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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**

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**FACING PAGE**

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
 Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

Washington DC  
 405

REPORT FOR THE PERIOD BEGINNING 01/01/13 AND ENDING 12/31/13  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Cowen and Company, LLC

OFFICIAL USE ONLY
_____
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

599 Lexington Avenue

New York NY 10022  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Mr. James R. Simmons

646-562-1803

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

PricewaterhouseCoopers LLP

300 Madison Avenue New York NY 10017  
(Address) (Name - of individual, state last, first, middle name) (City) (State) (Zip Code)

**CHECK ONE:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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3/31/14

OATH OR AFFIRMATION

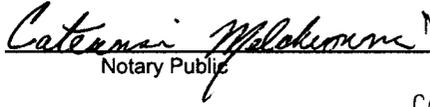
I, James Simmons, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Cowen and Company, LLC, as of December 31, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

  
Signature  
Chief Financial Officer  
Title

  
Notary Public

CATERINA MELCHIONNA  
NOTARY PUBLIC, State of New York  
No. 01ME6021196  
Qualified in New York County  
Commission Expires 09/06/17

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Member's Equity.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital Under Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A reconciliation between the audited and unaudited Statement of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditor's report on internal control.
- (p) Schedule of segregation requirements and funds in segregation – customers' regulated commodity futures account pursuant to Rule 171-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Cowen and Company, LLC**  
Consolidated Statement of Financial Condition  
December 31, 2013



**Cowen and Company, LLC**  
Consolidated Statement of Financial Condition  
December 31, 2013

**Cowen and Company, LLC**  
**Index**  
**December 31, 2013**

---

	<b>Page(s)</b>
<b>Independent Auditor's Report</b> .....	<b>1</b>
<b>Consolidated Financial Statement</b>	
Statement of Financial Condition .....	<b>2</b>
Notes to Statement of Financial Condition .....	<b>3-15</b>



## Independent Auditor's Report

To the Member and Board of Directors of  
Cowen and Company, LLC

We have audited the accompanying consolidated statement of financial condition of Cowen and Company, LLC and its subsidiaries (the "Company") as of December 31, 2013.

### ***Management's Responsibility for the Consolidated Statement of Financial Condition***

Management is responsible for the preparation and fair presentation of the consolidated statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a consolidated statement of financial condition that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

### ***Opinion***

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of Cowen and Company, LLC and its subsidiaries at December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

February 28, 2014

**Cowen and Company, LLC**  
**Consolidated Statement of Financial Condition**  
**December 31, 2013**

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*(in thousands)*

<b>Assets</b>	
Cash and cash equivalents	\$ 30,015
Securities owned, at fair value	30,507
Receivable from brokers, dealers and clearing brokers	37,548
Corporate finance and syndicate receivables	17,358
Due from related parties	14,457
Deposits with clearing brokers	600
Other assets	863
Total assets	<u>\$ 131,348</u>
<b>Liabilities and Member's Equity</b>	
Liabilities	
Securities sold, not yet purchased, at fair value	\$ 50,766
Payable to brokers, dealers and clearing brokers	4,022
Accounts payable, accrued expenses and other liabilities	3,758
Total liabilities	<u>58,546</u>
Commitments and guarantees (Note 10)	
Member's equity	<u>72,802</u>
Total liabilities and member's equity	<u>\$ 131,348</u>

The accompanying notes are an integral part of this consolidated statement of financial condition.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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**1. Organization and Basis of Presentation**

Cowen and Company, LLC (the "Company" or "Cowen"), a Delaware single member limited liability corporation, is a registered broker-dealer and Financial Industry Regulatory Authority ("FINRA") member firm. The Company is a wholly owned subsidiary of Cowen Holdings, Inc. ("CHI") which is a wholly owned subsidiary of Cowen Group, Inc. ("CGI" or "Parent"). The Company is a full-service investment banking and securities brokerage firm focused on healthcare, technology, media and telecommunications, consumer, aerospace and defense, industrials, real estate investment trusts ("REITs"), clean technology, energy, metals and mining, transportation, chemicals and agriculture. Historically, the Company has focused its investment banking efforts on small to mid-capitalization public companies as well as private companies. During 2013, the Company closed down its subsidiary, Ramius Japan Ltd ("Ramius Japan") and liquidated its investment in Ramius Optimum Investments LLC ("ROIL").

The Company clears its securities transactions on a fully disclosed basis and does not carry customer funds or securities. The Company is a registered broker dealer in securities under the Securities Exchange Act of 1934 and a member of the NYSE and other principal exchanges.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The Company's records are maintained on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("GAAP").

**Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the fair value of securities and reported asset and liabilities amounts in the consolidated financial statements and accompanying Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash held on deposit and highly liquid investments with original maturities of three months or less at the date of purchase. Cash is primarily concentrated in one financial institution.

**Fair Value Measurements**

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

- Level 1      Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2      Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; and
- Level 3      Fair value is determined based on pricing inputs that are unobservable and includes situations where there is little, if any, market activity for the asset or liability. The

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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determination of fair value for assets and liabilities in this category requires significant management judgment or estimation.

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

The following describes the valuation methodologies the Company uses to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified.

**Equity Securities**

Equity securities are valued based on quoted market prices. Equity securities that trade in active markets are classified within Level 1, and equity securities that trade in inactive markets are classified within Level 2. Equity securities in privately held companies are valued using inputs that are unobservable to the extent observable inputs are not available. Unobservable inputs are developed based on the best information available and play a significant role in the determination of fair market value and are consequently classified within Level 3.

**Fixed Income Securities**

Fixed income securities are valued based on broker quotes, trading activity, levels provided by published pricing services, counterparties, and pricing models where applicable. These positions trade in markets of varying liquidity and are classified as Level 2.

**Options**

Listed options are valued based on quoted market prices and trading activity from their respective exchange. The options trade in generally active markets and are classified within Level 1.

**Municipal Bonds**

Municipal bonds are valued based on broker quotes, trading activity, levels provided by published pricing services, counterparties, and pricing models where applicable. The positions trade in generally active markets and are classified as Level 1.

**Warrants**

Warrants in public companies are valued using a Black-Scholes valuation model, based on both observable and unobservable inputs directly related to the warrants. Key inputs such as volatility vary by warrant and take into consideration factors such as restrictions, borrow, and liquidity. Overall, given that the inputs used to derive value are subject to the portfolio manager's view of prevailing market conditions, unlisted warrants are classified as Level 3.

The Company maintains policies and procedures to value its financial instruments using the highest level and most relevant data available. In addition, management reviews valuations,

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's consolidated financial statements. ASC 740 requires the Company to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the consolidated financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. Please refer to Note 9, "Income Taxes" for additional information and disclosures.

**Share-Based Compensation**

Share-based awards relate to the Company's allocated equity grants under CGI's equity and incentive compensation plans. See Note 5, "401(k) Savings Plan, Forgivable Loans, and Share-Based Compensation" for a description of these awards.

**Accounting Developments**

***Recently issued accounting pronouncements***

In July 2013, the FASB issued guidance which was directed to eliminate the disparity in practice for the consolidated financial statement presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exist. The guidance requires an entity to present the unrecognized tax benefit as a reduction to the deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward with certain exceptions. The guidance is effective prospectively for reporting periods beginning after December 15, 2013 for all unrecognized tax benefits that exist at the effective date. Early adoption and retrospective application is also permitted. The Company is currently evaluating the impact of this guidance on the Company's financial condition and results of operations.

**3. Transactions With Related Parties**

Related party balances at December 31, 2013 are included in the accompanying consolidated statement of financial condition under the following captions:

*(in thousands)*

**Assets**

Due from related parties	\$	14,457
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The Company entered into a service level agreement with an affiliate Cowen Services Company, LLC ("CSC") in which the employment of all the Company's employees was assigned and transferred to CSC. Under this agreement, CSC is responsible for the compensation related payments to these employees for their performance of services provided to the Company, and the Company records the related amounts payable to CSC in due to related parties in the consolidated statement of financial condition. CSC also agreed to provide certain administrative, support services and other assistance to the Company.

At December 31, 2013, the Company has a payable to ATM USA, LLC, an affiliate of \$0.1 million which is included in payable to brokers, dealers and clearing brokers in the consolidated statement of financial condition.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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including independent price validation, for certain instruments. In some instances, the Company retains an independent pricing vendor to assist in valuing certain instruments.

Certain of the Company's investments are relatively illiquid or thinly traded and may not be immediately liquidated on demand if needed. Fair values assigned to these investments may differ significantly from the fair values that would have been used had a ready market for the investments existed and such differences can be material.

**Corporate Finance and Syndicate Receivables**

Corporate finance and syndicate receivables, include receivables relating to the Company's investment banking and advisory engagements net of allowance. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis.

**Contingencies**

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

**Income Taxes**

The Company is a single member limited liability company that is disregarded for income tax purposes. The Company joins in the consolidated tax return of CGI for U.S. federal, state and local income tax purposes. For financial accounting purposes, the Company recognizes taxes based on its allocated share of tax from CHI, as if it operated on a stand-alone basis. Federal, state and local income taxes as well as benefits for federal, state, and local net operating losses are allocated based on an informal tax sharing policy between the Company and other members of CGI's consolidated group, which includes CHI. Under this policy, members of CGI's consolidated group that contribute net operating losses are allocated a portion or all of the taxable income generated by the remaining members of the consolidated group. The loss members are compensated in an amount equal to the tax savings generated from the utilization of their respective tax losses to offset taxable income of other members only when such utilization either (i) generates a tax receivable from federal, state, or local taxing authorities for CGI's consolidated group during a taxable year or (ii) the tax liability of the CGI consolidated group towards federal, state, or local taxing authorities for a taxable year is reduced. The Company records such compensation as either contribution from or distribution to CHI, consistent with guidance under ASC 740 that applies to limited liability companies not part of a formal tax sharing agreement. For the year ended December 31, 2013, the CGI consolidated tax group generated no taxable income due to net operating loss carryovers so the Company was not compensated for its losses that were used to offset taxable income from other consolidated members.

Ramius Japan is subject to taxation in Japan and any related foreign current and deferred taxes are reflected in the Company's tax balances.

The Company accounts for income taxes in accordance with ASC 740 which requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the consolidated financial statement and tax bases of its assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to an amount that is more likely than not to be realized.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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**4. Exchange Memberships**

Exchange memberships provide the Company with the right to do business on the exchanges of which it is a member. These memberships are recorded at historical cost, or if an other than temporary impairment has occurred, at fair value that reflects management's estimates of the impairment.

**5. 401(k) Savings Plan, Forgivable Loans, and Share-Based Compensation**

**401(k) Savings Plan**

The Company participates in a 401(k) defined contribution retirement savings plan sponsored by CGI. Employees are entitled to participate based upon certain eligibility requirements and contribution limitations. The Company provides discretionary contributions for certain employees that are equal to a specified percentage of the eligible participant's compensation.

**Forgivable Loans**

A portion of compensation paid to certain employees is made in the form of forgivable loans. These forgivable loans provide for a cash payment up-front to employees, with the amount due back to the Company forgiven over a vesting period. An employee that voluntarily ceases employment, or is terminated with cause, is generally required to pay back to the Company any unvested forgivable loans granted to them. The forgivable loans are recorded as an asset to the Parent on the date of grant and payment.

**Share-Based Compensation**

The Company's employees participate in CGI's various stock incentive plans (the "Plans"). The Plans permit the grant of options, restricted shares, restricted stock units and other equity based awards to its employees, consultants and directors for up to 17,725,000 shares of common stock.

The Company accounts for its share-based awards as payment for employee services in accordance with GAAP and values such awards based on fair value methods at the grant date.

The Company values the options using the Black-Scholes option valuation model which requires the Company to make assumptions regarding the expected term, volatility, risk-free rate and dividend yield.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

The following table summarizes the Company's stock option activity under plan for the twelve months ended December 31, 2013:

	Shares Subject to Option	Average Exercise Price/ Share <sup>(1)</sup>	Average Remaining Term	Aggregate Intrinsic Value <sup>(2)</sup>
<b>Balances outstanding at beginning of year</b>	339,484	\$ 16.00	0.53	\$ -
Options transferred	-	-	-	-
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options forfeited	-	-	-	-
Options expired	(339,484)	-	-	-
<b>Balances outstanding at end of year</b>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Options exercisable at end of year	-	\$ -	-	\$ -

<sup>(1)</sup> No options were exercised through December 31, 2013.

<sup>(2)</sup> Based on CGI's closing stock price of \$3.91 on December 31, 2013.

During the year ended December 31, 2013, no stock options vested.

**Restricted Shares and Restricted Stock Units Granted to Employees**

The following table summarizes the Company's nonvested restricted shares and restricted stock units activity for the twelve months ended December 31, 2013:

	Nonvested Restricted Shares and Stock Units	Weighted- Average Grant-Date Fair Value
<b>Balances at beginning of year</b>	7,305,137	\$ 4.64
Granted	5,264,144	3.23
Vested	(3,100,163)	3.71
Forfeited	(146,016)	3.15
<b>Balances at end of year</b>	<u>9,323,102</u>	<u>\$ 4.28</u>

The fair value of restricted shares and restricted stock units is determined based on the number of shares or units granted and the quoted price of CGI's common stock on the date of grant.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

**6. Securities Owned and Securities Sold, Not Yet Purchased, at Fair Value**

Securities owned and securities sold, not yet purchased, at fair value, consist of the following at December 31, 2013:

<i>(in thousands)</i>	Owned	Sold, Not Yet Purchased
Fixed income securities	\$ -	\$ 55
Equity securities	21,026	44,573
Warrants	1,553	-
Options	7,919	6,138
Municipal bonds	9	-
Total inventory	<u>\$ 30,507</u>	<u>\$ 50,766</u>

Securities sold, not yet purchased, at fair value, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the consolidated financial statement.

Substantially all securities owned are pledged to the clearing broker under terms which permit the clearing broker to sell or re-pledge the securities to others subject to certain limitations.

As of December 31, 2013, the Company's long exposure to options of \$7.9 million (34,718 contracts held) and short exposure of \$6.1 million (27,632 contracts held) are included in securities owned, at fair value and in securities sold, not yet purchased, at fair value, respectively, in the consolidated statement of financial condition.

The following table summarizes the Company's financial assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2013:

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Municipal bonds	\$ 9	\$ -	\$ -	\$ 9
Equity securities	20,956	3	67	21,026
Warrants	34	-	1,519	1,553
Options	7,919	-	-	7,919
	<u>\$ 28,918</u>	<u>\$ 3</u>	<u>\$ 1,586</u>	<u>\$ 30,507</u>
<b>Liabilities</b>				
Fixed income securities	\$ -	\$ 55	\$ -	\$ 55
Equity securities	44,573	-	-	44,573
Options	6,138	-	-	6,138
	<u>\$ 50,711</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 50,766</u>

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

<b>Level 3 Rollforward</b> <i>(in thousands)</i>	<b>Warrants</b>	<b>Equities</b>	<b>Total</b>
<b>Assets</b>			
Beginning balance	\$ 97	\$ 236	\$ 333
Transfers in/(transfers out)	290	-	290
Realized gain/(loss)	-	-	-
Unrealized gain/(loss)	1,132	(169)	963
Purchases and sales	-	-	-
	<u>\$ 1,519</u>	<u>\$ 67</u>	<u>\$ 1,586</u>

There were no transfers out of Level 3 and no transfers between Level 1 and 2 for the year ended December 31, 2013.

The following table includes quantitative information as of December 31, 2013 for financial instruments classified within Level 3. The table below quantifies information about the significant unobservable inputs used in the fair value measurement of the Company's Level 3 financial instruments.

<i>(in thousands)</i>	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
Equities	\$ 67	Recent transactions	Secondary market transactions	Recent transaction
Warrants	<u>1,519</u>	Model based	Volatility	Volatility: 20% to 40%
	<u>\$ 1,586</u>			

The Company has established valuation policies and procedures and an internal control infrastructure over its fair value measurement of financial instruments which includes ongoing oversight by the valuation committee as well as periodic audits performed by the Company's internal audit group. The valuation committee is comprised of senior management, including noninvestment professionals, who are responsible for overseeing and monitoring the pricing of the Company's investments, including the review of the results of the independent price verification process, approval of new trading asset classes and use of applicable pricing models and approaches.

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

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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The fair market value for Level 3 securities may be highly sensitive to the use of industry standard models, unobservable inputs and subjective assumptions. The degree of fair market value sensitivity is also contingent upon the subjective weight given to specific inputs and valuation metrics. Generally, changes in the weights ascribed to the various valuation metrics and the significant unobservable inputs in isolation may result in significantly lower or higher fair value measurements. Volatility levels for warrants and options are not readily observable and subject to interpretation. The interrelationship between unobservable inputs may vary significantly amongst Level 3 securities as they are generally highly idiosyncratic. Significant increases (decreases) in any of those inputs in isolation can result in a significantly lower (higher) fair value measurement.

**7. Receivable From and Payable to Brokers, Dealers and Clearing Brokers**

Receivable from and payable to brokers, dealers and clearing brokers primarily include proceeds from securities sold short including commissions and fees related to securities transactions, net receivables and payables for unsettled transactions. Receivables related to commissions, which are reported in receivable from brokers, dealer, and clearing brokers in the consolidated statement of financial condition, are reported net of an allowance for doubtful debts of \$0.5 million.

Amounts receivable from and payable to brokers, dealers and clearing brokers at December 31, 2013, consist of the following:

<i>(in thousands)</i>	<b>Receivable</b>	<b>Payable</b>
Clearing brokers	\$ 30,428	\$ -
Fees and commissions	<u>7,120</u>	<u>4,022</u>
	<u>\$ 37,548</u>	<u>\$ 4,022</u>

**8. Regulatory Requirements**

As a registered broker dealer, the Company is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934. Under the alternative method permitted by this Rule, the Company's required net capital, as defined, is \$1.0 million. The Company is not permitted to withdraw equity if certain minimum net capital requirements are not met. As of December 31, 2013, the Company had net capital of approximately \$36.4 million, which was approximately \$35.4 million in excess of its minimum net capital requirement.

Pursuant to an exemption under Rule 15c3-3(k)(2)(ii), the Company is not required to calculate a reserve requirement and segregate funds for the benefit of customers since it clears its securities transactions on a fully disclosed basis and promptly transmits all customer funds and securities to the clearing broker dealer which carries the accounts, and maintains and preserves such books and records pertaining to them pursuant to Rules 17a-3 and 17a-4.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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Proprietary balances held at the clearing broker or proprietary accounts of introducing brokers ("PAIB assets"), are considered allowable assets for net capital purposes, pursuant to agreements between the Company and the clearing broker, which require, among other things, that the clearing broker perform computations for PAIB assets and segregate certain balances on behalf of the Company, if applicable.

**9. Income Taxes**

The taxable results of the Company's operations are included in the results of the tax returns of CGI.

For the year ended December 31, 2013, the effective tax rate of 0.0% differs from the statutory rate of 35% primarily due to an increase in the Company's valuation allowance, deferred compensation and other nondeductible expenses.

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes.

The components of the Company's deferred tax assets and liabilities as of December 31, 2013 are as follows:

*(in thousands)*

<b>Deferred tax assets, net</b>	
Net operating loss	\$ 43,277
Compensation and employee benefits	15,687
Goodwill	9,937
Depreciation	3,839
Other	980
Total deferred tax assets	<u>73,720</u>
Valuation allowance	<u>(73,720)</u>
Deferred tax assets, net of valuation allowance	<u>-</u>
<b>Deferred tax liabilities</b>	
Other	<u>(69)</u>
Total deferred tax liabilities	<u>(69)</u>
Deferred tax assets, net of deferred tax liabilities	<u>\$ (69)</u>

Deferred tax assets, net of valuation allowance, are reported in other assets in the consolidated statement of financial condition.

The net change in valuation allowance for the year ended December 31, 2013 was approximately \$0.6 million. The Company recorded a full valuation allowance against its deferred tax assets of \$73.7 million as management believes it is more likely than not that the deferred tax assets will not be realized. Separately, the Company has deferred tax liabilities of \$0.1 million at December 31, 2013.

At December 31, 2013, the Company had net operating loss carryforwards for U.S. tax purposes of approximately \$108.7 million, which will expire between 2029 and 2033.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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The Company's ultimate parent company, CGI, is subject to examination by the United States Internal Revenue Service and state and local tax authorities where the Company has significant operations, such as New York, for all tax years since 2010. Any potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal, state and local tax laws. Currently, CGI is undergoing an examination by New York State for the 2009 tax year and management is not anticipating any material adjustments from this audit. Furthermore, the Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months. As such, the Company does not have any uncertain tax positions recorded for the year ended December 31, 2013.

**10. Commitments and Contingencies**

**Litigation**

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

The Company and related parties are also subject to governmental and regulatory examinations, information gathering requests (both formal and informal), certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The Company is subject to regulation by various U.S., state and foreign securities, and other regulators. In connection with formal and informal inquiries by these regulators, the Company receives requests, and orders seeking documents and other information in connection with various aspects of their regulated activities.

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

The Company has evaluated all adverse litigation claims and based on the information currently available, the Company has not established any reserves for such claims, since in the opinion of Management, the likelihood of liability is not probable nor reasonably estimable. In addition, most of the various claims against the Company are in early stages of discovery or claimants seek indeterminate damages. Therefore, the Company cannot reasonably determine the possible outcome, the timing of ultimate resolution or estimate a range of possible loss, or impact related to each currently pending matter.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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**Long-Term Commitments**

The Company entered into agreements with certain information technology and clearing services providers including Fidessa Group PLC, Bloomberg LP, Thomson Financial, Sungard and National Financial Services LL. As of December 31, 2013, the Company's annual minimum guaranteed payments under these agreements are as follows:

*(in thousands)*

2014	\$	5,931
2015		1,733
2016		1,003
2017		1,000
2018		917
	\$	<u>10,584</u>

**11. Off-Balance-Sheet Risks, Concentrations of Credit Risks, and Fair Value of Financial Instruments**

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. The Company's exposure to market risk is primarily related to fluctuations in the fair values of securities owned and sold, but not yet purchased, and its role as a financial intermediary in customer trading and market making activities. Market risk is inherent in financial instruments and risks arise in options and warrants from changes in the fair values of their underlying financial instruments. Securities sold, but not yet purchased, represent obligations of the Company to deliver specified securities at contracted prices and thereby create a liability to repurchase the securities at prevailing future market prices. The Company trades in equity securities as an active participant in both listed and over the counter markets. The Company typically maintains securities in inventory to facilitate its market making activities and customer order flow. The Company may use a variety of risk management techniques and hedging strategies in the ordinary course of its business to manage its exposures. Typically, market conditions are evaluated and transaction details and securities positions are reviewed. These activities are intended to ensure that the Company's transactions are conducted within acceptable risk tolerance parameters, particularly when the Company commits its own capital to facilitate client trading. Activities include price verification procedures, position reconciliations and reviews of transaction booking.

The Company clears all of its securities transactions through clearing brokers on a fully disclosed basis. Pursuant to the terms of the agreements between the Company and the clearing brokers, the clearing brokers have the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. Accordingly, at December 31, 2013, the Company had recorded no liability.

Credit risk is the potential loss the Company may incur as a result of the failure of a counterparty or an issuer to make payments according to the terms of a contract. The Company's exposure to credit risk at any point in time is represented by the fair value of the amounts reported as assets at such time.

**Cowen and Company, LLC**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2013**

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In accordance with industry practice, client trades are settled generally three business days after trade date. Should either the client or the counterparty fail to perform, the Company may be required to complete the transaction at prevailing market prices.

**12. Subsequent Events**

The Company has performed an evaluation of subsequent events through February 28, 2014, which is the date of the consolidated financial statements were available to be issued and has determined that there were no additional subsequent events requiring adjustment or disclosure to the consolidated financial statement.



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