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PIPER JAFFRAY COMPANIES  
Form 10-Q  
November 06, 2014

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 September 30, 2014

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 No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact Name of Registrant as specified in its Charter)

DELAWARE

30-0168701

(State or Other Jurisdiction of Incorporation or  
Organization)

(IRS Employer Identification No.)

800 Nicollet Mall, Suite 1000

55402

Minneapolis, Minnesota

(Address of Principal Executive Offices)

(Zip Code)

(612) 303-6000

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  Smaller reporting company

(Do not check if a 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

As of October 24, 2014, the registrant had 16,285,976 shares of Common Stock outstanding.



Piper Jaffray Companies  
 Index to Quarterly Report on Form 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1.	<u>FINANCIAL STATEMENTS</u>	<u>3</u>
	<u>Consolidated Statements of Financial Condition as of September 30, 2014 (Unaudited) and December 31, 2013</u>	<u>3</u>
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and September 30, 2013 (Unaudited)</u>	<u>4</u>
	<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and September 30, 2013 (Unaudited)</u>	<u>6</u>
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and September 30, 2013 (Unaudited)</u>	<u>7</u>
	<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	<u>9</u>
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>42</u>
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>71</u>
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	<u>72</u>

PART II. OTHER INFORMATION

ITEM 1.	<u>LEGAL PROCEEDINGS</u>	<u>72</u>
ITEM 1A.	<u>RISK FACTORS</u>	<u>72</u>
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>72</u>
ITEM 6.	<u>EXHIBITS</u>	<u>73</u>
	<u>SIGNATURES</u>	<u>74</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## Piper Jaffray Companies

## Consolidated Statements of Financial Condition

	September 30, 2014	December 31, 2013
(Amounts in thousands, except share data)	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 14,947	\$ 123,683
Cash and cash equivalents segregated for regulatory purposes	38,029	43,012
Receivables:		
Customers	25,669	11,633
Brokers, dealers and clearing organizations	291,190	127,113
Securities purchased under agreements to resell	263,680	167,875
Financial instruments and other inventory positions owned	459,624	406,513
Financial instruments and other inventory positions owned and pledged as collateral	1,023,970	957,515
Total financial instruments and other inventory positions owned	1,483,594	1,364,028
Fixed assets (net of accumulated depreciation and amortization of \$46,128 and \$62,311, respectively)	17,373	16,114
Goodwill	211,878	210,634
Intangible assets (net of accumulated amortization of \$38,823 and \$31,869, respectively)	32,976	39,930
Investments	125,167	112,043
Other assets	96,037	102,092
Total assets	\$ 2,600,540	\$ 2,318,157
Liabilities and Shareholders' Equity		
Short-term financing	\$ 338,795	\$ 514,711
Variable rate senior notes	125,000	125,000
Payables:		
Customers	35,944	33,109
Brokers, dealers and clearing organizations	84,344	27,722
Securities sold under agreements to repurchase	66,973	4,397
Financial instruments and other inventory positions sold, but not yet purchased	768,991	512,833
Accrued compensation	181,322	159,928
Other liabilities and accrued expenses	53,823	58,385
Total liabilities	1,655,192	1,436,085
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2014 and December 31, 2013;		
Shares issued: 19,523,371 at September 30, 2014 and 19,537,127 at December 31, 2013;		
Shares outstanding: 15,108,607 at September 30, 2014 and 14,383,418 at December 31, 2013	195	195

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Additional paid-in capital	737,449	740,321
Retained earnings	214,522	163,893
Less common stock held in treasury, at cost: 4,414,764 shares at September 30, 2014 and 5,153,709 shares at December 31, 2013	(148,286 )	(170,629 )
Accumulated other comprehensive income	753	896
Total common shareholders' equity	804,633	734,676
Noncontrolling interests	140,715	147,396
Total shareholders' equity	945,348	882,072
Total liabilities and shareholders' equity	\$2,600,540	\$2,318,157
See Notes to the Consolidated Financial Statements		

3

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Table of ContentsPiper Jaffray Companies  
Consolidated Statements of Operations  
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Investment banking	\$94,911	\$62,848	\$287,198	\$156,924
Institutional brokerage	35,923	35,318	114,485	100,076
Asset management	21,595	18,701	64,820	55,584
Interest	10,828	12,360	36,935	35,469
Investment income	2,690	5,279	12,379	8,285
<b>Total revenues</b>	<b>165,947</b>	<b>134,506</b>	<b>515,817</b>	<b>356,338</b>
Interest expense	6,521	6,192	18,227	18,719
<b>Net revenues</b>	<b>159,426</b>	<b>128,314</b>	<b>497,590</b>	<b>337,619</b>
Non-interest expenses:				
Compensation and benefits	97,180	79,426	300,745	210,531
Occupancy and equipment	8,312	6,509	22,151	18,869
Communications	5,661	5,778	17,048	16,040
Floor brokerage and clearance	1,905	2,109	5,527	6,506
Marketing and business development	6,827	5,447	19,787	16,384
Outside services	9,155	8,082	27,837	23,745
Restructuring and integration costs	—	3,823	—	3,823
Intangible asset amortization expense	2,318	2,899	6,954	6,221
Other operating expenses	2,376	2,181	8,719	1,939
<b>Total non-interest expenses</b>	<b>133,734</b>	<b>116,254</b>	<b>408,768</b>	<b>304,058</b>
Income from continuing operations before income tax expense	25,692	12,060	88,822	33,561
Income tax expense	8,596	2,886	28,472	10,130
<b>Income from continuing operations</b>	<b>17,096</b>	<b>9,174</b>	<b>60,350</b>	<b>23,431</b>
Discontinued operations:				
Loss from discontinued operations, net of tax	—	(1,529)	) —	(3,921)
<b>Net income</b>	<b>17,096</b>	<b>7,645</b>	<b>60,350</b>	<b>19,510</b>
Net income applicable to noncontrolling interests	2,428	2,323	9,721	1,554

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Net income applicable to Piper Jaffray Companies	\$ 14,668	\$ 5,322	\$ 50,629	\$ 17,956
Net income applicable to Piper Jaffray Companies' common shareholders	\$ 13,552	\$ 4,826	\$ 46,386	\$ 16,163

Continued on next page

4

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Table of Contents

## Piper Jaffray Companies

## Consolidated Statements of Operations – Continued

(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Amounts applicable to Piper Jaffray Companies				
Net income from continuing operations	\$14,668	\$6,851	\$50,629	\$21,877
Net loss from discontinued operations	—	(1,529	) —	(3,921
Net income applicable to Piper Jaffray Companies	\$14,668	\$5,322	\$50,629	\$17,956
Earnings/(loss) per basic common share				
Income from continuing operations	\$0.90	\$0.42	\$3.12	\$1.29
Loss from discontinued operations	—	(0.09	) —	(0.23
Earnings per basic common share	\$0.90	\$0.33	\$3.12	\$1.06
Earnings/(loss) per diluted common share				
Income from continuing operations	\$0.90	\$0.42	\$3.11	\$1.29
Loss from discontinued operations	—	(0.09	) —	(0.23
Earnings per basic common share	\$0.90	\$0.33	\$3.11	\$1.06
Weighted average number of common shares outstanding				
Basic	15,066	14,621	14,880	15,271
Diluted	15,129	14,626	14,934	15,284
See Notes to the Consolidated Financial Statements				



Table of Contents

Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Unaudited)

(Amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$17,096	\$7,645	\$60,350	\$19,510
Other comprehensive income/(loss), net of tax:				
Adjustment to unrecognized pension cost	—	(38	) —	(38
Foreign currency translation adjustment	(399	) 175	(143	) 54
Total other comprehensive income/(loss), net of tax	(399	) 137	(143	) 16
Comprehensive income	16,697	7,782	60,207	19,526
Comprehensive income applicable to noncontrolling interests	2,428	2,323	9,721	1,554
Comprehensive income applicable to Piper Jaffray Companies	\$14,269	\$5,459	\$50,486	\$17,972
See Notes to the Consolidated Financial Statements				

Table of ContentsPiper Jaffray Companies  
Consolidated Statements of Cash Flows  
(Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30, 2014	2013
Operating Activities:		
Net income	\$60,350	\$19,510
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization of fixed assets	3,992	4,300
Deferred income taxes	(2,487)	) 5,933
Loss on sale of FAMCO	—	1,876
Share-based and deferred compensation	21,067	11,012
Amortization of intangible assets	6,954	6,221
Amortization of forgivable loans	3,961	4,827
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	4,983	5,999
Receivables:		
Customers	(14,036)	) (17,580)
Brokers, dealers and clearing organizations	(164,077)	) (94,186)
Securities purchased under agreements to resell	(95,805)	) (81,990)
Net financial instruments and other inventory positions owned	136,592	(163,710)
Investments	(13,124)	) (19,375)
Other assets	3,298	2,945
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	2,835	(1,229)
Brokers, dealers and clearing organizations	56,622	65,071
Accrued compensation	25,741	(26,425)
Other liabilities and accrued expenses	(4,559)	) (23,566)
Decrease in assets held for sale	—	605
Decrease in liabilities held for sale	—	(465)
Net cash provided by/(used in) operating activities	32,307	(300,227)
Investing Activities:		
Business acquisitions, net of cash acquired	—	(24,726)
Sale of FAMCO	—	250
Purchases of fixed assets, net	(5,270)	) (3,257)
Net cash used in investing activities	(5,270)	) (27,733)

Continued on next page

Table of Contents

Piper Jaffray Companies

Consolidated Statements of Cash Flows – Continued

(Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30, 2014	2013
Financing Activities:		
Increase/(decrease) in short-term financing	\$(175,916	) \$186,275
Issuance of variable rate senior notes	50,000	—
Repayment of variable rate senior notes	(50,000	) —
Increase in securities sold under agreements to repurchase	62,576	28,914
Increase/(decrease) in noncontrolling interests	(16,402	) 91,192
Repurchase of common stock	(10,563	) (69,947
Excess tax benefit from share-based compensation	1,006	39
Proceeds from stock option exercises	3,644	—
Net cash provided by/(used in) financing activities	(135,655	) 236,473
Currency adjustment:		
Effect of exchange rate changes on cash	(118	) 77
Net decrease in cash and cash equivalents	(108,736	) (91,410
Cash and cash equivalents at beginning of period	123,683	105,371
Cash and cash equivalents at end of period	\$14,947	\$13,961
Supplemental disclosure of cash flow information –		
Cash paid during the period for:		
Interest	\$17,116	\$17,938
Income taxes	\$45,284	\$2,870
Non-cash financing activities –		
Issuance of common stock for retirement plan obligations:		
103,598 shares and 96,049 shares for the nine months ended September 30, 2014 and 2013, respectively	\$4,156	\$3,939
Issuance of restricted common stock for annual equity award:		
402,074 shares and 431,582 shares for the nine months ended September 30, 2014 and 2013, respectively	\$16,131	\$17,699

See Notes to the Consolidated Financial Statements

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Index		
Note 1	<u>Organization and Basis of Presentation</u>	<u>10</u>
Note 2	<u>Summary of Significant Accounting Policies</u>	<u>11</u>
Note 3	<u>Recent Accounting Pronouncements</u>	<u>11</u>
Note 4	<u>Acquisitions</u>	<u>12</u>
Note 5	<u>Discontinued Operations</u>	<u>13</u>
Note 6	<u>Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased</u>	<u>14</u>
Note 7	<u>Fair Value of Financial Instruments</u>	<u>16</u>
Note 8	<u>Variable Interest Entities</u>	<u>25</u>
Note 9	<u>Receivables from and Payables to Brokers, Dealers and Clearing Organizations</u>	<u>26</u>
Note 10	<u>Collateralized Securities Transactions</u>	<u>26</u>
Note 11	<u>Investments</u>	<u>28</u>
Note 12	<u>Other Assets</u>	<u>28</u>
Note 13	<u>Goodwill and Intangible Assets</u>	<u>29</u>
Note 14	<u>Short-Term Financing</u>	<u>30</u>
Note 15	<u>Variable Rate Senior Notes</u>	<u>30</u>
Note 16	<u>Contingencies and Commitments</u>	<u>31</u>
Note 17	<u>Restructuring</u>	<u>32</u>
Note 18	<u>Shareholders' Equity</u>	<u>32</u>
Note 19	<u>Noncontrolling Interests</u>	<u>33</u>
Note 20	<u>Compensation Plans</u>	<u>34</u>
Note 21	<u>Earnings Per Share</u>	<u>38</u>
Note 22	<u>Segment Reporting</u>	<u>39</u>
Note 23	<u>Net Capital Requirements and Other Regulatory Matters</u>	<u>41</u>
Note 24	<u>Income Taxes</u>	<u>41</u>

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Basis of Presentation

Organization

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. ("Piper Jaffray"), a securities broker dealer and investment banking firm; Piper Jaffray Ltd., a firm providing securities brokerage and mergers and acquisitions services in Europe headquartered in London, England; Advisory Research, Inc. ("ARI"), which provides asset management services to separately managed accounts, closed-end and open-end funds and partnerships; Piper Jaffray Investment Group Inc., which consists of entities providing alternative asset management services; Piper Jaffray Financial Products Inc., Piper Jaffray Financial Products II Inc. and Piper Jaffray Financial Products III Inc., entities that facilitate derivative transactions; and other immaterial subsidiaries. Piper Jaffray Companies and its subsidiaries (collectively, the "Company") operate in two reporting segments: Capital Markets and Asset Management. A summary of the activities of each of the Company's business segments is as follows:

Capital Markets

The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Investment banking services include management of and participation in underwritings, merger and acquisition services and public finance activities. Revenues are generated through the receipt of advisory and financing fees. Also, the Company generates revenue through strategic trading and investing activities, which focus on proprietary investments in a variety of securities, including municipal bonds, mortgage-backed securities, and equity securities, and merchant banking activities involving equity or debt investments in late stage private companies. As certain of these efforts have matured and an investment process has been developed, the Company has created alternative asset management funds in merchant banking and municipal securities in order to invest firm capital as well as to seek capital from outside investors. The Company receives management and performance fees for managing these funds.

As discussed in Note 5, the Company discontinued its Hong Kong capital markets business in 2012.

Asset Management

The Asset Management segment provides traditional asset management services with product offerings in equity securities and master limited partnerships to institutions and individuals. Revenues are generated in the form of management and performance fees. Revenues are also generated through investments in the partnerships and funds that the Company manages.

As discussed in Note 5, Fiduciary Asset Management, LLC ("FAMCO") was sold in 2013.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. Noncontrolling interests

represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a municipal bond fund, merchant banking fund and private equity investment vehicles. All material intercompany balances have been eliminated.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and assumptions are based on the best information available, actual results could differ from those estimates.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Reclassifications

In 2013, the Company reclassified interest revenue and expense associated with its derivative contracts to investment banking or institutional brokerage revenues within the consolidated statements of operations to more accurately reflect the nature and intent of the derivative instrument. The Company reclassified \$3.9 million and \$8.5 million of interest revenue and \$4.3 million and \$9.8 million of interest expense for the three and nine months ended September 30, 2013, respectively. This change had no effect on net revenues, net income, shareholders' equity or cash flows for the periods presented.

Note 2 Summary of Significant Accounting Policies

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a full description of the Company's significant accounting policies.

Note 3 Recent Accounting Pronouncements

Adoption of New Accounting Standards

Investment Companies

In June 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-08, "Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements," ("ASU 2013-08") amending FASB Accounting Standards Codification Topic 946, "Financial Services - Investment Companies" ("ASC 946"). The amended guidance changes the approach to the investment company assessment in ASC 946, clarifies the characteristics of an investment company and requires new disclosures for investment company financial statements. ASU 2013-08 was effective for the Company as of January 1, 2014. The adoption of ASU 2013-08 did not impact the Company's results of operations, financial position or disclosures.

Future Adoption of New Accounting Standards

Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," ("ASU 2014-08") amending FASB Accounting Standards Codification Topic 205-20, "Discontinued Operations" ("ASC 205-20"). The amended guidance changes the criteria for reporting discontinued operations and requires new disclosures. ASU 2014-08 is effective for annual and interim periods beginning on or after December 15, 2014, and will be applied prospectively.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-09") which supersedes current revenue recognition guidance, including most industry-specific guidance. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and

services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Repurchase Agreements

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," ("ASU 2014-11") amending FASB Accounting Standards Codification Topic 860, "Transfers and Servicing." The amended guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. The guidance also requires new disclosures for certain transfers accounted for as sales and collateral supporting transactions that are accounted for as secured borrowings. ASU 2014-11 is effective for annual and interim periods beginning after December 15, 2014, except for the disclosures related to secured borrowings, which are effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of ASU 2014-11 is not expected to have a material impact on the Company's results of operations or financial position, but may impact the Company's disclosures.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures thereon. The guidance is effective for annual and interim periods ending after December 15, 2016, with early adoption permitted. The adoption of ASU 2014-15 is not expected to impact the Company's results of operations, financial position or disclosures.

Note 4 Acquisitions

On July 12, 2013, the Company completed the purchase of Seattle-Northwest Securities Corporation ("Seattle-Northwest"), a Seattle-based investment bank and broker dealer focused on public finance in the Northwest region of the U.S. The purchase was completed pursuant to the Agreement and Plan of Merger dated April 16, 2013. The acquisition of Seattle-Northwest supports the Company's strategy to grow its public finance business.

On July 16, 2013, the Company completed the purchase of Edgeview Partners, L.P. ("Edgeview"), a middle-market advisory firm specializing in mergers and acquisitions. The purchase was completed pursuant to the Unit Purchase Agreement dated June 17, 2013. The acquisition of Edgeview further strengthened the Company's mergers and acquisitions position in the middle market and added resources dedicated to the private equity community.

The Company paid \$32.7 million in cash for Seattle-Northwest and Edgeview, which represented the fair values as of the respective acquisition dates. The Company also entered into acquisition-related compensation arrangements of \$14.3 million which consisted of cash, restricted stock and restricted mutual fund shares ("MFRS Awards") of registered funds managed by the Company's asset management business. Compensation expense related to these arrangements will be amortized on a straight-line basis over the requisite service period of two to five years (a weighted average service period of 4.3 years).

These acquisitions were accounted for pursuant to FASB Accounting Standards Codification Topic 805, "Business Combinations." Accordingly, the purchase price of each acquisition was allocated to the acquired assets and liabilities assumed based on their estimated fair values as of the respective acquisition dates. The excess of the purchase price over the net assets acquired was allocated between goodwill and intangible assets within the Capital Markets segment.

The Company recorded \$15.0 million of goodwill on the consolidated statements of financial condition, of which \$9.1 million is expected to be deductible for income tax purposes. In management's opinion, the goodwill represents the reputation and expertise of Seattle-Northwest and Edgeview in their respective business lines.

Identifiable intangible assets purchased by the Company consisted of customer relationships and non-competition agreements with acquisition-date fair values estimated to be \$6.0 million and \$0.7 million, respectively. Transaction costs of \$0.9 million were incurred in the three and nine months ended September 30, 2013, respectively, and are included in restructuring and integration costs within continuing operations on the consolidated statements of operations.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the respective dates of acquisition:

(Dollars in thousands)

Assets	
Cash and cash equivalents	\$8,014
Financial instruments and other inventory positions owned	24,074
Fixed assets	1,247
Goodwill	15,034
Intangible assets	6,665
Other assets	7,678
Total assets acquired	62,712
Liabilities	
Payables	1,126
Financial instruments and other inventory positions sold, but not yet purchased	22,588
Accrued compensation	1,469
Other liabilities and accrued expenses	4,789
Total liabilities assumed	29,972
Net assets acquired	\$32,740

Seattle-Northwest and Edgeview results of operations have been included in the Company's consolidated financial statements prospectively from their respective dates of acquisition. These acquisitions have been fully integrated with the Company's existing operations. Accordingly, post-acquisition revenues and net income are not discernible. The following unaudited pro forma financial data assumes the acquisitions had occurred on January 1, 2012, the beginning of the prior annual period in which the acquisitions occurred. Pro forma results have been prepared by adjusting the Company's historical results from continuing operations to include Seattle-Northwest and Edgeview results of operations adjusted for the following changes: depreciation and amortization expenses were adjusted to account for acquisition-date fair value adjustments of fixed assets and intangible assets; compensation and benefits expenses were adjusted to reflect excess partner distributions as compensation expense; and the income tax effect of applying the Company's statutory tax rates to Seattle-Northwest and Edgeview results of operations. The consolidated Company's unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisitions been completed at the beginning of the applicable period presented, does not contemplate anticipated operational efficiencies of the combined entities, nor does it indicate the results of operations in future periods.

(Dollars in thousands)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Net revenues	\$ 132,773	\$ 353,728
Net income from continuing operations applicable to Piper Jaffray Companies	\$ 6,921	\$ 20,276

## Note 5 Discontinued Operations

The Company's Hong Kong capital markets business ceased operations in 2012. In the second quarter of 2013, the Company completed the sale of FAMCO, an asset management subsidiary, for consideration of \$4.0 million which consisted of \$0.3 million in cash and a \$3.7 million note receivable from the buyer. In accordance with the provisions of ASC 205-20, the results from these businesses have been classified as discontinued operations for all periods

presented. The Company recorded a \$1.5 million net loss and a \$3.9 million net loss from discontinued operations for the three and nine months ended September 30, 2013, respectively.

Table of Contents

Piper Jaffray Companies  
Notes to the Consolidated Financial Statements  
(Unaudited)

Note 6 Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased were as follows:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	\$54,386	\$54,097
Convertible securities	164,580	80,784
Fixed income securities	41,482	10,102
Municipal securities:		
Taxable securities	306,534	232,379
Tax-exempt securities	365,563	460,865
Short-term securities	78,222	62,620
Asset-backed securities	99,294	119,811
U.S. government agency securities	322,284	304,737
Derivative contracts	51,249	38,633
Total financial instruments and other inventory positions owned	1,483,594	1,364,028
Less noncontrolling interests (1)	(234,876 )	(291,513 )
	\$1,248,718	\$1,072,515
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	\$158,479	\$69,205
Fixed income securities	23,498	24,021
U.S. government agency securities	70,992	120,084
U.S. government securities	505,689	291,320
Derivative contracts	10,333	8,203
Total financial instruments and other inventory positions sold, but not yet purchased	768,991	512,833
Less noncontrolling interests (2)	(113,773 )	(68,356 )
	\$655,218	\$444,477

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of \$127.4 million and \$101.8 million of taxable municipal securities, \$102.7 million and \$183.9 million of tax-exempt municipal securities, and \$4.8 million and \$5.8 million of derivative contracts as of September 30, 2014 and December 31, 2013, respectively.

(2) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of \$112.5 million and \$67.4 million of U.S. government securities, and \$1.3 million and \$1.0 million of derivative contracts as of September 30, 2014 and December 31, 2013, respectively.

At September 30, 2014 and December 31, 2013, financial instruments and other inventory positions owned in the amount of \$1.0 billion and \$957.5 million, respectively, had been pledged as collateral for short-term financings and

repurchase agreements.

Financial instruments and other inventory positions sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. The Company is obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statements of financial condition. The Company economically hedges changes in the market value of its financial instruments and other inventory positions owned using inventory positions sold, but not yet purchased, interest rate derivatives, credit default swap index contracts, treasury futures and exchange traded options.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Derivative Contract Financial Instruments

The Company uses interest rate swaps, interest rate locks, credit default swap index contracts, treasury futures and option contracts to facilitate customer transactions and as a means to manage risk in certain inventory positions. The following describes the Company's derivatives by the type of transaction or security the instruments are economically hedging.

Customer matched-book derivatives: The Company enters into interest rate derivative contracts in a principal capacity as a dealer to satisfy the financial needs of its customers. The Company simultaneously enters into an interest rate derivative contract with a third party for the same notional amount to hedge the interest rate and credit risk of the initial client interest rate derivative contract. In certain limited instances, the Company has only hedged interest rate risk with a third party, and retains uncollateralized credit risk as described below. The instruments use interest rates based upon either the London Interbank Offer Rate ("LIBOR") index or the Securities Industry and Financial Markets Association ("SIFMA") index.

Trading securities derivatives: The Company enters into interest rate derivative contracts to hedge interest rate and market value risks associated with its fixed income securities. The instruments use interest rates based upon either the Municipal Market Data ("MMD") index, LIBOR or the SIFMA index. The Company also enters into credit default swap index contracts to hedge credit risk associated with its taxable fixed income securities and option contracts to hedge market value risk associated with its convertible securities and asset-backed securities.

The following table presents the total absolute notional contract amount associated with the Company's outstanding derivative instruments:

(Dollars in thousands)		September 30,	December 31,
Transaction Type or Hedged Security	Derivative Category	2014	2013
Customer matched-book	Interest rate derivative contract	\$4,917,596	\$5,310,929
Trading securities	Interest rate derivative contract	307,450	198,500
Trading securities	Credit default swap index contract	397,815	299,333
Trading securities	Equity option derivative contract	13,522	17,090
		\$5,636,383	\$5,825,852

The Company's derivative contracts do not qualify for hedge accounting, therefore, unrealized gains and losses are recorded on the consolidated statements of operations. The gains and losses on the related economically hedged inventory positions are not disclosed below as they are not in qualifying hedging relationships. The following table presents the Company's unrealized gains/(losses) on derivative instruments:

(Dollars in thousands)		Three Months Ended		Nine Months Ended	
Derivative Category		September 30,		September 30,	
	Operations Category	2014	2013	2014	2013
Interest rate derivative contract	Investment banking	\$(809)	\$(483)	\$(2,178)	\$(1,132)
	Institutional brokerage	1,368	(16,532)	(2,898)	4,930

Interest rate derivative contract					
Credit default swap index contract	Institutional brokerage	2,078	(1,918	) (845	) (650
Equity option derivative contract	Institutional brokerage	693	—	1,112	—
		\$3,330	\$(18,933	) \$(4,809	) \$3,148



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The gross fair market value of all derivative instruments and their location on the Company's consolidated statements of financial condition prior to counterparty netting are shown below by asset or liability position:

(Dollars in thousands)		Asset Value at		Liability Value at	
		September 30,		September 30,	
Derivative Category	Financial Condition Location	2014	Financial Condition Location	2014	
Interest rate derivative contract	Financial instruments and other inventory positions owned	\$ 389,825	Financial instruments and other inventory positions sold, but not yet purchased		\$ 375,723
Credit default swap index contract	Financial instruments and other inventory positions owned	7,025	Financial instruments and other inventory positions sold, but not yet purchased		7,999
Equity option derivative contract	Financial instruments and other inventory positions owned	63	Financial instruments and other inventory positions sold, but not yet purchased		247
		\$ 396,913			\$ 383,969

Derivatives are reported on a net basis by counterparty (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists.

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of September 30, 2014, the Company had \$25.2 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$199.2 million), including \$13.3 million of uncollateralized credit exposure with one counterparty.

## Note 7 Fair Value of Financial Instruments

Based on the nature of the Company's business and its role as a "dealer" in the securities industry or as a manager of alternative asset management funds, the fair values of its financial instruments are determined internally. The Company's processes are designed to ensure that the fair values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, unobservable inputs are developed based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations and other security-specific information. Valuation

adjustments related to illiquidity or counterparty credit risk are also considered. In estimating fair value, the Company may utilize information provided by third-party pricing vendors to corroborate internally-developed fair value estimates.

The Company employs specific control processes to determine the reasonableness of the fair value of its financial instruments. The Company's processes are designed to ensure that the internally estimated fair values are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Individuals outside of the trading departments perform independent pricing verification reviews as of each reporting date. The Company has established parameters which set forth when the fair value of securities are independently verified. The selection parameters are generally based upon the type of security, the level of estimation risk of a security, the materiality of the security to the Company's financial statements, changes in fair value from period to period, and other specific facts and circumstances of the Company's securities portfolio. In evaluating the initial internally-estimated fair values made by the Company's traders, the nature and complexity of securities involved (e.g., term, coupon, collateral, and other key drivers of value), level of market activity for securities, and availability of market data are considered. The independent price verification procedures include, but are not limited to, analysis of trade data (both internal and external where available), corroboration to the valuation of positions with similar characteristics, risks and components, or comparison to an alternative pricing source, such as a discounted cash flow model. The Company's valuation committee, comprised of members of senior

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

management and risk management, provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

The following is a description of the valuation techniques used to measure fair value.

Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of 90 days or less. Actively traded money market funds are measured at their net asset value and classified as Level I.

Financial Instruments and Other Inventory Positions Owned

The Company records financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased at fair value on the consolidated statements of financial condition with unrealized gains and losses reflected on the consolidated statements of operations.

Equity securities – Exchange traded equity securities are valued based on quoted prices from the exchange for identical assets or liabilities as of the period-end date. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level I. Non-exchange traded equity securities (principally hybrid preferred securities) are measured primarily using broker quotations, prices observed for recently executed market transactions and internally-developed fair value estimates based on observable inputs and are categorized within Level II of the fair value hierarchy.

Convertible securities – Convertible securities are valued based on observable trades, when available. Accordingly, these convertible securities are categorized as Level II. When observable price quotations are not available, fair value is determined using model-based valuation techniques with observable market inputs, such as specific company stock price and volatility, and unobservable inputs such as option adjusted spreads over the U.S. treasury securities curve. These instruments are categorized as Level III.

Corporate fixed income securities – Fixed income securities include corporate bonds which are valued based on recently executed market transactions of comparable size, internally-developed fair value estimates based on observable inputs, or broker quotations. Accordingly, these corporate bonds are categorized as Level II. When observable price quotations or certain observable inputs are not available, fair value is determined using model-based valuation techniques with observable inputs such as specific security contractual terms and yield curves, and unobservable inputs such as credit spreads over U.S. treasury securities. Corporate bonds measured using model-based valuation techniques are categorized as Level III.

Taxable municipal securities – Taxable municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II.

Tax-exempt municipal securities – Tax-exempt municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Certain illiquid tax-exempt municipal securities are valued using market data for comparable securities (maturity and sector) and management judgment to infer an appropriate current yield or other model-based valuation techniques deemed appropriate by management based on the specific nature of the individual security and are therefore categorized as Level III.

Short-term municipal securities – Short-term municipal securities include auction rate securities, variable rate demand notes, and other short-term municipal securities. Variable rate demand notes and other short-term municipal securities are valued using recently executed observable trades or market price quotations and therefore are generally categorized as Level II. Auction rate securities with limited liquidity are categorized as Level III and are valued using discounted cash flow models with unobservable inputs such as the Company's expected recovery rate on the securities.

Asset-backed securities – Asset-backed securities are valued using observable trades, when available. Certain asset-backed securities are valued using models where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data. These asset-backed securities are categorized as Level II. Other asset-backed securities, which are principally collateralized by residential mortgages, have experienced low volumes of executed transactions resulting in less observable transaction data. Certain asset-backed securities collateralized by residential mortgages are valued using cash flow models that utilize unobservable inputs including credit default rates, prepayment rates, loss severity and valuation yields. As judgment is used to determine the range of these inputs, these asset-backed securities are categorized as Level III.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation (“CMO”) securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 11-598 basis points (“bps”) on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 102-324 Public Securities Association (“PSA”) prepayment levels. These securities are categorized as Level II.

U.S. government securities – U.S. government securities include highly liquid U.S. treasury securities which are generally valued using quoted market prices and therefore categorized as Level I. The Company does not transact in securities of countries other than the U.S. government.

Derivatives – Derivative contracts include interest rate and basis swaps, forward purchase agreements, interest rate locks, treasury futures, options and credit default swap index contracts. These instruments derive their value from underlying assets, reference rates, indices or a combination of these factors. The Company's equity option derivative contracts are valued based on quoted prices from the exchange for identical assets or liabilities as of the period-end date. To the extent these contracts are actively traded and valuation adjustments are not applied, they are categorized as Level I. The Company's credit default swap index contracts are valued using market price quotations and are classified as Level II. The majority of the Company's interest rate derivative contracts, including both interest rate swaps and interest rate locks, are valued using market standard pricing models based on the net present value of estimated future cash flows. The valuation models used do not involve material subjectivity as the methodologies do not entail significant judgment and the pricing inputs are market observable, including contractual terms, yield curves and measures of volatility. These instruments are classified as Level II within the fair value hierarchy. Certain interest rate locks transact in less active markets and were valued using valuation models that included the previously mentioned observable inputs and certain unobservable inputs that required significant judgment, such as the premium over the MMD curve. These instruments are classified as Level III.

Investments

The Company's investments valued at fair value include equity investments in private companies, investments in public companies, investments in registered mutual funds, and warrants of public or private companies. Exchange traded direct equity investments in public companies and registered mutual funds are valued based on quoted prices on active markets and classified as Level I. Company-owned warrants, which have a cashless exercise option, are valued based upon the Black-Scholes option-pricing model and certain unobservable inputs. The Company applies a liquidity discount to the value of its warrants in public and private companies. For warrants in private companies, valuation adjustments, based upon management's judgment, are made to account for differences between the measured security and the stock volatility factors of comparable companies. Company-owned warrants are reported as Level III assets. Equity securities in private companies are valued based on an assessment of each underlying security, considering rounds of financing, third-party transactions and market-based information, including comparable company transactions, trading multiples (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization (“EBITDA”)) and changes in market outlook, among other factors. These securities are generally categorized as Level III.

Fair Value Option – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. Merchant banking and other equity investments of \$17.9 million and \$16.1 million, included within investments on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets at September 30, 2014 and December 31, 2013, respectively. The realized and unrealized gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were \$2.1 million and \$9.5 million for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents

Piper Jaffray Companies  
Notes to the Consolidated Financial Statements  
(Unaudited)

The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level III financial instruments as of September 30, 2014:

	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:				
Financial instruments and other inventory positions owned:				
Municipal securities:				
Tax-exempt securities	Discounted cash flow	Debt service coverage ratio (2)	5 - 69%	22.2%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	77 - 80%	79.6%
Asset-backed securities:				
Collateralized by residential mortgages				
	Discounted cash flow	Credit default rates (3)	1 - 6%	3.4%
		Prepayment rates (4)	2 - 22%	4.3%
		Loss severity (3)	25 - 85%	66.0%
		Valuation yields (3)	5 - 10%	5.1%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	3 - 15 bps	11.4 bps
Investments at fair value:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	35.5%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	23 - 94%	47.9%
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 6 times	3.6 times
		EBITDA multiple (2)	9 - 12 times	9.4 times

## Liabilities:

Financial instruments and other inventory positions sold, but not yet purchased:  
Derivative contracts:

Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	4 - 40 bps	15.9 bps
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Sensitivity of the fair value to changes in unobservable inputs:

(1) Significant increase/(decrease) in the unobservable input in isolation would result in a significantly lower/(higher) fair value measurement.

(2) Significant increase/(decrease) in the unobservable input in isolation would result in a significantly higher/(lower) fair value measurement.

Significant changes in any of these inputs in isolation could result in a significantly different fair value. Generally, (3) a change in the assumption used for credit default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally inverse change in the assumption for valuation yields.

(4)

The potential impact of changes in prepayment rates on fair value is dependent on other security-specific factors, such as the par value and structure. Changes in the prepayment rates may result in directionally similar or directionally inverse changes in fair value depending on whether the security trades at a premium or discount to the par value.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820") as of September 30, 2014:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
<b>Assets:</b>					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$46,087	\$8,299	\$—	\$—	\$54,386
Convertible securities	—	164,580	—	—	164,580
Fixed income securities	—	41,482	—	—	41,482
Municipal securities:					
Taxable securities	—	306,534	—	—	306,534
Tax-exempt securities	—	364,257	1,306	—	365,563
Short-term securities	—	77,491	731	—	78,222
Asset-backed securities	—	4,020	95,274	—	99,294
U.S. government agency securities	—	322,284	—	—	322,284
Derivative contracts	63	395,533	1,317	(345,664 )	51,249
Total financial instruments and other inventory positions owned:	46,150	1,684,480	98,628	(345,664 )	1,483,594
Cash equivalents	903	—	—	—	903
Investments at fair value	22,175	—	69,998	—	92,173
Total assets	\$69,228	\$1,684,480	\$168,626	\$(345,664 )	\$1,576,670
<b>Liabilities:</b>					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$157,598	\$881	\$—	\$—	\$158,479
Fixed income securities	—	23,498	—	—	23,498
U.S. government agency securities	—	70,992	—	—	70,992
U.S. government securities	505,689	—	—	—	505,689
Derivative contracts	247	373,555	10,167	(373,636 )	10,333
Total financial instruments and other inventory positions sold, but not yet purchased:	\$663,534	\$468,926	\$10,167	\$(373,636 )	\$768,991

(1) Represents cash collateral and the impact of netting on a counterparty basis. The Company had no securities posted as collateral to its counterparties.

20

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Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2013:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
<b>Assets:</b>					
<b>Financial instruments and other inventory positions owned:</b>					
<b>Corporate securities:</b>					
Equity securities	\$39,711	\$14,386	\$—	\$—	\$54,097
Convertible securities	—	80,784	—	—	80,784
Fixed income securities	—	10,002	100	—	10,102
<b>Municipal securities:</b>					
Taxable securities	—	232,379	—	—	232,379
Tax-exempt securities	—	459,432	1,433	—	460,865
Short-term securities	—	61,964	656	—	62,620
Asset-backed securities	—	12	119,799	—	119,811
U.S. government agency securities	—	304,737	—	—	304,737
Derivative contracts	19	351,589	691	(313,666 )	38,633
<b>Total financial instruments and other inventory positions owned:</b>	<b>39,730</b>	<b>1,515,285</b>	<b>122,679</b>	<b>(313,666 )</b>	<b>1,364,028</b>
Cash equivalents	101,629	—	—	—	101,629
Investments at fair value	20,690	—	49,240	—	69,930
<b>Total assets</b>	<b>\$162,049</b>	<b>\$1,515,285</b>	<b>\$171,919</b>	<b>\$(313,666 )</b>	<b>\$1,535,587</b>
<b>Liabilities:</b>					
<b>Financial instruments and other inventory positions sold, but not yet purchased:</b>					
<b>Corporate securities:</b>					
Equity securities	\$69,205	\$—	\$—	\$—	\$69,205
Fixed income securities	—	24,021	—	—	24,021
U.S. government agency securities	—	120,084	—	—	120,084
U.S. government securities	291,320	—	—	—	291,320
Derivative contracts	1,889	324,065	6,643	(324,394 )	8,203
<b>Total financial instruments and other inventory positions sold, but not yet purchased:</b>	<b>\$362,414</b>	<b>\$468,170</b>	<b>\$6,643</b>	<b>\$(324,394 )</b>	<b>\$512,833</b>
(1)					

Represents cash collateral and the impact of netting on a counterparty basis. The Company had no securities posted as collateral to its counterparties.

The Company's Level III assets were \$168.6 million and \$171.9 million, or 10.7 percent and 11.2 percent of financial instruments measured at fair value at September 30, 2014 and December 31, 2013, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were no significant transfers between Level I, Level II or Level III for the nine months ended September 30, 2014.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following tables summarize the changes in fair value associated with Level III financial instruments held at the beginning or end of the periods presented:

(Dollars in thousands)	Balance at June 30, 2014	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at September 30, 2014
Assets:								
Financial instruments and other inventory positions owned:								
Municipal securities:								
Tax-exempt securities	\$ 1,306	\$—	\$—	\$—	\$—	\$—	\$—	\$ 1,306
Short-term securities	732	—	—	—	—	—	(1 )	731
Asset-backed securities	129,126	58,028	(93,801 )	515	—	1,377	29	95,274
Derivative contracts	627	—	—	—	—	—	690	1,317
Total financial instruments and other inventory positions owned:	131,791	58,028	(93,801 )	515	—	1,377	718	98,628
Investments at fair value	58,567	10,500	(9 )	—	—	9	931	69,998
Total assets	\$ 190,358	\$ 68,528	\$ (93,810 )	\$ 515	\$—	\$ 1,386	\$ 1,649	\$ 168,626
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 10,846	\$ (8,439 )	\$—	\$—	\$—	\$ 8,439	\$ (679 )	\$ 10,167
Total financial instruments and other inventory positions sold, but not yet purchased:	\$ 10,846	\$ (8,439 )	\$—	\$—	\$—	\$ 8,439	\$ (679 )	\$ 10,167

Realized and unrealized gains/(losses) related to financial instruments, with the exception of customer matched-book derivatives, are reported in institutional brokerage on the consolidated statements of operations.

(1) Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or investment income/(loss) on the consolidated statements of operations.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

	Balance at June 30, 2013	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2013
<b>Assets:</b>								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Convertible securities	\$1,308	\$—	\$(1,615)	\$—	\$(251)	\$ 839	\$(281)	\$—
Fixed income securities	100	—	—	—	—	—	—	100
Municipal securities:								
Tax-exempt securities	1,433	—	—	—	—	—	—	1,433
Short-term securities	656	—	—	—	—	—	—	656
Asset-backed securities	151,396	99,763	(97,246)	—	—	(276)	3,405	157,042
Derivative contracts	17,879	—	(12,337)	—	—	12,337	(9,808)	8,071
Total financial instruments and other inventory positions owned:	172,772	99,763	(111,198)	—	(251)	12,900	(6,684)	167,302
Investments at fair value	53,567	—	(10,356)	—	(619)	5,942	(2,955)	45,579
Total assets	\$226,339	\$99,763	\$(121,554)	\$—	\$(870)	\$ 18,842	\$(9,639)	\$ 212,881
<b>Liabilities:</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$254	\$(223)	\$—	\$—	\$—	\$ 223	\$ 6,327	\$ 6,581
Total financial instruments and other inventory positions sold, but not yet purchased:	\$254	\$(223)	\$—	\$—	\$—	\$ 223	\$ 6,327	\$ 6,581

Realized and unrealized gains/(losses) related to financial instruments, with the exception of customer matched-book derivatives, are reported in institutional brokerage on the consolidated statements of operations.

(1) Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or investment income/(loss) on the consolidated statements of operations.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

	Balance at December 31, 2013	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2014
(Dollars in thousands)								
Assets:								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Fixed income securities	\$ 100	\$—	\$(100 )	\$—	\$—	\$—	\$—	\$—
Municipal securities:								
Tax-exempt securities	1,433	—	—	—	—	—	(127 )	1,306
Short-term securities	656	—	(25 )	—	—	6	94	731
Asset-backed securities	119,799	129,764	(163,047 )	—	—	9,748	(990 )	95,274
Derivative contracts	691	2,614	—	—	—	(2,614 )	626	1,317
Total financial instruments and other inventory positions owned:	122,679	132,378	(163,172 )	—	—	7,140	(397 )	98,628
Investments at fair value	49,240	20,500	(2,368 )	—	—	2,368	258	69,998
Total assets	\$ 171,919	\$ 152,878	\$(165,540)	\$—	\$—	\$ 9,508	\$ (139 )	\$ 168,626
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 6,643	\$(16,751 )	\$—	\$—	\$—	\$ 16,751	\$ 3,524	\$ 10,167
Total financial instruments and other inventory positions sold, but not yet purchased:	\$ 6,643	\$(16,751 )	\$—	\$—	\$—	\$ 16,751	\$ 3,524	\$ 10,167

Realized and unrealized gains/(losses) related to financial instruments, with the exception of customer matched-book derivatives, are reported in institutional brokerage on the consolidated statements of operations.

(1) Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or investment income/(loss) on the consolidated statements of operations.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

(Dollars in thousands)	Balance at December 31, 2012	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2013
<b>Assets:</b>								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Fixed income securities	\$ —	\$ 100	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100
Municipal securities:								
Tax-exempt securities	1,429	1	—	—	—	(266 )	269	1,433
Short-term securities	656	—	—	—	—	—	—	656
Asset-backed securities	116,171	448,175	(424,274 )	—	—	20,562	(3,592 )	157,042
Derivative contracts	827	710	(13,318 )	—	—	12,523	7,329	8,071
Total financial instruments and other inventory positions owned:	119,083	448,986	(437,592 )	—	—	32,819	4,006	167,302
Investments at fair value	33,245	15,363	(10,356 )	—	(619 )	5,946	2,000	45,579
Total assets	\$ 152,328	\$ 464,349	\$ (447,948)	\$ —	\$ (619 )	\$ 38,765	\$ 6,006	\$ 212,881
<b>Liabilities:</b>								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	\$ 5,218	\$(5,873 )	\$ 745	\$ —	\$ —	\$ 5,115	\$ 1,376	\$ 6,581
Total financial instruments and other inventory positions sold, but not yet purchased:	\$ 5,218	\$(5,873 )	\$ 745	\$ —	\$ —	\$ 5,115	\$ 1,376	\$ 6,581

Realized and unrealized gains/(losses) related to financial instruments, with the exception of customer matched-book derivatives, are reported in institutional brokerage on the consolidated statements of operations.

(1) Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or investment income/(loss) on the consolidated statements of operations.

The carrying values of the Company's cash, securities either purchased or sold under agreements to resell, receivables and payables either from or to customers and brokers, dealers and clearing organizations and short-term financings approximate fair value due to their liquid or short-term nature.



Note 8 Variable Interest Entities

The Company has investments in and/or acts as the managing partner of various partnerships, limited liability companies, or registered mutual funds. These entities were established for the purpose of investing in securities of public or private companies, or municipal debt obligations and were initially financed through the capital commitments or seed investments of the members.

Variable Interest Entities ("VIEs") are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the amount and nature of the members' equity investment in the entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance. For those entities that meet the deferral provisions defined by FASB ASU No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10"), the Company considers characteristics such as the ability to influence the decision making about the entity's activities and how the entity is financed. The Company has identified certain of the entities described above as VIEs. These VIEs had net assets approximating \$0.7 billion at September 30, 2014 and \$0.8 billion at December 31, 2013. The Company's exposure to loss from these VIEs is \$9.7 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at September 30, 2014. The Company had no liabilities related to these VIEs at September 30, 2014 and December 31, 2013.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For those entities that meet the deferral provisions defined by ASU 2010-10, the determination as to whether the Company is considered to be the primary beneficiary differs in that it is based on whether the Company will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The Company determined it is not the primary beneficiary of these VIEs and accordingly does not consolidate them. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of September 30, 2014.

The Company has investments in a grantor trust which was established as part of a nonqualified deferred compensation plan. The Company is the primary beneficiary of the grantor trust. Accordingly, the assets and liabilities of the grantor trust are consolidated by the Company on the consolidated statements of financial condition. See Note 20 for additional information on the nonqualified deferred compensation plan.

The Company also originates CMOs through secondary market vehicles. The Company's risk of loss with respect to these entities is limited to the fair value of the securities held by the Company.

## Note 9 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations included:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Receivable arising from unsettled securities transactions	\$ 156,686	\$ 59,657
Deposits paid for securities borrowed	33,310	36,278
Receivable from clearing organizations	14,419	966
Deposits with clearing organizations	33,265	20,995
Securities failed to deliver	17,958	593
Other	35,552	8,624
	\$ 291,190	\$ 127,113

Amounts payable to brokers, dealers and clearing organizations included:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Payable arising from unsettled securities transactions	\$ 63,836	\$ 5,643
Payable to clearing organizations	8,590	9,462
Securities failed to receive	7,101	744
Other	4,817	11,873
	\$ 84,344	\$ 27,722

Deposits paid for securities borrowed approximate the market value of the securities. Securities failed to deliver and receive represent the contract value of securities that have not been delivered or received by the Company on settlement date.

## Note 10 Collateralized Securities Transactions

The Company's financing and customer securities activities involve the Company using securities as collateral. In the event that the counterparty does not meet its contractual obligation to return securities used as collateral (e.g., pursuant to the terms of a repurchase agreement), or customers do not deposit additional securities or cash for margin when required, the Company may be exposed to the risk of reacquiring the securities or selling the securities at unfavorable market prices in order to satisfy its obligations to its customers or counterparties. The Company seeks to control this risk by monitoring the market value of securities pledged or used as collateral on a daily basis and requiring adjustments in the event of excess market exposure. The Company also uses unaffiliated third party custodians to administer the underlying collateral for certain of its repurchase agreements and short-term financing to mitigate risk.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

In a reverse repurchase agreement the Company purchases financial instruments from a seller, typically in exchange for cash, and agrees to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest in the future. In a repurchase agreement, the Company sells financial instruments to a buyer, typically for cash, and agrees to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date. Even though repurchase and reverse repurchase agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at maturity of the agreement.

In a securities borrowed transaction, the Company borrows securities from a counterparty in exchange for cash. When the Company returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction.

In the normal course of business, the Company obtains securities purchased under agreements to resell, securities borrowed and margin agreements on terms that permit it to repledge or resell the securities to others, typically pursuant to repurchase agreements. The Company obtained securities with a fair value of approximately \$300.5 million and \$212.4 million at September 30, 2014 and December 31, 2013, respectively, of which \$292.7 million and \$194.9 million, respectively, had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

The following is a summary of the Company's securities sold under agreements to repurchase ("Repurchase Liabilities"), the fair market value of collateral pledged and the interest rate charged by the Company's counterparty, which is based on LIBOR plus an applicable margin, as of September 30, 2014:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Asset-backed securities	\$ 11,796	\$ 16,075	1.75 - 1.84%
Term of 30 to 90 day maturities:			
Asset-backed securities	4,665	6,218	1.88%
On demand maturities:			
Corporate securities:			
Fixed income securities	10,907	11,488	0.55%
U.S. government agency securities	39,605	41,501	0.25 - 0.30%
	\$66,973	\$75,282	

Reverse repurchase agreements, repurchase agreements and securities borrowed and loaned are reported on a net basis by counterparty when a legal right of offset exists. There were no gross amounts offset on the consolidated statements of financial condition for reverse repurchase agreements, securities borrowed or repurchase agreements at September 30, 2014 and December 31, 2013, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of September 30, 2014 or December 31, 2013. See Note 6 for information related to the Company's offsetting of derivative contracts.

For the nine months ended September 30, 2013, the Company revised its consolidated statements of cash flows to reflect a \$36.9 million increase in securities sold under agreements to repurchase from operating activities to financing activities based upon the nature of the repurchase transactions. This change had no effect on net cash for the period presented.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 11 Investments

The Company's proprietary investments include investments in private companies and partnerships, registered mutual funds, warrants of public and private companies and private company debt. Investments included:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Investments at fair value	\$92,173	\$69,930
Investments at cost	7,683	20,709
Investments accounted for under the equity method	25,311	21,404
Total investments	125,167	112,043
Less investments attributable to noncontrolling interests (1)	(30,344 )	(21,137 )
	\$94,823	\$90,906

(1) Noncontrolling interests are attributable to third party ownership in a consolidated merchant banking fund and private equity investment vehicles.

Management regularly reviews the Company's investments in private company debt and has concluded that no valuation allowance is needed as it is probable that all contractual principal and interest will be collected.

At September 30, 2014, investments carried on a cost basis had an estimated fair market value of \$13.0 million. The estimated fair value of these investments was based on an assessment of each underlying security, considering rounds of financing, third-party transactions and market-based information, including comparable company transactions, trading multiples (e.g., multiples of revenue and EBITDA), and changes in market outlook, among other factors. Because valuation estimates were based upon management's judgment, investments carried at cost would be categorized as Level III assets in the fair value hierarchy, if they were carried at fair value.

Investments accounted for under the equity method include general and limited partnership interests. The carrying value of these investments is based on the investment vehicle's net asset value. The net assets of investment partnerships consist of investments in both marketable and non-marketable securities. The underlying investments held by such partnerships are valued based on the estimated fair value determined by management in our capacity as general partner or investor and, in the case of investments in unaffiliated investment partnerships, are based on financial statements prepared by the unaffiliated general partners.

## Note 12 Other Assets

Other assets included:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Net deferred income tax assets	\$37,495	\$36,252
Fee receivables	24,764	34,415
Accrued interest receivables	10,856	9,793
Forgivable loans, net	9,649	7,879
Prepaid expenses	3,697	5,237
Other	9,576	8,516
Total other assets	\$96,037	\$102,092



## Note 13 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets from continuing operations for the nine months ended September 30, 2014:

(Dollars in thousands)	Capital Markets	Asset Management	Total
<b>Goodwill</b>			
Balance at December 31, 2013	\$13,790	\$196,844	\$210,634
Goodwill acquired	—	—	—
Impairment charge	—	—	—
Measurement period adjustment	1,244	—	1,244
Balance at September 30, 2014	\$15,034	\$196,844	\$211,878
<b>Intangible assets</b>			
Balance at December 31, 2013	\$5,316	\$34,614	\$39,930
Amortization of intangible assets	(2,229	) (4,725	) (6,954
Balance at September 30, 2014	\$3,087	\$29,889	\$32,976

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Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 14 Short-Term Financing

The following is a summary of short-term financing and the weighted average interest rate on borrowings:

	Outstanding Balance		Weighted Average Interest Rate		
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	
(Dollars in thousands)					
Commercial paper (secured)	\$247,795	\$280,294	1.51	% 1.59	%
Prime broker arrangement	—	234,417	N/A	0.90	%
Bank lines (secured)	91,000	—	1.50	%	N/A
Total short-term financing	\$338,795	\$514,711			

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes (“CP Notes”) can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and are secured by different inventory classes. As of September 30, 2014, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 140 days, 200 days and 35 days, respectively. The CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin. CP Series III A includes a covenant that requires the Company’s U.S. broker dealer subsidiary to maintain excess net capital of \$120 million.

The Company has established an arrangement to obtain financing with a prime broker related to its municipal bond funds. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. The prime broker financing activities are recorded net of receivables from trading activity. The funding is at the discretion of the prime broker subject to a notice period.

The Company has committed short-term bank line financing available on a secured basis and uncommitted short-term bank line financing available on both a secured and unsecured basis. The Company uses these credit facilities in the ordinary course of business to fund a portion of its daily operations and the amount borrowed under these credit facilities varies daily based on the Company’s funding needs.

The Company’s committed short-term bank line financing at September 30, 2014 consisted of a one-year \$250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2013. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company’s U.S. broker dealer subsidiary to maintain minimum net capital of \$120 million, and the unpaid principal amount of all advances under this facility will be due on December 27, 2014. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At September 30, 2014, the Company had no advances against this line of credit.

The Company’s uncommitted secured lines at September 30, 2014 totaled \$185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. The availability of the Company’s uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. At September 30, 2014, the Company had \$91.0 million in advances against these lines of credit.

## Note 15 Variable Rate Senior Notes

On November 30, 2012, the Company entered into a note purchase agreement under which the Company issued unsecured variable rate senior notes ("Notes") in the amount of \$125 million. The initial holders of the Notes are certain entities advised by PIMCO. The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of \$50 million and \$75 million, respectively.

On June 2, 2014, the Company entered into an amended and restated note purchase agreement ("Amended Note Purchase Agreement") under which the Company issued \$50 million of new Class A Notes upon repayment in full of the 2012 Class A Notes. The Class A Notes bear interest at a rate equal to three-month LIBOR plus 3.00 percent and mature on May 31, 2017. The Class B Notes remain outstanding, bear interest at a rate equal to three-month LIBOR plus 4.50 percent and mature on November 30, 2015. Interest on the Notes is adjustable and payable quarterly. The unpaid principal amounts are due in full on the respective maturity dates and may not be prepaid by the Company.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The Amended Note Purchase Agreement includes customary events of default, including failure to pay principal when due or failure to pay interest within five business days of when due, any representation or warranty in the Amended Note Purchase Agreement proving untrue in any material respect when made by the Company, failure to comply with the covenants in the Amended Note Purchase Agreement, failure to pay or another event of default under other material indebtedness in an amount exceeding \$10 million, bankruptcy or insolvency of the Company or any of its subsidiaries or a change in control of the Company. If there is any event of default under the Amended Note Purchase Agreement, the noteholders may declare the entire principal and any accrued interest on the Notes to be due and payable and exercise other customary remedies.

The Amended Note Purchase Agreement includes covenants that, among other things, require the Company to maintain a minimum consolidated tangible net worth and regulatory net capital, limit the Company's leverage ratio and require the Company to maintain a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, the Company's U.S. broker dealer subsidiary is required to maintain minimum net capital of \$120 million. At September 30, 2014, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of September 30, 2014, the carrying value of the Notes approximates fair value.

Note 16 Contingencies and Commitments

Legal Contingencies

The Company has been named as a defendant in various legal actions, including complaints and litigation and arbitration claims, arising from its business activities. Such actions include claims related to securities brokerage and investment banking activities, and certain class actions that primarily allege violations of securities laws and seek unspecified damages, which could be substantial. Also, the Company is involved from time to time in investigations and proceedings by governmental agencies and self-regulatory organizations ("SROs") which could result in adverse judgments, settlement, penalties, fines or other relief.

The Company has established reserves for potential losses that are probable and reasonably estimable that may result from pending and potential legal actions, investigations and regulatory proceedings. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

Given uncertainties regarding the timing, scope, volume and outcome of pending and potential legal actions, investigations and regulatory proceedings and other factors, the amounts of reserves and ranges of reasonably possible losses are difficult to determine and of necessity subject to future revision. Subject to the foregoing, management of the Company believes, based on currently available information, after consultation with outside legal counsel and taking into account its established reserves, that pending legal actions, investigations and regulatory proceedings will be resolved with no material adverse effect on the consolidated statements of financial condition, results of operations or cash flows of the Company. However, if during any period a potential adverse contingency should become probable or resolved for an amount in excess of the established reserves, the results of operations and cash flows in that period and the financial condition as of the end of that period could be materially adversely affected. In addition, there can be no assurance that material losses will not be incurred from claims that have not yet been brought to the

Company's attention or are not yet determined to be reasonably possible.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Operating Lease Commitments

The Company leases office space throughout the United States and in a limited number of foreign countries where the Company's international operations reside. Aggregate minimum lease commitments under operating leases as of September 30, 2014 are as follows:

(Dollars in thousands)

Remainder of 2014	\$2,651
2015	12,244
2016	11,901
2017	9,877
2018	9,563
Thereafter	35,441
	\$81,677

## Note 17 Restructuring

For the nine months ended September 30, 2013, the Company incurred pre-tax restructuring charges of \$2.9 million from continuing operations. The charges resulted from severance benefits of \$2.1 million, \$0.5 million for vacating redundant leased office space and \$0.3 million for contract termination costs.

## Note 18 Shareholders' Equity

## Share Repurchases

In the third quarter of 2012, the Company's board of directors authorized the repurchase of up to \$100.0 million in common shares through September 30, 2014. During the nine months ended September 30, 2014, the Company did not repurchase any shares of the Company's outstanding common stock related to this authorization. The Company also purchases shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. The Company purchased 251,004 shares or \$10.6 million of the Company's common stock for this purpose during the nine months ended September 30, 2014.

In the third quarter of 2014, the Company's board of directors authorized the repurchase of up to \$100.0 million in common shares through September 30, 2016. This share repurchase authorization became effective on October 1, 2014.

## Issuance of Shares

During the nine months ended September 30, 2014, the Company issued 103,598 common shares out of treasury stock in fulfillment of \$4.2 million in obligations under the Piper Jaffray Companies Retirement Plan (the "Retirement Plan") and issued 635,347 common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 20. During the nine months ended September 30, 2013, the Company issued 96,049 common shares out of treasury stock in fulfillment of \$3.9 million in obligations under the Retirement Plan and issued 770,189 common shares out of treasury stock as a result of employee restricted share vesting.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 19 Noncontrolling Interests

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a municipal bond fund of \$110.4 million, a merchant banking fund of \$22.9 million and private equity investment vehicles aggregating \$7.4 million as of September 30, 2014. As of December 31, 2013, noncontrolling interests included the minority equity holders' proportionate share of the equity in a municipal bond fund of \$126.3 million, a merchant banking fund of \$14.1 million and private equity investment vehicles aggregating \$7.0 million.

Ownership interests in entities held by parties other than the Company's common shareholders are presented as noncontrolling interests within shareholders' equity, separate from the Company's own equity. Revenues, expenses and net income or loss are reported on the consolidated statements of operations on a consolidated basis, which includes amounts attributable to both the Company's common shareholders and noncontrolling interests. Net income or loss is then allocated between the Company and noncontrolling interests based upon their relative ownership interests. Net income applicable to noncontrolling interests is deducted from consolidated net income to determine net income applicable to the Company. There was no other comprehensive income or loss attributed to noncontrolling interests for the nine months ended September 30, 2014 and 2013, respectively.

(Dollars in thousands)	Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2013	\$734,676	\$147,396	\$882,072
Net income	50,629	9,721	60,350
Amortization/issuance of restricted stock	22,114	—	22,114
Issuance of treasury shares for options exercised	3,644	—	3,644
Repurchase of common stock for employee tax withholding	(10,563	) —	(10,563
Issuance of treasury shares for 401k match	4,156	—	4,156
Shares reserved/issued for director compensation	120	—	120
Other comprehensive loss	(143	) —	(143
Fund capital withdrawals, net	—	(16,402	) (16,402
Balance at September 30, 2014	\$804,633	\$140,715	\$945,348

Table of Contents

Piper Jaffray Companies  
 Notes to the Consolidated Financial Statements  
 (Unaudited)

## Note 20 Compensation Plans

## Stock-Based Compensation Plans

The Company maintains two stock-based compensation plans, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the “Incentive Plan”) and the 2010 Employment Inducement Award Plan (the “Inducement Plan”). The Company’s equity awards are recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

The following table provides a summary of the Company’s outstanding equity awards (in shares or units) as of September 30, 2014:

Incentive Plan	
Restricted Stock	
Annual grants	811,513
Sign-on grants	267,651
	1,079,164
Inducement Plan	
Restricted Stock	29,159
Total restricted stock related to compensation	1,108,323
ARI deal consideration (1)	104,496
Total restricted stock outstanding	1,212,819
Incentive Plan	
Restricted Stock Units	
Leadership grants	405,826
Incentive Plan	
Stock options outstanding	261,259

(1) The Company issued restricted stock as part of deal consideration in conjunction with the acquisition of ARI.

## Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company’s employees and directors for up to 7.0 million shares of common stock (1.0 million shares remained available for future issuance under the Incentive Plan as of September 30, 2014). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant’s death, and at the discretion of the compensation committee of the Company’s board of directors.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Restricted Stock Awards

Restricted stock grants are valued at the market price of the Company's common stock on the date of grant and are amortized over the related requisite service period. The Company grants shares of restricted stock to current employees as part of year-end compensation ("Annual Grants") and as a retention tool. Employees may receive restricted stock upon initial hiring or as a retention award ("Sign-on Grants").

The Company's Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation – Stock Compensation" ("ASC 718"). Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal 2013 for its February 2014 Annual Grant. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as a reversal of compensation expense.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. These awards have both cliff and ratable vesting terms, and the employees must fulfill service requirements in exchange for rights to the awards. Compensation expense is amortized on a straight-line basis from the grant date over the requisite service period, generally two to five years. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Annually, the Company grants stock to its non-employee directors. The stock-based compensation paid to non-employee directors is fully expensed on the grant date and included within outside services expense on the consolidated statements of operations.

Restricted Stock Units

The Company granted annual restricted stock units to its leadership team ("Leadership Grants") beginning in May 2012. The units will vest and convert to shares of common stock at the end of each 36-month performance period only if the Company satisfies predetermined market conditions over the performance period. Under the terms of the grants, the number of units that will vest and convert to shares will be based on the Company achieving specified market conditions during each performance period as described below. Compensation expense is amortized on a straight-line basis over the three-year requisite service period based on the fair value of the award on the grant date. The market condition must be met for the awards to vest and compensation cost will be recognized regardless if the market condition is satisfied. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense.

Up to 50 percent of the award can be earned based on the Company's total shareholder return relative to members of a predetermined peer group and up to 50 percent of the award can be earned based on the Company's total shareholder return. The fair value of the awards on the grant date were determined using a Monte Carlo simulation with the following assumptions:

Grant Year	Risk-free Interest Rate	Expected Stock Price Volatility
2014	0.82%	41.3%
2013	0.40%	44.0%
2012	0.38%	47.6%

Because a portion of the award vesting depends on the Company's total shareholder return relative to a peer group, the valuation modeled the performance of the peer group as well as the correlation between the Company and the peer group. The expected stock price volatility assumptions were determined using historical volatility as correlation coefficients can only be developed through historical volatility. The risk-free interest rates were determined based on three-year U.S. Treasury bond yields.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Stock Options

The Company previously granted options to purchase Piper Jaffray Companies common stock to employees and non-employee directors in fiscal years 2004 through 2008. Employee and director options were expensed by the Company on a straight-line basis over the required service period, based on the estimated fair value of the award on the date of grant using a Black-Scholes option-pricing model. As described above pertaining to the Company's Annual Grants of restricted shares, stock options granted to employees were expensed in the calendar year preceding the annual February grant date. For example, the Company recognized compensation expense during fiscal 2007 for its February 2008 option grant. The maximum term of the stock options granted to employees and directors is ten years. The Company has not granted stock options since 2008.

## Inducement Plan

In 2010, the Company established the Inducement Plan in conjunction with the acquisition of ARI. The Company granted \$7.0 million in restricted stock (158,801 shares) under the Inducement Plan to ARI employees upon closing of the transaction. These shares vest ratably over five years in equal annual installments ending on March 1, 2015. Inducement Plan awards are amortized as compensation expense on a straight-line basis over the vesting period. Employees forfeit unvested Inducement Plan shares upon termination of employment and a reversal of compensation expense is recorded.

## Stock-Based Compensation Activity

The Company recorded total compensation expense within continuing operations of \$7.2 million and \$6.0 million for the three months ended September 30, 2014 and 2013, respectively, and \$20.5 million and \$10.4 million for the nine months ended September 30, 2014 and 2013, respectively, related to employee restricted stock and restricted stock unit awards. Total compensation cost includes year-end compensation for Annual Grants and the amortization of Sign-on Grants, less forfeitures of \$0.5 million and \$0.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$0.6 million and \$0.8 million for the nine months ended September 30, 2014 and 2013, respectively. The tax benefit related to stock-based compensation costs totaled \$2.8 million and \$2.3 million for the three months ended September 30, 2014 and 2013, respectively, and \$8.0 million and \$4.0 million for the nine months ended September 30, 2014 and 2013, respectively.

The following table summarizes the changes in the Company's unvested restricted stock (including the unvested restricted stock issued as part of the deal consideration for ARI) under the Incentive Plan and Inducement Plan for the nine months ended September 30, 2014:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2013	1,582,062	\$35.25
Granted	415,413	40.34
Vested	(765,283)	) 35.17
Canceled	(19,373)	) 36.19
September 30, 2014	1,212,819	\$37.03

The following summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan for the nine months ended September 30, 2014:

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	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2013	290,536	\$15.83
Granted	115,290	23.42
Vested	—	—
Canceled	—	—
September 30, 2014	405,826	\$17.99

As of September 30, 2014, there was \$11.5 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.5 years.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the changes in the Company's outstanding stock options for the nine months ended September 30, 2014:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2013	469,289	\$ 44.83	2.0	\$288,318
Granted	—	—		
Exercised	(94,478 )	38.57		
Canceled	(55 )	39.62		
Expired	(113,497 )	47.72		
September 30, 2014	261,259	\$ 45.83	2.0	\$2,527,750
Options exercisable at September 30, 2014	261,259	\$ 45.83	2.0	\$2,527,750

As of September 30, 2014, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

The intrinsic value of options exercised and the resulting tax benefit realized was \$1.1 million and \$0.4 million, respectively, for the nine months ended September 30, 2014. There were no options exercised for the nine months ended September 30, 2013.

## Deferred Compensation Plans

In 2013, the Company adopted a nonqualified deferred compensation plan, an unfunded plan which allows certain highly compensated employees, at their election, to defer a percentage of their base salary, commissions and/or cash bonuses. The deferrals vest immediately and are non-forfeitable. The amounts deferred under this plan are held in a grantor trust. The Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan. Investments in the grantor trust, consisting of mutual funds, totaled \$6.5 million as of September 30, 2014, and are included in investments on the consolidated statements of financial condition. The compensation deferred by the employees is expensed in the period earned. The deferred compensation liability was \$6.5 million as of September 30, 2014. Changes in the fair value of the investments made by the Company are reported in investment income/(loss) and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expenses on the consolidated statements of operations.

In 2012, the Company established the Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan, a deferred compensation plan which allows eligible employees to elect to receive a portion of the incentive compensation they would otherwise receive in the form of restricted stock, instead in MFRS Awards of registered funds managed by the Company's asset management business. MFRS Awards are awarded to qualifying employees in February of each year, and represent a portion of their compensation for performance in the preceding year similar to the Company's Annual Grants. MFRS Awards vest ratably over three years in equal installments and provide for continued vesting after termination of employment so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreement entered into upon termination. Forfeitures are recorded as a reduction of compensation and benefits expense within the consolidated statements of operations.

The Company has also granted MFRS Awards to new employees as a recruiting tool. Employees must fulfill service requirements in exchange for rights to the awards. Compensation expense from these awards will be amortized on a straight-line basis over the requisite service period of two to five years.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 21 Earnings Per Share

The Company calculates earnings per share using the two-class method. Basic earnings per common share is computed by dividing net income/(loss) applicable to Piper Jaffray Companies' common shareholders by the weighted average number of common shares outstanding for the period. Net income/(loss) applicable to Piper Jaffray Companies' common shareholders represents net income/(loss) applicable to Piper Jaffray Companies reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. All of the Company's unvested restricted shares are deemed to be participating securities as they are eligible to share in the profits (e.g., receive dividends) of the Company. The Company's unvested restricted stock units are not participating securities as they are not eligible to share in the profits of the Company. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options.

The computation of earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(Amounts in thousands, except per share data)				
Net income from continuing operations applicable to Piper Jaffray Companies	\$14,668	\$6,851	\$50,629	\$21,877
Net loss from discontinued operations	—	(1,529)	—	(3,921)
Net income applicable to Piper Jaffray Companies	14,668	5,322	50,629	17,956
Earnings allocated to participating securities (1)	(1,116)	(496)	(4,243)	(1,793)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	\$13,552	\$4,826	\$46,386	\$16,163

Shares for basic and diluted calculations:

Average shares used in basic computation	15,066	14,621	14,880	15,271
Stock options	63	5	54	13
Average shares used in diluted computation	15,129	14,626	14,934	15,284

Earnings/(loss) per basic common share:

Income from continuing operations	\$0.90	\$0.42	\$3.12	\$1.29
Loss from discontinued operations	—	(0.09)	—	(0.23)
Earnings per basic common share	\$0.90	\$0.33	\$3.12	\$1.06

Earnings/(loss) per diluted common share:

Income from continuing operations	\$0.90	\$0.42	\$3.11	\$1.29
Loss from discontinued operations	—	(0.09)	—	(0.23)
Earnings per diluted common share	\$0.90	\$0.33	\$3.11	\$1.06

Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities.

(1) Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 1,245,665 and 1,504,665 for the three months ended September 30, 2014 and 2013, respectively, and 1,366,489 and 1,695,130 for the nine months ended September 30, 2014 and 2013, respectively.

(2)

Net income/(loss) applicable to Piper Jaffray Companies' common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options to dilutive shares outstanding, which alters the ratio used to allocate earnings to Piper Jaffray Companies' common shareholders and participating securities for purposes of calculating diluted and basic EPS.

The anti-dilutive effects from stock options were immaterial for the nine months ended September 30, 2014 and 2013.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 22 Segment Reporting

## Basis for Presentation

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company evaluates performance and allocates resources based on segment pre-tax operating income or loss and segment pre-tax operating margin. Revenues and expenses directly associated with each respective segment are included in determining their operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, including each segment's respective net revenues, use of shared resources, headcount or other relevant measures. The financial management of assets is performed on an enterprise-wide basis. As such, assets are not assigned to the business segments.

Segment pre-tax operating income and segment pre-tax operating margin exclude the results of discontinued operations.

Reportable segment financial results from continuing operations are as follows:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Capital Markets				
Investment banking				
Financing				
Equities	\$14,269	\$30,010	\$93,628	\$66,085
Debt	14,435	12,808	48,148	51,971
Advisory services	66,320	20,215	145,743	39,165
Total investment banking	95,024	63,033	287,519	157,221
Institutional sales and trading				
Equities	16,711	22,958	59,337	65,077
Fixed income	22,737	17,083	69,060	49,732
Total institutional sales and trading	39,448	40,041	128,397	114,809
Management and performance fees	1,387	1,094	4,512	2,677
Investment income	5,224	7,892	20,600	14,213
Long-term financing expenses	(1,613)	(1,797)	(5,058)	(5,618)
Net revenues	139,470	110,263	435,970	283,302
Operating expenses (1)	119,001	103,906	364,622	266,301
Segment pre-tax operating income	\$20,469	\$6,357	\$71,348	\$17,001
Segment pre-tax operating margin	14.7	% 5.8	% 16.4	% 6.0



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Asset Management				
Management and performance fees				
Management fees	\$19,738	\$17,547	\$59,474	\$52,191
Performance fees	470	60	834	716
Total management and performance fees	20,208	17,607	60,308	52,907
Investment income/(loss)	(252 )	444	1,312	1,410
Net revenues	19,956	18,051	61,620	54,317
Operating expenses (1)	14,733	12,348	44,146	37,757
Segment pre-tax operating income	\$5,223	\$5,703	\$17,474	\$16,560
Segment pre-tax operating margin	26.2	% 31.6	% 28.4	% 30.5
Total				
Net revenues	\$159,426	\$128,314	\$497,590	\$337,619
Operating expenses (1)	133,734	116,254	408,768	304,058
Pre-tax operating income	\$25,692	\$12,060	\$88,822	\$33,561
Pre-tax operating margin	16.1	% 9.4	% 17.9	% 9.9

(1) Operating expenses include intangible asset amortization expense as set forth in the table below:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Capital Markets	\$743	\$1,238	\$2,229	\$1,238
Asset Management	1,575	1,661	4,725	4,983
Total intangible asset amortization expense	\$2,318	\$2,899	\$6,954	\$6,221

## Geographic Areas

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are principally conducted through European locations. Net revenues and long-lived assets for the Company's Asian location was not significant. Net revenues disclosed in the following table reflect the regional view, with financing revenues allocated to geographic locations based upon the location of the capital market, advisory revenues allocated based upon the location of the investment banking team and net institutional sales and trading revenues allocated based upon the location of the client. Asset management revenues are allocated to the U.S. based upon the geographic location of the Company's asset management team. Net revenues exclude discontinued operations for all periods presented.

Three Months Ended

Nine Months Ended

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(Dollars in thousands)	September 30, 2014	2013	September 30, 2014	2013
Net revenues:				
United States	\$ 153,375	\$ 126,458	\$ 486,251	\$ 329,379
Europe	6,051	1,856	11,339	8,240
Consolidated	\$ 159,426	\$ 128,314	\$ 497,590	\$ 337,619

40

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Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Long-lived assets are allocated to geographic locations based upon the location of the asset. The following table presents long-lived assets by geographic region:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Long-lived assets:		
United States	\$293,823	\$296,516
Europe	5,899	6,414
Consolidated	\$299,722	\$302,930

## Note 23 Net Capital Requirements and Other Regulatory Matters

Piper Jaffray is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. The Financial Industry Regulatory Authority (“FINRA”) serves as Piper Jaffray’s primary SRO. Piper Jaffray is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. Piper Jaffray has elected to use the alternative method permitted by the SEC rule, which requires that it maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as such term is defined in the SEC rule. Under its rules, FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain notification and other provisions of SEC and FINRA rules. In addition, Piper Jaffray is subject to certain notification requirements related to withdrawals of excess net capital.

At September 30, 2014, net capital calculated under the SEC rule was \$164.2 million, and exceeded the minimum net capital required under the SEC rule by \$163.2 million.

The Company’s committed short-term credit facility and its variable rate senior notes include covenants requiring Piper Jaffray to maintain minimum net capital of \$120 million. CP Notes issued under CP Series III A include a covenant that requires Piper Jaffray to maintain excess net capital of \$120 million.

Piper Jaffray Ltd., a broker dealer subsidiary registered in the United Kingdom, was subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of September 30, 2014, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

## Note 24 Income Taxes

The Company's effective income tax rate from continuing operations, excluding noncontrolling interests, for the three months ended September 30, 2014 was 36.9 percent, compared to 29.6 percent for the three months ended September 30, 2013. For the nine months ended September 30, 2014, the Company's effective income tax rate from continuing operations, excluding noncontrolling interests, was 36.0 percent, compared to 31.6 percent for the nine months ended September 30, 2013. The effective income tax rate for the three and nine months ended September 30, 2013 was unusually low due to the impact of tax-exempt interest income representing a larger proportion of the pre-tax income from continuing operations.



Table of Contents

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS.

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2013 and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at [www.piperjaffray.com](http://www.piperjaffray.com) and at the SEC Web site at [www.sec.gov](http://www.sec.gov). Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Explanation of Non-GAAP Financial Measures

We have included financial measures that are not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include adjustments to exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions, (3) compensation from acquisition-related agreements and (4) restructuring and acquisition integration costs. These adjustments affect the following financial measures: net revenues, compensation expenses, non-compensation expenses, net income applicable to Piper Jaffray Companies, earnings per diluted common share, segment net revenues, segment operating expenses, segment pre-tax operating income and segment pre-tax operating margin. Management believes that presenting these results and measures on an adjusted basis in conjunction with U.S. GAAP measures provides the most meaningful basis for comparison of our operating results across periods.

Executive Overview

Our continuing operations are principally engaged in providing investment banking, institutional brokerage, asset management and related financial services to corporations, private equity groups, public entities, non-profit entities and institutional investors in the United States and Europe. We operate through two reportable business segments:

Capital Markets – The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Investment banking services include management of and participation in underwritings, merger and acquisition services and public finance activities. Revenues are generated through the receipt of advisory and financing fees. Also, we generate revenue through strategic trading and investing activities, which focus on proprietary investments in a variety of securities, including municipal bonds, mortgage-backed securities, and equity securities, and merchant banking activities that involve equity or debt investments in late stage private companies. As certain of these efforts have matured and an investment process has been developed, we have created alternative asset management funds in merchant banking and municipal securities in order to invest firm capital as well as to seek capital from outside investors. We receive management and performance fees for managing these funds.

As part of our strategy to grow our public finance business, on July 12, 2013, we completed the acquisition of Seattle-Northwest Securities Corporation ("Seattle-Northwest"), a Seattle-based investment bank and broker dealer focused on public finance in the Northwest region of the U.S.

On July 16, 2013, we completed the purchase of Edgeview Partners, L.P. ("Edgeview"), a middle-market advisory firm specializing in mergers and acquisitions. The acquisition further strengthened our mergers and acquisitions position in the middle market and added resources dedicated to the private equity community.

For more information on our acquisitions of Seattle-Northwest and Edgeview, see Note 4 of our unaudited consolidated financial statements.



Table of Contents

**Asset Management** – The Asset Management segment provides traditional asset management services by taking a value-driven approach to managing assets in domestic and international equity markets. Additionally, the asset management segment manages investments in master limited partnerships ("MLPs") focused on the energy sector for institutions and individuals. Revenues are generated in the form of management and performance fees. Revenues are also generated through investments in the partnerships and funds that we manage.

**Discontinued Operations** – Our discontinued operations include the operating results of our Hong Kong capital markets business, which ceased operations in 2012, and Fiduciary Asset Management, LLC ("FAMCO"), an asset management subsidiary we sold in the second quarter of 2013. See Note 5 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

Results for the three and nine months ended September 30, 2014

Net income applicable to Piper Jaffray Companies from continuing operations in the third quarter of 2014 was \$14.7 million, or \$0.90 per diluted common share, compared with \$6.9 million, or \$0.42 per diluted common share, for the prior-year period. Net revenues from continuing operations for the three months ended September 30, 2014 were \$159.4 million, an increase of 24.2 percent from \$128.3 million reported in the year-ago period, due to higher advisory services revenues, partially offset by lower equity financing revenues. For the three months ended September 30, 2014, non-compensation expenses from continuing operations were \$36.6 million, consistent with \$36.8 million in the third quarter of 2013.

For the three months ended September 30, 2014, adjusted net income applicable to Piper Jaffray Companies from continuing operations was \$16.9 million<sup>(1)</sup>, or \$1.03<sup>(1)</sup> per diluted common share, compared with \$11.6 million<sup>(1)</sup>, or \$0.72<sup>(1)</sup> per diluted common share, for the prior-year period. Adjusted net revenues for the three months ended September 30, 2014 were \$155.9 million<sup>(1)</sup>, an increase of 24.7 percent from \$125.0 million<sup>(1)</sup> reported in the year-ago period. For the three months ended September 30, 2014, adjusted non-compensation expenses were \$33.1 million<sup>(1)</sup>, up 13.6 percent from \$29.1 million<sup>(1)</sup> for the three months ended September 30, 2013.

Net income applicable to Piper Jaffray Companies from continuing operations in the first nine months of 2014 was \$50.6 million, or \$3.11 per diluted common share, compared with \$21.9 million, or \$1.29 per diluted common share, for the prior-year period. For the twelve months ended September 30, 2014, we generated a rolling twelve month return on average common shareholders' equity of 10.2 percent, compared with 4.1 percent for the rolling twelve months ended September 30, 2013. Net revenues from continuing operations for the nine months ended September 30, 2014 were \$497.6 million, up 47.4 percent from \$337.6 million in the year-ago period, due to higher equity financing and advisory services revenues, and higher fixed income institutional brokerage revenues. For the nine months ended September 30, 2014, non-compensation expenses from continuing operations were \$108.0 million, an increase of 15.5 percent compared with \$93.5 million for the nine months ended September 30, 2013, due to incremental costs associated with the acquisitions of Seattle-Northwest and Edgeview, higher third party marketing fees associated with our asset management business, and higher professional fees. Additionally, non-compensation expenses from continuing operations were reduced in the first nine months of 2013 due to the receipt of insurance proceeds for the reimbursement of prior legal settlements.

Table of Contents

For the nine months ended September 30, 2014, adjusted net income applicable to Piper Jaffray Companies from continuing operations was \$57.4 million<sup>(1)</sup>, or \$3.52<sup>(1)</sup> per diluted common share, compared with \$29.1 million<sup>(1)</sup>, or \$1.71<sup>(1)</sup> per diluted common share, for the prior-year period. Adjusted net revenues for the nine months ended September 30, 2014 increased 45.0 percent to \$484.0 million<sup>(1)</sup>, compared with \$333.8 million<sup>(1)</sup> reported in the year-ago period. For the nine months ended September 30, 2014, adjusted non-compensation expenses were \$97.2 million<sup>(1)</sup>, up 19.8 percent from \$81.2 million<sup>(1)</sup> for the nine months ended September 30, 2013.

## (1) Reconciliation of U.S. GAAP to adjusted non-GAAP financial information

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net revenues:				
Net revenues – U.S. GAAP basis	\$159,426	\$128,314	\$497,590	\$337,619
Adjustments:				
Revenue related to noncontrolling interests	(3,576 )	(3,291 )	(13,545 )	(3,861 )
Adjusted net revenues	\$155,850	\$125,023	\$484,045	\$333,758
Non-compensation expenses:				
Non-compensation expenses – U.S. GAAP basis	\$36,554	\$36,828	\$108,023	\$93,527
Adjustments:				
Non-compensation expenses related to noncontrolling interests	(1,148 )	(968 )	(3,824 )	(2,307 )
Restructuring and integration costs	—	(3,823 )	—	(3,823 )
Amortization of intangible assets related to acquisitions	(2,318 )	(2,899 )	(6,954 )	(6,221 )
Adjusted non-compensation expenses	\$33,088	\$29,138	\$97,245	\$81,176
Net income from continuing operations applicable to Piper Jaffray Companies:				
Net income from continuing operations applicable to Piper Jaffray Companies - U.S. GAAP basis	\$14,668	\$6,851	\$50,629	\$21,877
Adjustments:				
Compensation from acquisition-related agreements	801	599	2,454	991
Restructuring and integration costs	—	2,336	—	2,336
Amortization of intangible assets related to acquisitions	1,416	1,860	4,331	3,890
Adjusted net income from continuing operations applicable to Piper Jaffray Companies	\$16,885	\$11,646	\$57,414	\$29,094
Earnings per diluted common share from continuing operations:				
Earnings per diluted common share - U.S. GAAP basis	\$0.90	\$0.42	\$3.11	\$1.29
Adjustments:				
Compensation from acquisition-related agreements	0.05	0.04	0.15	0.06
Restructuring and integration costs	—	0.14	—	0.14
Amortization of intangible assets related to acquisitions	0.09	0.12	0.27	0.23
	\$1.03	\$0.72	\$3.52	\$1.71

Adjusted earnings per diluted common share from  
continuing operations

#### External Factors Impacting Our Business

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, changes in interest rates (especially rapid and extreme changes) and credit spreads, the level and shape of various yield curves, the volume and value of trading in securities, overall equity valuations, and the demand for asset management services.

Factors that differentiate our business within the financial services industry may also affect our financial results. For example, our capital markets business focuses on a middle-market clientele in specific industry sectors. If the business environment for our focus sectors is impacted disproportionately as compared to the economy as a whole, or does not recover on pace with other sectors of the economy, our business and results of operations will be negatively impacted. In addition, our business could be affected differently than overall market trends. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

Table of Contents

As a participant in the financial services industry, we are subject to complex and extensive regulation of our business. In recent years and following the credit crisis of 2008, legislators and regulators increased their focus on the regulation of the financial services industry, resulting in fundamental changes to the manner in which the industry is regulated and increased regulation in a number of areas. For example, the Securities and Exchange Commission has adopted final rules pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act governing municipal advisors. Under these rules, municipal advisors must comply with federal fiduciary standards and other business conduct rules when advising state and local governments or companies regarding the issuance of municipal securities, investment of their proceeds or derivative transactions. Changes in the regulatory environment in which we operate could affect our business and the competitive environment, potentially adversely.

Outlook for the remainder of 2014

We expect continuing improvement in U.S. economic growth throughout the remainder of 2014, however weakening economic conditions in major economies internationally and an increase in the value of the U.S. dollar relative to other currencies could slow U.S. growth. We believe interest rates generally will move in response to the rate of economic growth and inflation expectations in the U.S., but will continue to be sensitive to the Federal Reserve's short-term interest rate policies and guidance. Numerous geopolitical factors in the form of political and military conflicts, and a potential eruption of a pandemic disease, continue to percolate across the globe. An escalation of these conflicts or worsening of conditions could create economic uncertainties impacting the U.S. equity and debt markets. These factors may put downward pressure on U.S. interest rates as international investors seek a safe haven during periods of economic and political duress.

Mixed equity market conditions in the third quarter of 2014 resulted in varied financial results among our equity-related businesses. These conditions adversely impacted capital raising in our growth sectors, resulting in decreased equity financing revenues. The low levels of volatility depressed equity trading activity, negatively impacting our equity institutional brokerage revenues. However, attractive valuation levels and low volatility drove strong mergers and acquisitions activity. We expect that a challenging environment will persist for the remainder of 2014 for the equity markets, which may include heightened volatility. While the higher volatility benefits our equity sales and trading business, a prolonged market correction is likely to be disruptive to capital raising. We believe our advisory services business will continue to perform well through the end of 2014.

A rising interest rate environment for the remainder of 2014 and into 2015 may generate mixed financial results across our debt financing and fixed income institutional brokerage businesses. An expectation of rising interest rates has reduced fixed income trading volumes, which has decreased our customer flow trading revenues. We expect subdued debt underwriting activity for the remainder of 2014 as refinancing activity remains muted and new issuance activity volume continues to lag historical levels. The strength of our broader product offerings and investments in our public finance business over the past few years will benefit us during these challenging conditions. We will continue to manage our inventories and hedging strategies to mitigate market volatility and our exposure to interest rates.

Asset management revenues will continue to be dependent upon valuations and our investment performance, which can impact the amount of client inflows and outflows of assets under management.

Table of Contents

## Results of Operations

To provide comparative information of our operating results for the periods presented, a discussion of adjusted segment results follows the discussion of our total consolidated U.S. GAAP results. Our adjusted segment results exclude certain revenue and expenses required under U.S. GAAP. See the sections titled "Explanation of Non-GAAP Financial Measures" and "Segment Performance from Continuing Operations" in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion and reconciliations.

## Financial Summary for the three months ended September 30, 2014 and September 30, 2013

The following table provides a summary of the results of our operations on a U.S. GAAP basis and the results of our operations as a percentage of net revenues for the periods indicated.

(Dollars in thousands)	Three Months Ended September 30,			As a Percentage of Net Revenues for the Three Months Ended September 30,		
	2014	2013	2014 v2013	2014	2013	
Revenues:						
Investment banking	\$94,911	\$62,848	51.0	% 59.5	% 49.0	%
Institutional brokerage	35,923	35,318	1.7	22.5	27.5	
Asset management	21,595	18,701	15.5	13.5	14.6	
Interest	10,828	12,360	(12.4)	) 6.8	9.6	
Investment income	2,690	5,279	(49.0)	) 1.7	4.1	
Total revenues	165,947	134,506	23.4	104.1	104.8	
Interest expense	6,521	6,192	5.3	4.1	4.8	
Net revenues	159,426	128,314	24.2	100.0	100.0	
Non-interest expenses:						
Compensation and benefits	97,180	79,426	22.4	61.0	61.9	
Occupancy and equipment	8,312	6,509	27.7	5.2	5.1	
Communications	5,661	5,778	(2.0)	) 3.6	4.5	
Floor brokerage and clearance	1,905	2,109	(9.7)	) 1.2	1.6	
Marketing and business development	6,827	5,447	25.3	4.3	4.2	
Outside services	9,155	8,082	13.3	5.7	6.3	
Restructuring and integration costs	—	3,823	N/M	—	3.0	
Intangible asset amortization expense	2,318	2,899	(20.0)	) 1.5	2.3	
Other operating expenses	2,376	2,181	8.9	1.5	1.7	
Total non-interest expenses	133,734	116,254	15.0	83.9	90.6	
Income from continuing operations before income tax expense	25,692	12,060	113.0	16.1	9.4	
Income tax expense	8,596	2,886	197.9	5.4	2.2	
Income from continuing operations	17,096	9,174	86.4	10.7	7.1	

Discontinued operations:

Loss from discontinued operations, net of tax	—	(1,529	)	N/M	—	(1.2	)
Net income	17,096	7,645	123.6	10.7	6.0		
Net income applicable to noncontrolling interests	2,428	2,323	4.5	1.5	1.8		
Net income applicable to Piper Jaffray Companies	\$14,668	\$5,322	175.6	% 9.2	% 4.1		%
N/M — Not meaningful							

## Table of Contents

For the three months ended September 30, 2014, we recorded net income applicable to Piper Jaffray Companies of \$14.7 million. Net revenues from continuing operations for the three months ended September 30, 2014 were \$159.4 million, a 24.2 percent increase compared to \$128.3 million in the year-ago period. In the third quarter of 2014, investment banking revenues were \$94.9 million, compared with \$62.8 million in the prior-year period, due to strong advisory services revenues, with momentum continuing from the first half of 2014. For the three months ended September 30, 2014, institutional brokerage revenues were \$35.9 million, compared with \$35.3 million in the third quarter of 2013. In the third quarter of 2014, asset management fees increased 15.5 percent to \$21.6 million, compared with \$18.7 million in the third quarter of 2013, due to higher management fees from increased assets under management, related to our master limited partnership ("MLP") product offering. For the three months ended September 30, 2014, net interest income decreased to \$4.3 million, compared with \$6.2 million in the prior-year period. The decrease primarily resulted from lower interest income earned on municipal securities and a merchant banking debt investment that was repaid in the second quarter of 2014. For the three months ended September 30, 2014, investment income was \$2.7 million, compared with \$5.3 million in the prior-year period as we recorded lower investment gains associated with our merchant banking activities and other firm investments. Non-interest expenses from continuing operations were \$133.7 million for the three months ended September 30, 2014, an increase of 15.0 percent compared to \$116.3 million in the prior year, primarily resulting from higher compensation expenses due to increased revenues and improved operating performance.

### Consolidated Non-Interest Expenses from Continuing Operations

**Compensation and Benefits** – Compensation and benefits expenses, which are the largest component of our expenses, include salaries, incentive compensation, benefits, stock-based compensation, employment taxes, income associated with the forfeiture of stock-based compensation and other employee costs. A portion of compensation expense is comprised of variable incentive arrangements, including discretionary incentive compensation, the amount of which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, primarily base salaries and benefits, are more fixed in nature. The timing of incentive compensation payments, which generally occur in February, has a greater impact on our cash position and liquidity than is reflected on our consolidated statements of operations.

For the three months ended September 30, 2014, compensation and benefits expenses increased 22.4 percent to \$97.2 million from \$79.4 million in the corresponding period of 2013 due to improved financial results. Compensation and benefits expenses as a percentage of net revenues was 61.0 percent in the third quarter of 2014, compared with 61.9 percent in the third quarter of 2013. The lower compensation expense ratio was due to an increased revenue base.

**Occupancy and Equipment** – For the three months ended September 30, 2014, occupancy and equipment expenses increased 27.7 percent to \$8.3 million, compared with \$6.5 million in the corresponding period of 2013. The increase was primarily the result of incremental occupancy expenses related to our office space in New York City, the majority of which are one-time in nature.

**Communications** – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the three months ended September 30, 2014, communication expenses were \$5.7 million, compared with \$5.8 million for the three months ended September 30, 2013.

**Floor Brokerage and Clearance** – For the three months ended September 30, 2014, floor brokerage and clearance expenses were \$1.9 million, compared with \$2.1 million in the corresponding period of 2013, due to lower trading expenses resulting from reduced trading volumes.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. For the three months ended September 30, 2014, marketing and business development expenses increased 25.3 percent to \$6.8 million, compared with \$5.4 million for the three months ended September 30, 2013, due to higher third party marketing fees associated with our asset management business, as well as higher travel expenses.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses increased 13.3 percent to \$9.2 million in the third quarter of 2014, compared with \$8.1 million in the corresponding period of 2013. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 11.6 percent due primarily to higher legal and other professional fees.



Table of Contents

**Restructuring and Integration Costs** – In the third quarter of 2013, we recorded restructuring and integration costs of \$3.8 million primarily related to the acquisitions of Seattle-Northwest and Edgeview. The expense consisted of \$2.1 million of severance benefits, \$0.9 million of transaction costs, \$0.5 million for vacating redundant leased office space, and \$0.3 million of contract termination costs.

**Intangible Asset Amortization Expense** – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of customer relationships and non-competition agreements. For the three months ended September 30, 2014, intangible asset amortization expense was \$2.3 million, compared with \$2.9 million in the three months ended September 30, 2013.

**Other Operating Expenses** – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses were \$2.4 million in the third quarter of 2014, compared with \$2.2 million in the third quarter of 2013.

**Income Taxes** – For the three months ended September 30, 2014, our provision for income taxes was \$8.6 million equating to an effective tax rate, excluding noncontrolling interests, of 36.9 percent, compared with \$2.9 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 29.6 percent. The reduced effective tax rate for the three months ended September 30, 2013 was due to the impact of tax-exempt interest income representing a larger proportion of our pre-tax income.

**Segment Performance from Continuing Operations**

We measure financial performance by business segment. Our two reportable segments are Capital Markets and Asset Management. We determined these segments based upon the nature of the financial products and services provided to customers and our management organization. Segment pre-tax operating income and segment pre-tax operating margin are used to evaluate and measure segment performance by our chief operating decision maker in deciding how to allocate resources and in assessing performance in relation to our competitors. Revenues and expenses directly associated with each respective segment are included in determining segment operating results. Revenues and expenses that are not directly attributable to a particular segment are allocated based upon our allocation methodologies, generally based on each segment's respective net revenues, use of shared resources, headcount or other relevant measures.

Throughout this section, we have presented segment results on both a U.S. GAAP and non-GAAP basis. Management believes that presenting adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin in conjunction with the U.S. GAAP measures provides a more meaningful basis for comparison of its operating results and underlying trends between periods.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions (3) compensation from acquisition-related agreements and (4) restructuring and integration costs. For U.S. GAAP purposes, these items are included in each of their respective line items on the consolidated statements of operations.

Table of Contents

## Capital Markets

The following table sets forth the Capital Markets adjusted segment financial results from continuing operations and adjustments necessary to reconcile to our consolidated U.S. GAAP pre-tax operating income and pre-tax operating margin for the periods presented:

	Three Months Ended September 30,				2013					
	2014									
	Total	Adjustments <sup>(1)</sup>	Noncontrolling	Other	U.S.	Total	Adjustments <sup>(1)</sup>	Noncontrolling	Other	U.S.
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP		
Investment banking										
Financing										
Equities	\$14,269	\$—	\$—	\$14,269	\$30,010	\$—	\$—	\$30,010		
Debt	14,435	—	—	14,435	12,808	—	—	12,808		
Advisory services	66,320	—	—	66,320	20,215	—	—	20,215		
Total investment banking	95,024	—	—	95,024	63,033	—	—	63,033		
Institutional sales and trading										
Equities	16,711	—	—	16,711	22,958	—	—	22,958		
Fixed income	22,737	—	—	22,737	17,083	—	—	17,083		
Total institutional sales and trading	39,448	—	—	39,448	40,041	—	—	40,041		
Management and performance fees	1,387	—	—	1,387	1,094	—	—	1,094		
Investment income	1,648	3,576	—	5,224	4,601	3,291	—	7,892		
Long-term financing expenses	(1,613 )	—	—	(1,613 )	(1,797 )	—	—	(1,797 )		
Net revenues	135,894	3,576	—	139,470	106,972	3,291	—	110,263		
Operating expenses	116,120	1,148	1,733	119,001	97,217	968	5,721	103,906		

Segment pre-tax operating income	\$19,774	\$2,428	\$(1,733 )	\$20,469	\$9,755	\$2,323	\$(5,721 )	\$6,357	
Segment pre-tax operating margin	14.6	%		14.7	%	9.1	%	5.8	%

The following is a summary of the adjustments needed to reconcile our consolidated U.S. GAAP pre-tax operating (1) income and pre-tax operating margin to the adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin:

Noncontrolling interests – The impacts of consolidating noncontrolling interests in our alternative asset management funds and private equity investment vehicles are not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin.

Other adjustments – The following table sets forth the items not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin for the periods presented:

(Dollars in thousands)	Three Months Ended September 30,	
	2014	2013
Compensation from acquisition-related agreements	\$990	\$660
Restructuring and integration costs	—	3,823
Amortization of intangible assets related to acquisitions	743	1,238
	\$1,733	\$5,721

Capital Markets adjusted net revenues increased 27.0 percent to \$135.9 million for the three months ended September 30, 2014, compared with \$107.0 million in the prior-year period.

## Table of Contents

Investment banking revenues comprise all of the revenues generated through financing and advisory services activities. To assess the profitability of investment banking, we aggregate investment banking fees with the net interest income or expense associated with these activities.

In the third quarter of 2014, investment banking revenues increased 50.8 percent to \$95.0 million compared with \$63.0 million in the corresponding period of the prior year, due to strong advisory services revenues as conditions in the equity markets remained favorable for mergers and acquisitions activity. For the three months ended September 30, 2014, equity financing revenues were \$14.3 million, compared with \$30.0 million in the prior-year period, due to fewer completed transactions and lower revenue per transaction as equity capital raising in the growth sectors in which we compete declined in the current quarter. During the third quarter of 2014, we completed 15 equity financings, raising \$3.5 billion for our clients, compared with 27 equity financings, raising \$4.8 billion for our clients in the comparable year-ago period. Debt financing revenues for the three months ended September 30, 2014 were \$14.4 million, up 12.7 percent compared with \$12.8 million in the year-ago period, due to higher public finance revenues from more completed transactions. During the third quarter of 2014, we completed 85 negotiated public finance issues with a total par value of \$1.8 billion, compared with 61 negotiated public finance issues with a total par value of \$1.3 billion during the prior-year period. For the three months ended September 30, 2014, advisory services revenues increased to \$66.3 million, compared with \$20.2 million in the third quarter of 2013, due to higher U.S. equity advisory services revenues from more completed transactions and higher revenue per transaction. Low volatility and attractive valuation levels, combined with our strategic focus to strengthen our mergers and acquisitions position in the middle market, resulted in increased revenues in the current quarter. We completed 22 transactions with an aggregate enterprise value of \$4.7 billion in the third quarter of 2014, compared with 11 transactions with an aggregate enterprise value of \$1.2 billion in the third quarter of 2013.

Institutional sales and trading revenues comprise all of the revenues generated through trading activities, which consist of facilitating customer trades, executing competitive municipal underwritings and our strategic trading activities in municipal bonds, mortgage-backed securities and equity securities. To assess the profitability of institutional brokerage activities, we aggregate institutional brokerage revenues with the net interest income or expense associated with financing, economically hedging and holding long or short inventory positions. Our results may vary from quarter to quarter as a result of changes in trading margins, trading gains and losses, net interest spreads, trading volumes and the timing of transactions based on market opportunities.

For the three months ended September 30, 2014, institutional brokerage revenues were \$39.4 million, compared with \$40.0 million in the prior-year period. Equity institutional brokerage revenues decreased 27.2 percent to \$16.7 million in the third quarter of 2014, compared with \$23.0 million in the corresponding period of 2013, as low volatility in the equity markets resulted in reduced client trading volumes. Also contributing to this decline was an absence of block trades during the quarter and losses from our equity strategic trading activities compared to trading gains in the prior-year period. For the three months ended September 30, 2014, fixed income institutional brokerage revenues increased 33.1 percent to \$22.7 million, compared with \$17.1 million in the prior-year period, due to higher trading gains as client trading volumes remained relatively flat.

Management and performance fees include the fees generated from our municipal bond and merchant banking funds. For the three months ended September 30, 2014, management and performance fees were \$1.4 million, compared with \$1.1 million in the prior-year period.

Adjusted investment income includes realized and unrealized gains and losses on our investments in the merchant banking fund and the municipal bond fund that we manage for third-party investors, and other firm investments. For the three months ended September 30, 2014, adjusted investment income was \$1.6 million, compared to \$4.6 million in the corresponding period of 2013. The decrease resulted from lower gains on our merchant banking activities and other firm investments.

Long-term financing expenses primarily represent interest paid on our variable rate senior notes. For the three months ended September 30, 2014, long-term financing expenses decreased to \$1.6 million, compared with \$1.8 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for the three months ended September 30, 2014 increased to 14.6 percent, compared with 9.1 percent for the corresponding period of 2013. The increase in adjusted pre-tax operating margin was driven by the significant increase in net revenues.

Table of Contents

## Asset Management

The following table sets forth the Asset Management segment financial results from continuing operations and adjustments necessary to reconcile to our consolidated U.S. GAAP pre-tax operating income and pre-tax operating margin for the periods presented:

	Three Months Ended September 30,				2013			
	2014		2013		2014		2013	
	Total	Adjustments <sup>(1)</sup> Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total	Adjustments <sup>(1)</sup> Noncontrolling Interests	Other Adjustments	U.S. GAAP
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP
Management fees								
Value equity	\$11,356	\$—	\$—	\$11,356	\$11,980	\$—	\$—	\$11,980
MLP	8,382	—	—	8,382	5,567	—	—	5,567
Total management fees	19,738	—	—	19,738	17,547	—	—	17,547
Performance fees								
Value equity	430	—	—	430	59	—	—	59
MLP	40	—	—	40	1	—	—	1
Total performance fees	470	—	—	470	60	—	—	60
Total management and performance fees	20,208	—	—	20,208	17,607	—	—	17,607
Investment income/(loss)	(252 )	—	—	(252 )	444	—	—	444
Total net revenues	19,956	—	—	19,956	18,051	—	—	18,051
Operating expenses	12,837	—	1,896	14,733	10,366	—	1,982	12,348
Segment pre-tax operating income	\$7,119	\$—	\$(1,896 )	\$5,223	\$7,685	\$—	\$(1,982 )	\$5,703
Segment pre-tax operating margin	35.7 %			26.2 %	42.6 %			31.6 %

(1) Other Adjustments – The following table sets forth the items not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin for the periods presented:

(Dollars in thousands)	Three Months Ended September	
	30, 2014	2013
Compensation from acquisition-related agreements	\$321	\$321
Amortization of intangible assets related to acquisitions	1,575	1,661
	\$1,896	\$1,982

Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Investment performance and client asset inflows and outflows have a direct effect on management and performance fee revenues. Management fees are generally based on the level of assets under management (“AUM”) measured monthly or quarterly, and an increase or reduction in assets under management, due to market price fluctuations or net client asset flows, will result in a corresponding increase or decrease in management fees. Fees vary with the type of assets managed and the vehicle in which they are managed. Performance fees are earned when the investment return on assets under management exceeds certain benchmark targets or other performance targets over a specified measurement period. The level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in total assets under management. The majority of performance fees, if earned, are generally recorded in the fourth quarter of the applicable year or upon withdrawal of client assets. At September 30, 2014, approximately two percent of our AUM was eligible to earn performance fees.

Table of Contents

For the three months ended September 30, 2014, management fees were \$19.7 million, an increase of 12.5 percent, compared with \$17.5 million in the prior-year period, due to increased management fees from our MLP product offerings. In the third quarter of 2014, management fees related to our value equity strategies were \$11.4 million, down 5.2 percent compared to the corresponding period of 2013. The average effective revenue yield (total annualized management fees as a percentage of our period-end AUM) for our value equity strategies was 76 basis points for the second quarter of 2014, compared with 75 basis points for the prior-year period. Management fees from our MLP strategies increased 50.6 percent in the third quarter of 2014 to \$8.4 million, compared with \$5.6 million in the third quarter of 2013, due to increased average AUM driven by net client inflows and market appreciation. The average effective revenue yield for our MLP strategies was 54 basis points for the three months ended September 30, 2014, compared to 52 basis points for the corresponding period in the prior year.

For the three months ended September 30, 2014, performance fees were \$0.5 million, compared with \$0.1 million in the prior-year period. The performance fees recorded during the third quarter of 2014 were the result of certain funds exceeding their performance targets at the time of client asset withdrawals.

Investment income/(loss) includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. For the three months ended September 30, 2014, investment loss was \$0.3 million compared with investment income of \$0.4 million for the prior-year period.

Adjusted segment pre-tax operating margin for the three months ended September 30, 2014 was 35.7 percent, compared to 42.6 percent for the three months ended September 30, 2013. The decrease in the third quarter of 2014 resulted from lower investment income and higher non-compensation expenses, particularly higher third-party marketing fees.

The following table summarizes the changes in our AUM for the periods presented:

(Dollars in millions)	Three Months Ended September 30,		Twelve Months Ended September 30,
	2014	2013	2014
<b>Value Equity</b>			
Beginning of period	\$6,577	\$5,983	\$6,365
Net outflows	(161	) (135	) (895
Net market appreciation/(depreciation)	(417	) 517	) 529
End of period	\$5,999	\$6,365	\$5,999
<b>MLP</b>			
Beginning of period	\$6,036	\$4,186	\$4,279
Net inflows	83	153	664
Net market appreciation/(depreciation)	52	(60	) 1,228
End of period	\$6,171	\$4,279	\$6,171
<b>Total</b>			
Beginning of period	\$12,613	\$10,169	\$10,644
Net inflows/(outflows)	(78	) 18	(231
Net market appreciation/(depreciation)	(365	) 457	) 1,757
End of period	\$12,170	\$10,644	\$12,170

Total AUM was \$12.2 billion at September 30, 2014. Value equity AUM was \$6.0 billion at September 30, 2014, compared with \$6.6 billion at June 30, 2014 due to net market depreciation of \$0.4 billion and net client outflows of



\$0.2 billion during the quarter. Our performance in certain core strategies has lagged the relative benchmarks which has hindered our ability to attract significant net new value equity AUM. MLP AUM increased to \$6.2 billion in the third quarter of 2014, compared with \$6.0 billion at June 30, 2014.

Table of Contents

## Discontinued Operations

Discontinued operations included the operating results of our Hong Kong capital markets business, which ceased operations in 2012, and FAMCO, an asset management subsidiary we sold in the second quarter of 2013. For the three months ended September 30, 2013, we recorded a loss from discontinued operations, net of tax, of \$1.5 million. See Note 5 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

## Financial Summary for the nine months ended September 30, 2014 and September 30, 2013

The following table provides a summary of the results of our operations on a U.S. GAAP basis and the results of our operations as a percentage of net revenues for the periods indicated.

(Dollars in thousands)	Nine Months Ended September 30,		2014 v2013	As a Percentage of Net Revenues for the Nine Months Ended September 30,		
	2014	2013		2014	2013	
Revenues:						
Investment banking	\$287,198	\$156,924	83.0	% 57.7	% 46.5	%
Institutional brokerage	114,485	100,076	14.4	23.0	29.6	
Asset management	64,820	55,584	16.6	13.0	16.5	
Interest	36,935	35,469	4.1	7.4	10.5	
Investment income	12,379	8,285	49.4	2.5	2.5	
Total revenues	515,817	356,338	44.8	103.7	105.5	
Interest expense	18,227	18,719	(2.6)	) 3.7	5.5	
Net revenues	497,590	337,619	47.4	100.0	100.0	
Non-interest expenses:						
Compensation and benefits	300,745	210,531	42.9	60.4	62.4	
Occupancy and equipment	22,151	18,869	17.4	4.5	5.6	
Communications	17,048	16,040	6.3	3.4	4.8	
Floor brokerage and clearance	5,527	6,506	(15.0)	) 1.1	1.9	
Marketing and business development	19,787	16,384	20.8	4.0	4.9	
Outside services	27,837	23,745	17.2	5.6	7.0	
Restructuring and integration costs	—	3,823	N/M	—	1.1	
Intangible asset amortization expense	6,954	6,221	11.8	1.4	1.8	
Other operating expenses	8,719	1,939	349.7	1.8	0.6	
Total non-interest expenses	408,768	304,058	34.4	82.1	90.1	
Income from continuing operations before income tax expense	88,822	33,561	164.7	17.9	9.9	
Income tax expense	28,472	10,130	181.1	5.7	3.0	
Income from continuing operations	60,350	23,431	157.6	12.1	6.9	
Discontinued operations:						

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Loss from discontinued operations, net of tax	—	(3,921	)	N/M	—	(1.2	)
Net income	60,350	19,510		209.3	12.1	5.8	
Net income applicable to noncontrolling interests	9,721	1,554		525.5	2.0	0.5	
Net income applicable to Piper Jaffray Companies	\$50,629	\$17,956		182.0	% 10.2	% 5.3	%
N/M — Not meaningful							

Table of Contents

Except as discussed below, the description of non-interest expense and net revenues as well as the underlying reasons for variances to prior year are substantially the same as the comparative quarterly discussion.

For the nine months ended September 30, 2014, we recorded net income applicable to Piper Jaffray Companies of \$50.6 million. Net revenues from continuing operations for the nine months ended September 30, 2014 were \$497.6 million, a 47.4 percent increase compared to \$337.6 million in the year-ago period. In the first nine months of 2014, investment banking revenues increased 83.0 percent to \$287.2 million, compared with \$156.9 million in the prior-year period driven by strong equity financing and advisory services revenues. For the nine months ended September 30, 2014, institutional brokerage revenues increased 14.4 percent to \$114.5 million, compared with \$100.1 million in the first nine months of 2013, due to higher fixed income institutional brokerage revenues. In the first nine months of 2014, asset management fees increased 16.6 percent to \$64.8 million, compared with \$55.6 million in the first nine months of 2013, due to higher management fees from increased assets under management related to our MLP product. In the first nine months of 2014, net interest income increased to \$18.7 million, compared with \$16.8 million in the prior-year period, due primarily to higher interest income earned on mortgage-backed securities. For the nine months ended September 30, 2014, investment income was \$12.4 million, compared with \$8.3 million in the prior-year period as we recorded higher investment gains associated with our investment and the noncontrolling interests in the municipal bond fund that we manage. Non-interest expenses from continuing operations were \$408.8 million for the nine months ended September 30, 2014, an increase of 34.4 percent compared to \$304.1 million in the prior year, primarily resulting from higher compensation expenses due to increased revenues and improved operating performance.

Consolidated Non-Interest Expenses from Continuing Operations

Occupancy and Equipment – For the nine months ended September 30, 2014, occupancy and equipment expenses increased 17.4 percent to \$22.2 million, compared with \$18.9 million in the corresponding period of 2013. The increase was primarily the result of incremental occupancy expenses from our acquisitions of Seattle-Northwest and Edgeview completed during the third quarter of 2013, and incremental one-time occupancy costs related to our office space in New York City.

Communications – For the nine months ended September 30, 2014, communication expenses increased 6.3 percent to \$17.0 million, compared with \$16.0 million for the nine months ended September 30, 2013. The increase resulted from higher market data service expenses.

Intangible Asset Amortization Expense – For the nine months ended September 30, 2014, intangible asset amortization expense was \$7.0 million, compared with \$6.2 million in the nine months ended September 30, 2013. The increase was attributable to incremental intangible asset amortization expense related to the acquisitions of Seattle-Northwest and Edgeview.

Other Operating Expenses – Other operating expenses were \$8.7 million in the first nine months of 2014, compared with income of \$1.9 million in the first nine months of 2013. In the first nine months of 2013, we received insurance proceeds for the reimbursement of prior legal settlements. Additionally, in the first nine months of 2014, we incurred higher expenses related to our charitable giving program, driven by our increased profitability.

Income Taxes – For the nine months ended September 30, 2014, our provision for income taxes was \$28.5 million equating to an effective tax rate, excluding noncontrolling interests, of 36.0 percent, compared with \$10.1 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 31.6 percent.



Table of Contents

## Segment Performance from Continuing Operations

## Capital Markets

The following table sets forth the Capital Markets adjusted segment financial results from continuing operations and adjustments necessary to reconcile to our consolidated U.S. GAAP pre-tax operating income and pre-tax operating margin for the periods presented:

	Nine Months Ended September 30, 2014				2013			
	Total	Adjustments <sup>(1)</sup>		U.S.	Total	Adjustments <sup>(1)</sup>		U.S.
	Adjusted	Noncontrolling Interests	Other Adjustments	GAAP	Adjusted	Noncontrolling Interests	Other Adjustments	GAAP
(Dollars in thousands)								
Investment banking financing								
Equities	\$93,628	\$—	\$—	\$93,628	\$66,085	\$—	\$—	\$66,085
Debt	48,148	—	—	48,148	51,971	—	—	51,971
Advisory services	145,743	—	—	145,743	39,165	—	—	39,165
Total investment banking	287,519	—	—	287,519	157,221	—	—	157,221
Institutional sales and trading								
Equities	59,337	—	—	59,337	65,077	—	—	65,077
Fixed income	69,060	—	—	69,060	49,732	—	—	49,732
Total institutional sales and trading	128,397	—	—	128,397	114,809	—	—	114,809
Management and performance fees	4,512	—	—	4,512	2,677	—	—	2,677
Investment income	7,055	13,545	—	20,600	10,352	3,861	—	14,213
Long-term financing expenses	(5,058 )	—	—	(5,058 )	(5,618 )	—	—	(5,618 )
Net revenues	422,425	13,545	—	435,970	279,441	3,861	—	283,302
	355,516	3,824	5,282	364,622	258,273	2,307	5,721	266,301

Operating expenses

Segment pre-tax operating income	\$66,909	\$9,721	\$ (5,282 )	\$71,348	\$21,168	\$1,554	\$ (5,721 )	\$17,001
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Segment pre-tax operating margin	15.8	%		16.4	%	7.6	%		6.0	%
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The following is a summary of the adjustments needed to reconcile our consolidated U.S. GAAP pre-tax operating (1) income and pre-tax operating margin to the adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin:

Noncontrolling interests – The impacts of consolidating noncontrolling interests in our alternative asset management funds and private equity investment vehicles are not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin.

Other adjustments – The following table sets forth the items not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin for the periods presented:

(Dollars in thousands)	Nine Months Ended September 30,	
	2014	2013
Compensation from acquisition-related agreements	\$3,053	\$660
Restructuring and integration costs	—	3,823
Amortization of intangible assets related to acquisitions	2,229	1,238
	\$5,282	\$5,721

Table of Contents

Capital Markets adjusted net revenues increased 51.2 percent to \$422.4 million for the nine months ended September 30, 2014, compared with \$279.4 million in the prior-year period.

In the first nine months of 2014, investment banking revenues increased 82.9 percent to \$287.5 million compared with \$157.2 million in the corresponding period of the prior year, due to higher equity financing and advisory services revenues. For the nine months ended September 30, 2014, equity financing revenues were \$93.6 million, compared with \$66.1 million in the prior-year period, as favorable equity markets in the first half of 2014 led to an increase in capital raising, particularly in healthcare, our strongest sector, resulting in more completed transactions and higher revenue per transaction. During the first nine months of 2014, we completed 79 equity financings, raising \$18.0 billion for our clients, compared with 66 equity financings, raising \$16.0 billion for our clients in the comparable year-ago period. Debt financing revenues for the nine months ended September 30, 2014 were \$48.1 million, down 7.4 percent compared with \$52.0 million in the year-ago period, due to lower public finance revenues driven by market-wide decreases in the volume of new municipal issuances. During the first nine months of 2014, we completed 259 negotiated public finance issues with a total par value of \$5.7 billion, compared with 316 negotiated public finance issues with a total par value of \$6.3 billion during the prior-year period. For the nine months ended September 30, 2014, advisory services revenues increased to \$145.7 million, compared with \$39.2 million in the first nine months of 2013, due to higher U.S. equity advisory services revenues from more completed transactions and higher revenue per transaction. We completed 55 transactions with an aggregate enterprise value of \$11.2 billion in the first nine months of 2014, compared with 21 transactions with an aggregate enterprise value of \$1.8 billion in the first nine months of 2013.

For the nine months ended September 30, 2014, institutional brokerage revenues increased 11.8 percent to \$128.4 million, compared with \$114.8 million in the prior-year period, due to higher fixed income institutional brokerage revenues. Equity institutional brokerage revenues were \$59.3 million in the first nine months of 2014, down 8.8 percent compared with \$65.1 million in the corresponding period of 2013, due to reduced client trading volumes and losses on our equity strategic trading activities. For the nine months ended September 30, 2014, fixed income institutional brokerage revenues were \$69.1 million, compared with \$49.7 million in the prior-year period, due to higher trading gains. In the second quarter of 2013, we recorded trading losses on inventory positions due to a volatile trading environment caused by the rapid rise in interest rates and widening of credit spreads during that period.

For the nine months ended September 30, 2014, management and performance fees were \$4.5 million, compared with \$2.7 million in the prior-year period, due to increased performance fees from our municipal bond fund.

For the nine months ended September 30, 2014, adjusted investment income was \$7.1 million, compared to \$10.4 million in the corresponding period of 2013. The decrease resulted from lower gains on our merchant banking activities and other firm investments, offset in part by increased gains recorded on our investment in the municipal bond fund that we manage.

For the nine months ended September 30, 2014, long-term financing expenses decreased to \$5.1 million, compared with \$5.6 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for the nine months ended September 30, 2014 increased to 15.8 percent, compared with 7.6 percent for the corresponding period of 2013. The increase resulted from improved operating results driven by higher net revenues.



Table of Contents

## Asset Management

The following table sets forth the Asset Management segment financial results from continuing operations and adjustments necessary to reconcile to our consolidated U.S. GAAP pre-tax operating income and pre-tax operating margin for the periods presented:

	Nine Months Ended September 30,				2013				
	2014								
	Total	Adjustments <sup>(1)</sup> Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total	Adjustments <sup>(1)</sup> Noncontrolling Interests	Other Adjustments	U.S. GAAP	
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP	
Management fees									
Value equity	\$37,148	\$—	\$—	\$37,148	\$36,708	\$—	\$—	\$36,708	
MLP	22,326	—	—	22,326	15,483	—	—	15,483	
Total management fees	59,474	—	—	59,474	52,191	—	—	52,191	
Performance fees									
Value equity	625	—	—	625	499	—	—	499	
MLP	209	—	—	209	217	—	—	217	
Total performance fees	834	—	—	834	716	—	—	716	
Total management and performance fees	60,308	—	—	60,308	52,907	—	—	52,907	
Investment income	1,312	—	—	1,312	1,410	—	—	1,410	
Total net revenues	61,620	—	—	61,620	54,317	—	—	54,317	
Operating expenses	38,458	—	5,688	44,146	31,811	—	5,946	37,757	
Segment pre-tax operating income	\$23,162	\$—	\$(5,688)	\$17,474	\$22,506	\$—	\$(5,946)	\$16,560	
Segment pre-tax operating margin (1)	37.6	%		28.4	%	41.4	%	30.5	%

Other Adjustments – The following table sets forth the items not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin for the periods presented:

(Dollars in thousands)	Nine Months Ended September 30,	
	2014	2013
Compensation from acquisition-related agreements	\$963	\$963
Amortization of intangible assets related to acquisitions	4,725	4,983
	\$5,688	\$5,946

For the nine months ended September 30, 2014, management fees were \$59.5 million, an increase of 14.0 percent, compared with \$52.2 million in the prior-year period, due to increased management fees from our MLP product offerings. In the first nine months of 2014, management fees related to our value equity strategies were \$37.1 million, up slightly compared to the corresponding period of 2013. The average effective revenue yield (total annualized management fees as a percentage of our average quarter-end AUM) for our value equity strategies was 78 basis points for the nine months ended September 30, 2014, down from 79 basis points for the nine months ended September 30, 2013. Management fees from our MLP strategies increased 44.2 percent in the first nine months of 2014 to \$22.3 million, compared with \$15.5 million in the first nine months of 2013, due to increased average AUM. Our average effective revenue yield for our MLP strategies was 52 basis points for the nine months ended September 30, 2014, compared to 50 basis points for the corresponding period in the prior year.

For the nine months ended September 30, 2014, performance fees were \$0.8 million, compared to \$0.7 million in the prior-year period.

Investment income was \$1.3 million for the nine months ended September 30, 2014, compared with \$1.4 million for the nine months ended September 30, 2013.

Table of Contents

Adjusted segment pre-tax operating margin for the nine months ended September 30, 2014 was 37.6 percent, compared to 41.4 percent for the nine months ended September 30, 2013. The decrease resulted from higher non-compensation expenses particularly attributable to third party marketing fees.

The following table summarizes the changes in our AUM for the periods presented:

(Dollars in millions)	Nine Months Ended September 30,		Twelve Months Ended September 30,
	2014	2013	2014
<b>Value Equity</b>			
Beginning of period	\$6,683	\$5,865	\$6,365
Net outflows	(687	) (548	) (895
Net market appreciation	3	1,048	529
End of period	\$5,999	\$6,365	\$5,999
<b>MLP</b>			
Beginning of period	\$4,549	\$3,186	\$4,279
Net inflows	619	453	664
Net market appreciation	1,003	640	1,228
End of period	\$6,171	\$4,279	\$6,171
<b>Total</b>			
Beginning of period	\$11,232	\$9,051	\$10,644
Net outflows	(68	) (95	) (231
Net market appreciation	1,006	1,688	1,757
End of period	\$12,170	\$10,644	\$12,170

Total AUM increased \$0.9 billion to \$12.2 billion in the first nine months of 2014 due to market appreciation in our MLP product offerings. Value equity AUM was \$6.0 billion at September 30, 2014, compared to \$6.7 billion at December 31, 2013 due to net client outflows during the period. The net client outflows resulted from changes in client investment strategies away from the value equity platform. MLP AUM increased \$1.6 billion to \$6.2 billion in the first nine months of 2014 as we experienced net market appreciation of \$1.0 billion and net client inflows of \$0.6 billion.

#### Discontinued Operations

For the nine months ended September 30, 2013, we recorded a loss from discontinued operations, net of tax, of \$3.9 million. See Note 5 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

#### Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our unaudited consolidated financial statements, and are incorporated herein by reference.

#### Critical Accounting Policies

Our accounting and reporting policies comply with GAAP and conform to practices within the securities industry. The preparation of financial statements in compliance with GAAP and industry practices requires us to make estimates and

assumptions that could materially affect amounts reported in our consolidated financial statements. Critical accounting policies are those policies that we believe to be the most important to the portrayal of our financial condition and results of operations and that require us to make estimates that are difficult, subjective or complex. Most accounting policies are not considered by us to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical, including whether the estimates are significant to the consolidated financial statements taken as a whole, the nature of the estimates, the ability to readily validate the estimates with other information (e.g., third-party or independent sources), the sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be used under GAAP.

## Table of Contents

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013. We believe that of our significant accounting policies, the following are our critical accounting policies.

### Valuation of Financial Instruments

Financial instruments and other inventory positions owned, financial instruments and other inventory positions sold, but not yet purchased, and certain of our investments recorded in investments on our consolidated statements of financial condition consist of financial instruments recorded at fair value, either as required by accounting guidance or through the fair value election. Unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants at the measurement date (the exit price). Based on the nature of our business and our role as a “dealer” in the securities industry or our role as a manager of alternative asset management funds, the fair values of our financial instruments are determined internally. See Note 7 to our unaudited consolidated financial statements for additional discussion of our fair value processes, including specific control processes to determine the reasonableness of the fair value of our financial instruments.

A substantial percentage of the fair value of our financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques may involve some degree of judgment. Results from valuation models and other valuation techniques in one period may not be indicative of the future period fair value measurement.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires us to estimate the value of the securities using the best information available. Among the factors considered by us in determining the fair value of such financial instruments are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where we derive the value of a security based on information from an independent source, certain assumptions may be required to determine the security’s fair value. For example, we assume that the size of positions that we hold would not be large enough to affect the quoted price of the securities if we sell them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the current estimated fair value.

Depending upon the product and terms of the transaction, the fair value of our derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. Our models generally incorporate inputs that we believe are representative of inputs other market participants would use to determine fair value of the same instruments, including contractual terms, yield curves, discount rates and measures of volatility. The valuation models and underlying assumptions are monitored over the life of the derivative product. If there are any changes necessary in the underlying inputs, the model is updated for those new inputs.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 820, "Fair Value Measurement," 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 I measurements) and the lowest priority to inputs with little or no pricing observability (Level III measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Note 7 to our unaudited consolidated financial statements for additional discussion of our assets and liabilities in the fair value hierarchy.

#### Goodwill and Intangible Assets

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At September 30, 2014, we had goodwill of \$211.9 million. The goodwill balance consists of \$15.0 million recorded as a result of our acquisitions of Seattle-

## Table of Contents

Northwest and Edgeview within our capital markets segment and the remaining \$196.8 million relates to our asset management segment. At September 30, 2014, we had intangible assets of \$33.0 million, of which \$3.1 million relates to our capital markets segment and \$29.9 million relates to our asset management segment.

Under FASB Accounting Standards Codification Topic 350, "Intangibles – Goodwill and Other," we are required to perform impairment tests of our goodwill and indefinite-life intangible assets annually and on an interim basis when circumstances exist that could indicate possible impairment. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. We have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after making an assessment, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if we conclude otherwise, then we are required to perform the two-step impairment test, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting units based on the following factors: a discounted cash flow model using revenue and profit forecasts, our market capitalization, public market comparables and multiples of recent mergers and acquisitions of similar businesses, if available. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair value is less than the carrying values, a second step is performed to measure the amount of the impairment loss, if any. An impairment loss is equal to the excess of the carrying amount of goodwill over its fair value.

The initial recognition of goodwill and other intangible assets and the subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired assets or businesses will perform in the future using valuation methods including discounted cash flow analysis. Our estimated cash flows typically extend for five years and, by their nature, are difficult to determine over an extended time period. Events and factors that may significantly affect the estimates include, among others, competitive forces and changes in revenue growth trends, cost structures, technology, discount rates and market conditions. To assess the reasonableness of cash flow estimates and validate assumptions used in our estimates, we review historical performance of the underlying assets or similar assets. In assessing the fair value of our reporting units, the volatile nature of the securities markets and our industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider public company comparables and multiples of recent mergers and acquisitions of similar businesses in our subsequent impairment analysis. Valuation multiples may be based on revenues, earnings before interest, taxes, depreciation and amortization (EBITDA), price-to-earnings or cash flows of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences including size, operating leverage and other factors.

We completed our 2013 goodwill impairment testing as of October 31, 2013, and concluded there was no goodwill impairment. We also tested the intangible assets (indefinite and definite-lived) and concluded there was no impairment.

We anticipate completing our 2014 annual goodwill and intangible asset impairment testing in the fourth quarter of 2014. Impairment charges, if any, resulting from this valuation analysis could materially adversely affect our results of operations.

## Compensation Plans

### Stock-Based Compensation Plans

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock, restricted stock units and stock options. We account for equity awards in accordance with FASB Accounting

Standards Codification Topic 718, "Compensation – Stock Compensation," ("ASC 718") which requires all share-based payments to employees, including grants of employee stock options, to be recognized on the consolidated statements of operations at grant date fair value. Compensation expense related to share-based awards which require future service are amortized over the service period of the award, net of estimated forfeitures. Share-based awards that do not require future service are recognized in the year in which the awards are deemed to be earned.

#### Deferred Compensation Plans

In 2013, we adopted a nonqualified, unfunded deferred compensation plan which allows certain highly compensated employees, at their election, to defer a percentage of their base salary, commissions and/or cash bonuses. The amounts deferred under this plan are held in a grantor trust.

In 2012, we established a deferred compensation plan which allows eligible employees to elect to receive a portion of the incentive



## Table of Contents

compensation they would otherwise receive in the form of restricted stock, instead in restricted mutual fund shares (“MFRS Awards”) of registered funds managed by our asset management business. We have also granted MFRS Awards to new employees as a recruiting tool.

See Note 20 to our unaudited consolidated financial statements for additional information about our stock-based and deferred compensation plans.

## Income Taxes

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recognized to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our U.S. and U.K. deferred tax assets. However, if our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is necessary, which would impact our results of operations in that period.

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. As of September 30, 2014, we had \$1.1 million of excess tax benefits recorded as additional paid-in capital.

We establish reserves for uncertain income tax positions in accordance with FASB Accounting Standards Codification Topic 740, "Income Taxes," when it is not more likely than not that a certain position or component of a position will be ultimately upheld by the relevant taxing authorities. Significant judgment is required in evaluating uncertain tax positions. Our tax provision and related accruals include the impact of estimates for uncertain tax positions and changes to the reserves that are considered appropriate. To the extent the probable tax outcome of these matters changes, such change in estimate will impact the income tax provision in the period of change and, in turn, our results of operations.

## Liquidity, Funding and Capital Resources

Liquidity is of critical importance to us given the nature of our business. Insufficient liquidity resulting from adverse circumstances contributes to, and may be the cause of, financial institution failure. Accordingly, we regularly monitor our liquidity position, including our cash and net capital positions, and we have implemented a liquidity strategy designed to enable our business to continue to operate even under adverse circumstances, although there can be no

assurance that our strategy will be successful under all circumstances.

The majority of our tangible assets consist of assets readily convertible into cash. Financial instruments and other inventory positions owned are stated at fair value and are generally readily marketable in most market conditions. Receivables and payables with brokers, dealers and clearing organizations usually settle within a few days. As part of our liquidity strategy, we emphasize diversification of funding sources to the extent possible while considering tenor and cost. Our assets are financed by our cash flows from operations, equity capital, and our funding arrangements. The fluctuations in cash flows from financing activities are directly related to daily operating activities from our various businesses. One of our most important risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect our overall risk tolerance, our ability to access stable funding sources and the amount of equity capital we hold.

Table of Contents

Certain market conditions can impact the liquidity of our inventory positions, requiring us to hold larger inventory positions for longer than expected or requiring us to take other actions that may adversely impact our results.

A significant component of our employees' compensation is paid in annual discretionary incentive compensation. The timing of these incentive compensation payments, which generally are made in February, has a significant impact on our cash position and liquidity.

We currently do not pay cash dividends on our common stock.

In the third quarter of 2012, our board of directors approved a share repurchase authorization of up to \$100 million in common shares through September 30, 2014. During the first nine months of 2014, we did not repurchase any shares of our outstanding common stock under this authorization. This share repurchase authorization expired on September 30, 2014, with \$39.5 million remaining under this authorization. In the third quarter of 2014, our board of directors approved a new share repurchase authorization of up to \$100 million in common shares through September 30, 2016. This new authorization became effective on October 1, 2014. We also purchase shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. During the first nine months of 2014, we purchased 251,004 shares or \$10.6 million of our common shares for this purpose.

## Leverage

The following table presents total assets, adjusted assets, total shareholders' equity and tangible shareholders' equity with the resulting leverage ratios as of:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Total assets	\$2,600,540	\$2,318,157
Deduct: Goodwill and intangible assets	(244,854 )	(250,564 )
Deduct: Assets from noncontrolling interests	(296,560 )	(317,558 )
Adjusted assets	\$2,059,126	\$1,750,035
Total shareholders' equity	\$945,348	\$882,072
Deduct: Goodwill and intangible assets	(244,854 )	(250,564 )
Deduct: Noncontrolling interests	(140,715 )	(147,396 )
Tangible common shareholders' equity	\$559,779	\$484,112
Leverage ratio (1)	2.8	2.6
Adjusted leverage ratio (2)	3.7	3.6

(1) Leverage ratio equals total assets divided by total shareholders' equity.

(2) Adjusted leverage ratio equals adjusted assets divided by tangible common shareholders' equity.

Adjusted assets and tangible common shareholders' equity are non-GAAP financial measures. A non-GAAP financial measure is a numeric measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with GAAP, or for which there is no specific GAAP measure. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. Amounts attributed to noncontrolling interests are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholder's equity, respectively, as they represent assets and equity interests in consolidated entities that are not

attributable, either directly or indirectly, to Piper Jaffray Companies. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

Table of Contents

## Funding and Capital Resources

The primary goal of our funding activities is to ensure adequate funding over a wide range of market conditions. Given the mix of our business activities, funding requirements are fulfilled through a diversified range of short-term and long-term financing. We attempt to ensure that the tenor of our borrowing liabilities equals or exceeds the expected holding period of the assets being financed. Our ability to support increases in total assets is largely a function of our ability to obtain funding from external sources. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including market conditions, the general availability of credit and credit ratings. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our financing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing the funds.

## Short-term financing

Our day-to-day funding and liquidity is obtained primarily through the use of commercial paper issuance, repurchase agreements, prime broker agreements, and bank lines of credit, and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory, which is a necessary part of our institutional brokerage and municipal bond funds businesses. The majority of our inventory is liquid and is therefore funded by overnight or short-term facilities. Certain of these short-term facilities (i.e., committed line and commercial paper) have been established to mitigate changes in the liquidity of our inventory based on changing market conditions. In the case of our committed line, it is available to us regardless of changes in market liquidity conditions through the end of its term, although there may be limitations on the type of securities available to pledge. Our commercial paper program helps mitigate changes in market liquidity conditions given it is not an overnight facility, but provides funding with a term of 27 to 270 days. Our funding sources are also dependent on the types of inventory that our counterparties are willing to accept as collateral and the number of counterparties available. We also have established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to our convertible inventory. Funding is generally obtained at rates based upon the federal funds rate and/or the London Interbank Offer Rate.

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co., issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The programs can issue with maturities of 27 to 270 days. CP Series III A includes a covenant that requires Piper Jaffray & Co., our U.S. broker dealer subsidiary, to maintain excess net capital of \$120 million. The following table provides information about our commercial paper programs at September 30, 2014:

(Dollars in millions)	CP Series A	CP Series II A	CP Series III A
Maximum amount that may be issued	\$300.0	\$150.0	\$125.0
Amount outstanding	147.7	17.5	82.6
Weighted average maturity, in days	140	200	35

Prime Broker Arrangement – We have established an arrangement to obtain overnight financing by a single prime broker related to our alternative asset management funds in municipal securities. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. Our prime broker financing activities are recorded net of receivables from trading activity. This funding is at the discretion of the prime broker and could be denied subject to a notice period.

Committed Lines – Our committed line is a one-year \$250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co. to maintain a minimum net capital of \$120 million, and the unpaid principal amount of all advances under the facility will be due on December 27, 2014. This credit facility has been in place since 2008 and we anticipate being able to renew the facility for another one-year term in the fourth quarter of 2014. At September 30, 2014, we had no advances against this line of credit.

Table of Contents

Uncommitted Lines – We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total \$185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have an uncommitted unsecured facility with one of these banks. All of these uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. More specifically, these lines are subject to approval by the respective bank each time an advance is requested and advances may be denied, which may be particularly true during times of market stress or market perceptions of our exposures. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At September 30, 2014, we had \$91.0 million of advances against these lines of credit.

The following tables present the average balances outstanding for our various short-term funding sources by quarter for 2014 and 2013, respectively.

(Dollars in millions)	Average Balance for the Three Months Ended		
	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
Funding source:			
Repurchase agreements	\$10.5	\$49.8	\$38.3
Commercial paper	262.5	276.2	280.5
Prime broker arrangement	64.8	159.9	216.1
Short-term bank loans	6.4	18.9	28.9
Total	\$344.2	\$504.8	\$563.8

(Dollars in millions)	Average Balance for the Three Months Ended			
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013
Funding source:				
Repurchase agreements	\$17.2	\$11.2	\$130.3	\$66.2
Commercial paper	313.6	351.6	334.0	308.9
Prime broker arrangement	238.7	145.6	93.5	105.2
Short-term bank loans	1.3	1.8	11.8	5.1
Total	\$570.8	\$510.2	\$569.6	\$485.4

The average funding in the third quarter of 2014 decreased to \$344.2 million, compared with \$504.8 million during the second quarter of 2014, as we used excess cash to reduce amounts due under our prime broker arrangement and our outstanding repurchase agreements.

The following tables present the maximum daily funding amount by quarter for 2014 and 2013, respectively.

(Dollars in millions)	For the Three Months Ended		
	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
Maximum amount of daily funding	\$543.0	\$766.7	\$897.2

(Dollars in millions)	For the Three Months Ended			
	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	Mar. 31, 2013
Maximum amount of daily funding	\$735.2	\$799.0	\$779.3	\$677.1

## Table of Contents

### Variable rate senior notes

On November 30, 2012, we entered into a note purchase agreement under which we issued unsecured variable rate senior notes ("Notes") in the amount of \$125 million. The initial holders of the Notes are certain entities advised by PIMCO. The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of \$50 million and \$75 million, respectively.

On June 2, 2014, we entered into an amended and restated note purchase agreement ("Amended Note Purchase Agreement") under which we issued \$50 million of new Class A Notes upon repayment in full of the 2012 Class A Notes. The Class A Notes bear interest at a rate equal to three-month LIBOR plus 3.00 percent and mature on May 31, 2017. The Class B Notes remain outstanding, bear interest at a rate equal to three-month LIBOR plus 4.50 percent and mature on November 30, 2015. Interest on the Notes is adjustable and payable quarterly. The unpaid principal amounts are due in full on the respective maturity dates and may not be prepaid.

The Amended Note Purchase Agreement includes customary events of default, including failure to pay principal when due or failure to pay interest within five business days of when due, any representation or warranty in the Amended Note Purchase Agreement proving untrue in any material respect when made by us, failure to comply with the covenants in the Amended Note Purchase Agreement, failure to pay or another event of default under other material indebtedness in an amount exceeding \$10 million, bankruptcy or insolvency or a change in control. If there is any event of default, the noteholders may exercise customary remedies, including declaring the entire principal and any accrued interest on the Notes to be due and payable.

The Amended Note Purchase Agreement includes covenants that, among other things, require us to maintain a minimum consolidated tangible net worth and minimum regulatory net capital, limit our leverage ratio and require maintenance of a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of \$120 million. At September 30, 2014, we were in compliance with all covenants.

### Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2013, except for our operating lease obligations. On March 20, 2014, we entered into a new lease agreement for our San Francisco office. Our contractual rental obligation for the full 10.3 year lease term is \$12.1 million.

### Capital Requirements

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At September 30, 2014, our net capital under the SEC's uniform net capital rule was \$164.2 million, and exceeded the minimum net capital required under the SEC rule by \$163.2 million.



Although we operate with a level of net capital substantially greater than the minimum thresholds established by FINRA and the SEC, a substantial reduction of our capital would curtail many of our Capital Markets revenue producing activities.

At September 30, 2014, Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Table of Contents

## Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance sheet arrangements at September 30, 2014 and December 31, 2013:

	Expiration Per Period at September 30, 2014						Total Contractual Amount	
	Remainder of 2014	2015	2016	2017 - 2018	2019 - 2020	Later	September 30, 2014	December 31, 2013
(Dollars in thousands)								
Customer matched-book derivative contracts <sup>(1) (2)</sup>	\$30,000	\$66,882	\$64,373	\$40,950	\$119,944	\$4,595,447	\$4,917,596	\$5,310,929
Trading securities derivative contracts <sup>(2)</sup>	217,700	60,000	—	—	—	29,750	307,450	198,500
Credit default swap index contracts <sup>(2)</sup>	—	95,000	—	234,850	40,000	27,965	397,815	299,333
Equity derivative contracts <sup>(2)</sup>	87	12,601	834	—	—	—	13,522	17,090
Private equity investment commitments <sup>(3)</sup>	—	—	—	—	—	—	38,040	47,576

Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$199.2 million at (1) September 30, 2014) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At September 30, 2014, we had \$25.2 million of credit exposure with these counterparties, including \$13.3 million of credit exposure with one counterparty.

We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we (2) believe the notional or contract amount overstates the expected payout. At September 30, 2014 and December 31, 2013, the net fair value of these derivative contracts approximated \$40.9 million and \$30.4 million, respectively.

(3) The investment commitments have no specified call dates; however, the investment period for these funds is through 2018. The timing of capital calls is based on market conditions and investment opportunities.

## Derivatives

Derivatives' notional or contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the fair value of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. For a complete discussion of our activities related to derivative products, see Note 6, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our unaudited consolidated financial statements.

## Loan Commitments

We may commit to bridge loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at September 30, 2014.

### Private Equity and Other Principal Investments

A component of our private equity and principal investments, including investments made as part of our merchant banking activities, are made through investments in various legal entities, typically partnerships or limited liability companies, established for the purpose of investing in securities of private companies or municipal debt obligations. We commit capital or act as the managing partner of these entities. Some of these entities are deemed to be variable interest entities. For a complete discussion of our activities related to these types of entities, see Note 8, "Variable Interest Entities," to our unaudited consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had \$38.0 million of commitments outstanding at September 30, 2014, of which \$26.9 million related to a commitment to an affiliated merchant banking fund.

## Table of Contents

### Risk Management

Risk is an inherent part of our business. Market risk, liquidity risk, credit risk, operational risk, and legal, regulatory and compliance risk are the principal risks we face in operating our business. The extent to which we properly identify and effectively manage each of these risks is critical to our financial condition and profitability. We have a formal risk management process to identify, assess and monitor each risk in accordance with defined policies and procedures. The risk management functions are independent of our business lines. Our management takes an active role in the risk management process, and the results are reported to senior management and the audit committee of the Board of Directors.

With respect to market risk and credit risk, the cornerstone of our risk management process is daily communication among traders, trading department management and senior management concerning our inventory positions, including those associated with our strategic trading activities, and overall risk profile. Our risk management functions supplement this communication process by providing their independent perspectives on our market and credit risk profile on a daily basis. The broader objectives of our risk management functions are to understand the risk profile of each trading area, to consolidate risk monitoring company-wide, to assist in implementing effective hedging strategies, to articulate large trading or position risks to senior management, and to ensure accurate fair values of our financial instruments.

Risk management techniques, processes and strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, and any risk management failures could expose us to material unanticipated losses.

### Governance and Risk Management Structure

The audit committee of the Board of Directors oversees risk management policies that have been developed by management to monitor and control our primary risk exposures. Our Chief Executive Officer and Chief Financial Officer meet with the audit committee on a quarterly basis to discuss our market, credit and liquidity risks and other risk-related topics.

We use internal committees to assist in governing risk and ensure that our business activities are properly assessed, monitored and managed. Our financial risk committee oversees risk management practices, including defining acceptable risk tolerances and approving risk management policies. Membership is comprised of our Chief Executive Officer, Chief Financial Officer, General Counsel, Treasurer, Head of Market and Credit Risk, Head of Public Finance, Head of Fixed Income Services and Head of Equities. We also have committees which manage risks related to our asset management funds and principal investments. Membership is comprised of various levels of senior management. Other committees that help evaluate and monitor risk include underwriting, leadership team and operating committees. These committees help manage risk by ensuring that business activities are properly managed and within a defined scope of activity. Our valuation committee, comprised of members of senior management and risk management, provide oversight and overall responsibility for the internal control processes and procedures related to fair value measurements. Additionally, our operational risk committees address and monitor risk related to information systems and security, regulatory and legal matters, and third parties such as vendors and service providers.

### Market Risk

Market risk represents the risk of financial volatility that may result from the change in value of a financial instrument due to fluctuations in its market price. Our exposure to market risk is directly related to our role as a financial intermediary for our clients, to our market-making activities and our strategic trading activities. Market risks are

inherent to both cash and derivative financial instruments. The scope of our market risk management policies and procedures includes all market-sensitive financial instruments.

Our different types of market risk include:

**Interest Rate Risk** — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (including client margin balances, investments, inventories, and resale agreements) and our funding sources (including client cash balances, short-term financing, variable rate senior notes and repurchase agreements), which finance these assets. Interest rate risk is managed by selling short U.S. government securities, agency securities, corporate debt securities and derivative contracts. See Note 6 of our accompanying unaudited consolidated financial statements for additional information on our derivative contracts. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

Table of Contents

**Equity Price Risk** — Equity price risk represents the potential loss in value due to adverse changes in the level or volatility of equity prices. We are exposed to equity price risk through our trading activities in the U.S. market, including our strategic trading activities in equity securities, which we initiated in 2013. We attempt to reduce the risk of loss inherent in our market-making and in our inventory of equity securities by establishing limits on the notional level of our inventory and by managing net position levels within those limits.

**Foreign Exchange Risk** — Foreign exchange risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. A modest portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. When necessary, we enter into transactions to hedge our exposure to foreign exchange risk through the use of derivative instruments or otherwise.

**Value-at-Risk ("VaR")**

We use the statistical technique known as VaR to measure, monitor and review the market risk exposures in our trading portfolios. VaR is the potential loss in value of our trading positions, excluding non-controlling interests, due to adverse market movements over a defined time horizon with a specified confidence level. We perform a daily VaR analysis on substantially all of our trading positions, including fixed income, equities, convertible bonds, asset-backed securities and all associated economic hedges. These positions encompass both customer-related and strategic trading activities, which focus on proprietary investments in municipal bonds, mortgage-backed securities and equity securities. A VaR model provides a common metric for assessing market risk across business lines and products. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes and individual securities.

We use a Monte Carlo simulation methodology for VaR calculations. We believe this methodology provides VaR results that properly reflect the risk profile of all our instruments, including those that contain optionality, and also accurately models correlation movements among all of our asset classes. In addition, it provides improved tail results as there are no assumptions of distribution, and can provide additional insight for scenario shock analysis.

Model-based VaR derived from simulation has inherent limitations including: reliance on historical data to predict future market risk; VaR calculated using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day; and published VaR results reflect past trading positions while future risk depends on future positions.

The modeling of the market risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, different assumptions and approximations could produce materially different VaR estimates. When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies, assumptions and approximations could produce significantly different results.

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented, which are computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence level and a one-day time horizon. This means that, over time, there is a one in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, there can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period.

September 30,      December 31,

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(Dollars in thousands)	2014	2013
Interest Rate Risk	\$692	\$1,793
Equity Price Risk	318	788
Diversification Effect (1)	(279	) (765
Total Value-at-Risk	\$731	\$1,816

(1) Equals the difference between total VaR and the sum of the VaRs for the two risk categories. This effect arises because the two market risk categories are not perfectly correlated.

Table of Contents

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively.

(Dollars in thousands)	High	Low	Average
For the Nine Months Ended September 30, 2014			
Interest Rate Risk	\$1,344	\$291	\$866
Equity Price Risk	920	17	300
Diversification Effect (1)			(281 )
Total Value-at-Risk	\$1,332	\$302	\$885
(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2013			
Interest Rate Risk	\$2,840	\$578	\$1,756
Equity Price Risk	2,434	64	1,056
Diversification Effect (1)			(944 )
Total Value-at-Risk	\$2,792	\$865	\$1,868

Equals the difference between total VaR and the sum of the VaRs for the two risk categories. This effect arises (1) because the two market risk categories are not perfectly correlated. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful.

Trading losses exceeded our one-day VaR on two occasions during the first nine months of 2014.

The aggregate VaR as of September 30, 2014 was lower than the reported VaR on December 31, 2013. The decrease in VaR is due to lower volatility during the measurement period and increased hedging of our fixed income inventories.

In addition to VaR, we also employ additional measures to monitor and manage market risk exposure including net market position, duration exposure, option sensitivities, and inventory turnover. All metrics are aggregated by asset concentration and are used for monitoring limits and exception approvals. In times of market volatility, we also perform ad hoc stress tests and scenario analysis as market conditions dictate. Unlike our VaR, which measures potential losses within a given confidence level, stress scenarios do not have an associated implied probability. Rather, stress testing is used to estimate the potential loss from market moves outside our VaR confidence levels.

### Liquidity Risk

We are exposed to liquidity risk in our day-to-day funding activities, by holding potentially illiquid inventory positions and in our role as a remarketing agent for variable rate demand notes.

See the section entitled "Liquidity, Funding and Capital Resources" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-Q for information regarding our liquidity and how we manage liquidity risk.

Our inventory positions, including those associated with strategic trading activities, subject us to potential financial losses from the reduction in value of illiquid positions. Market risk can be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Depending on the specific security, the structure of the financial product, and/or overall market conditions, we may be forced to hold a security for substantially longer than we had planned.



We currently act as the remarketing agent for approximately \$2.9 billion of variable rate demand notes, the majority of which have a financial institution providing a liquidity guarantee. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance, we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

Table of Contents

Credit Risk

Credit risk refers to the potential for loss due to the default or deterioration in credit quality of a counterparty, customer, borrower or issuer of securities we hold in our trading inventory. The nature and amount of credit risk depends on the type of transaction, the structure and duration of that transaction and the parties involved.

Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality (e.g., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative). Changes in credit spreads result from potential changes in an issuer's credit rating or the market's perception of the issuer's credit worthiness. We are exposed to credit spread risk with the debt instruments held in our trading inventory, including those held for strategic trading activities. We enter into transactions to hedge our exposure to credit spread risk through the use of derivatives and certain other financial instruments. These hedging strategies may not work in all market environments and as a result may not be effective in mitigating credit spread risk.

We are exposed to credit risk in our role as a trading counterparty to dealers and customers, as a holder of securities and as a member of exchanges and clearing organizations. The risk of default depends on the creditworthiness of the counterparty and/or issuer of the security. We mitigate this risk by establishing and monitoring individual and aggregate position limits for each counterparty relative to potential levels of activity, holding and marking to market collateral on certain transactions and conducting business through clearing organizations, which guarantee performance. Our risk management functions also evaluate the potential risk associated with institutional counterparties with whom we hold repurchase and resale agreement facilities, stock borrow or loan facilities, derivatives, TBAs and other documented institutional counterparty agreements that may give rise to credit exposure.

Our client activities involve the execution, settlement and financing of various transactions. Client activities are transacted on a delivery versus payment, cash or margin basis. Our credit exposure to institutional client business is mitigated by the use of industry-standard delivery versus payment through depositories and clearing banks. Credit exposure associated with our customer margin accounts in the U.S. is monitored daily. Our risk management functions have credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending.

We are subject to concentration risk if we hold large individual securities positions, execute large transactions with individual counterparties or groups of related counterparties, extend large loans to individual borrowers or make substantial underwriting commitments. Concentration risk can occur by industry, geographic area or type of client. Securities purchased under agreements to resell consist primarily of securities issued by the U.S. government or its agencies. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial institutions. Inventory and investment positions taken and commitments made, including underwritings, may result in exposure to individual issuers and businesses. Potential concentration risk is carefully monitored through review of counterparties and borrowers and is managed through the use of policies and limits established by senior management.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling \$25.2 million at September 30, 2014. This counterparty credit exposure is part of our matched-book derivative program related to our public finance business, consisting primarily of interest rate swaps. One derivative counterparty represents 52.9 percent, or \$13.3 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee. We attempt to minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.



## Table of Contents

### Operational Risk

Operational risk is the risk of loss, or damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events. We rely on the ability of our employees and our systems, both internal and at computer centers operated by third parties, to process a large number of transactions. Our systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. In the event of a breakdown or improper operation of our systems or improper action by our employees or third-party vendors, we could suffer financial loss, a disruption of our businesses, regulatory sanctions and damage to our reputation. We also face the risk of operational failure or termination of any of the exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk.

Our operations rely on secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks. Our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have an information security impact. The occurrence of one or more of these events could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We take protective measures and endeavor to modify them as circumstances warrant.

In order to mitigate and control operational risk, we have developed and continue to enhance policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. We also have business continuity plans in place that we believe will cover critical processes on a company-wide basis, and redundancies are built into our systems as we have deemed appropriate. These control mechanisms attempt to ensure that operations policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits.

### Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of non-compliance with applicable legal and regulatory requirements and loss to our reputation we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. We are generally subject to extensive regulation in the various jurisdictions in which we conduct our business. We have established procedures that are designed to ensure compliance with applicable statutory and regulatory requirements, such as regulatory net capital requirements, sales and trading practices, potential conflicts of interest, use and safekeeping of customer funds and securities, anti-money laundering, privacy and recordkeeping. We have also established procedures that are designed to require that our policies relating to ethics and business conduct are followed. The legal and regulatory focus on the financial services industry presents a continuing business challenge for us.

### Effects of Inflation

Because our assets are generally liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects our expenses, such as employee compensation, office space leasing costs and communications charges, which may not be readily recoverable in the price of services we offer to our clients. To the extent inflation results in rising interest rates and has other adverse effects upon the securities markets, it may adversely affect our financial position and results of operations.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information under the caption "Risk Management" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-Q is incorporated herein by reference.

71

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Table of Contents

## ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer to allow timely decisions regarding disclosure.

During the third quarter of our fiscal year ending December 31, 2014, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS.

The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## ITEM 1A. RISK FACTORS.

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2014.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1)
Month #1 (July 1, 2014 to July 31, 2014)	14,405	\$52.36	—	\$39 million
Month #2 (August 1, 2014 to August 31, 2014)	18,944	\$52.95	—	\$39 million
Month #3				

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(September 1, 2014 to September 30, 2014)	—	\$—	—	\$39	million
Total	33,349	\$52.70	—	\$39	million

On August 24, 2012, we announced that our board of directors had authorized the repurchase of up to \$100.0 (1) million of common stock through September 30, 2014. This share repurchase authorization became effective on October 1, 2012.

In addition, a third-party trustee makes open-market purchases of our common stock from time to time pursuant to the Piper Jaffray Companies Retirement Plan, under which participating employees may allocate assets to a company stock fund.

In the third quarter of 2014, our board of directors authorized the repurchase of up to \$100.0 million in common shares through September 30, 2016. This share repurchase authorization became effective on October 1, 2014.

Table of Contents

## ITEM 6. EXHIBITS.

Exhibit Number	Description	Method of Filing
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Section 1350 Certifications.	Filed herewith
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on November 6, 2014.

PIPER JAFFRAY COMPANIES

By                    /s/ Andrew S. Duff  
Its                    Chairman and Chief Executive Officer

By                    /s/ Debra L. Schoneman  
Its                    Chief Financial Officer



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Exhibit Index	Exhibit	Description	Method of Filing
31.1	31.2	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer. Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith Filed herewith
32.1		Section 1350 Certifications. Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013, (iii) the Consolidated Statements of	Filed herewith
101		Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

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