategic advisory transactions and 10 debt capital markets transactions. The average underwriting fee per transaction was 41.3% greater for the nine months ended September 30, 2020 as compared to the prior year period.

Brokerage

Brokerage revenues increased \$122.3 million to \$425.1 million for the nine months ended September 30, 2020 compared with \$302.8 million in the prior year period. This was attributable to an increase in Institutional Brokerage, primarily Options and Electronic trading commission revenue and an increase in Institutional Services, primarily Prime Brokerage. Customer trading volumes across the industry (according to Bloomberg) increased 56% for the nine months ended September 30, 2020 compared to the prior year period.

Management Fees

Management fees increased \$13.7 million to \$35.2 million for the nine months ended September 30, 2020 compared with \$21.5 million in the prior year period. This increase is primarily related to the healthcare royalty business and our healthcare investments business.

Incentive Income

Revenue recognition standards, effective January 1, 2018, require the Company to recognize the majority of incentive income allocated to the Company as net gains (losses) on securities, derivatives and other investments or as incentive income when the fees are no longer subject to reversal or are crystallized.

Interest and Dividends

Interest and dividends decreased \$2.3 million to \$127.5 million for the nine months ended September 30, 2020 compared with \$129.8 million in the prior year period. Interest and dividends amounts are primarily attributable to securities finance activity. The decrease in the securities finance activity is due to lower customer demand which has created less matched book opportunities for international securities.

Reimbursements from Affiliates

Reimbursements from affiliates remained fairly flat at \$0.8 million for the nine months ended September 30, 2020 compared with \$0.8 million in the prior year period.

Reinsurance Premiums

Reinsurance premiums decreased \$10.2 million to \$18.9 million for the nine months ended September 30, 2020 compared with \$29.1 million in the prior year period. This decrease is because premiums from policies that were not renewed in 2020 outweighed premiums from new policies in 2020 and because of lower activity in certain existing contracts due to COVID-19.

Other Revenues

Other revenues increased \$1.5 million to \$4.7 million for the nine months ended September 30, 2020 compared with \$3.2 million in the prior year period.

Consolidated Funds Revenues

Consolidated Funds revenues decreased \$3.5 million to \$4.7 million for the nine months ended September 30, 2020 compared with \$8.2 million in the prior year period. The decrease is due to a decrease in interest and dividend income during the period in two of our consolidated funds.

Interest and Dividends Expense

Interest and dividends expense increased \$0.8 million to \$125.9 million for the nine months ended September 30, 2020 compared with \$125.1 million in the prior year period. Interest and dividends amounts are primarily attributable to securities finance activities. There was slight decrease in the securities finance activity due to lower customer demand which has created less matched book opportunities for international securities offset by an increase in other interest expenses.

Expenses

Employee Compensation and Benefits

Employee compensation and benefits expenses increased \$194.5 million to \$583.1 million for the nine months ended September 30, 2020 compared with \$388.6 million in the prior year period. The increase is primarily due to \$352.1 million higher total revenues offset only partially by \$28.6 million lower other income (loss) during the 2020 as compared to 2019 and thus resulting in a higher compensation and benefits accrual. The compensation to revenue ratio, including other income (loss), was 50% for the nine months ended September 30, 2020, compared with 46% in the prior year period.

Reinsurance Claims and Commissions

Reinsurance-related expenses decreased \$3.4 million to \$21.7 million for the nine months ended September 30, 2020 compared with \$25.1 million in the prior year period. This decrease is due to fewer policies in force during the third quarter of 2020 compared to the same period in 2019 with lower loss ratios and less claim activity due to COVID-19.

Operating, General, Administrative and Other Expenses

Operating, general, administrative and other expenses increased \$14.1 million to \$265.0 million for the nine months ended September 30, 2020 compared with \$250.9 million in the prior year period. The increase is primarily related to higher brokerage and trade execution costs as well as higher underwriting fees, due to higher brokerage and investment banking revenues, offset only partially by decreased marketing and business development expenses and occupancy costs.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased \$2.3 million to \$17.3 million for the nine months ended September 30, 2020 compared with \$15.0 million in the prior year period. The increase is primarily related to an increase in tangible and intangible assets related to software purchases and recent acquisitions.

Consolidated Funds Expenses

Consolidated Funds expenses decreased \$1.4 million to \$4.8 million for the nine months ended September 30, 2020 compared with \$6.2 million in the prior year period. The decrease is due to decreased professional, advisory and other fees expenses in the Consolidated Funds.

Other Income (Loss)

Other income (loss) decreased \$28.7 million to \$54.3 million for the nine months ended September 30, 2020 compared with \$83.0 million in the prior year period. The decrease in other income (loss) was primarily attributable to the decrease in Net gains (losses) on securities, derivatives and other investments which relates to decrease in performance in Cowen Healthcare (the healthcare investment strategy), merger strategies and our activist investments, offset partially by a \$16.9 million increase in our investment in electric truck maker Nikola. The liquid strategy increases were partially offset by the impairment of our Surfside real estate investment. The decrease was also attributable to a decrease in Other Income (loss) from Consolidated Funds which decreased during 2020 due to weaker performance of our UCITS Fund and losses in the Ramius Merger Fund LLC compared to the prior year period. The gains and losses shown under Consolidated Funds reflect the consolidated total performance for such investment funds, and the portion of those gains or losses that are attributable to other investors is allocated to non-controlling interests.

Income Taxes

Income tax expense increased \$43.0 million to \$52.6 million for the nine months ended September 30, 2020 compared with an income tax expense of \$9.6 million in the prior year period. This change is primarily attributable to the change in the Company's income before income taxes for the respective periods.

Net Income (Loss) Attributable to Non-controlling Interests

Net income (loss) attributable to non-controlling interests decreased \$27.0 million to a loss of \$19.8 million for the nine months ended September 30, 2020 compared with income of \$7.2 million in the prior year period. The decrease was primarily the result of a decrease in income earned by two Consolidated Funds in the current year period. Non-controlling interests represent the pro rata share of the income or loss of the non-wholly owned consolidated entities attributable to the other owners of such entities.

Preferred Stock Dividends

On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum. The Company may, at its option, pay dividends in cash, common stock or a combination thereof.

Segment Analysis and Economic Income (Loss)

Economic Income (Loss)

In addition to our results which are shown in accordance with US GAAP, the Company presents supplemental financial measures that are non-GAAP measures. The Company believes that these non-GAAP measures, viewed in addition to, and not in lieu of, the Company's reported US GAAP results, provide useful information to investors and analysts regarding its performance and overall results of operations as it presents investors and analysts with a supplemental operating view of the Company's financials to help better inform their analysis of the Company's performance. These metrics are an integral part of the Company's internal reporting to measure the performance of its business segments, allocate capital and other strategic decisions as well as assess the overall effectiveness of senior management. Reconciliations to comparable US GAAP measures are available in the accompanying schedules.

Economic Income (Loss) may not be comparable to similarly titled measures used by other public companies. Economic Income (Loss) should not be considered in isolation or as a substitute for net income, operating cash flows, investing and financing activities, or other income or cash flow statement data prepared in accordance with US GAAP. As a result of the adjustments made to arrive at Economic Income (Loss) described below, Economic Income (Loss) has limitations in that it does not take into account certain items included or excluded under US GAAP, including its consolidated funds.

In general, Economic Income (Loss) is a pre-tax measure that (i) includes management reclassifications which the Company believes provides additional insight on the performance of the Company's core businesses and divisions (ii) eliminates the impact of consolidation for Consolidated Funds and excludes (iii) goodwill and intangible impairment (iv) certain other transaction-related adjustments and/or reorganization expenses and (v) certain costs associated with debt. Economic Operating Income (Loss) is a similar measure but before depreciation and amortization expenses.

For a reconciliation of US GAAP net income (loss) to Economic Income (Loss) for the periods presented and additional information regarding the reconciling adjustments discussed above, see Note 22 to the Company's condensed consolidated financial statements included elsewhere in this Form 10-Q.

The Company conducts its operations through two segments: Op Co and Asset Co. The Company's principle sources of revenues included in Economic Income (Loss) are derived from activities in the following business segments.

The Op Co segment generates revenue through five principle sources: investment banking revenue, brokerage revenue, management fees, incentive income and investment income from the Company's own capital. Investment income is excluded from ASC Topic 606.

The Asset Co segment generates revenue through management fees, incentive income and investment income from the Company's own capital. Investment income is excluded from ASC Topic 606.

Three Months Ended September 30, 2020 Compared with Three Months September 30, 2019

Total Economic Operating Income (Loss) (which is Economic Income (Loss) before depreciation and amortization) was \$37.4 million for the three months ended September 30, 2020, an increase of \$27.4 million compared to Economic Operating Income (Loss) of \$10.1 million in the prior year period. Total Economic Income (Loss) was \$31.8 million for the three months ended September 30, 2020, an increase of \$26.8 million compared to Economic Income (Loss) of \$5.0 million in the prior year period.

Total Economic Income (Loss) included revenues of \$274.3 million for the three months ended September 30, 2020, an increase of \$57.8 million compared to \$216.5 million in the prior year period. This was primarily related to an increase in investment banking and brokerage revenues offset partially by a decrease in investment income.

Operating Company Segment

	(unaudited)			
	Three Months Ended September 30,		Total Period-to-Period	
	2020	2019	\$ Change	% Change
	(dollars in thousands)			
Economic Income Revenues				
Investment banking	\$ 185,151	\$ 69,433	\$ 115,718	167 %
Brokerage	167,084	110,178	56,906	52 %
Management fees	14,374	10,321	4,053	39 %
Incentive income (loss)	(2,621)	15,251	(17,872)	(117) %
Investment income (loss)	(90,364)	10,913	(101,277)	(928) %
Other revenues	(796)	(132)	(664)	503 %
Total economic income revenues	272,828	215,964	56,864	26 %
Interest expense	6,026	5,758	268	5 %
Total net revenues	266,802	210,206	56,596	27 %
Economic Income Expenses				
Employee compensation and benefits	152,829	121,890	30,939	25 %
Fixed non-compensation expense	34,257	36,458	(2,201)	(6) %
Variable non-compensation expense	37,736	37,216	520	1 %
Depreciation & Amortization	5,670	5,073	597	12 %
Non-Controlling Interest	2,105	661	1,444	218 %
Total expenses	232,597	201,298	31,299	16 %
Income (loss) attributable to Cowen Inc.	34,205	8,908	25,297	284 %
Preferred stock dividends	1,415	1,341	74	6 %
Economic income (loss) attributable to Cowen Inc. common stockholders	32,790	7,567	25,223	333 %
Add back: Depreciation and amortization expense	5,670	5,073	597	12 %
Economic operating income (loss)	\$ 38,460	\$ 12,640	\$ 25,820	204 %

The Op Co segment revenues included in Economic Income (Loss) were \$272.8 million for the three months ended September 30, 2020, an increase of \$56.9 million compared to \$216.5 million in the prior year period.

Investment Banking. Investment banking revenues increased \$115.7 million to \$185.2 million for the three months ended September 30, 2020 compared with \$69.4 million in the prior year period. During the three months ended September 30, 2020, the Company completed 49 underwriting transactions, 18 strategic advisory transactions, and four debt capital markets transactions. During three months ended September 30, 2019, the Company completed 25 underwriting transactions, 13 strategic advisory transactions and five debt capital markets transactions. The average underwriting fee per transaction was 29.5% greater for the three months ended September 30, 2020 as compared to the prior year period.

Brokerage. Brokerage revenues increased \$56.9 million to \$167.1 million for the three months ended September 30, 2020, compared with \$110.2 million in the prior year period. This was attributable to an increase in Institutional Brokerage, primarily Special Situations trading and Electronic trading commission revenue and an increase in Institutional Services, primarily Prime Brokerage and Securities Finance. Customer trading volumes across the industry (according to Bloomberg) increased 45% for the three months ended September 30, 2020 compared to the prior year period.

Management Fees. Management fees for the segment increased \$4.1 million to \$14.4 million for the three months ended September 30, 2020 compared with \$10.3 million in the prior year period. This increase is primarily related to the healthcare royalty business and our healthcare investments business.

Incentive Income (Loss). Incentive income for the segment decreased \$17.9 million to a loss of \$2.6 million for the three months ended September 30, 2020 compared with \$15.3 million in the prior year period. This decrease was related to a decrease in performance fees from our healthcare investments businesses offset partially by an increase in incentive fees for our other private equity funds.

Investment Income (Loss). Investment income for the segment decreased \$101.3 million to a loss of \$90.4 million for the three months ended September 30, 2020 compared with a loss of \$10.9 million in the prior year period. The decrease primarily relates to a performance in our investment in electric truck maker Nikola, partially offset by our investments in Cowen Healthcare (the healthcare investment strategy), merger strategies and our activist investments.

Other Income (Loss). Other income (loss) for the segment decreased \$0.7 million to \$0.8 million for the three months ended September 30, 2020 compared with a loss of \$0.1 million in the prior year period. The decrease is due to lower premiums caused by the COVID-19 pandemic.

Interest expense. Interest expense increased \$0.2 million to \$6.0 million for the three months ended September 30, 2020 compared with \$5.8 million in the prior year period. Interest expense primarily relates to debt issued. The increase is primarily related to new debt issued in May of 2019 and recent borrowings on short term debt that have since been repaid.

Compensation and benefits expenses. Compensation and benefits expenses increased \$30.9 million to \$152.8 million for the three months ended September 30, 2020 compared with \$121.9 million in the prior year period. The increase is due to higher overall revenue with a consistent compensation to revenue ratio which was 56% for the three months ended September 30, 2020 compared with 56% in the prior year period.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses decreased \$2.2 million to \$34.3 million for the three months ended September 30, 2020 compared with \$36.5 million in the prior year period. The decrease is primarily related to decreased service fees and occupancy and equipment expenses.

The following table shows the components of the non-compensation expenses—fixed, for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Non-compensation expenses—fixed:				
Communications	\$ 7,182	\$ 7,450	\$ (268)	(4) %
Professional, advisory and other fees	7,819	7,520	299	4 %
Occupancy and equipment	8,782	9,342	(560)	(6) %
Service fees	4,684	5,908	(1,224)	(21) %
Expenses from equity investments	1,733	1,951	(218)	(11) %
Reimbursement from affiliates	(16)	(41)	25	(61) %
Other	4,073	4,328	(255)	(6) %
Total	\$ 34,257	\$ 36,458	\$ (2,201)	(6) %

Non-compensation Expenses—Variable. Variable non-compensation expenses which primarily are comprised of expenses that are incurred as a direct result of the processing and soliciting of revenue generating activities, increased \$0.5 million to \$37.7 million for the three months ended September 30, 2020 compared with \$37.2 million in the prior year period. The increase is primarily related to increased brokerage and trade execution costs partially offset by lower marketing and business development costs.

The following table shows the components of the non-compensation expenses—variable, for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Non-compensation expenses—Variable:				
Brokerage and trade execution costs	\$ 33,603	\$ 25,570	\$ 8,033	31 %
Expenses related to Luxembourg companies	1,375	760	615	81 %
Marketing and business development	1,519	9,024	(7,505)	(83) %
Other	1,239	1,862	(623)	(33) %
Total	\$ 37,736	\$ 37,216	\$ 520	1 %

Depreciation and amortization expenses. Depreciation and amortization expenses increased to \$5.7 million for the three months ended September 30, 2020 compared with \$5.1 million in the prior year period.

Non-Controlling Interests. Net income (loss) attributable to non-controlling interests increased by \$1.4 million to \$2.1 million for the three months ended September 30, 2020 compared with \$0.7 million in the prior year period. Non-controlling interest represents the portion of the net income or loss attributable to certain non-wholly owned subsidiaries that is allocated to our partners in those subsidiaries.

Preferred Stock Dividends. On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum. The Company may, at its option, pay dividends in cash, common stock or a combination thereof.

Asset Co Segment

	(unaudited)			
	Three Months Ended September 30,		Total Period-to-Period	
	2020	2019	\$ Change	% Change
	(dollars in thousands)			
Economic Income Revenues				
Management fees	\$ 262	\$ 586	\$ (324)	(55)%
Incentive income (loss)	1,319	(862)	2,181	(253)%
Investment income (loss)	(124)	822	(946)	(115)%
Other revenues	2	6	(4)	(67)%
Total economic income revenues	1,459	552	907	164%
Interest expense	1,109	1,389	(280)	(20)%
Total net revenues	350	(837)	1,187	(142)%
Economic Income Expenses				
Employee compensation and benefits	957	729	228	31%
Fixed non-compensation expense	127	625	(498)	(80)%
Variable non-compensation expense	6	40	(34)	(85)%
Depreciation & Amortization	5	9	(4)	(44)%
Total expenses	1,095	1,403	(308)	(22)%
Income (loss) attributable to Cowen Inc.	(745)	(2,240)	1,495	(67)%
Preferred stock dividends	283	357	(74)	(21)%
Economic income (loss) attributable to Cowen Inc. common stockholders	(1,028)	(2,597)	\$ 1,569	(60)%
Add back: Depreciation and amortization expense	5	9	(4)	(44)%
Economic operating income (loss)	\$ (1,023)	\$ (2,588)	\$ 1,565	(60)%

The Asset Co segment revenues included in Economic Income (Loss) were \$1.5 million for the three months ended September 30, 2020, an increase of \$0.9 million compared with \$0.6 million in the prior year.

Management Fees. Management fees for the segment decreased \$0.3 million to \$0.3 million for the three months ended September 30, 2020 compared with \$0.6 million in the prior year period. This decrease in management fees was primarily related to a decrease in management fees from the real estate investments.

Incentive Income (Loss). Incentive income for the segment increased \$2.2 million to \$1.3 million for the three months ended September 30, 2020 compared with a loss of \$0.9 million in the prior year period. This increase was related to an increase in performance fees from the multi-strategy business.

Investment Income (Loss). Investment income for the segment decreased \$0.9 million to \$0.1 million for the three months ended September 30, 2020, compared with income of \$0.8 million in the prior year period. The decrease primarily relates to a decrease in valuation of our legacy real estate investments.

Interest expense. Interest expense decreased \$0.3 million to \$1.1 million for the three months ended September 30, 2020 compared with \$1.4 million in the prior year period. Interest expense primarily relates to debt issued. The decrease is primarily related to borrowings on short-term debt that have since been repaid.

Compensation and benefits expenses. Compensation and benefits expenses increased \$0.3 million to \$1.0 million for the three months ended September 30, 2020 compared with \$0.7 million in the prior year period. The increase is due to higher overall revenue. The compensation to revenue ratio was 66% for the three months ended September 30, 2020 compared with 132% in the prior year period.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses decreased \$0.5 million to \$0.1 million for the three months ended September 30, 2020 compared with \$0.6 million in the prior year period. The decrease is primarily related to fees related to our real estate business.

The following table shows the components of the non-compensation expenses—fixed, for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Non-compensation expenses—fixed:				
Communications	\$ 21	\$ 44	\$ (23)	(52)%
Professional, advisory and other fees	263	229	34	15 %
Occupancy and equipment	30	85	(55)	(65)%
Service fees	29	18	11	61 %
Reimbursement from affiliates	(253)	(216)	(37)	17 %
Other	37	465	(428)	(92)%
Total	\$ 127	\$ 625	\$ (498)	(80)%

Non-compensation Expenses—Variable. Variable non-compensation expenses are comprised of expenses that are incurred as a direct result of the processing and soliciting of revenue generating activities.

Preferred Stock Dividends. On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum. The Company may, at its option, pay dividends in cash, common stock or a combination thereof.

Nine Months Ended September 30, 2020 Compared with Nine Months Ended September 30, 2019

Total Economic Operating Income (Loss) (which is Economic Income (Loss) before depreciation and amortization) was \$197.2 million for the nine months ended September 30, 2020, an increase of \$149.4 million compared to Economic Operating Income (Loss) of \$47.8 million in the prior year period. Total Economic Income (Loss) was \$180.4 million for the nine months ended September 30, 2020, an increase of \$147.6 million compared to Economic Income (Loss) of \$32.9 million in the prior year period.

Revenues included in total Economic Income (Loss) were \$1,043.5 million for the nine months ended September 30, 2020, an increase of \$352.0 million compared to \$691.5 million in the prior year period. This was primarily related to an increase in investment banking and brokerage revenues.

Operating Company Segment

	(unaudited)			
	Nine Months Ended September 30,		Total Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Economic Income Revenues				
Investment banking	\$ 474,778	\$ 254,374	\$ 220,404	87 %
Brokerage	466,823	346,095	120,728	35 %
Management fees	41,724	30,016	11,708	39 %
Incentive income (loss)	40,829	33,998	6,831	20 %
Investment income (loss)	32,566	13,827	18,739	136 %
Other income (loss)	(298)	5,295	(5,593)	(106)%
Total economic income revenues	1,056,422	683,605	372,817	55 %
Interest expense	18,471	16,371	2,100	13 %
Total net revenues	1,037,951	667,234	370,717	56 %
Economic Income Expenses				
Employee compensation and benefits	582,480	386,593	195,887	51 %
Fixed non-compensation expense	106,350	107,889	(1,539)	(1)%
Variable non-compensation expense	121,846	113,728	8,118	7 %
Depreciation & Amortization	16,756	14,957	1,799	12 %
Non-Controlling Interest	5,584	2,944	2,640	90 %
Total expenses	833,016	626,111	206,905	33 %
Income (loss) attributable to Cowen Inc.	204,935	41,123	163,812	398 %
Preferred stock dividends	4,160	4,058	102	3 %
Economic Income (Loss) attributable to Cowen Inc. common stockholders	200,775	37,065	163,710	442 %
Add back: Depreciation and amortization expense	16,756	14,957	1,799	12 %
Economic operating income (loss)	\$ 217,531	\$ 52,022	\$ 165,509	318 %

The Op Co segment revenues included in Economic Income (Loss) were \$1,056.4 million for the nine months ended September 30, 2020, an increase of \$372.8 million compared to \$683.6 million in the prior year period.

Investment Banking. Investment banking revenues increased \$220.4 million to \$474.8 million for the nine months ended September 30, 2020 compared with \$254.4 million in the prior year period. During the nine months ended September 30, 2020, the Company completed 121 underwriting transactions, 48 strategic advisory transactions and nine debt capital markets transactions. During the nine months ended September 30, 2019, the Company completed 96 capital markets transactions, 32 strategic advisory transactions and 10 debt capital markets transactions. The average underwriting fee per transaction was 41.3% greater for the nine months ended September 30, 2020 as compared to the prior year period.

Brokerage. Brokerage revenues increased \$120.7 million to \$466.8 million for the nine months ended September 30, 2020, compared with \$346.1 million in the prior year period. This was attributable to an increase in Institutional Brokerage, primarily Options and Electronic trading commission revenue and an increase in Institutional Services, primarily Prime Brokerage. Customer trading volumes across the industry (according to Bloomberg) increased 56% for the nine months ended September 30, 2020 compared to the prior year period.

Management Fees. Management fees for the segment increased \$11.7 million to \$41.7 million for the nine months ended September 30, 2020 compared with \$30.0 million in the prior year period. This increase is primarily related to the healthcare royalty business and our healthcare investments business.

Incentive Income (Loss). Incentive income for the segment increased \$6.8 million to \$40.8 million for the nine months ended September 30, 2020 compared with \$34.0 million in the prior year period. This increase was related to an increase in performance fees from our healthcare investments businesses and our other private equity funds.

Investment Income (Loss). Investment income for the segment increased \$18.8 million to \$32.6 million for the nine months ended September 30, 2020 compared with income of \$13.8 million in the prior year period. The increase primarily relates

to a performance in our investment in electric truck maker Nikola, merchant banking and our activist investments. The liquid strategy increases were partially offset by the impairment of our Surfside real estate investment.

Other Income (Loss). Other income (loss) for the segment decreased \$5.6 million to \$0.3 million for the nine months ended September 30, 2020 compared with \$5.3 million in the prior year period. The decrease is due to lower premiums caused by the COVID-19 pandemic partially offset by lower claims in the period for the same reason.

Interest expense. Interest expense increased \$2.1 million to \$18.5 million for the nine months ended September 30, 2020 compared with \$16.4 million in the prior year period. Interest expense primarily relates to debt issued. The increase is primarily related to new debt issued in May of 2019 and recent borrowings on short term debt that have since been repaid.

Compensation and benefits expenses. Compensation and benefits expenses increased \$195.9 million to \$582.5 million for the nine months ended September 30, 2020 compared with \$386.6 million in the prior year period. The increase is due to higher overall revenue only partially offset by a lower compensation to revenue ratio which was 55% for the nine months ended September 30, 2020 compared with 57% in the prior year period.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses decreased \$1.5 million to \$106.4 million for the nine months ended September 30, 2020 compared with \$107.9 million in the prior year period. The increase is primarily related to increased service fees, professional, advisory and other fees offset partially by lower occupancy and equipment expenses.

The following table shows the components of the non-compensation expenses—fixed, for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,		Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Non-compensation expenses—fixed:				
Communications	\$ 22,215	\$ 22,765	\$ (550)	(2)%
Professional, advisory and other fees	21,694	20,691	1,003	5%
Occupancy and equipment	26,589	28,762	(2,173)	(8)%
Service fees	18,195	17,129	1,066	6%
Expenses from equity investments	5,360	5,571	(211)	(4)%
Reimbursement from affiliates	(88)	(154)	66	(43)%
Other	12,385	13,125	(740)	(6)%
Total	\$ 106,350	\$ 107,889	\$ (1,539)	(1)%

Non-compensation Expenses—Variable. Variable non-compensation expense which primarily are comprised of expenses that are incurred as a direct result of the processing and soliciting of revenue generating activities, increased \$8.1 million to \$121.8 million for the nine months ended September 30, 2020 compared with \$113.7 million in the prior year period. The increase is related to increased brokerage and trade execution costs partially offset by lower marketing and business development costs.

The following table shows the components of the non-compensation expenses—variable, for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,		Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Non-compensation expenses—Variable:				
Brokerage and trade execution costs	\$ 101,063	\$ 77,816	\$ 23,247	30%
HealthCare Royalty Partners syndication costs	—	264	(264)	(100)%
Expenses related to Luxembourg companies	4,482	2,258	2,224	98%
Marketing and business development	12,703	30,017	(17,314)	(58)%
Other	3,598	3,373	225	7%
Total	\$ 121,846	\$ 113,728	\$ 8,118	7%

Depreciation and amortization expenses. Depreciation and amortization expenses increased to \$16.8 million for the nine months ended September 30, 2020 compared with \$15.0 million in the prior year period.

Non-Controlling Interests. Net income (loss) attributable to non-controlling interests increased by \$2.7 million to \$5.6 million for the nine months ended September 30, 2020 compared with \$2.9 million in the prior year period. Non-controlling interest represents the portion of the net income or loss attributable to certain non-wholly owned subsidiaries that is allocated to our partners in those subsidiaries.

Preferred Stock Dividends. On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum. The Company may, at its option, pay dividends in cash, common stock or a combination thereof.

Asset Co Segment

	(unaudited)			
	Nine Months Ended September 30,		Total Period-to-Period	
	2020	2019	\$ Change	% Change
	(dollars in thousands)			
Economic Income Revenues				
Management fees	634	1,788	(1,154)	(65)%
Incentive income (loss)	158	762	(604)	(79)%
Investment income (loss)	(13,671)	5,289	(18,960)	(358)%
Other income (loss)	4	56	(52)	(93)%
Total economic income revenues	(12,875)	7,895	(20,770)	(263)%
Interest expense	4,014	4,046	(32)	(1)%
Total net revenues	\$ (16,889)	\$ 3,849	\$ (20,738)	(539)%
Economic Income Expenses				
Employee compensation and benefits	2,093	4,383	(2,290)	(52)%
Fixed non-compensation expense	378	2,485	(2,107)	(85)%
Variable non-compensation expense	18	127	(109)	(86)%
Depreciation & Amortization	17	30	(13)	(43)%
Total expenses	2,506	7,025	(4,519)	(64)%
Income (loss) attributable to Cowen Inc.	(19,395)	(3,176)	(16,219)	511%
Preferred stock dividends	934	1,036	(102)	(10)%
Economic Income (Loss) attributable to Cowen Inc. common stockholders	(20,329)	(4,212)	(16,117)	383%
Add back: Depreciation and amortization expense	17	30	(13)	(43)%
Economic operating income (loss)	\$ (20,312)	\$ (4,182)	\$ (16,130)	386%

The Asset Co segment revenues included in Economic Income (Loss) were a loss of \$12.9 million for the nine months ended September 30, 2020, a decrease of \$20.8 million compared with \$7.9 million in the prior year.

Management Fees. Management fees for the segment decreased \$1.2 million to \$0.6 million for the nine months ended September 30, 2020 compared with \$1.8 million in the prior year period. This decrease in management fees was primarily related to a decrease in management fees from the real estate investments.

Incentive Income (Loss). Incentive income for the segment decreased \$0.6 million to \$0.2 million for the nine months ended September 30, 2020 compared with income of \$0.8 million in the prior year period. This decrease was related to a decrease in performance fees from the real estate investments and the multi-strategy business.

Investment Income (Loss). Investment income for the segment decreased \$19.0 million to a loss of \$13.7 million for the nine months ended September 30, 2020, compared with income of \$5.3 million in the prior year period. The decrease primarily relates to a decrease in valuation of our legacy real estate investments.

Interest expense. Interest expense decreased to \$4.0 million for the nine months ended September 30, 2020. Interest expense primarily relates to debt issued. The decrease is primarily related to borrowings on short term debt that have since been repaid.

Compensation and benefits expenses. Compensation and benefits expenses decreased \$2.3 million to \$2.1 million for the nine months ended September 30, 2020 compared with \$4.4 million in the prior year period. The decrease is due to lower overall revenue. The compensation to revenue ratio was (16)% for the nine months ended September 30, 2020 compared with 56% in the prior year period.

Non-compensation Expenses—Fixed. Fixed non-compensation expenses decreased \$2.1 million to \$0.4 million for the nine months ended September 30, 2020 compared with \$2.5 million in the prior year period. The decrease is primarily related to decreased professional, advisory and other fees and fees related to our real estate business.

The following table shows the components of the non-compensation expenses—fixed, for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,		Period-to-Period	
	2020	2019	\$ Change	% Change
(dollars in thousands)				
Non-compensation expenses—fixed:				
Communications	\$ 50	\$ 123	\$ (73)	(59)%
Professional, advisory and other fees	771	1,243	(472)	(38)%
Occupancy and equipment	101	356	(255)	(72)%
Service fees	82	105	(23)	(22)%
Reimbursement from affiliates	(739)	(702)	(37)	5 %
Other	113	1,360	(1,247)	(92)%
Total	\$ 378	\$ 2,485	\$ (2,107)	(85)%

Non-compensation Expenses—Variable. Variable non-compensation expenses are comprised of expenses that are incurred as a direct result of the processing and soliciting of revenue generating activities.

Preferred Stock Dividends. On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum. The Company may, at its option, pay dividends in cash, common stock or a combination thereof.

Liquidity and Capital Resources

We continually monitor our liquidity position. The working capital needs of the Company's business have been met through current levels of equity capital, current cash and cash equivalents, and anticipated cash generated from our operating activities, including management fees, incentive income, returns on the Company's own capital, investment banking fees and brokerage commissions. The Company expects that its primary working capital liquidity needs over the next twelve months will be:

- to pay our operating expenses, primarily consisting of compensation and benefits, interest on debt and other general and administrative expenses; and
- to provide capital to facilitate the growth of our existing business.

Based on our historical results, management's experience, our current business strategy and current assets under management, the Company believes that its existing cash resources will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. However, the company's assessment could be affected by various risks and uncertainties, including but not limited to, the effects of the COVID-19 pandemic. Our cash reserves include cash, cash equivalents and assets readily convertible into cash such as our securities held in inventory. Securities inventories are stated at fair value and are generally readily marketable. As of September 30, 2020, we had cash and cash equivalents of \$539.7 million and net liquid investment assets of \$883.0 million, which includes cash and cash equivalents and short-term investments held by foreign subsidiaries as of September 30, 2020 of \$56.3 million. The Company continues to permanently reinvest the capital and accumulated earnings of its subsidiaries in the United Kingdom, Germany, Switzerland, Canada, South Africa and Hong Kong.

The timing of cash bonus payments to our employees may significantly affect our cash position and liquidity from period to period. While our employees are generally paid salaries semi-monthly during the year, cash bonus payments, which can make up a significant portion of total compensation, are generally paid once a year by March 15th.

As a clearing member firm providing services to certain of our brokerage customers, we are subject to cash deposit requirements with clearing organizations, brokers and banks that may be large in relation to total liquid assets and may fluctuate significantly based upon the nature and size of customers' trading activity and market volatility. At September 30, 2020, the firm

had security deposits totaling \$90.1 million with clearing organizations in the U.S. for the settlement of equity trades. In the normal course of our U.S. settlement activities, we may also need to temporarily finance customer securities positions from short settlements or delivery failures.

Unfunded commitments

The following table summarizes unfunded commitments as of September 30, 2020:

Entity	Unfunded Commitments (dollars in thousands)	Commitment term
HealthCare Royalty Partners funds (a)	\$ 7,816	4.3 years
Eclipse Ventures Fund I, L.P.	\$ 59	4.3 years
Lagunita Biosciences, LLC	\$ 250	3.1 years
Eclipse Fund II, L.P.	\$ 110	5.3 years
Eclipse Continuity Fund I, L.P.	\$ 58	6.3 years
Cowen Healthcare Investments II LP	\$ 1,201	1.3 years
Cowen Healthcare Investments III LP	\$ 6,164	6.3 years
Cowen Sustainable Investments I LP	\$ 3,926	9.3 years

(a) The Company is a limited partner of the HealthCare Royalty Partners funds (which are managed by Healthcare Royalty Management) and is a member of HealthCare Royalty Partners General Partners. The Company will make its pro-rata investment in the HealthCare Royalty Partners funds along with the other limited partners.

Due to the nature of the securities business and our role as a market-maker and execution agent, the amount of our cash and short-term investments, as well as operating cash flow, may vary considerably due to a number of factors, including the dollar value of our positions as principal, whether we are net buyers or sellers of securities, the dollar volume of executions by our customers and clearing house requirements, among others. Certain regulatory requirements constrain the use of a portion of our liquid assets for financing, investing or operating activities. Similarly, due to the nature of our business lines, the capital necessary to maintain current operations and our current funding needs subject our cash and cash equivalents to different requirements and uses.

Preferred Stock and Purchase of Capped Call Option

On May 19, 2015, the Company completed its offering of 120,750 shares of the Company's 5.625% Series A cumulative perpetual convertible preferred stock ("Series A Convertible Preferred Stock") that provided \$117.2 million of proceeds, net of underwriting fees and issuance costs of \$3.6 million. Each share of the Series A Convertible Preferred Stock is entitled to dividends at a rate of 5.625% per annum which will be payable, when and if declared by the board of directors of the Company, quarterly, in arrears, on February 15, May 15, August 15 and November 15 of each year. The Company may, at its option, pay dividends in cash, common stock or a combination thereof. The Company declared and accrued a cash dividend of \$1.7 million and \$1.7 million for the three months ended September 30, 2020 and 2019 and \$5.1 million and \$5.1 million for the nine months ended September 30, 2020 and 2019, respectively.

Each share of Series A Convertible Preferred Stock is non-voting and has a liquidity preference over the Company's Class A common stock and ranks senior to all classes or series of the Company's Class A common stock, but junior to all of the Company's existing and future indebtedness with respect to dividend rights and rights upon the Company's involuntary liquidation, dissolution or winding down.

Each share of Series A Convertible Preferred Stock is convertible, at the option of the holder, into a number of shares of the Company's Class A common stock equal to the liquidation preference of \$1,000 divided by the conversion rate. The initial conversion rate (subsequent to the December 5, 2016 reverse stock split) is 38.0619 shares (which equates to \$26.27 per share) of the Company's Class A common stock for each share of the Series A Convertible Preferred Stock. At any time on or after May 20, 2020, when the Company's capped call option expired, the Company may elect to convert all outstanding shares of the Series A Convertible Preferred Stock into shares of the Company's Class A common stock, cash or a combination thereof, at the Company's election, in each case, based on the then-applicable conversion rate, if the last reported sale price of the Company's Class A common stock equals or exceeds 150% of the then-current conversion price on at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days (including on the last trading day of such period) immediately prior to such election. At the time of conversion, the conversion rate may be adjusted based on certain events including but not limited to the issuance of cash dividends or Class A common stock as dividends to the Company's Class A common shareholders or a share split or combination. The Company has the intent and ability to settle the preferred shares in cash and, as a result, the preferred shares do not have an impact on the Company's diluted earnings per share calculation (See Note 21).

The Company may also incur additional indebtedness or raise additional capital under certain circumstances to respond to market opportunities and challenges. Current market conditions may make it more difficult or costly to borrow additional funds or raise additional capital.

Regulation

As registered broker-dealers, Cowen and Company, ATM Execution, Cowen Prime and Westminster are subject to the SEC's Uniform Net Capital Rule 15c3-1 ("SEC Rule 15c3-1"), which requires the maintenance of minimum net capital. Each registered broker-dealer has elected to compute net capital under the alternative method permitted by that rule. Under the alternative method, Cowen and Company's minimum net capital requirement, as defined in (a)(4) of SEC Rule 15c3-1, is \$1.0 million or 2% of aggregate debits arising from customer transactions. ATM Execution, Cowen Prime and Westminster are required to maintain minimum net capital, as defined in (a)(1)(ii) of SEC Rule 15c3-1, equal to the greater of \$250,000 or 2% of aggregate debits arising from customer transactions. Advances to affiliates, repayment of borrowings, distributions, dividend payments and other equity withdrawals are subject to certain notification and other provisions of SEC Rule 15c3-1 and other regulatory bodies.

On May 1, 2020, Cowen and Company completed its merger with Cowen Execution. Cowen and Company is the surviving entity. The merger had no impact to the Company's financial results.

Cowen Prime is also subject to Commodity Futures Trading Commission ("CFTC") Regulation 1.17 ("Regulation 1.17"). Regulation 1.17 requires net capital equal to or in excess of \$45,000 or the amount of net capital required by SEC Rule 15c3-1, whichever is greater. Cowen and Company is also subject to Options Clearing Corporation ("OCC") Rule 302. OCC Rule 302 requires maintenance of net capital equal to the greater of \$2.0 million or 2% of aggregate debit items. At September 30, 2020, Cowen and Company had \$385.6 million of net capital in excess of this minimum requirement.

Cowen International Ltd and Cowen Execution Ltd are subject to the capital requirements of the FCA, as defined, and must exceed the minimum capital requirement set forth by the FCA.

Cowen Asia, a previously established entity, was re-registered with regulatory approval on May 17, 2019. Cowen Asia is subject to the financial resources requirements of the Securities and Futures Commission ("SFC") of Hong Kong. Financial Resources must exceed the Total Financial Resources requirement of the SFC.

As of September 30, 2020, these regulated broker-dealers had regulatory net capital or financial resources, regulatory net capital requirements or minimum FCA or SFC requirement and excess as follows:

Subsidiary	Net Capital		Net Capital Requirement		Excess Net Capital
	(dollars in thousands)				
Cowen and Company	\$	388,606	\$	3,043	\$ 385,563
ATM Execution	\$	4,015	\$	250	\$ 3,765
Cowen Prime	\$	19,432	\$	250	\$ 19,182
Westminster	\$	5,305	\$	250	\$ 5,055
Cowen International Ltd	\$	22,892	\$	17,882	\$ 5,010
Cowen Execution Ltd	\$	11,501	\$	4,333	\$ 7,168
Cowen Asia	\$	1,394	\$	387	\$ 1,007

The Company's U.S. broker-dealers must also comply with SEC Rule 15c3-3 or claim an exemption pursuant to subparagraphs (k)(2)(i) or (k)(2)(ii) of that rule. Firms can rely on more than one exemption. Cowen Prime and ATM Execution claim the (k)(2)(ii) exemption with regard to all of their customer accounts and transactions that are introduced on a fully-disclosed basis to their clearing agents for clearing, settlement and custody. Cowen Prime and Westminster claim the (k)(2)(i) exemption with regards to customer transactions and balances that are cleared, settled and custodied in bank accounts designated as Special Accounts for the Exclusive Benefit of Customers ("Special Bank Accounts").

In accordance with the requirements of SEC Rule 15c3-3, Cowen and Company may be required to deposit in a Special Reserve Account cash or acceptable qualified securities for the exclusive benefit of customers. As of September 30, 2020, Cowen and Company had segregated approximately \$43.9 million of cash, while its required deposit was \$20.5 million.

As a clearing broker-dealer, Cowen and Company is required to compute a reserve requirement for proprietary accounts of broker-dealers ("PAB"), as defined in SEC Rule 15c3-3. Cowen and Company conducts PAB reserve computations in order to determine the amount it is required to deposit in its PAB Reserve Bank Accounts pursuant to SEC Rule 15c3-3. This allows each correspondent firm that uses Cowen and Company as its clearing broker-dealer to classify its PAB account assets held at Cowen and Company as allowable assets in the correspondent's net capital calculation. At September 30, 2020, Cowen and Company had \$35.2 million of cash on deposit in PAB Reserve Bank Accounts, which was more than its required deposit of \$16.6 million.

Cowen and Company, ATM Execution, and Cowen Prime also maintain certain assets in PAB accounts held at their respective clearing brokers. Each treats its assets held in those PAB accounts at the respective clearing brokers as allowable assets for net capital purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. The CFTC has finalized rules establishing capital requirements and financial reporting requirements for CFTC registered swap dealers not subject to regulation by a banking regulator, while the SEC is still finalizing its rules. The Company may be required in the future to register one or more subsidiaries as security-based swap dealers with the SEC and will result in some of the Company’s subsidiaries becoming subject to regulatory capital requirements for the first time.

Cowen's Luxembourg reinsurance companies, Vianden RCG Re SCA and Hollenfels, individually and their Luxembourg parent holding company, Ramius Enterprise Luxembourg Holdco S.à r.l., on a combined basis with the reinsurance companies, are required to maintain a solvency capital ratio as calculated by relevant European Commission directives and local regulatory rules in Luxembourg. Each reinsurance company's individual solvency capital ratio as well as the combined solvency capital ratio of the holding and reinsurance companies calculated as of December 31 of each year must exceed a minimum requirement. As of the last testing date, December 31, 2019, all of these entities were in excess of this minimum requirement. The companies are currently, and management expects they will be at the next testing date of December 31, 2020, in compliance with these requirements.

Based on minimum capital and surplus requirements pursuant to the laws of the state of New York that apply to captive insurance companies, RCG Insurance Company, Cowen's captive insurance company incorporated and licensed in the state of New York, was required to maintain capital and surplus of approximately \$0.3 million as of September 30, 2020. RCG Insurance Company’s capital and surplus as of September 30, 2020 totaled approximately \$6.1 million.

Cash Flows Analysis

The Company's primary sources of cash are derived from its operating activities and realized returns on its own invested capital. The Company's primary uses of cash include compensation and general and administrative expenses.

Operating Activities. Net cash provided by operating activities of \$299.6 million for the nine months ended September 30, 2020 was primarily related to (i) Company net income, (ii) proceeds from securities owned, at fair value, held at broker dealers (iii) sales of securities owned, at fair value offset partially by purchases of securities owned, at fair value purchases of securities owned, at fair value and (iv) a reduction in compensation payable. Net cash used in operating activities of \$156.7 million for the nine months ended September 30, 2019 was primarily related to the (i) purchases of securities owned, at fair value in consolidated funds offset partially by proceeds from sales of securities owned, at fair value in consolidated funds, (ii) purchases of securities owned, at fair value offset partially by proceeds from sales of securities owned, at fair value, (iii) proceeds from the sale of short investments offset by payments to cover short investments, and (iv) stock borrow offset by stock loan.

Investing Activities. Net cash used in investing activities of \$20.4 million for the nine months ended September 30, 2020 was primarily related to the purchase of other investments only partially offset by sales of other investments. Net cash used in investing activities of \$54.2 million for the nine months ended September 30, 2019 was primarily related to the purchase of Quarton and other investments.

Financing Activities. Net cash provided by financing activities for the nine months ended September 30, 2020 of \$95.3 million was primarily related to (i) capital contributions by non-controlling interests offset only partially by capital withdrawals by non-controlling interests in Consolidated Funds and (ii) borrowings on notes and other debt offset only partially by repayments on notes and other debt. Net cash provided by financing activities for the nine months ended September 30, 2019 of \$177.2 million was primarily related to capital contributions by non-controlling interests in Consolidating Funds.

Debt

December 2022 Convertible Notes

The Company, on December 14, 2017, issued \$135.0 million aggregate principal amount of 3.0% convertible senior notes due December 2022 (the “December 2022 Convertible Notes”). The December 2022 Convertible Notes are due on December 15, 2022 unless earlier repurchased by the Company or converted by the holder in accordance with their terms prior to such date. The interest on the December 2022 Convertible Notes is payable semi-annually on December 15 and June 15 of each year. The December 2022 Convertible Notes are senior unsecured obligations of Cowen. The December 2022 Convertible Notes may be converted into cash or shares of Class A common stock at the Company's election based on the current conversion price. The

December 2022 Convertible Notes were issued with an initial conversion price of \$17.375 per share of Cowen's Class A common stock.

As of September 30, 2020, the outstanding principal amount of the December 2022 Convertible Notes was \$135.0 million. On June 26, 2018, the Company received shareholder approval for the Company to settle the December 2022 Convertible Notes entirely in Class A common stock. Upon receiving shareholder approval, the Company reclassified the separately recognized conversion option from a derivative liability to equity. Pursuant to the indenture governing the December 2022 Convertible Notes, conversions of the December 2022 Convertible Notes will be settled by the delivery and/or payment, as the case may be, of Cowen's Class A Common Stock, cash, or a combination thereof, at the Company's election. The Company has the intent and ability to settle the convertible notes in cash and, as a result, the convertible notes do not have an impact on the Company's diluted earnings per share calculation (See Note 21).

The Company recorded interest expense of \$1.0 million and \$1.0 million for the three months ended September 30, 2020 and 2019, and \$3.0 million and \$3.0 million for the nine months ended September 30, 2020 and 2019, respectively. The Company recognized the embedded cash conversion option at issuance date fair value, which also represents the initial unamortized discount on the December 2022 Convertible Notes of \$23.4 million and is shown net in convertible debt in the accompanying condensed consolidated statements of financial condition. Amortization on the discount, included within interest and dividends expense in the accompanying condensed consolidated statements of operations is \$1.2 million and \$1.1 million for the three months ended September 30, 2020 and 2019, and \$3.5 million and \$3.2 million for the nine months ended September 30, 2020 and 2019, respectively, based on an effective interest rate of 7.13%. The Company capitalized the debt issuance costs in the amount of \$2.2 million, which is a direct deduction from the carrying value of the debt and will be amortized over the life of the December 2022 Convertible Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations.

Notes Payable

May 2024 Notes

On May 7, 2019, the Company completed its private placement of \$53.0 million aggregate principal amount of 7.25% senior notes due May 2024 (the "May 2024 Notes") with certain institutional investors. On September 30, 2019, the Company issued an additional \$25.0 million of the same series of notes. The additional May 2024 Notes were purchased at a premium of \$0.5 million, which is shown net in notes payable in the accompanying condensed consolidated statement of financial condition. To date the May 2024 Notes have maintained their initial private rating, and the interest rate has remained unchanged. Interest on the May 2024 Notes is payable semi-annually in arrears on May 6 and November 6. The Company recorded interest expense of \$1.4 million and \$0.9 million for three months ended September 30, 2020 and 2019, and \$4.2 million and \$1.5 million for the nine months ended September 30, 2020 and 2019, respectively. The Company capitalized debt issuance costs of approximately \$1.5 million in May 2019 and \$0.6 million in December 2019, which is a direct deduction from the carrying value of the debt and will be amortized over the life of the May 2024 Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations.

June 2033 Notes

On June 11, 2018, the Company completed its public offering of \$90.0 million of 7.75% senior notes due June 2033 (the "June 2033 Notes") and subsequently the underwriters exercised in full their option to purchase an additional \$10.0 million principal amount of the June 2033 Notes. Interest on the June 2033 Notes is payable quarterly in arrears on March 15, June 15, September 15 and December 15. The Company recorded interest expense of \$1.9 million and \$1.9 million for the three months ended September 30, 2020 and 2019, and \$5.8 million and \$5.8 million for the nine months ended September 30, 2020 and 2019, respectively. The Company capitalized debt issuance costs of approximately \$3.6 million which is a direct deduction from the carrying value of the debt and will be amortized over the life of the June 2033 Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations.

December 2027 Notes

On December 8, 2017, the Company completed its public offering of \$120.0 million of 7.35% senior notes due December 2027 (the "December 2027 Notes") and subsequently the underwriters exercised in full their option to purchase an additional \$18.0 million principal amount of the December 2027 Notes. Interest on the December 2027 Notes is payable quarterly in arrears on March 15, June 15, September 15 and December 15. The Company recorded interest expense of \$2.5 million and \$2.5 million for the three months ended September 30, 2020 and 2019, and \$7.6 million and \$7.6 million for the nine months ended September 30, 2020 and 2019, respectively. The Company capitalized debt issuance costs of approximately \$5.0 million which is a direct deduction from the carrying value of the debt and will be amortized over the life of the December 2027 Notes in interest and dividends expense in the accompanying condensed consolidated statements of operations. The net proceeds of the

offering, after deducting the underwriting discount and estimated offering expenses payable by the Company were used to redeem all of its 8.25% senior notes due October 2021 and for general corporate purposes.

Term Loans

On June 30, 2017, a subsidiary of the Company borrowed \$28.2 million to fund general corporate purposes. In July 2019, the subsidiary of the Company borrowed separately, from the same lender, \$4.0 million to fund general corporate purposes. Each loan was secured by the value of the Company's limited partnership interests in two affiliated investment funds. The Company had provided a guarantee for these loans. Both loans had an effective interest rate of LIBOR plus 3.75% with a lump sum payment of the entire combined principal amount due (as amended) on June 26, 2020 when they were both fully repaid. The Company recorded interest expense of \$0.5 million for the three months ended September 30, 2019, and \$0.8 million and \$1.4 million for the nine months ended September 30, 2020 and 2019, respectively.

Other Notes Payable

During January 2020, the Company borrowed \$2.9 million to fund insurance premium payments. This note had an effective interest rate of 2.01% and was due in December 2020, with monthly payment requirements of \$0.3 million. As of September 30, 2020, the outstanding balance on this note was \$0.8 million. Interest expense for the three and nine months ended September 30, 2020 and 2019 was insignificant.

During November 2019, the Company borrowed \$2.6 million to fund general corporate capital expenditures. This note had an effective interest rate of 6% and is due in November 2024, with monthly payment requirements of \$0.1 million. As of September 30, 2020, the outstanding balance on this note was \$2.2 million. Interest expense for the nine months ended September 30, 2020 was \$0.1 million.

On September 30, 2020, the Company borrowed \$72 million from Purple Protected Asset S-91 ("PPA S-91"), a Luxembourg entity unrelated to Cowen. The loan is payable on September 30, 2023, has an interest rate of 1.4 times the Secured Overnight Financing Rate ("SOFR") plus 6.07% until December 31, 2020 and 1.4 times the SOFR plus 5.8% thereafter with quarterly interest payments. The loan obligation, as well as a loan issued by The Military Mutual Ltd (a United Kingdom company unrelated to Cowen) with principal of \$28.4 million that was sold by Hollenfels to PPA S-91 at fair value for no gain or loss on September 30, 2020, are fully cash collateralized through a reinsurance policy provided by Hollenfels which is reflected in cash collateral pledged in the consolidated statements of financial condition as of September 30, 2020. The Company capitalized debt issuance costs of approximately \$1.7 million which is a direct deduction from the carrying value of the loan and will be amortized over the life of the loan in interest and dividends expense in the accompanying condensed consolidated statements of operations. There was no interest expense as of September 30, 2020.

Spike Line

Pursuant to an amendment in May 2020, Cowen and Company replaced Cowen Execution as the borrower and accepted, reaffirmed and assumed all of Cowen Execution's rights, duties, obligations and liabilities under the spike line facility and the related loan documents. In August 2020, Cowen and Company renewed a one-year committed spike line facility to cover short term increases in National Securities Clearing Corporation margin deposit requirements. (See Note 23). The spike line facility has a capacity of \$70 million. This facility has (i) an effective interest rate equal to the Federal Funds rate plus 2.50% on any money drawn from the liquidity facility and (ii) a commitment or unused line fee that is 50 basis points on the undrawn amount. All amounts outstanding under this facility were fully repaid during the second quarter of 2020. Interest expense for the three and nine months ended September 30, 2020 was \$0.0 million and \$0.2 million, respectively.

Revolving Credit Facility

In December 2019, the Company entered into a two-year committed corporate credit facility with a capacity of \$25 million. This credit facility has (i) an effective interest rate equal to LIBOR plus 3.25% on any money drawn from the credit facility and (ii) a commitment or unused line fee that is 50 basis points on the undrawn amount. All amounts outstanding under this corporate credit facility were fully repaid during the second quarter of 2020. Interest expense for the nine months ended September 30, 2020 was \$0.3 million.

Finance Lease Obligations

The Company has entered into various finance leases for computer equipment. These finance lease obligations are included in notes payable and other debt in the accompanying condensed consolidated statements of financial condition.

For the three and nine months ended September 30, 2020 and 2019, quantitative information regarding the Company's finance lease obligations reflected in the accompanying condensed consolidated statements of operations, the supplemental cash flow information and certain other information related to finance leases were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Lease cost				
Finance lease cost:				
Amortization of finance lease right-of-use assets	\$ 308	\$ 299	\$ 924	\$ 966
Interest on lease liabilities	42	54	134	172
Other information				
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from finance leases			134	172
Financing cash flows from finance leases			\$ 901	\$ 951
Weighted average remaining lease term - operating leases (in years)			2.48	3.40
Weighted average discount rate - operating leases			4.89 %	4.93 %

Letters of Credit

As of September 30, 2020, the Company has the following irrevocable letters of credit, related to leased office space, for which there is cash collateral pledged, which the Company pays a fee on the stated amount of the letter of credit. The Company also has pledged cash collateral for reinsurance agreements which amounted to \$106.1 million, as of September 30, 2020, and \$2.0 million, as of December 31, 2019, which are expected to be released periodically as per the terms of the reinsurance policy between March 31, 2021 and March 31, 2024.

Location	Amount	Maturity
	(dollars in thousands)	
New York	\$ 358	April 2021
New York	\$ 1,424	October 2020
New York	\$ 1,637	November 2020
Boston	\$ 386	March 2021
San Francisco	\$ 712	October 2025
	<u>\$ 4,517</u>	

To the extent any letter of credit is drawn upon, interest will be assessed at the prime commercial lending rate. As of September 30, 2020 and December 31, 2019 there were no amounts due related to these letters of credit.

Contractual Obligations

The following tables summarize the Company's contractual cash obligations as of September 30, 2020:

	Total	< 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(dollars in thousands)				
Equipment, Service and Facility Leases					
Real Estate and Other Facility Rental	\$ 93,554	\$ 4,302	\$ 46,207	\$ 32,879	\$ 10,166
Service Payments	70,860	8,262	37,858	11,539	13,201
Operating Equipment Leases	407	90	314	3	—
Total	164,821	12,654	84,379	44,421	23,367
Debt					
Convertible Debt	145,125	2,025	143,100	—	—
Notes Payable	510,969	7,300	47,096	122,269	334,304
Finance Lease Obligation	3,234	251	2,561	422	—
Other Notes Payable	75,255	933	1,186	73,136	—
Total	\$ 734,583	\$ 10,509	\$ 193,943	\$ 195,827	\$ 334,304

Minimum payments for all debt outstanding

Annual scheduled maturities of debt and minimum payments for all debt outstanding as of September 30, 2020, are as follows:

	Convertible Debt	Notes Payable	Other Notes Payable	Finance Lease Obligation
	(dollars in thousands)			
2020	\$ 2,025	\$ 7,300	\$ 933	\$ 251
2021	4,050	23,548	593	1,396
2022	139,050	23,548	593	1,165
2023	—	23,548	72,593	411
2024	—	98,721	543	11
Thereafter	—	334,304	—	—
Subtotal	145,125	510,969	75,255	3,234
Less (a)	(22,640)	(203,532)	(2,002)	(202)
Total	\$ 122,485	\$ 307,437	\$ 73,253	\$ 3,032

- (a) Amount necessary to reduce net minimum payments to present value calculated at the Company's implicit rate at inception. This amount also includes capitalized debt costs and the unamortized discount on the Company's convertible debt.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as of September 30, 2020. However, through indemnification provisions in our clearing agreements, customer activities may expose us to off-balance-sheet credit risk. Pursuant to the clearing agreements, we are required to reimburse our clearing broker, without limit, for any losses incurred due to a counterparty's failure to satisfy its contractual obligations. However, these transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date.

Cowen and Company, Cowen Prime, and ATM Execution are members of various securities exchanges and clearing organizations. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the various securities exchanges and clearing organizations, all other members would be required to meet the shortfall. The Company's liability under these arrangements is not quantifiable. Accordingly, no contingent liability is carried in the accompanying condensed consolidated statements of financial condition for these arrangements.

Cowen and Company temporarily loans securities to other brokers in connection with its securities lending activities. Cowen and Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event that counterparty to these

transactions does not return the loaned securities, Cowen and Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. Cowen and Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis, and by requiring additional cash as collateral or returning collateral when necessary.

Cowen and Company temporarily borrows securities from other brokers in connection with its securities borrowing activities. Cowen and Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event that counterparty to these transactions does not return collateral, Cowen and Company may be exposed to the risk of selling the securities at prevailing market prices. Cowen and Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by depositing additional collateral with counterparties or receiving cash when deemed necessary.

Critical Accounting Policies and Estimates

Critical accounting policies are those that require the Company to make significant judgments, estimates or assumptions that affect amounts reported in its condensed consolidated financial statements or the notes thereto. The Company bases its judgments, estimates and assumptions on current facts, historical experience and various other factors that the Company believes to be reasonable and prudent. Actual results may differ materially from these estimates.

The following is a summary of what the Company believes to be its most critical accounting policies and estimates.

Consolidation

The Company's condensed consolidated financial statements include the accounts of the Company, its subsidiaries, and entities in which the Company has a controlling financial interest, including the Consolidated Funds, in which the Company has a controlling general partner interest. All material intercompany transactions and balances have been eliminated in consolidation. The Company's investment funds are not subject to these consolidation provisions with respect to their investments pursuant to their specialized accounting.

The Company's condensed consolidated financial statements reflect the assets, liabilities, revenues, expenses and cash flows of the Consolidated Funds on a gross basis. The management fees and incentive income earned by the Company from the Consolidated Funds were eliminated in consolidation; however, the Company's allocated share of net income from these investment funds was increased by the amount of this eliminated income. Hence, the consolidation of these investment funds had no net effect on the Company's net earnings. The Company consolidates all entities that it controls through a majority voting interest or otherwise, including those investment funds in which the Company either directly or indirectly has a controlling financial interest. In addition, the Company consolidates all variable interest entities for which it is the primary beneficiary.

The Company consolidates five investment funds for which it acts as the managing member/general partner and investment manager. At September 30, 2020, the Company consolidated the following investment funds: Ramius Enterprise LP ("Enterprise LP"), Cowen Private Investments LP ("Cowen Private"), Cowen Sustainable Investments I LP ("CSI I LP"), CSI I Golden Holdco LP ("Golden HoldCo") and CSI I Prodigy Holdco LP ("Prodigy HoldCo") (each a "Consolidated Fund" and collectively the "Consolidated Funds").

During the second quarter of 2020, the Company deconsolidated Ramius Merger Fund LLC (the "Merger Fund") and UCITS Fund ("UCITS Fund") due to a partial redemption of the Company's direct portfolio fund investment in Merger Fund and a partial termination of the notional value of UCITS Fund units referenced in a total return swap with a third party. The Company continues to hold a direct retained portfolio fund investment in the Merger Fund and continues to have economic exposure to the returns of UCITS Fund through a total return swap with a third party. Both Merger Fund and UCITS Fund continue to be related parties of the Company after deconsolidation.

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

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

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

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

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and reassesses whether it is the primary beneficiary on an ongoing basis as long as it has any continuing involvement with the VIE by performing a periodic qualitative and/or quantitative analysis of the VIE that includes a review of, among other things, its capital structure, contractual agreements between the Company and the VIE, the economic interests that create or absorb variability, related party relationships and the design of the VIE.

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

The Company does not consolidate the Unconsolidated Master Fund or real estate funds that are VIEs due to the Company's conclusion that it is not the primary beneficiary of these funds in each instance. Investment fund investors are entitled to all of the economics of these VIEs with the exception of the management fee and incentive income, if any, earned by the Company. The Company has equity interests in the funds as both a general partner and a limited partner. In these instances the Company has concluded that the variable interests are not potentially significant to the VIE. Although the Company may advance amounts and pay certain expenses on behalf of the investment funds that it considers to be VIEs, it does not provide, nor is it required to provide, any type of substantive financial support to these entities outside of regular investment management services.

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

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

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

Retention of Specialized Accounting—The Consolidated Funds and certain other consolidated companies are investment companies and apply specialized industry accounting. The Company reports its investments on the condensed consolidated statements of financial condition at their estimated fair value, with unrealized gains (losses) resulting from changes in fair value reflected within net realized and unrealized gains (losses) on investments and other transactions. Accordingly, the accompanying condensed consolidated financial statements reflect different accounting policies for investments depending on whether or not they are held through a consolidated investment company.

In addition, the Company's broker-dealer subsidiaries apply the specialized industry accounting for brokers and dealers in securities. The Company also retains specialized accounting upon consolidation.

Valuation of investments and derivative contracts

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

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

- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3 Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

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

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

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

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

Securities—Securities with values based on quoted market prices in active markets for identical assets are classified within level 1 of the fair value hierarchy. These securities primarily include active listed equities, certain U.S. government and sovereign obligations, Exchange Traded Funds ("ETFs"), mutual funds and certain money market securities.

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

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

derivatives, such as swaps and options, with significant inputs that cannot be corroborated by readily available or observable market data are classified as level 3.

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

- i. Portfolio funds**—Portfolio funds (“Portfolio Funds”) include interests in private investment partnerships, foreign investment companies and other collective investment vehicles which may be managed by the Company or its affiliates. The Company applies the practical expedient provided by the US GAAP fair value measurements and disclosures guidance relating to investments in certain entities that calculate net asset value (“NAV”) per share (or its equivalent). The practical expedient permits an entity holding investments in certain entities that either are investment companies or have attributes similar to an investment company, and calculate NAV per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. Investments which are valued using NAV per share as a practical expedient are not categorized within the fair value hierarchy.
- ii. Real estate investments**—Real estate debt and equity investments are measured at fair value. The fair value of real estate investments is estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Real estate investments without a public market are valued based on assumptions and valuation techniques used by the Company. Such valuation techniques may include discounted cash flow analysis, prevailing market capitalization rates or earnings multiples applied to earnings from the investment, analysis of recent comparable sales transactions, actual sale negotiations and bona fide purchase offers received from third parties, consideration of the amount that currently would be required to replace the asset, as adjusted for obsolescence, as well as independent external appraisals. In general, the Company considers several valuation techniques when measuring the fair value of a real estate investment. However, in certain circumstances, a single valuation technique may be appropriate. Real estate investments are reviewed on a quarterly basis by the Company for significant changes at the property level or a significant change in the overall market which would impact the value of the real estate investment resulting in unrealized appreciation or depreciation.

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

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

- iii. Carried Interest**—For the private equity and debt fund products the Company offers, the Company is allocated incentive income by the investment funds based on the extent by which the investment funds performance exceeds predetermined thresholds. Carried interest allocations are generally structured from a legal standpoint as an allocation of capital in the Company's capital account. The Company accounts for carried interest allocations by applying an equity ownership model. Accordingly, the Company accrues performance allocations quarterly based on the fair value of the underlying investments assuming hypothetical liquidation at book value.
- iv. Equity Method Investments**—For operating entities over which the Company exercises significant influence but which do not meet the requirements for consolidation as outlined above, the Company applies the equity method of accounting. The Company's investments in equity method investees are recorded in other investments in the accompanying condensed consolidated statements of financial condition. The Company's share of earnings or losses from equity method investees is included in net gains (losses) on securities, derivatives and other investments in the accompanying condensed consolidated statements of operations.

Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price consideration of acquired companies over the estimated fair value assigned to the individual assets acquired and liabilities assumed. Goodwill is allocated to the Company's reporting units at the date the goodwill is initially recorded. Once goodwill has been allocated to the reporting units, it generally no longer retains its

identification with a particular acquisition, but instead becomes identifiable with the reporting unit. As a result, all of the fair value of each reporting unit is available to support the value of goodwill allocated to the unit.

In accordance with US GAAP requirements for testing for impairment of goodwill, the Company tests goodwill for impairment on an annual basis or at an interim period if events or changed circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. In testing for goodwill impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances led to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company concludes that fair value exceeds its carrying amount, then performing a quantitative impairment test is not necessary. If the Company concludes otherwise, the Company is required to perform a quantitative impairment test that requires a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying value, the related goodwill is not considered impaired and no further analysis is required. If the carrying value of the reporting unit exceeds its fair value, then the Company recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

The Company's evaluation of goodwill for potential impairment is sensitive to the Company's forecasts of future profitability and market conditions. At this time, the impact of COVID-19 on the Company's forecasts is uncertain and increases the subjectivity that will be involved in evaluating goodwill for potential impairment going forward. Based on the ultimate impact of COVID-19, there may be materially negative impacts to the assumptions made with respect to goodwill that could result in an impairment.

Intangible assets

Intangible assets with finite lives are amortized over their estimated average useful lives. The Company does not have any intangible assets deemed to have indefinite lives. Intangible assets are tested for potential impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized in the accompanying condensed consolidated statements of operations if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. The Company continually monitors the estimated average useful lives of existing intangible assets.

Income taxes

The Company accounts for income taxes in accordance with US GAAP which requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax basis of its assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to an amount that is more likely than not to be realized. We evaluate our deferred tax assets for recoverability considering negative and positive evidence, including its historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, and tax planning strategies. We record a valuation allowance against our deferred tax assets to bring them to a level that it is more likely than not to be utilized. In evaluating the need for a valuation allowance, we estimate future taxable income based on management approved business plans. This process involves significant management judgment about assumptions that are subject to change from period to period. Because the recognition of deferred tax assets requires management to make significant judgments about future earnings, the periods in which items will impact taxable income and the application of inherently complex tax laws we have identified the assessment of deferred tax assets and the need for any related valuation allowance as a critical accounting estimate.

Legal Reserves

The Company estimates potential losses that may arise out of legal and regulatory proceedings and records a reserve and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated, in accordance with US GAAP. These amounts are reported in other expenses, net of recoveries, in the condensed consolidated statements of operations. See Note 17 in our accompanying condensed consolidated financial statements for the quarter ended September 30, 2020 for further discussion.

Recently adopted and future adoption of accounting pronouncements

For a detailed discussion, see Note 2o "Recent pronouncements" in our accompanying condensed consolidated financial statements for the three and nine months ended September 30, 2020.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the nine months ended September 30, 2020, there were no material changes in our quantitative and qualitative disclosures about market risks from those disclosed in our 2019 Form 10-K. For a more detailed discussion concerning our market risk, see Item 7A "Quantitative and Qualitative Disclosures about Market Risk" in our 2019 Form 10-K.

Item 4. Controls and Procedures

Our management, with the participation of the Chief Executive Officer and the Chief Financial Officer (the principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of September 30, 2020.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of September 30, 2020, our disclosure controls and procedures are effective to provide a reasonable assurance that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer of the Company, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the nine months ended September 30, 2020.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company and its affiliates, subsidiaries and current and former officers, directors and employees (the "Company and Related Parties") are named as defendants in, or as parties to, various legal actions and proceedings. Certain of these actions and proceedings assert claims or seek relief in connection with alleged violations of securities, banking, anti-fraud, anti-money laundering, employment and other statutory and common laws. Certain of these actual or threatened legal actions and proceedings include claims for substantial or indeterminate compensatory or punitive damages, or for injunctive relief.

In the ordinary course of business, the Company and Related Parties are also subject to governmental and regulatory examinations, information gathering requests (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Certain of our affiliates and subsidiaries are registered broker-dealers, futures commission merchants, investment advisers or other regulated entities and, in those capacities, are subject to regulation by various U.S., state and foreign securities, commodity futures and other regulators. In connection with formal and informal inquiries by these regulators, we receive requests and orders seeking documents and other information in connection with various aspects of our regulated activities.

Due to the global scope of our operations, and presence in countries around the world, the Company and Related Parties may be subject to litigation, governmental and regulatory examinations, information gathering requests, investigations and proceedings (both formal and informal), in multiple jurisdictions with legal and regulatory regimes that may differ substantially, and present substantially different risks, from those to which the Company and Related Parties are subject in the United States.

The Company seeks to resolve all litigation and regulatory matters in the manner management believes is in the best interests of the Company and its shareholders, and contests liability, allegations of wrongdoing and, where applicable, the amount of damages or scope of any penalties or other relief sought as appropriate in each pending matter.

In accordance with US GAAP, the Company establishes reserves for contingencies when the Company believes that it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. The Company discloses a contingency if there is at least a reasonable possibility that a loss may have been incurred and there is no reserve for the loss because the conditions above are not met. The Company's disclosure includes an estimate of the reasonably possible loss or range of loss for those matters, for which an estimate can be made. Neither a reserve nor disclosure is required for losses that are deemed remote.

The Company appropriately reserves for certain matters where, in the opinion of management, the likelihood of liability is probable and the extent of such liability is reasonably estimable. Such amounts are included within accounts payable, accrued expenses and other liabilities in the accompanying condensed consolidated statements of financial condition. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel, the Company's defenses and its experience in similar cases or proceedings as well as its assessment of matters, including settlements, involving

other defendants in similar or related cases or proceedings. The Company may increase or decrease its legal reserves in the future, on a matter-by-matter basis, to account for developments in such matters. The Company accrues legal fees as incurred.

Item 1A. Risk Factors

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our 2019 Form 10-K as well as those set forth below. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our businesses, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

We could change our existing dividend policy in the future and there can be no assurance that we will continue to declare cash dividends.

We began paying quarterly cash dividends to holders of record of our Class A common stock in March 2020. Although we expect to continue to pay dividends to our shareholders in accordance with our dividend policy, as described under the heading "Dividend Policy" in our Annual Report on Form 10-K for the year ended December 31, 2019, we have no obligation to pay any dividend, and our dividend policy may change at any time without notice. The declaration and payment of dividends on our Class A common stock is at the discretion of our Board of Directors in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and capital uses, legal requirements, contractual restrictions (including under agreements related to indebtedness to which we are a party) and other factors that our Board of Directors deems relevant in its sole discretion. For example, in the event that there is deterioration in our financial performance and/or our liquidity position, a downturn in global economic conditions or disruptions in the credit markets and our ability to obtain financing, our Board of Directors could decide to suspend dividend payments in the future. As a Delaware corporation, we are required to meet certain surplus thresholds for our Board of Directors to declare a dividend in accordance with the Delaware General Corporation Law. As a result, we may not pay dividends at all.

Market, Strategy and Industry Risk

Difficult market conditions, market disruptions and volatility have adversely affected, and may in the future adversely affect, the Company's businesses, results of operations and financial condition.

The Company's businesses, by their nature, do not produce predictable earnings, and all of the Company's businesses have in the past been, and may in the future be affected by conditions in the global financial markets and by global economic conditions, such as interest rates, the availability of credit, inflation rates, economic uncertainty, changes in laws, commodity prices, asset prices (including real estate), currency exchange rates and controls and national and international political circumstances (including wars, terrorist acts, protests or security operations). Challenging market conditions have in the past affected and in the future could affect the level and volatility of securities prices and the liquidity and the value of investments in the Company's investment funds or other investments in which the Company has investments of its own capital, and the Company may not be able to effectively manage its investment management business's exposure to challenging market conditions. Challenging market conditions have in the past adversely affected and in the future could also adversely affect the Company's investment banking business as increased volatility and lower stock prices can make companies less likely to conduct transactions.

In addition, global economic conditions and global financial markets remain vulnerable to the potential risks posed by certain events, which could include, among other things, political and financial uncertainty in the United States and the European Union, renewed concern about China's economy, complications involving terrorism and armed conflicts around the world, or other challenges to global trade or travel, such as have occurred or might occur in the event of a wide pandemic such as the COVID-19. More generally, because our businesses are closely correlated to the general economic outlook, a significant deterioration in that outlook or realization of certain events would likely have an immediate and significant negative impact on our businesses and overall results of operations.

The effects of the outbreak of COVID-19 have negatively affected the global economy, the United States economy and the global financial markets, and have disrupted and may further disrupt our operations and our clients' operations. The effects of the COVID-19 pandemic could in future periods have an adverse effect on our business, financial condition and results of operations.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The spread of COVID-19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, labor shortages, supply chain interruptions and overall economic and financial market instability. Impacts to our businesses could include the following:

- Employees contracting COVID-19
- Reductions in our operating effectiveness as our employees work from home or disaster-recovery locations

- Unavailability of key personnel necessary to conduct our business activities
- Unprecedented volatility in global financial markets
- Reductions in revenue across our operating businesses
- Declines in collateral value
- Declines in demand for our products or services
- Unavailability of critical services provided to us by third parties
- Operational failures due to changes in our normal business practices
- Credit losses

We are taking precautions to protect the safety and well-being of our employees. However, no assurance can be given that the steps being taken will be deemed to be adequate or appropriate, nor can we predict the level of disruption which will occur to our employee's ability to service our clients and provide support for our business. Furthermore, our future success and profitability substantially depends on the management skills of our executive officers and directors, many of whom have held officer and director positions with us for many years. The unanticipated loss or unavailability of key employees due to the COVID-19 pandemic could harm our ability to operate our businesses or execute our business strategy. We may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability.

In the event that the COVID-19 pandemic persists and leads to increased volatility and lower stock prices for many companies, our investment banking activity could be materially disrupted.

In addition, a sustained and continuing market downturn could lead to or exacerbate declines in the number of security transactions executed for customers and, therefore, to a decline in the revenues we receive from commissions and spreads.

In addition, revenues from our investment management businesses could be negatively impacted by decreased securities prices, as well as widely fluctuating securities prices. Because our investment management businesses hold long and short positions in securities, changes in the prices of these securities, as well as any decrease in the liquidity of these securities, may materially and adversely affect our revenues from investment management.

Any one or more of these developments could cause, contribute to or exacerbate the risks and uncertainties enumerated in our Annual Report on Form 10-K for the year ended December 31, 2019 and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2020 and June 30, 2020 could have a material adverse effect on our business, operations, consolidated financial condition, and results of operations. Furthermore, such developments may remain prevalent for a significant period of time and may in the future adversely affect our business, financial condition and results of operations even after the COVID-19 pandemic has subsided.

Business Risks

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as COVID-19, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create, and in the case of COVID-19 have created, and may continue to create, economic and financial disruptions, and in the case of COVID-19 have led to, and other future event could lead to, operational difficulties (including travel limitations) that may impair our ability to manage our businesses.

Our businesses have traditionally relied on collaboration among our employees, particularly in our markets business. We do not know how remote working by our employees will impact our ability to collaborate. Accordingly, our business could be adversely affected by a prolonged period of employees working remotely.

Our business has traditionally relied on collaboration among our employees. In particular, the trading floor environment in our markets business facilitates idea generation and is more conducive to active trading. While we have been able to continue to operate all of our businesses, including our markets business, with our employees working remotely, we have been doing so since March 2020 and we do not know how a continuing and prolonged period of remote working by our employees will impact our ability to collaborate. Accordingly, our businesses could be adversely affected by a continuing and prolonged period of employees working remotely.

Human Capital Risk

Our businesses are heavily dependent on our personnel so any adverse effects on their well-being or morale could adversely affect our business.

COVID-19 presents a significant threat to our employees' well-being and morale and the longer the pandemic persists the more significant the challenges could be to our employees' morale. While we have implemented a business continuity plan to protect the health of our employees, our business continuity plan cannot anticipate all scenarios and we may experience potential loss of productivity or a delay in the roll out of certain strategic plans as a result of the COVID-19 pandemic.

Operational Risks

An extended period of remote working by our employees could strain our technology resources and introduce operational risks, including heightened cybersecurity risk.

Our operations rely extensively on the secure processing, storage and transmission of confidential financial, personal and other information in our computer systems and networks. In addition, the Company's businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across diverse markets, and the transactions that the Company processes have become increasingly complex. As a result of the COVID-19 pandemic virtually all of our employees, including those who process our transactions, are working remotely. While we have implemented risk management and contingency plans and taken other precautions with respect to the COVID-19 pandemic, such measures may not adequately protect our businesses from the full impact of the COVID-19 pandemic as remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic. Accordingly, if our systems are breached as a result of a cybersecurity attack that takes advantage of the COVID-19 pandemic our ability to securely process transactions and maintain confidential financial, personal and other information could be adversely affected.

In addition, the effects of the COVID-19 pandemic, including remote working arrangements for employees, may also impact our financial reporting systems and internal control over financial reporting, disclosure controls and procedures, however, to date, these arrangements have not materially affected our ability to maintain our business operations. For further discussion, see Part 1 - Item 1A. Risk Factors - "Any cyber attack or other security breach of or vulnerability in our technology systems, or those of our clients or other third party vendors we rely on, could have operational impacts, subject us to significant liability and harm our reputation" in our 2019 Form 10-K.

Liquidity Risks

Servicing our debt and funding our necessary capital expenditures requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt or to fund our necessary capital expenditures.

Our ability to make scheduled payments of the principal and to pay interest on or to refinance our indebtedness, including our senior notes due 2024, our senior notes due 2027, our senior notes due 2033 and our convertible notes due 2022, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

Furthermore, to the extent that our business is unable to generate cash flows sufficient to fund necessary capital expenditures during the COVID-19 pandemic, we may be required to seek additional capital through issuances of debt or equity securities; however, we may be unable to complete any such transactions on favorable terms to us, or at all.

Any substantial and sustained downturn in our operations due to the COVID-19 pandemic or other factors may cause us to be in breach of our debt covenants which would limit our ability to incur additional indebtedness.

The instruments governing our existing indebtedness require us to comply with certain restrictive covenants and any substantial and sustained downturn in our operations due to the COVID-19 pandemic or other factors may cause us to be in breach of such covenants. If we breach these covenants our ability to incur additional indebtedness would be limited. In addition, to the extent we borrow under our \$25 million revolving credit facility a breach of the maintenance covenants under that facility could constitute an event of default and cause our outstanding indebtedness under the revolving credit facility to be declared immediately due and payable. If applicable, such acceleration of our outstanding indebtedness could cause our secured lenders to foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation. Any inability to obtain additional liquidity as and when needed, or to maintain compliance with the instruments governing our indebtedness, would have a material adverse effect on our financial condition and results of operations.

In addition, the current uncertain condition of the capital markets and their actual or perceived effects on our business, financial condition and results of operations, along with the current unfavorable economic environment in the United States and much of the world resulting from the COVID-19 pandemic, may increase the likelihood that one or more of the major independent credit agencies would downgrade our credit ratings, which could have a negative effect on our access to capital and the cost of any future debt financing. In addition, the terms of future debt agreements could include more restrictive covenants or require incremental collateral, which may further restrict our business operations.

The soundness of other financial institutions may adversely affect Cowen.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Cowen has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and institutional clients. Many of these transactions expose Cowen to credit risk in the event of a default by a counterparty or client. In the past, defaults by, or even speculation about, one or more financial services institutions or the financial services industry generally during moments of economic crisis have led to market-wide liquidity problems. The economic volatility resulting from the current COVID-19 pandemic could, as similar events in the past have, result in similar defaults and, as a result, impair the confidence of our counterparties and ultimately affect our ability to effect transactions. In addition, Cowen's credit risk may be exacerbated when the collateral held by Cowen cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit exposure due to Cowen. Any such losses could have a material adverse effect on Cowen's financial condition and results of operations.

Higher volumes and price volatility in the markets due to COVID-19 could lead to higher cash requirements in our clearing businesses, which could adversely affect our liquidity position.

Since February 29, 2020, the capital markets have experienced a higher level of stress due to the global COVID-19 pandemic. Higher volumes and price volatility have led to increased margin requirements at clearing corporations and exchanges, along with increased levels of fails due to operational friction in the financial system. These higher cash requirements could have required us, and may continue to require us, to use more liquidity for our clearing businesses and our overall liquidity could be adversely affected as a result.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of September 30, 2020, the Company's Board of Directors has a share repurchase program that authorizes the Company to purchase up to \$251.8 million of Cowen Class A common stock from time to time through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. The specific timing and amount of repurchases will vary depending on various factors, including, among others, market conditions and competing needs for the use of our capital. We may elect to conduct future share repurchases through open market purchases, private transactions or automatic share repurchase programs under SEC Rule 10b5-1. During the three months ended September 30, 2020, the Company repurchased 1,144,254 shares, at an average price of \$16.49 per share, of Cowen Class A common stock through the share repurchase program.

The table below sets forth the information with respect to purchases made by or on the behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act, as amended), of our common stock during the three months ended September 30, 2020. Board approval of repurchases is based on dollar amount. As a result, the Company cannot estimate the number of shares that may yet be purchased.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month 7 (July 1, 2020 – July 31, 2020)				
Common stock repurchases(1)	—	\$ —	—	\$ 24,165,575
Employee transactions(2)	3,450	15.76	—	—
Other (3)	1,837	14.38	—	—
Total	5,287	\$ 15.28	—	—
Month 8 (August 1, 2020 – August 31, 2020)				
Common stock repurchases(1)	236,790	\$ 16.75	236,790	\$ 20,199,771
Employee transactions(2)	—	—	—	—
Other (3)	—	—	—	—
Total	236,790	\$ 16.75	236,790	—
Month 9 (September 1, 2020 – September 30, 2020)				
Common stock repurchases(1)	907,464	\$ 16.43	907,464	\$ 5,294,360
Employee transactions(2)	11,535	18.41	—	—
Other (3)	—	—	—	—
Total	918,999	\$ 16.45	907,464	—
Total (July 1, 2020 – September 30, 2020)				
Common stock repurchases(1)	1,144,254	\$ 16.49	1,144,254	\$ 5,294,360
Employee transactions(2)	14,985	17.80	—	—
Other (3)	1,837	14.38	—	—
Total	1,161,076	\$ 16.51	1,144,254	—

- (1) The Company's Board of Directors have authorized the repurchase, subject to market conditions, of up to \$251.8 million of the Company's outstanding Class A common stock.
- (2) Represents shares of the Company's Class A common stock withheld in satisfaction of tax withholding obligations upon the vesting of equity awards or other similar transactions.
- (3) Represents shares of common stock distributed to the Company from an escrow account established to satisfy the Company's indemnification claims arising under the terms of the purchase agreement entered into in connection with the Company's acquisition of ConvergeX Group, LLC.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Cowen Inc. (previously filed as Exhibit 3.1 to the Form 10-Q filed November 25, 2009).
3.2	Second Amended and Restated By-Laws of Cowen Inc. (previously filed as Exhibit 3.1 to the Form 8-K filed on February 18, 2020).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Cowen Inc. (previously filed as Exhibit 3.3 to the Form 10-Q filed November 25, 2009).
3.4	Certificate of Designations of the Company for its Series A Cumulative Perpetual Preferred Stock (previously filed as Exhibit 3.1 to Form 8-K filed May 20, 2015).
3.5	Amendment to the Amended and Restated Certificate of Incorporation of Cowen Inc. (previously filed as Exhibit 3.1 to the Form 8-K filed December 5, 2016).
3.6	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cowen Inc. (previously filed as Exhibit 3.1 to the Form 8-K filed on May 16, 2017).
31.1	Certification of CEO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of CFO Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certification of CEO and CFO Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT
104	Cover Page Interactive Data File - (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COWEN INC.

By: /s/ JEFFREY M. SOLOMON

Name: Jeffrey M. Solomon

Title: *Chief Executive Officer*

By: /s/ STEPHEN A. LASOTA

Name: Stephen A. Lasota

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

Date: October 29, 2020

Certification

I, Jeffrey M. Solomon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cowen Inc:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ JEFFREY M. SOLOMON

Name: Jeffrey M. Solomon
Title: *Chief Executive Officer*
(principal executive officer)

Certification

I, Stephen A. Lasota, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cowen Inc:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2020

/s/ STEPHEN A. LASOTA

Name: Stephen A. Lasota

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

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cowen Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 29, 2020

/s/ JEFFREY M. SOLOMON

Name: Jeffrey M. Solomon
Title: Chief Executive Officer
(principal executive officer)

/s/ STEPHEN A. LASOTA

Name: Stephen A. Lasota
Title: Chief Financial Officer (principal financial
officer and principal accounting officer)

* The foregoing certification is being furnished solely pursuant to 18 U.S.C Section 1350 and is not being filed as part of the Report or as a separate disclosure document