INTERNATIONAL BANCSHARES CORP
Form 10-Q
May 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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 000-09439

INTERNATIONAL BANCSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Texas	74-2157138

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1200 San Bernardo Avenue, Laredo, Texas 78042-1359

(Address of principal executive offices)

(Zip Code)

(956) 722-7611

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Class	Shares Issued and Outstanding
Common Stock, $1.00 par value	65,943,727 shares outstanding at May 3, 2016

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition (Unaudited)

(Dollars in Thousands)

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 258,470	$ 273,053
Investment securities:		
Held to maturity (Market value of $2,400 on March 31, 2016 and $2,400 on December 31, 2015)	2,400	2,400
Available for sale (Amortized cost of $4,290,424 on March 31, 2016 and $4,196,034 on December 31, 2015)	4,337,940	4,199,372
Total investment securities	4,340,340	4,201,772
Loans	5,935,574	5,950,914
Less allowance for probable loan losses	(61,784)	(66,988)
Net loans	5,873,790	5,883,926
Bank premises and equipment, net	515,477	516,716
Accrued interest receivable	29,550	31,572
Other investments	466,941	468,791
Identified intangible assets, net	121	153
Goodwill	282,532	282,532
Other assets	111,468	114,354
Total assets	$ 11,878,689	$ 11,772,869

INTERNATIONAL BANCSHARES CORPORATION AND SUBSIDIARIES

Consolidated Statements of Condition, continued (Unaudited)

(Dollars in Thousands)

	March 31, 2016	December 31, 2015
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand—non-interest bearing	$ 3,176,647	$ 3,149,618
Savings and interest bearing demand	3,117,289	3,020,222
Time	2,319,797	2,366,413
Total deposits	8,613,733	8,536,253
Securities sold under repurchase agreements	784,262	827,772
Other borrowed funds	499,650	505,750
Junior subordinated deferrable interest debentures	161,416	161,416
Other liabilities	119,331	76,175
Total liabilities	10,178,392	10,107,366
Shareholders' equity:		
Common shares of $1.00 par value. Authorized 275,000,000 shares; issued 95,875,943 shares on March 31, 2016 and 95,866,218 shares on December 31, 2015	95,876	95,866
Surplus	168,367	167,980
Retained earnings	1,697,461	1,683,600
Accumulated other comprehensive income (including $(3,925) on March 31, 2016 and $(4,026) on December 31, 2015 of comprehensive loss related to other-than-temporary impairment for non-credit related issues)	30,662	Limitations on access to capital by the Company and its subsidiaries could impair its liquidity and its ability to conduct its businesses.

Liquidity, or ready access to funds, is essential to the operations of financial services firms. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to Cowen and Company's trading business and Cowen Execution's clearing business and perceived liquidity issues may affect the willingness of the Company's broker-dealer clients and counterparties to engage in brokerage transactions with Cowen and Company and Cowen Execution. Cowen and Company's and Cowen Execution's liquidity could be impaired due to circumstances that the Company may be unable to control, such as a general market disruption or an operational problem that affects Cowen and Company and Cowen Execution, its trading clients or third parties. Furthermore, the Company's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

The Company primarily depends on its subsidiaries to fund its operations. Cowen and Company, ATM Execution, Cowen Prime, Cowen Execution, and Westminster are subject to the net capital requirements of the SEC and various self-regulatory organizations of which they are members. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Cowen International Ltd, Ramius UK Ltd. ("Ramius UK"), Cowen Execution and the Company's U.K. registered broker-dealer subsidiaries, are subject to the capital requirements of the U.K. FCA. Any failure to comply with these capital requirements could impair the Company's ability to conduct its broker-dealer business.

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The Company's investment management and broker-dealer businesses' subsidiaries may become subject to additional regulations which could increase the costs and burdens of compliance or impose additional restrictions which could have a material adverse effect on the Company's businesses and the performance of the Company's funds.
Market disruptions like those experienced in 2008 have led to an increase in governmental as well as regulatory scrutiny from a variety of regulators, including the SEC, CFTC, FINRA, NFA, U.S. Treasury, the NYSE and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. The Company may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. The Company also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. The Company could be fined, prohibited from engaging in some of its business activities or subjected to limitations or conditions on its business activities. In addition, the Company could incur significant expense associated with compliance with any such legislation or regulations or the regulatory and enforcement environment generally. Substantial legal liability or significant regulatory action against the Company could have a material adverse effect on the financial condition and results of operations of the Company or cause significant reputational harm to the Company, which could seriously affect its business prospects.
The activities of certain of the Company's subsidiaries and affiliates are regulated primarily within the U.S. by the SEC, FINRA, the NFA, the CFTC and other self-regulatory organizations, as well as various state agencies, and are also subject to regulation by other agencies in the various jurisdictions in which they operate and are offered, including the FCA and the European Securities and Markets Authority. Certain legislation proposing greater regulation of the industry is regularly considered by the U.S. Congress - as well as by the governing bodies of non-U.S. jurisdictions - and from time to time adopted as in the case of the Dodd-Frank Act in the U.S. and MiFID II in the E.U.
The investment advisers responsible for the Company's investment management business are all registered as investment advisers with the SEC or rely upon the registration of an affiliated adviser. In addition, two of our investment advisers are also registered as CPOs and therefore subject to CFTC and NFA regulations. Certain investment advisors and/or the investment management products they advise are also subject to regulation by various regulatory authorities outside the U.S., including the U.K. FCA, the Swedish FCA and the European Securities and Markets Authority and may indirectly be subject to MiFID II regulations. Moreover, recent rulemaking by the SEC and certain non-U.S. regulatory bodies have imposed trading restrictions and reporting requirements on short selling, which have impacted certain of the investment strategies implemented on behalf of the Company's Funds, and continued restrictions on or further regulations of short sales could also negatively impact their performance.
These and other regulators in these jurisdictions have broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to make inquiries of companies regarding compliance with applicable regulations, to grant permits and to regulate marketing and sales practices and the maintenance of adequate financial resources as well as significant reporting obligations to regulatory authorities. Under the E.U. Alternative Investment Fund Managers Directive, the Company will only be permitted to actively market its funds in the E.U. if certain disclosure and reporting obligations are met, and certain cooperation arrangements with the domicile of the investment vehicle are in place. As such, the Company may need to modify its strategies or operations, face increased constraints on its investment management business or incur additional costs in order to satisfy new regulatory requirements or to compete in a changed business environment. It is difficult to predict the impact of such legislative initiatives on the Company and the markets in which it operates and/or invests.
It is difficult to predict what other changes may be instituted in the future in the regulation of the Company or the markets in which they invest, or the counterparties with which it does business, in addition to those changes already proposed or adopted in the U.S. or other countries. Any such regulation could have a material adverse effect on the profit potential of the Company’s operations.
Finally, financial services firms are subject to numerous perceived or actual conflicts of interest, which have drawn and which we expect will continue to draw scrutiny from the SEC and other federal and state regulators. For example,

the research areas of investment banks have been and remain the subject of heightened regulatory scrutiny, which has led to increased restrictions on the interaction between equity research analysts and investment banking personnel at securities firms. Regulations have also been focusing on potential conflicts of interest or issues relating to impermissible disclosure of material nonpublic information. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if it fails to do so. Such policies and procedures to address or limit actual or perceived conflicts may also result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation.

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The Company is subject to third party litigation risk and regulatory risk which could result in significant liabilities and reputational harm which, in turn, could materially adversely affect its business, results of operations and financial condition.

The Company depends to a large extent on its reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with the Company's services, it may be more damaging in its business than in other businesses. Moreover, the Company's role as advisor to clients on underwriting or merger and acquisition transactions involves complex analysis and the exercise of professional judgment, including rendering "fairness opinions" in connection with mergers and other transactions. Such activities may subject the Company to the risk of significant legal liabilities, not covered by insurance, to clients and aggrieved third parties, including stockholders of clients who could commence litigation against the Company. Although the Company's investment banking engagements typically include broad indemnities from its clients and provisions to limit exposure to legal claims relating to such services, these provisions may not protect the Company, may not be enforceable, or may be with foreign companies requiring enforcement in foreign jurisdictions which may raise the costs and decrease the likelihood of enforcement. As a result, the Company may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and/or adverse judgments. In addition, in some instances Cowen Prime serves as a registered investment advisor providing advice to retail investors and retaining discretion over some retail investment accounts. The Company could be exposed to potential litigation and liability if any of these clients are not satisfied with the investment advisory services being provided. Substantial legal liability or significant regulatory action against the Company could have a material adverse effect on our results of operations or cause significant reputational harm, which could seriously harm our business and prospects.

In general, the Company is exposed to risk of litigation by investors in its investment management business if the management of any of its funds is alleged to have been grossly negligent or fraudulent. Investors or beneficial owners of the Company’s funds could sue to recover amounts lost due to any alleged misconduct, up to the entire amount of the loss. In addition, the Company faces the risk of litigation from investors and beneficial owners of any of its funds if applicable restrictions are violated. In addition, the Company is exposed to risks of litigation or investigation relating to transactions that presented conflicts of interest that were not properly addressed. In the majority of such actions the Company would be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. In addition, although the Company is contractually entitled to indemnification from its funds, our rights to indemnification may be challenged. If the Company is required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds, if any, or is not wholly indemnified, our business, results of operations and financial condition could be materially adversely affected. In its investment management business, the Company is exposed to the risk of litigation if a fund suffers catastrophic losses due to the failure of a particular investment strategy or due to the trading activity of an employee who has violated market rules or regulations. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances which are materially damaging to the Company's reputation and businesses.

The potential for conflicts of interest within the Company, and a failure to appropriately identify and deal with conflicts of interest could adversely affect our businesses.

Due to the combination of our investment management and broker-dealer businesses, we face an increased potential for conflicts of interest, including situations where our services to a particular client or investor or our own interests in our investments conflict with the interests of another client. Such conflicts may also arise if our broker-dealer business has access to material non-public information that may not be shared with our investment management business or vice versa. Additionally, our regulators have the ability to scrutinize our activities for potential conflicts of interest, including through detailed examinations of specific transactions.

Appropriately identifying and dealing with conflicts of interest is complex and difficult, and the willingness of clients to enter into transactions or engagements in which such a conflict might arise may be affected if we fail to identify and appropriately address potential conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or enforcement actions.

Employee misconduct could harm the Company by, among other things, impairing the Company's ability to attract and retain investors and subjecting the Company to significant legal liability, reputational harm and the loss of revenue from its own invested capital.

It is not always possible to detect and deter employee misconduct. The precautions that the Company takes to detect and prevent this activity may not be effective in all cases, and we may suffer significant reputational harm and financial loss for any misconduct by our employees. The potential harm to the Company's reputation and to our business caused by such misconduct is impossible to quantify.

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There is a risk that the Company's employees or partners could engage in misconduct that materially adversely affects the Company's business, including a decrease in returns on its own invested capital. The Company is subject to a number of obligations and standards arising from its businesses. The violation of these obligations and standards by any of the Company's employees could materially adversely affect the Company and its investors. For instance, the Company's businesses require that the Company properly deal with confidential information. If the Company's employees were to improperly use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. If one of the Company's employees were to engage in misconduct or were to be accused of such misconduct, the business and reputation of the Company could be materially adversely affected.

The Company may be unable to successfully identify, manage and execute future acquisitions, investments and strategic alliances, which could adversely affect our results of operations.

We intend to continually evaluate potential acquisitions, investments and strategic alliances to expand our investment management and broker-dealer businesses. In the future, we may seek additional acquisitions, investments, strategic alliances or similar arrangements, which may expose us to risks such as:

- the difficulty of identifying appropriate acquisitions, investments, strategic allies or opportunities on terms acceptable to us;
- the possibility that senior management may be required to spend considerable time negotiating agreements and monitoring these arrangements;
- potential regulatory issues applicable to the financial services business;
- the loss or reduction in value of the capital investment;
- our inability to capitalize on the opportunities presented by these arrangements; and
- the possibility of insolvency of a strategic ally.

Furthermore, any future acquisitions of businesses could entail a number of risks, including:

- problems with the effective integration of operations;
- inability to maintain key pre-acquisition business relationships;
- increased operating costs;
- exposure to unanticipated liabilities; and
- difficulties in realizing projected efficiencies, synergies and cost savings.

There can be no assurance that we would successfully overcome these risks or any other problems encountered with these acquisitions, investments, strategic alliances or similar arrangements.

The Company's future results will suffer if the Company does not effectively manage its expanded operations.

The Company may continue to expand its operations through new product and service offerings and through additional strategic investments, acquisitions or joint ventures, some of which may involve complex technical and operational challenges. The Company's future success depends, in part, upon its ability to manage its expansion opportunities, which pose numerous risks and uncertainties, including the need to integrate new operations into its existing business in an efficient and timely manner, to combine accounting and data processing systems and management controls and to integrate relationships with customers and business partners. In addition, future acquisitions or joint ventures may involve the issuance of additional shares of common stock of the Company, which may dilute the ownership of the Company's stockholders.

The Company's failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on the Company's financial condition, results of operations and business and the price of our Class A common stock.

The Sarbanes Oxley Act and the related rules require our management to conduct an annual assessment of the effectiveness of our internal control over financial reporting and require a report by our independent registered public accounting firm addressing our internal control over financial reporting. To comply with Section 404 of the Sarbanes Oxley Act, we are required to document formal policies, processes and practices related to financial reporting that are necessary to comply with Section 404. Such policies, processes and practices are important to ensure the identification of key financial reporting risks, assessment of their potential impact and linkage of those risks to specific areas and activities within our organization.

If we fail for any reason to comply with the requirements of Section 404 in a timely manner, our independent registered public accounting firm may, at that time, issue an adverse report regarding the effectiveness of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor

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confidence in us and the reliability of our financial statements. Any such event could adversely affect our financial condition, results of operations and business, and result in a decline in the price of our Class A common stock.

Certain provisions of the Company's amended and restated certificate of incorporation and bylaws and Delaware law may have the effect of delaying or preventing an acquisition by a third party.

The Company's amended and restated certificate of incorporation and bylaws contain several provisions that may make it more difficult for a third party to acquire control of the Company, even if such acquisition would be financially beneficial to the Company's stockholders. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in the Company's stockholders receiving a premium over the then-current trading price of our common stock. For example, the Company's amended and restated certificate of incorporation authorizes its board of directors to issue up to 10,000,000 shares of "blank check" preferred stock. Without stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire the Company. In addition, the Company's amended and restated bylaws provide for an advance notice procedure with regard to the nomination of candidates for election as directors and with regard to business to be brought before a meeting of stockholders. The Company is also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an "interested stockholder," the Company may not enter into a "business combination" with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For the purposes of Section 203, "interested stockholder" means, generally, someone owning 15% or more of the Company's outstanding voting stock or an affiliate of the Company that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 has adversely affected, and may continue to adversely affect, the Company's business.

Enacted on July 21, 2010, the Dodd-Frank Act was expansive in scope and led to the adoption of extensive regulations by the CFTC, the prudential regulators, the SEC and other governmental agencies. The current administration has suggested that it will seek to roll back some of this regulation, although it is not possible to predict whether changes will be made. Since its adoption, the Dodd-Frank Act has had an impact on the costs associated with derivatives trading by the Company and its clients, including as a result of requirements that transactions be margined, trade reported and, in some cases, centrally cleared.

Heightened cyber-security risks may disrupt our businesses, result in losses or limit our growth.

We may be subject to cyber-attacks on our critical data and we may not be able to anticipate or prevent all such attacks. We may not have the resources or technical sophistication to anticipate or prevent current or rapidly evolving types of cyber- attacks. Attacks may be targeted at us, our clients or our vendors. We may incur increasing costs in an effort to minimize these risks and could be held liable for any security breach or loss. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information and communication systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. In addition, advances in computer capabilities, or other technological developments may result in the technology and security measures used by us to protect our systems being breached or compromised. Breaches can also occur as a result of non-technical issues, including intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships.

The occurrence of any failure, interruption or security breach of our information or communication systems could damage our reputation, result in a loss of business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

If securities analysts stop publishing research or reports about us or our business or if they downgrade our common stock, the market price of our common stock and, consequently, the trading price of our other securities could decline.

The market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If any analyst who covers us downgrades our stock or lowers its future stock price targets or estimates of our operating results, our stock price could decline rapidly. Furthermore, if any analyst ceases to cover us, we could lose visibility in the market, which in turn could cause the market price of our securities to decline.

Risks relating to the Company's financing transactions.

We are a holding company and rely upon our subsidiaries for cash flow to make payments of principal and interest on our outstanding indebtedness.

We are a holding company with no business operations or assets other than the capital stock of our direct and indirect subsidiaries. Consequently, we are dependent on dividends, distributions, loans and other payments from these subsidiaries to

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make payments of principal and interest on all of our indebtedness including our senior notes due 2027 (the “2027 Notes”), our cash convertible notes due 2019 (the “2019 Convertible Notes”) and our convertible notes due 2022 (the "2022 Convertible Notes" and together with the 2019 Convertible Notes , the “Convertible Notes”)(the 2022 Convertible Notes, and together with the 2027 Notes and the 2019 Convertible Notes , the “Notes”). The ability of our subsidiaries to pay dividends and make other payments to us will depend on their cash flows and earnings, which, in turn, will be affected by all of the factors discussed in this annual report. The ability of our direct and indirect subsidiaries to pay dividends and make distributions to us may be restricted by, among other things, applicable laws and regulations and by the terms of any debt agreements or other agreements into which they enter. If we are unable to obtain funds from our direct and indirect subsidiaries as a result of restrictions under their debt or other agreements, applicable laws and regulations or otherwise, we may not be able to pay cash interest or principal on the Notes when due.

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal to pay interest on or to refinance our indebtedness, including the Notes, 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.

Despite our current consolidated debt levels, we may still incur substantially more debt or take other actions which would intensify the risks discussed above.

Despite our current consolidated debt levels, we may be able to incur substantially more debt in the future, including secured debt. We are not restricted under the terms of the indentures governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indentures governing the Notes but that could diminish our ability to make payments on the Notes.

Future sales of our common stock in the public market could adversely impact the trading price of our securities.

In the future, we may sell additional shares of our common stock to raise capital. In addition, a substantial number of shares of our common stock are reserved for issuance upon vesting of restricted stock units and upon the conversion of the Convertible Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the trading price of our securities and impair our ability to raise capital through the sale of additional equity securities.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, we may be required to pay cash to settle any such conversion, which could adversely affect our liquidity.

The accounting method for convertible debt securities that may be settled in cash, such as the 2022 Convertible Notes, could have a material effect on our reported financial results.

Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20 requires an entity to separately account for the liability and equity components of convertible debt instruments whose conversion may be settled entirely or partially in cash (such as the 2022 Convertible Notes) in a manner that reflects the issuer’s economic interest cost for non-convertible debt. The liability component of the 2022 Convertible Notes is valued at the fair value of a similar debt instrument that does not have an associated equity component and is reflected as a liability in our consolidated balance sheet. The equity component of the 2022 Convertible Notes is included in the additional paid-in capital section of our stockholders’ equity on our consolidated balance sheet, and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. This original issue discount will be amortized to non-cash interest expense over the term of the 2022 Convertible Notes, and we will record a greater amount of non-cash interest expense as a result of this amortization. Accordingly, we will report lower net income in our financial results because ASC 470-20 will require the interest expense associated with the 2022 Convertible Notes to include both amortization of the original issue discount and the 2022 Convertible Notes' coupon interest, which could adversely affect our reported or future financial results and the trading price of our securities.

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In addition, under certain circumstances, convertible debt instruments whose conversion may be settled entirely or partly in cash (such as the 2022 Convertible Notes) are currently accounted for using the treasury stock method. Under this method, the shares issuable upon conversion of the 2022 Convertible Notes are not included in the calculation of diluted earnings per share unless the conversion value of the 2022 Convertible Notes exceeds their principal amount at the end of the relevant reporting period. If the conversion value exceeds their principal amount, then, for diluted earnings per share purposes, the 2022 Convertible Notes are accounted for as if the number of shares of common stock that would be necessary to settle the excess, if we elected to settle the excess in shares, are issued. The accounting standards in the future may not continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares, if any, issuable upon conversion of the 2022 Convertible Notes, then our diluted earnings per share could be adversely affected.

Notwithstanding the foregoing, because we may be required to elect to settle note conversions of the 2022 Convertible Notes solely in cash (or, subject to certain limitations, with a combination of cash and shares of our common stock) until we obtain the stockholder approval to issue shares of our common stock in full satisfaction of our conversion obligations, we have to separately account for the conversion option associated with the 2022 Convertible Notes as an embedded derivative under Accounting Standards Codification, or ASC, Topic 815, Derivatives and Hedging. Under this treatment, the 2022 Convertible Notes conversion option may be measured at its fair value and accounted for separately as a liability that is marked-to-market at the end of each reporting period. The initial value allocated to the conversion option will be treated as a debt discount that will be amortized into interest expense over the term of the Convertible Notes. For each financial statement period after the issuance of the 2022 Convertible Notes until we obtain the stockholder approval, a gain (or loss) will be reported in our statement of operations to the extent the valuation of the conversion option changes from the previous period.

As a result, we may experience related non-cash volatility to our net income (loss). In addition, as a result of the amortization of the debt discount, the interest expense associated with the 2022 Convertible Notes will be greater than the coupon rate on the 2022 Convertible Notes, which will result in lower reported net income. If we obtain the stockholder approval referred to above, then we expect that the conversion option will qualify for equity treatment and will no longer be marked to market at the end of each reporting period. However, we may never obtain this stockholder approval.

Certain provisions in the indentures governing the Convertible Notes could delay or prevent an otherwise beneficial takeover or takeover attempt of us.

Certain provisions in the Convertible Notes and the indentures governing the Convertible Notes could make it more difficult or more expensive for a third party to acquire us. For example, if a takeover would constitute a fundamental change, holders of the Convertible Notes will have the right to require us to repurchase their Convertible Notes in cash. In addition, if a takeover constitutes a make-whole fundamental change, we may be required to increase the conversion rate for holders who convert their Convertible Notes in connection with such takeover. In either case, and in other cases, our obligations under the Convertible Notes and the indentures could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management.

The ability to use our tax net operating loss ("NOL") carryforwards could be limited.

As of December 31, 2017, we had NOL carryforwards of $248.4 million available for use in future years. Section 382 of the IRC, as amended, provides that if a loss corporation undergoes an “ownership change” the use of its pre-change losses is limited, generally, to an amount each year equal to the product of the value of the Company’s equity and the long-term tax-exempt rate for the month in which the ownership change occurs. An “ownership change” is defined as an increase in the ownership of the loss corporation by so-called 5% shareholders of more than 50% over a rolling three-year period. Cowen did not undergo an ownership change during 2017.

Based on the facts in existence on the date hereof, we do not believe any material portion of our losses is subject to limitation under Section 382, or that conversion of the Convertible Notes into our common stock would trigger an ownership change. There can be no assurance that purchases or other acquisitions of our shares will not in the future trigger an ownership change, thereby substantially limiting our ability to use our NOLs going forward.

We may not be able to realize the value of our deferred tax assets.

At December 31, 2017, we have significant deferred tax assets that we have recognized based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We have recognized deferred tax assets because management believes, based on earnings and financial projections, that it is more likely than not that we will have sufficient future earnings to utilize these assets to offset future income tax liabilities. We regularly review our deferred tax assets for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets requires us to apply significant judgment and is inherently speculative because it requires the future occurrence of circumstances that cannot be predicted with certainty and ultimately depends on the existence of sufficient future taxable income. There can be no assurance that we will achieve sufficient future taxable income as the basis for the ultimate realization of our deferred tax assets. Changes in facts and circumstances or unforeseen negative economic

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developments could require us to establish a valuation allowance in the future, potentially causing a material adverse effect on our future operating results and financial condition. In addition, as was the case in 2017 pursuant to the Tax Cuts and Jobs Act that was enacted in the US in December 2017, changes in statutory tax rates may change our deferred tax asset or liability balances, with either favorable or unfavorable impacts on our effective tax rate. Our deferred tax assets may also be impacted by new legislation or regulation.

The terms of our Series A Convertible Preferred Stock contains certain restrictions on our operations.

The certificate of designations governing our Series A Convertible Preferred Stock contains certain restrictions on our and our subsidiaries' ability to, among other things, pay dividends on, redeem or repurchase our Class A common stock and, under certain circumstances, our Series A Convertible Preferred Stock, and to issue additional preferred stock. Additionally, if dividends on our Series A Convertible Preferred Stock are in arrears and unpaid for at least six or more quarterly periods, the holders (voting as a single class) of our outstanding Series A Convertible Preferred Stock will be entitled to elect two additional directors to our Board of Directors until paid in full.

Risks Related to the Company's Investment Management Business

The Company's profitability may be adversely affected by decreases in revenue relating to changes in market and economic conditions.

Market conditions have been and remain inherently unpredictable and outside of the Company's control, and may result in reductions in the Company's revenue and results of operations. Such reductions may be caused by a decline in assets under management, resulting in lower management fees and incentive income, an increase in the cost of financial instruments, lower investment returns or reduced demand for assets held by investment management products advised by the Company's investment management business, which would negatively affect its ability to realize value from such assets or continued investor redemptions, resulting in lower fees and increased difficulty in raising new capital.

These factors may reduce the Company's revenue, revenue growth and income and may slow the growth of the investment management business or may cause the contraction of the investment management business. In particular, negative performance reduces assets under management, which decreases the management fees and incentive income that the Company ultimately earns. Negative performance of the Company's funds or its own proprietary investments also decreases revenue derived from the Company's returns on investment of its own capital.

The Company's ability to increase revenues and improve profitability will depend on increasing assets under management in existing investment strategies and developing and marketing new investment products and strategies, including identifying and hiring or affiliating with new investment teams.

The Company's investment management business generates management and incentive fee income based on its assets under management. If the Company is unable to increase its assets under management in its existing products it may be difficult to increase its revenues. The Company may launch new investment management products and hire or affiliate with new investment teams focusing on new investment strategies. If these products or strategies are not successful, or if the Company is unable to hire or affiliate with new investment teams, or successfully manage its relationships with its affiliated investment teams, the Company's profitability could be adversely affected.

The Company's revenues and, in particular, its ability to earn incentive income, would be adversely affected if its funds fall beneath their "high-water marks" as a result of negative performance.

Incentive income, which has historically comprised a substantial portion of the Company's investment management business annual revenues, is, in most cases, subject to "high-water marks" whereby incentive income is earned by the Company only to the extent that the net asset value of an investment advisory product at the end of a measurement period exceeds the highest net asset value as of the end of a preceding measurement period for which the Company earned incentive income. The Company's incentive allocations are also subject, in some cases, to performance hurdles or benchmarks. To the extent the Company's funds experience negative investment performance, the investors in or beneficial owners of these funds would need to recover cumulative losses before the Company can earn incentive income with respect to the investments of those who previously suffered losses.

It may be difficult for the Company's investment management business to retain investment professionals during periods where market conditions make it more difficult to generate positive investment returns.

Certain of the Company's funds face particular retention issues with respect to investment professionals whose compensation is tied, often in large part, to such performance thresholds. This retention risk is heightened during periods where market conditions make it more difficult to generate positive investment returns. For example, several investment professionals receive performance-based compensation at the end of each year based upon their annual investment performance, and this performance-based compensation represents substantially all of the compensation the professional is entitled to receive during the year. If the investment professional's annual performance is negative, the professional may not be entitled to receive any performance-based compensation for the year. If the Company's funds produce investment results that are negative (or below the applicable hurdle or benchmark), the affected investment professionals may be incentivized to join a competitor because doing so would allow them to earn performance-based compensation without the requirement that they first satisfy the high-water mark.

Investors and beneficial owners in the Company's funds can generally redeem investments with prior notice. The rate of redemptions could accelerate at any time. Historically, redemptions have created difficulties in managing the liquidity of certain of the Company's funds, reduced assets under management and adversely affected the Company's revenues, and may do so in the future.

Investors and beneficial owners in the Company's funds may generally redeem their investments with prior notice, subject to certain initial holding periods. Investors may reduce the aggregate amount of their investments, or transfer their investments to other funds or asset managers with different fee rate arrangements, for any number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. Furthermore, investors in the Company's funds may be investors in products managed by other asset managers where redemptions have been restricted or suspended. Such investors may redeem capital from Company's funds, even if the Company's funds' performance is superior, due to an inability to redeem capital from other managers. Increased volatility in global markets could accelerate the pace of redemptions. Redemptions of investments in the Company's funds could also take place more quickly than assets may be sold by those funds to meet the price of such redemptions, which could result in the relevant funds and/or the Company being in breach of applicable legal, regulatory and contractual requirements in relation to such redemptions, resulting in possible regulatory and investor actions against the Company and/or the Company's funds. If the Company's funds underperform, existing investors may decide to reduce or redeem their investments or transfer asset management responsibility to other asset managers and the Company may be unable to obtain new investment management business. Any such action could potentially cause further redemptions and/or make it more difficult to attract new investors.

The redemption of investments in the Company's funds could also adversely affect the revenues of the Company's investment management business, which are substantially dependent upon its assets under management. If redemptions of investments cause revenues to decline, they would likely have a material adverse effect on our business, results of operations or financial condition. If market conditions, negative performance or other factors cause an increased level of redemption activity returns, it could become more difficult to manage the liquidity requirements of the Company's funds, making it more difficult or more costly for the Company's funds to liquidate positions rapidly to meet redemption requests or otherwise. This in turn may negatively impact the Company's returns on its own invested capital.

In addition to the impact on the market value of assets under management, illiquidity and volatility of the global financial markets could negatively affect the ability of the Company's investment management business to manage inflows and outflows from the Company's funds. Several investment management managers, including the Company's investment management business, have in the past exercised, and may in the future exercise, their rights to limit, and in some cases, suspend, redemptions from the investment management products they advise. The Company's investment management business has also negotiated, and may in the future negotiate, with investors or exercise such rights in an attempt to limit redemptions or create a variety of other investor structures to bring assets and liquidity requirements into a more manageable balance. To the extent that the Company's investment management business has negotiated with investors to limit redemptions, it may be likely that such investors will continue to seek further redemptions in the future. Such actions may have an adverse effect on the ability of the Company's funds to attract new capital or to develop new investment platforms. Poor performance relative to other asset management firms may result in reduced investments in the Company's funds and increased redemptions. As a result, investment underperformance would likely have a material adverse effect on the Company's results of operations and financial condition.

Investments made by private funds, including the investments of the Company's own capital in the Company's private funds, are subject to other additional risks.

Investments by the Company's private funds are subject to certain risks that may result in losses. Decreases to assets under management as a result of investment losses or client redemptions may have a material adverse effect on the Company's revenues, net income and cash flows and could harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future. Additional risks include the following:

- Generally, there are few limitations on private funds' investment strategies, which are often subject to the sole discretion of the management company or the general partner of such funds.
- Private funds may engage in short selling, which is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security sold short may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot

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be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions. Furthermore, the SEC and other regulatory authorities outside the United States have imposed trading restrictions and reporting requirements on short selling, which in certain circumstances may impair private funds' ability to use short selling effectively.

- The efficacy of investment and trading strategies depend largely on the ability to establish and maintain an overall market position through a combination of financial instruments. A private fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the fund might only be able to acquire some but not all of the components of the position, or if the overall position were in need of adjustment, the fund might not be able to make such an adjustment. As a result, a private fund would not be able to achieve the market position selected by the management company or general partner of such fund, and might incur a loss in liquidating its position.
- Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their respective liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, securities firms, other counterparties and exchanges) with which the private funds interact on a daily basis.
- Private funds are subject to risks due to the potential illiquidity of assets. Private funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. The timely sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which they may be a party, and changes in industry and government regulations. It may be impossible or highly costly for private funds to liquidate positions rapidly to meet margin calls, redemption requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time, if the relevant market is otherwise moving against a position or in the event of trading halts or daily price movement limitations on the market. In addition, increased levels of redemptions may result in increased illiquidity as more liquid assets are sold to fund redemptions.
- Private fund assets are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, private funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade.
- Private fund assets that are not denominated in the U.S. dollar are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Officials in foreign countries may, from time to time, take actions in respect of their currencies that could significantly affect the value of a private fund’s assets denominated in those currencies or the liquidity of such investments. For example, a foreign government may unilaterally devalue its currency against other currencies, which would typically have the effect of reducing the U.S. dollar value of investments denominated in that currency. A foreign government may also limit the convertibility or repatriation of its currency or assets denominated in that currency. While the Company generally expects to hedge its exposure to currencies other than the U.S. dollar, and may do so through foreign currency futures contracts and options thereon, forward foreign currency exchange contracts, swaps or any combination thereof, but there can be no assurance that such hedging strategies will be implemented, or if implemented, will be effective. While a private fund may enter into currency hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if it had not engaged in such hedging transactions. For a variety of reasons, the Company may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the

Company from achieving the intended hedge or expose a private fund to risk of loss.

- Private funds are also subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of investments. War, terrorism, and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and non-U.S. economies and markets generally. Those events, as well as other changes in U.S. and non-U.S. economic and political conditions, also could adversely affect individual issuers or

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related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of the private fund's assets.

If the Company's fund's counterparty for any of its derivative or non-derivative contracts defaults on the performance of those contracts, the Company may not be able to cover its exposure under the relevant contract.

The Company's funds enter into numerous types of financing arrangements with a wide array of counterparties around the world, including loans, hedge contracts, swaps, repurchase agreements and other derivative and non-derivative contracts. The terms of these contracts are generally complex and often customized and generally are not subject to regulatory oversight. The Company is subject to the risk that the counterparty to one or more of these contracts may default, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur at any time without notice. Additionally, the Company may not be able to take action to cover its exposure if a counterparty defaults under such a contract, either because of a lack of the contractual ability or because market conditions make it difficult to take effective action. The impact of market stress or counterparty financial condition may not be accurately foreseen or evaluated and, as a result, the Company may not take sufficient action to reduce its risks effectively. Counterparty risk is accentuated where the investment management product has concentrated its transactions with a single or small group of counterparties. Generally, private funds are not restricted from concentrating any or all of their transactions with one counterparty. Moreover, the Company's internal review of the creditworthiness of their counterparties may prove inaccurate. The absence of a regulated market to facilitate settlement and the evaluation of creditworthiness may increase the potential for losses.

In addition, these financing arrangements often contain provisions that give counterparties the ability to terminate the arrangements if any of a number of defaults occurs with respect to the Company's funds, including declines in performance or assets under management and losses of key management personnel, each of which may be beyond our control. In the event of any such termination, the Company's funds may not be able to enter into alternative arrangements with other counterparties and our business may be materially adversely affected.

The Company may suffer losses in connection with the insolvency of prime brokers, custodians, administrators and other agents whose services the Company uses and who may hold assets of the Company's funds.

All of the Company's funds use the services of prime brokers, custodians, administrators or other agents to carry out certain securities transactions and to conduct certain business of the Company's funds. In the event of the insolvency of a prime broker and/or custodian, the Company's funds might not be able to recover equivalent assets in full as they may rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, the Company's funds' cash held with a prime broker or custodian (if any) may not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation thereto.

Operational risks relating to the failure of data processing systems and other information systems and technology may disrupt our investment management business, result in losses and/or limit the business's operations and growth.

The Company's investment management business and its funds rely heavily on financial, accounting, trading and other data processing systems to, among other things, execute, confirm, settle and record transactions across markets and geographic locations in a time-sensitive, efficient and accurate manner. If any of these systems does not operate properly or are disabled, the Company could suffer financial loss, a disruption of its business, liability to the Company's funds, regulatory intervention and/or reputational damage. In addition, the Company's investment management business is highly dependent on information systems and technology, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate the operational needs of the Company's investment management business, or an increase in costs related to such information systems, could have a material adverse effect on the Company, both with respect to a decrease in the operational performance of its investment management business and an increase in costs that may be necessary to improve such systems.

The Company depends on its presence in New York, New York, where most of the Company's investment management personnel are located, for the continued operation of its business. We have taken precautions to limit the impact that a disruption to operations at our New York headquarters could cause (for example, by ensuring that the Company can operate independently of offices in other geographic locations). Although these precautions have been taken, a disaster or a disruption in the infrastructure that supports our investment management business, including a disruption involving electronic communications or other services used by the third parties with whom the Company's investment management business conducts business or directly affecting the New York, New York, headquarters, could have a material adverse impact on the Company's ability to continue to operate its investment management business without interruption. The Company's disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance might only partially reimburse us for our losses, if at all. Finally, the Company relies on third party service providers for certain aspects of its business, including for certain information systems and technology and administration of the

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Company's funds. Severe interruptions or deteriorations in the performance of these third parties or failures of their information systems and technology could impair the quality of the Company's investment management business operations and could impact the Company's reputation and materially adversely affect our investment management business.

Certain of the Company's funds may invest in relatively high-risk, illiquid assets, and the Company may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amounts of these investments.

Certain of the Company's funds invest a portion of their assets in securities that are not publicly traded. In many cases, they may be prohibited by contract or by applicable securities laws from selling such securities for a period of time or there may not be a public market for such securities. Even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Accordingly, under certain conditions, the Company's funds may be forced to either sell securities at lower prices than they had expected to realize or defer, potentially for a considerable period of time, sales that they had planned to make. Investing in these types of investments can involve a high degree of risk, and the Company's funds may lose some or all of the principal amount of such investments, including our own invested capital.

Risk management activities may materially adversely affect the return on the Company's funds' investments if such activities do not effectively limit exposure to decreases in investment values or if such exposure is overestimated.

When managing the Company's funds' exposure to market risks, the relevant investment management product may use forward contracts, options, swaps, caps, collars and floors or pursue other strategies or use other forms of derivative financial instruments to limit its exposure to changes in the relative values of investments that may result from market developments, including changes in interest rates, currency exchange rates and asset prices. The success of such derivative transactions generally will depend on the Company's ability to accurately predict market changes in a timely fashion, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, these transactions may result in poorer overall investment performance than if they had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases. A perfect correlation between the instruments used in a hedging or other derivative transaction and the position being hedged may not be attained. An imperfect correlation could give rise to a loss. Also, it may not be possible to fully or perfectly limit exposure against all changes in the value of an investment because the value of an investment is likely to fluctuate as a result of a number of factors, many of which will be beyond the Company's control or ability to hedge.

Fluctuations in currency exchange rates could materially affect the Company's investment management business and its results of operations and financial condition.

The Company uses U.S. dollars as its reporting currency. Investments in the Company's funds and managed accounts are made in different currencies, including Euros, Pounds Sterling, Australian Dollar and Yen. In addition, the Company's funds and managed accounts hold investments denominated in many foreign currencies. To the extent that the Company's revenues from its investment management business are based on assets under management denominated in such foreign currencies, our reported revenues may be significantly affected by the exchange rate of the U.S. dollar against these currencies. Typically, an increase in the exchange rate between U.S. dollars and these currencies will reduce the impact of revenues denominated in these currencies in the financial results of our investment management business. For example, management fee revenues derived from each Euro and Australian Dollar of assets under management denominated in Euros and Australian Dollar will decline in U.S. dollar terms if the value of the U.S. dollar appreciates against the Euro and Australian Dollar. In addition, the calculation of the amount of assets under management is affected by exchange rate movements as assets under management denominated in foreign currencies are converted to U.S. dollars. The Company's investment management business also incurs a portion of its expenditures in currencies other than U.S. dollars. As a result, our investment management business is subject to the effects of exchange rate fluctuations with respect to any currency conversions and the Company’s ability to hedge these risks and the cost of such hedging or the Company’s decision not to hedge could impact the performance of the Company's funds and our investment management business and its results of operations and financial condition.

The due diligence process that the Company's investment management business undertakes in connection with investments by the Company's funds is inherently limited and may not reveal all facts that may be relevant in connection with making an investment.

Before making investments, particularly investments in securities that are not publicly traded, the Company endeavors to conduct a due diligence review of such investment that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company is often required to evaluate critical and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment bankers and financial analysts may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company is limited to the resources available, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigation that the Company conducts with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful, which may adversely affect the performance of the Company's funds and the Company's ability to generate returns on its own invested capital from any such investment.

The Company's real estate business is subject to the risks inherent in the ownership and operation of real estate and the construction and development of real estate.

The Company's real estate business is subject to the risks inherent in the ownership and operation of real estate and real estate-related businesses and assets. These risks include those associated with general and local economic conditions, changes in supply of and demand for competing properties in an area, changes in environmental regulations and other laws, various uninsured or uninsurable risks, natural disasters, changes in real property tax rates, changes in interest rates, the reduced availability of mortgage financing which may render the sale or refinancing of properties difficult or impracticable, environmental liabilities, contingent liabilities on disposition of assets, terrorist attacks, war and other factors that are beyond our control. Further, the U.S. Environmental Protection Agency has found that global climate change could increase the severity and perhaps the frequency of extreme weather events, which could subject real property to increased weather-related risks in the coming years. There are also presently a number of current and proposed regulatory initiatives, both domestically and globally, that are geared towards limiting and scaling back the emission of greenhouse gases, which certain scientists have linked to global climate change. Although not known with certainty at this time, such regulation could adversely affect the costs to construct and operate real estate in the coming years, such as through increased energy costs.

The commercial real estate markets in the United States generally have experienced major disruptions in the past due to the lack of available capital, in the form of either debt or equity, and declines in value as a result of overall economic decline. If these conditions were to occur again transaction volume may drop precipitously, negatively impacting the valuation and performance of the Company's real estate investments significantly. Additionally, if the Company's real estate business acquires direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing, they will be subject to the risks normally associated with such assets and development activities, including risks relating to the availability and timely receipt of zoning and other regulatory or environmental approvals, the cost, potential for cost overruns and timely completion of construction (including risks beyond the control of the investor, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms.

The investment management industry is intensely competitive, which may adversely affect the Company's ability to attract and retain investors and investment professionals.

The investment management industry is extremely competitive. Competition includes numerous international, national, regional and local asset management firms and broker-dealers, commercial bank and thrift institutions, and other financial institutions. Many of these institutions offer products and services that are similar to, or compete with, those offered by us and have substantially more personnel and greater financial resources than the Company does. The key areas for competition include historical investment performance, the ability to identify investment opportunities, the ability to attract and retain the best investment professionals and the quality of service provided to investors. The Company's ability to compete may be adversely affected if it underperforms in comparison to relevant benchmarks, peer groups or competing asset managers. The competitive market environment may result in increased downward pressure on fees, for example, by reduced management fee and incentive allocation percentages. The future results of operations of the Company's investment management business are dependent in part on its ability to maintain appropriate fee levels for its products and services. In the current economic environment, many competing asset managers experienced substantial declines in investment performance, increased redemptions, or counterparty exposures which impaired their businesses. Some of these asset managers have reduced their fees in an attempt to avoid additional redemptions. Competition within the investment management industry could lead to pressure on the Company to reduce the fees that it charges its clients for investment management products and services. A failure to compete effectively may result in the loss of existing clients and business, and of opportunities to generate new business and grow assets under management, each of which could have a material adverse effect on the Company's investment management business and results of operations, financial condition and prospects. Furthermore, consolidation in the investment management industry may accelerate, as many asset managers are unable to withstand the substantial declines in investment performance, increased redemptions, and other pressures impacting their businesses, including increased regulatory, compliance and control requirements. Some competitors may acquire or combine with other competitors. The combined business may have greater resources than the Company does and may be able to compete more effectively against the Company and rapidly acquire significant market share.

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Increased regulatory focus could result in regulation that may limit the manner in which the Company and its funds invest, materially impacting the Company's business.

The Company's investment management business may be adversely affected if new or revised legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets and their participants. Such changes could place limitations on the type of investor that can invest in the Company's funds or on the conditions under which such investors may invest. Further, such changes may limit the scope of investing activities that may be undertaken by the Company's funds. It is impossible to determine the extent of the impact of any new or recently enacted laws, including the Dodd-Frank Act and MiFID II, or any other regulations or initiatives that may be proposed, or whether any proposed regulations or initiatives will become law. Compliance with any new laws or regulations could be difficult and expensive and affect the manner in which the Company's investment management business conducts itself, which may adversely impact its results of operations, financial condition and prospects.

Additionally, as a result of highly publicized financial scandals, investors, regulators and the general public have exhibited concerns over the integrity of both the U.S. financial markets and the regulatory oversight of these markets. As a result, the business environment in which Company's investment management business operates is subject to heightened regulation. With respect to the Company's funds, in recent years, there has been debate in both U.S. and foreign governments about new rules or regulations, including increased oversight or taxation, in addition to the recently enacted legislation described above. As calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of investment funds, including the Company's funds. Such investigations may impose additional expenses on the Company, may require the attention of senior management and may result in fines if any of the Company's funds are deemed to have violated any regulations.

The Company's investment management business may suffer as a result of loss of business from key investors.

The loss of all or a substantial portion of the business provided by key investors could have a material impact on income derived from management fees and incentive allocations and consequently have a material adverse effect on our investment management business and results of operations or financial condition.

The success of our Cowen Aviation business depends on our ability to lease the aircraft we own and to dispose of the aircraft at the end of the lease terms.

Our Cowen Aviation business leases specialized aircraft to various counterparties. We may incur losses if these counterparties do not renew their leases with us if we are unable to re-lease the aircraft to different counterparties. In addition, we may also incur losses if the residual value of the aircraft at the end of the lease terms is less than what we expected the value to be or if we are unable to dispose of the aircraft at the end of the lease term.

Our third party reinsurance business could expose us to losses.

We provide third party reinsurance coverage through our Luxembourg subsidiary, Hollenfels Re S.A ("Hollenfels"). We have written polices relating to property and casualty, workers' compensation, general liability and construction performance bonds and may issue reinsurance policies relating to other types of insurance. Because we write reinsurance, the success of our underwriting efforts depends, in part, upon the policies, procedures and expertise of the ceding companies making the original underwriting decisions. We face the risk that these ceding companies may fail to accurately assess the risks that they assume initially, which, in turn, may lead us to inaccurately assess the risks we assume. If we fail to establish and receive appropriate premium rates or the claims we receive exceed the premiums and retrocession recoverables we are able to collect, we will suffer losses.

We may be unable to purchase retrocession reinsurance and our retrocession agreements subject us to third-party credit risk.

We may enter into retrocession agreements with third parties in order to limit our exposure to losses from the reinsurance coverage provided by Hollenfels. Changes in the availability and cost of retrocession reinsurance, which are subject to market conditions that are outside of our control, may reduce to some extent our ability to use retrocession reinsurance to balance exposures across our reinsurance operations. Accordingly, we may not be able to obtain our desired amounts of retrocession reinsurance. In addition, even if we are able to obtain such reinsurance, we may not be able to negotiate terms that we deem appropriate or acceptable or obtain such reinsurance from entities with satisfactory creditworthiness. While we seek to do business with creditworthy counterparties, if the parties who provide us with retrocession are not able to meet their obligations to us or fail to make timely payments under the terms of our retrocession agreements, we could be materially and adversely affected because we may remain liable under the terms.

Risks Related to the Company's Broker-Dealer Business

The Company's broker-dealer business focuses principally on specific sectors of the economy, and deterioration in the business environment in these sectors or a decline in the market for securities of companies within these sectors could materially affect our broker-dealer business.

The Company focuses principally on the Target Sectors of the economy. Therefore, volatility in the business environment in these sectors or in the market for securities of companies within these sectors could substantially affect the Company's financial results. The business environment for companies in these sectors has been subject to substantial volatility, and the Company's financial results have consequently been subject to significant variations from year to year. The market for securities in each of the Company's target sectors may also be subject to industry-specific risks. For example, changes in policies of the United States Food and Drug Administration, along with changes to Medicare and government reimbursement policies, may affect the market for securities of healthcare companies, and changes to how the U.S. government reviews foreign acquisitions of U.S. based companies may make executing M&A transactions more difficult.

As an investment bank which focuses primarily on specific growth sectors of the economy, the Company also depends significantly on private company transactions for sources of revenues and potential business opportunities. To the extent the pace of these private company transactions slows or the average size declines due to a decrease in private equity financings, difficult market conditions in the Company's target sectors or other factors, the Company's business and results of operations may be adversely affected.

The financial results of the Company's broker-dealer business may fluctuate substantially from period to period.

The Company has experienced, and we expect to experience in the future, significant periodic variations in its revenues and results of operations. These variations may be attributed in part to the fact that its investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond the Company's control. In most cases, the Company receives little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our broker-dealer business is highly dependent on market conditions as well as the decisions and actions of its clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If the parties fail to complete a transaction on which the Company is advising or an offering in which the Company is participating, we will earn little or no revenue from the transaction, and we may incur significant expenses that may not be recouped. This risk may be intensified by the Company's focus on growth companies in the Target Sectors as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. Many companies initiating the process of an IPO are simultaneously exploring other strategic alternatives, such as a merger and acquisition transaction. The Company's broker-dealer revenues would be adversely affected in the event that an IPO for which it is acting as an underwriter is preempted by the company's sale if the Company is not also engaged as a strategic advisor in such sale. As a result, our broker-dealer business is unlikely to achieve steady and predictable earnings on a quarterly basis.

Pricing and other competitive pressures may impair the revenues of the Company's brokerage business.

The Company's brokerage business accounted for approximately 56% of the broker-dealer segment's revenues during 2017. Along with other firms, the Company has experienced price competition in this business in recent years. In particular, the ability to execute trades electronically and through alternative trading systems has increased the pressure on trading commissions and spreads. We expect to continue to experience competitive pressures in these and other areas in the future as some of our competitors in the investment banking industry seek to obtain market share by competing on the basis of price or use their own capital to facilitate client trading activities. In addition, the Company faces pressure from larger competitors, who may be better able to offer a broader range of complementary products and services to clients in order to win their trading or prime brokerage business. We are committed to maintaining and improving the Company's comprehensive research coverage to support its brokerage business and the Company may be required to make additional investments in the Company's research capabilities.

The Company faces strong competition from larger firms.

The research, brokerage and investment banking industries are intensely competitive, and the Company expects them to remain so. The Company competes on the basis of a number of factors, including client relationships, reputation, the abilities of the Company's professionals, market focus and the relative quality and price of the Company's services and products. The Company has experienced intense price competition in some of its businesses, including trading commissions and spreads in its brokerage business. In addition, pricing and other competitive pressures in investment banking, including the trends toward

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multiple book runners, co-managers and financial advisors, and a larger share of the underwriting fees and discounts being allocated to the book-runners, could adversely affect the Company's revenues from its broker-dealer business. The Company is a relatively small investment bank. Many of the Company's competitors in the research, brokerage and investment banking industries have a broader range of products and services, greater financial resources, larger customer bases, greater name recognition and marketing resources, a larger number of senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than the Company has. These larger competitors may be better able to respond to changes in the research, brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally.

The scale of our competitors in the investment banking industry has increased in recent years as a result of substantial consolidation among companies in the research, brokerage and investment banking industries. In addition, a number of large commercial banks and other broad-based financial services firms have established or acquired underwriting or financial advisory practices and broker-dealers or have merged with other financial institutions. These firms have the ability to offer a wider range of products than the Company does which may enhance their competitive position. They also have the ability to support their investment banking and advisory groups with commercial banking and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in the Company's businesses. If we are unable to compete effectively with our competitors in the investment banking industry, the Company's business and results of operations may be adversely affected.