RESOLUTION NO. 21288

Background

It is necessary and desirable for The Illinois State Toll Highway Authority (the "*Tollway*") to retain certain financial firms to provide, on an as-needed basis, underwriting services in connection with the issuance of new bonds.

The Tollway issued the Request for Proposals #16-0155 for Bond Underwriting Services (the "*RFP*") to establish two pools of financial firms to be available to provide, on an as-needed basis, bond underwriting services for Tollway financings for an initial term of three years with renewal options of up to two years.

Proposals received pursuant to the RFP were: (a) reviewed by the Procurement Department for administrative compliance and vendor responsibility; and (b) evaluated by an evaluation committee for Responsiveness (as defined in the RFP). As a result of the review and evaluation of the proposals, certain financial firms were determined to be qualified to provide the aforementioned bond underwriting services, after which pricing was negotiated with such firms. As a result of the review and evaluation of the proposals and subsequent price negotiation, it is deemed in the best interest of the Tollway to select the following financial firms to serve, on an as-needed basis, as Senior Managing Underwriter or Co-Senior Managing Underwriter for a Tollway bond issuance:

Citigroup Global Markets Inc.;
Goldman, Sachs & Co.;
Jefferies, LLC;
J.P. Morgan Securities LLC;
Loop Capital Markets LLC;
Merrill Lynch Pierce Fenner & Smith Incorporated;
Morgan Stanley & Co. LLC;
Piper Jaffray & Co.;
PNC Capital Markets LLC;
RBC Capital Markets, LLC;

RESOLUTION NO. 21288

Background-Continued

Samuel A. Ramirez & Co., Inc.;
Siebert Cisneros Shank & Co. LLC;
Wells Fargo Bank, N.A.; and
William Blair & Company. L.L.C. (collectively the "*Senior Pool*");

and to select the following financial firms to serve, on an as-needed basis, as Co-Managing Underwriter for a Tollway bond issuance:

Academy Securities, Inc.;
Bernardi Securities Inc.;
Blaylock Van, LLC;
Cabrera Capital Markets, LLC;
George K. Baum & Company;
Hutchinson Shockey Erley & Co.;
Janney Montgomery Scott LLC;
KeyBanc Capital Markets Inc.;
Mesirow Financial, Inc.;
Oppenheimer & Co. Inc.;
Raymond James & Associates, Inc.;
Rice Securities, LLC;
Robert W. Baird & Co. Incorporated; and
Stifel Nicolaus & Company, Inc. (collectively the "*Co-Manager Pool*")

Resolution

The selection of the aforementioned firms to provide, on an as-needed basis, the described bond underwriting services for an initial term of three years is approved. The Chief Financial Officer is authorized to negotiate the terms and conditions of agreements with each of the firms in the Senior Pool, subject to review and approval of the Acting General Counsel and pricing not to exceed \$2.00 per \$1,000 bond par amount for the takedown portion of the underwriting discount. The Chairman or the Executive Director is authorized to execute any and all documents necessary to effectuate said agreements and the

RESOLUTION NO. 21288

Resolution-Continued

Chief Financial Officer is authorized to issue warrants in payment thereof. As needed for each bond issuance, the Chairman or the Executive Director is authorized to assign a bond underwriting group consisting of firms from the Senior Pool and Co-Manager Pool, each assignment to be made consistent with the considerations for making such assignments contained in the RFP. Firms in the Senior Pool are deemed eligible to serve as bond remarketing agent.

[redacted]

Approved by: ______________________

Chairman

[redacted]

STATE OF ILLINOIS
CONTRACT

Illinois Tollway

Bond Underwriting Services

16-0155H

The Parties to this contract are the State of Illinois acting through the undersigned Agency (collectively the State) and the Vendor. This contract, consisting of the signature page and numbered sections listed below and any attachments referenced in this contract, constitute the entire contract between the Parties concerning the subject matter of the contract, and in signing the contract, the Contractor affirms that the Certifications and if applicable the Financial Disclosures and Conflicts of Interest attached hereto are true and accurate as of the date of the Contractor's execution of the contract. This contract supersedes any prior contracts between the Parties concerning the subject matter of this contract. This contract can be signed in multiple counterparts upon agreement of the Parties.

1. **DESCRIPTION OF SUPPLIES AND SERVICES**
2. **PRICING**
3. **TERM AND TERMINATION**
4. **STANDARD BUSINESS TERMS AND CONDITIONS**
5. **SUPPLEMENTAL PROVISIONS**
6. **FORMS A or FORMS B**
7. **TAXPAYER IDENTIFICATION NUMBER PAGE**
8. **VENDORS RESPONSE TO RFP #16-0155 AND RFP #16-0155**

NOTE: This contract establishes the terms and conditions under which the Vendor is available to be assigned by The Illinois State Toll Highway Authority (the "Tollway"), on an as-needed basis as determined by the Tollway, to underwrite Tollway bonds or other debt. Any such underwriting shall be pursuant to a bond purchase agreement or other appropriate form of agreement entered into by the Vendor and the Tollway at the time the Vendor underwrites the Tollway bonds or other debt. Such bond purchase agreement or other appropriate form of agreement shall be the exclusive agreement governing any such underwriting with respect to each party's performance, duties, rights, responsibilities, obligations and liabilities.

In consideration of the mutual covenants and agreements contained in this contract, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree to the terms and conditions set forth herein and have caused this contract to be executed by their duly authorized representatives on the dates shown on the following CONTRACT SIGNATURES page.

VENDOR

Vendor Name: [redacted]	Address: 444 W. Lake Street, Suite 3300, Chicago, IL 60606
Signature: [redacted]	Date: 9/5/2017
Printed Name: Neil Pritz [redacted]	Email: neil.a.pritz@pjc.com
Title: Managing Director	Phone: 312-267-5193
	Fax:

STATE OF ILLINOIS

Procuring Agency: Illinois Tollway	Phone: 630/241-6800
Street Address: 2700 Ogden Avenue	Fax: : 630/795-7908
City, State ZIP: Downers Grove, IL 60515	
Official Signature: [redacted]	Date: 12/1/17
Printed Name: Greg Bedalov	
Official's Title: Executive Director	
Approved as to Form and Constitutionality Legal Signature: [redacted]	Date: 11/29/17
Legal Printed Name: ~~Robert Lane~~ Tiffany Schafer	
Legal's Title: Senior Assistant Attorney General	
Finance Signature:	Date:
Procurement Signature: [redacted]	Date: 12/1/17
Procurement Printed Name: John Donato	
Procurement's Title: Chief of Procurement	

AGENCY/UNIVERSITY USE ONLY **NOT PART OF CONTRACTUAL PROVISIONS**

Agency Reference # 17-101081 Project Title: Bond Underwriting Services

Contract #16-0155H Procurement Method (IFB, RFP, Small, etc.): RFP

IPB Ref. # 22039948 IPB Publication Date: Award Code: B

Subcontractor Utilization? ☐ Yes ☐ No Subcontractor Disclosure? ☐ Yes ☐ No

Funding Source Obligation #

Small Business Set-Aside? ☐ Yes ☐ No

Minority Owned Business? ☐ Yes ☐ No Percentage

Female-Owned Business? ☐ Yes ☐ No Percentage

Persons With Disabilities Owned Business? ☐ Yes ☐ No Percentage

Other Preferences?

-BALANCE OF PAGE LEFT INTENTIONALLY BLANK

1. DESCRIPTION OF SUPPLIES AND SERVICES

1.1. **SUPPLIES AND/OR SERVICES REQUIRED:** The Vendor agrees to be one of a pool of multiple firms (the "Senior Pool") available to provide services, on an as-needed basis as determined by the Tollway, as Senior Managing Underwriter or Co-Senior Managing Underwriter in connection with Tollway bond issues and for the compensation specified in Section 2. A Senior Managing Underwriter of a bond issue must be able to perform the following duties: book runner; leader of the underwriting syndicate; pricing coordinator; lead marketer of the bond issue; structuring the financing (in consultation with any applicable Tollway financial / municipal advisor(s), and Tollway management / staff); review all documentation related to the bond issuance; compliance with disclosure and other requirements of this contract and any Bond Purchase Agreement; investor liaison; preparation of rating materials and presentations; and all other services conventional for a senior managing underwriter. A Co-Senior Managing Underwriter must be able to be a co-leader of the underwriting syndicate; assist, as may be requested by the Tollway, with the structuring of the financing and review of documentation; assist the Senior Managing Underwriter(s) with the marketing of the issue; and provide any other services conventional for a Co-Senior Managing Underwriter. The Co-Senior Managing Underwriter is expected to be integral to the transaction and participate in any aspects of the financing as determined to be necessary by the Tollway. In addition to duties specific to bond issuances to which firms are assigned, firms in the Senior Pool are expected to keep the Tollway informed of fixed income market conditions, especially with respect to the municipal bond market, and other matters pertinent to public finance, and to meet with the Tollway upon request, and at least once annually, to provide detailed consideration of and recommendations regarding items the Vendor considers pertinent to the Tollway. Firms in the Senior Pool are eligible to provide remarketing services for Tollway variable rate bond issues.

1.2. **MILESTONES AND DELIVERABLES:** The timing of assignment(s), if any, of the Vendor to provide bond underwriting services and the amount of bonds, if any, for which such services are to be provided will depend on a variety of factors, including but not limited to: the extent, if any, to which the Tollway assigns the Vendor to provide such services; whether the Vendor completes any such assignment(s); the size(s) of the bond transaction(s), if any, to which the Vendor is assigned; the rate of progress of the Tollway's *Move Illinois Capital Program*; factors which may impact likelihood of refunding (e.g. fixed income market conditions, regulatory changes, changes among swap counterparties and/or credit enhancement providers, etc.); and other factors. The current, estimated projection of Tollway new money bond par amount issued during 2017 – 2022 is as follows: \$300,000,000 IN 2017; \$300,000,000 IN 2018; \$400,000,000 IN 2019; \$400,000,000 IN 2020; \$200,000,000 IN 2021; AND \$400,000,000 IN 2022. **This projection is subject to change.** The number and amounts of any refinancings will depend on market conditions and other factors. Two series of bonds will become callable at par during 2017-2022: (i) all \$279.3M of Series 2010A-1; and (ii) a \$100M portion of Series 2009A. Significant amounts of other bonds, including synthetic fixed rate bonds, may be refunded during 2017-2022, depending on market conditions and other factors.

1.3. **VENDOR / STAFF SPECIFICATIONS:** The Vendor must be registered, and remain registered and in good standing, as a broker dealer with the Municipal Securities Rulemaking Board. The Offeror and assigned personnel must remain current with any ongoing requirements for such registration to be maintained.

1.4. TRANSPORTATION AND DELIVERY: n.a.

1.5. SUBCONTRACTING:

Subcontractors are not allowed.

For purposes of this section, subcontractors are those specifically hired by the Vendor to perform all or part of the work covered by the contract. If subcontractors will be utilized, Vendor must identify below the names and addresses of all subcontractors it will be entering into a contractual agreement that has an annual value of $50,000 or more in the performance of this Contract, together with a description of the work to be performed by the subcontractor and the anticipated amount of money to the extent the information is known that each subcontractor is expected to receive pursuant to the Contract. Attach additional sheets as necessary.

1.5.1. Will subcontractors be utilized? ☐ Yes ☒ No

- Subcontractor Name: Click here to enter text

  Amount to be paid: Click here to enter text

  Address: Click here to enter text

  Description of work: Click here to enter text

- Subcontractor Name: Click here to enter text

  Amount to be paid: Click here to enter text

  Address: Click here to enter text

  Description of work: Click here to enter text

1.5.2. All contracts with the subcontractors identified above must include the Standard Certifications completed and signed by the subcontractor.

1.5.3. If the annual value of any the subcontracts is more than $50,000, then the Vendor must provide to the State the Financial Disclosures and Conflicts of Interest for that subcontractor.

1.5.4. If the subcontractor is registered in the Illinois Procurement Gateway (IPG) and the Vendor is using the subcontractor's Standard Certifications or Financial Disclosures and Conflicts of Interest from the IPG, then the Vendor must also provide a completed Forms B for the subcontractor.

1.5.5. If at any time during the term of the Contract, Vendor adds or changes any subcontractors, Vendor will be required to promptly notify, in writing, the State Purchasing Officer or the Chief Procurement Officer of the names and addresses and the expected amount of money that each new or replaced subcontractor will receive pursuant to the Contract. Any subcontracts entered into prior to award of the Contract are done at the Vendor's and subcontractor's risk.

1.6. **WHERE SERVICES ARE TO BE PERFORMED:** Unless otherwise disclosed in this section all services shall be performed in the United States. If the Vendor performs the services purchased hereunder in another country in violation of this provision, such action may be deemed by the State as a breach of the contract by Vendor.

Vendor shall disclose the locations where the services required shall be performed and the known or anticipated value of the services to be performed at each location. If the Vendor received additional consideration in the evaluation based on work being performed in the United States, it shall be a breach of contract if the Vendor shifts any such work outside the United States.

Vendor may limit this information to the public finance office(s) and underwriting desk(s) from which it expects to provide services, and need not consider sales professionals.

- Location where services will be performed: Click here to enter text

  Value of services performed at this location: Click here to enter text

- Location where services will be performed: Click here to enter text

  Value of services performed at this location: Click here to enter text

2. PRICING

2.1 TYPE OF PRICING: The Illinois Office of the Comptroller requires the State to indicate whether the contract value is firm or estimated at the time it is submitted for obligation. The maximum rate of this contract for its initial three year term is firm at $2.00 per $1,000.00 par amount of bonds underwritten. This maximum rate is approved by the Tollway's Board of Directors. The total dollar value of this contract for its initial three year term is estimated at $200,000, and may be modified pursuant to Tollway Board approval as provided by written resolution or otherwise in accordance with authority delegated by the Board.

2.2 EXPENSES ALLOWED: The underwriting discount may include, subject to Tollway approval, expenses customary, reasonable and necessary for the issuance of revenue bonds by a governmental agency.

2.3 DISCOUNT: Not applicable. The State may receive a __% discount for payment within __ days of receipt of correct invoice.

2.4 VENDOR'S PRICING: Attach additional pages if necessary.

2.4.1 Vendor's Price for the Initial Term:

Underwriting Takedowns *(expressed as $ per $1,000 par amount of bonds)*	
Bond Maturity*	**Underwriting Takedown**
Weekly Mode Variable Rate	**$0.75**
1 Yr Fixed Rate	**$1.25**
2 Yrs Fixed Rate	**$1.25**
3 Yrs Fixed Rate	**$1.25**
4 Yrs Fixed Rate	**$1.50**
5 Yrs Fixed Rate	**$1.75**
6 Yrs Fixed Rate	**$2.00**
7 Yrs Fixed Rate	**$2.00**
8 Yrs Fixed Rate	**$2.00**
9 Yrs Fixed Rate	**$2.00**
10+ Yrs Fixed Rate	**$2.00**

** Maturities to be rounded to nearest year for purposes of determining applicable takedown. For variable rate bonds with modes one year or greater, the mode will be deemed a "maturity" for purposes of determining applicable takedown per the above chart.*

The above takedown compensations will apply whether the bonds are tax-exempt or taxable, and whether the bonds are senior lien or junior lien. Any underwriter discount will consist of the applicable takedown per the above and customary underwriting expenses. No management fee will be included. Compensation and expense reimbursement for underwriting an assigned transaction will be included in the applicable bond purchase agreement or other appropriate form of agreement and will be fully contingent on the closing of such transaction.

2.4.2 Renewal Compensation: If the contract is renewed, the price shall be at the same maximum rate as for the initial term unless a different compensation or formula for determining the renewal compensation is stated in this section.

2.5 MAXIMUM AMOUNT: Vendor's compensation under this Contract shall not exceed $240,000.00 during the initial term without a formal amendment.

3. TERM AND TERMINATION

BRL 10/26/17

3.1 TERM OF THIS CONTRACT: This contract has an initial term of December 1, 2017 to October 14, 2020. If a start date is not identified, the term shall commence upon the last dated signature of the Parties.

3.1.1 In no event will the total term of the contract, including the initial term, any renewal terms and any extensions, exceed 10 years.

3.1.2 Vendor shall not commence billable work in furtherance of the contract prior to final execution of the contract except when permitted pursuant to 30 ILCS 500/20-80.

3.2 RENEWAL:

3.2.1. Any renewal is subject to the same terms and conditions as the original contract unless otherwise provided in the pricing section. The State may renew this contract for any or all of the option periods specified, may exercise any of the renewal options early, and may exercise more than one option at a time based on continuing need and favorable market conditions, when in the best interest of the State. The contract may neither renew automatically nor renew solely at the Vendor's option.

3.2.2. Pricing for the renewal term(s), or the formula for determining price, is shown in the pricing section of this contract.

3.2.3. The State reserves the right to renew for a total of up to two years in any one of the following manners:

3.2.3.1 One renewal covering the entire renewal allowance;

3.2.3.2 Individual one-year renewals up to and including the entire renewal allowance; or

3.2.3.3 Any combination of full or partial year renewals up to and including the entire renewal allowance.

3.3 TERMINATION FOR CAUSE: The State may terminate this contract, in whole or in part, immediately upon notice to the Vendor if: (a) the State determines that the actions or inactions of the Vendor, its agents, employees or subcontractors have caused, or reasonably could cause, jeopardy to health, safety, or property, or (b) the Vendor has notified the State that it is unable or unwilling to perform the contract.

If Vendor fails to perform to the State's satisfaction any material requirement of this contract, is in violation of a material provision of this contract, or the State determines that the Vendor lacks the financial resources to perform the contract, the State shall either: (i) terminate the contract effective immediately; or (ii) provide written notice to the Vendor to cure the problem identified within the period of time specified in such written notice and, if not cured by that date, the State may either: (a) immediately terminate the contract without additional written notice or (b) enforce the terms and conditions of the contract.

immediately terminate the contract without additional written notice or (b) enforce the terms and conditions of the contract.

A termination of this contract will terminate the Vendor's ability to underwrite Tollway bonds or other debt from the date of such termination through the remaining term of the Senior Pool established by procurement process RFP#16-0155. A termination of this contract will not impact the Vendor's responsibilities in connection with any Tollway bond issuance or other transaction underwritten by the Vendor prior to any such termination of this contract.

For termination due to any of the causes contained in this Section, the State retains its rights to seek any available legal or equitable remedies and damages.

3.4 **TERMINATION FOR CONVENIENCE:** The State may, for its convenience and with 30 days prior written notice to Vendor, terminate this contract in whole or in part and without payment of any penalty or incurring any further obligation to the Vendor.

A termination of this contract will terminate the Vendor's ability to underwrite Tollway bonds or other debt from the date of such termination through the remaining term of the Senior Pool established by procurement process RFP#16-0155. A termination of this contract will not impact the Vendor's responsibilities in connection with any Tollway bond issuance or other transaction underwritten by the Vendor prior to any such termination of this contract.

3.5 **AVAILABILITY OF APPROPRIATION:** This contract is contingent upon and subject to the availability of funds. The State, at its sole option, may terminate or suspend this contract, in whole or in part, without penalty or further payment being required, if (1) the Illinois General Assembly or the federal funding source fails to make an appropriation sufficient to pay such obligation, or if funds needed are insufficient for any reason (30 ILCS 500/20-60), (2) the Governor decreases the Department's funding by reserving some or all of the Department's appropriation(s) pursuant to power delegated to the Governor by the Illinois General Assembly, or (3) the Department determines, in its sole discretion or as directed by the Office of the Governor, that a reduction is necessary or advisable based upon actual or projected budgetary considerations. Contractor will be notified in writing of the failure of appropriation or of a reduction or decrease.

4. STANDARD BUSINESS TERMS AND CONDITIONS

4.1 PAYMENT TERMS AND CONDITIONS:

4.1.1 Late Payment: Payments, including late payment charges, will be paid in accordance with the State Prompt Payment Act and rules when applicable. 30 ILCS 540; 74 Ill. Adm. Code 900. This shall be Vendor's sole remedy for late payments by the State. Payment terms contained on Vendor's invoices shall have no force and effect.

4.1.2 Minority Contractor Initiative: Any Vendor awarded a contract under Section 20-10, 20-15, 20-25 or 20-30 of the Illinois Procurement Code (30 ILCS 500) of $1,000 or more is required to pay a fee of $15. The Comptroller shall deduct the fee from the first check issued to the Vendor under the contract and deposit the fee in the Comptroller's Administrative Fund. 15 ILCS 405/23.9.

4.1.3 Expenses: The State will not pay for supplies provided or services rendered, including related expenses, incurred prior to the execution of this contract by the Parties even if the effective date of the contract is prior to execution.

4.1.4 Prevailing Wage: As a condition of receiving payment Vendor must (i) be in compliance with the contract, (ii) pay its employees prevailing wages when required by law, (iii) pay its suppliers and subcontractors according to the terms of their respective contracts, and (iv) provide lien waivers to the State upon request. Examples of prevailing wage categories include public works, printing, janitorial, window washing, building and grounds services, site technician services, natural resource services, security guard and food services. The prevailing wages are revised by the Department of Labor and are available on the Department's official website, which shall be deemed proper notification of any rate changes under this subsection. Vendor is responsible for contacting the Illinois Department of Labor to ensure understanding of prevailing wage requirements at 217-782-6206 or (http://www.state.il.us/agency/idol/index.htm).

4.1.5 Federal Funding: This contract may be partially or totally funded with Federal funds. If federal funds are expected to be used, then the percentage of the good/service paid using Federal funds and the total Federal funds expected to be used will be provided in the award notice.

4.1.6 Invoicing: By submitting an invoice, Vendor certifies that the supplies or services provided meet all requirements of the contract, and the amount billed and expenses incurred are as allowed in the contract. Invoices for supplies purchased, services performed and expenses incurred through June 30 of any year must be submitted to the State no later than July 31 of that year; otherwise Vendor may have to seek payment through the Illinois Court of Claims. 30 ILCS 105/25. All invoices are subject to statutory offset. 30 ILCS 210.

4.1.6.1 Vendor shall not bill for any taxes unless accompanied by proof that the State is subject to the tax. If necessary, Vendor may request the applicable Agency/University state tax exemption number and federal tax exemption information.

4.1.6.2 Vendor shall invoice at the completion of the contract unless invoicing is tied in the contract to milestones, deliverables, or other invoicing requirements agreed to in the contract.

Send invoices to:

Agency:	Illinois Tollway
Attn:	Finance Department
Address:	2700 Ogden Ave
City, State Zip	Downers Grove, Illinois 60515

4.2 **ASSIGNMENT**: This contract may not be assigned, transferred in whole or in part by Vendor without the prior written consent of the State.

4.3 **SUBCONTRACTING:** For purposes of this section, subcontractors are those specifically hired by the Vendor to perform all or part of the work covered by the contract. Vendor must receive prior written approval before use of any subcontractors in the performance of this contract. Vendor shall describe, in an attachment if not already provided, the names and addresses of all authorized subcontractors to be utilized by Vendor in the performance of this contract, together with a description of the work to be performed by the subcontractor and the anticipated amount of money that each subcontractor is expected to receive pursuant to this contract. If required, Vendor shall provide a copy of any subcontracts within 15 days after execution of this contract. All subcontracts must include the same certifications that Vendor must make as a condition of this contract. Vendor shall include in each subcontract the subcontractor certifications as shown on the Standard Subcontractor Certification form available from the State. If at any time during the term of the Contract, Vendor adds or changes any subcontractors, then Vendor must promptly notify, by written amendment to the Contract, the State Purchasing Officer or the Chief Procurement Officer of the names and addresses and the expected amount of money that each new or replaced subcontractor will receive pursuant to the Contract.

4.4 **AUDIT/RETENTION OF RECORDS:** Vendor and its subcontractors shall maintain books and records relating to the performance of the contract or subcontract and necessary to support amounts charged to the State pursuant the contract or subcontract. Books and records, including information stored in databases or other computer systems, shall be maintained by the Vendor for a period of three years, or longer if necessary to comply with regulatory requirements, from the later of the date of final payment under the contract or completion of the contract, and by the subcontractor for a period of three years, or longer if necessary to comply with regulatory requirements, from the later of final payment under the term or completion of the subcontract. If federal funds are used to pay contract costs, the Vendor and its subcontractors must retain its records for five years, or longer if necessary to comply with regulatory requirements. Books and records required to be maintained under this section shall be available for review or audit by representatives of: the procuring Agency/University, the Auditor General, the Executive Inspector General, the Chief Procurement Officer, State of Illinois internal auditors or other governmental entities with monitoring authority, upon reasonable notice and during normal business hours. Vendor and its subcontractors shall cooperate fully with any such audit and with any investigation conducted by any of these entities. Failure to maintain books and records as required by this section shall establish a presumption in favor of the State for the recovery of any funds paid by the State under the contract for which adequate books and records are not available to support the purported disbursement. The Vendor or subcontractors shall not impose a charge for audit or examination of the Vendor's books and records. 30 ILCS 500/20-65.

4.5 **TIME IS OF THE ESSENCE:** Time is of the essence with respect to Vendor's performance of this contract. Vendor shall continue to perform its obligations while any dispute concerning the contract is being resolved unless otherwise directed by the State.

4.6 **NO WAIVER OF RIGHTS:** Except as specifically waived in writing, failure by a Party to exercise or enforce a right does not waive that Party's right to exercise or enforce that or other rights in the future.

4.7 **FORCE MAJEURE:** Failure by either Party to perform its duties and obligations will be excused by unforeseeable circumstances beyond its reasonable control and not due to its negligence, including acts of nature, acts of terrorism, riots, labor disputes, fire, flood, explosion, and governmental prohibition. The non-declaring Party may cancel the contract without penalty if performance does not resume within 30 days of the declaration.

4.8 **CONFIDENTIAL INFORMATION:** Each Party, including its agents and subcontractors, to this contract may have or gain access to confidential data or information owned or maintained by the other Party in the course of carrying out its responsibilities under this contract. Vendor shall presume all information received from the State or to which it gains access pursuant to this contract is confidential. Vendor information, unless clearly marked as confidential and exempt from disclosure under the Illinois Freedom of Information Act, shall be considered public. No confidential data collected, maintained, or used in the course of performance of the contract shall be disseminated except as authorized by law and with the written consent of the disclosing Party, either during the period of the contract or thereafter. The receiving Party must return any and all data collected, maintained, created or used in the course of the performance of the contract, in whatever form it is maintained, promptly at the end of the contract, or earlier at the request of the disclosing Party. The foregoing obligations shall not apply to confidential data or information lawfully in the receiving Party's possession prior to its acquisition from the disclosing Party; received in good faith from a third Party not subject to any confidentiality obligation to the disclosing Party; now is or later becomes publicly known through no breach of confidentiality obligation by the receiving Party; is independently developed by the receiving Party without the use or benefit of the disclosing Party's confidential information. In connection with any offering of securities by the Tollway in which Vendor is involved as an underwriter, agent, dealer or similar participant, nothing in this contract shall: (i) prevent Vendor from complying with all applicable disclosure laws, regulations and principles in connection with such offering; (ii) restrict the ability of Vendor to consider information for due diligence purposes or share information with other underwriters, agents or dealers participating in such offering; (iii) prevent Vendor from retaining documents or other information in connection with due diligence; (iv) prevent Vendor from using any such documents or other information in investigating or defending itself against claims made or threatened by purchasers, regulatory authorities or others in connection with such offering. Any provision of this section that conflicts with the Vendor's disclosure obligations under state or federal securities laws or rules is excepted from this section.

4.9 **USE AND OWNERSHIP:** All work performed or supplies created by Vendor under this contract, whether written documents or data, goods or deliverables of any kind, shall be deemed work for hire under copyright law and all intellectual property and other laws, and the State of Illinois is granted sole and exclusive ownership to all such work, unless otherwise agreed in writing. Vendor hereby assigns to the State all right, title, and interest in and to such work including any related intellectual property rights, and/or waives any and all claims that Vendor may have to such work including any so-called "moral rights" in connection with the work. Vendor acknowledges the State may use the work product for any purpose. Confidential data or information contained in such work shall be subject to confidentiality provisions of this contract.

4.10 **INDEMNIFICATION:** The Vendor shall indemnify and hold harmless the State of Illinois, The Illinois State Tollway Highway Authority, its officers, employees, and agents from any and all costs, demands, expenses, losses, claims, damages, liabilities, settlements, and judgments, including in-house and contracted attorneys' fees and expenses, arising out of: (a) any breach or violation by Vendor of any of its certifications, representations, warranties, covenants or agreements; (b) any actual or alleged death or injury to any person, damage to any real or personal property, or any other damage or loss claimed to result in whole or in part from Vendor's negligent performance; (c) any act, activity or omission of Vendor or any of its employees, representatives, subcontractors or agents; or (d) any actual or alleged claim that the services or goods provided under this contract infringe, misappropriate, or otherwise violate any intellectual property (patent, copyright, trade secret, or trademark) rights of a third party.

4.11 **INSURANCE:** The Vendor shall procure and maintain for the duration of the contract, insurance against claims for injuries to persons or damage to property which may arise from or in connection with the performance of the work by the Vendor, his/her agents, representatives, employees or subcontractors. Work shall not commence until insurance required by this section has been obtained and documentation submitted to the Tollway for acceptance. All coverages must be with Insurance Companies with an A.M. Best Company financial strength rating of "A minus" or better. Insurance coverage shall not limit Vendor's obligation to indemnify, defend or settle any claims.

A. <u>Minimum Scope of Insurance</u> Coverage shall be at least as broad as:
   1. Commercial General Liability coverage on an unmodified, Insurance Service Office "Occurrence" form, current edition or an alternative form providing equivalent protection.
   2. Automobile Liability on an unmodified, Insurance Service Office form, current edition or an alternative form providing equivalent protection.
   3. Worker's Compensation insurance as required by the State of Illinois and including Employers Liability.

B. <u>Minimum Limits of Insurance</u> Contractor or vendor shall maintain no less than:
   1. Commercial General Liability: $1,000,000 each occurrence for bodily injury, personal injury, and property damage and $2,000,000 general aggregate and $2,000,000 products/completed operations aggregate.
   2. Automobile Liability: $1,000,000 combined single limit per accident for bodily injury and property damage.
   3. Worker's Compensation and Employers Liability: Statutory Limits with Employers Liability limit of not less than $500,000 per occurrence.

In addition to the above, the Vendor shall maintain, for the duration of the contract, professional liability insurance in a minimum amount of the greater of $1,000,000 and any higher amount required by law or regulatory authority. Work shall not commence until documentation acceptable to the Tollway evidencing such professtional liability insurance has been provided.

The Illinois State Toll Highway Authority including all appointed officials and employees, shall be named "Additional Insured" as part of the commercial general liability and automobile liability coverage. This coverage shall be primary for the Additional Insured and not contributing with any other insurance or similar protection available to the Additional Insured, whether said other coverage be primary, contributing or excess.

All deductibles or self-insured retentions must be declared and recognized by the Authority. Proof of insurance shall include originals of the applicable "additional insured" endorsements for approval of the Authority. Any failure by the Authority to request proof of insurance will not waive the requirement of maintenance of minimum protection specified.

4.12 **INDEPENDENT CONTRACTOR:** Vendor shall act as an independent contractor and not an agent or employee of, or joint venture with the State. All payments by the State shall be made on that basis.

4.13 **SOLICITATION AND EMPLOYMENT:** Vendor shall not employ any person employed by the State during the term of this contract to perform any work under this contract. Vendor shall give notice immediately to the Agency's director if Vendor solicits or intends to solicit State employees to perform any work under this contract.

4.14 **COMPLIANCE WITH THE LAW:** The Vendor, its employees, agents, and subcontractors shall comply with all applicable federal, state, and local laws, rules, ordinances, regulations, orders, federal circulars and all license and permit requirements in the performance of this contract. Vendor shall be in compliance with applicable tax requirements and shall be current in payment of such taxes. Vendor shall obtain at its own expense, all licenses and permissions necessary for the performance of this contract.

4.15 **BACKGROUND CHECK:** Whenever the State deems it reasonably necessary for security reasons, the State may conduct, at its expense, criminal and driver history background checks of Vendor's and subcontractors officers, employees or agents. Vendor or subcontractor shall reassign immediately any such individual who, in the opinion of the State, does not pass the background check.

4.16 **APPLICABLE LAW:** This contract shall be construed in accordance with and is subject to the laws and rules of the State of Illinois. The Department of Human Rights' Equal Opportunity requirements (44 Ill. Adm. Code 750) are incorporated by reference. Any claim against the State arising out of this contract must be filed exclusively with the Illinois Court of Claims. 705 ILCS 505/1. The State shall not enter into binding arbitration to resolve any contract dispute. The State of Illinois does not waive sovereign immunity by entering into this contract. The official text of cited statutes is incorporated by reference. An unofficial version can be viewed at (www.ilga.gov/legislation/ilcs/ilcs.asp).

4.17 **ANTI-TRUST ASSIGNMENT:** If Vendor does not pursue any claim or cause of action it has arising under federal or state antitrust laws relating to the subject matter of the contract, then upon request of the Illinois Attorney General, Vendor shall assign to the State rights, title and interest in and to the claim or cause of action.

4.18 **CONTRACTUAL AUTHORITY:** The Agency that signs for the State of Illinois shall be the only State entity responsible for performance and payment under the contract. When the Chief Procurement Officer or authorized designee signs in addition to an Agency, they do so as approving officer and shall have no liability to Vendor. When the Chief Procurement Officer or authorized designee, or State Purchasing Officer signs a master contract on behalf of State agencies, only the Agency that places an order with the Vendor shall have any liability to Vendor for that order.

4.19 **NOTICES:** Notices and other communications provided for herein shall be given in writing by registered or certified mail, return receipt requested, by receipted hand delivery, by courier (UPS, Federal Express or other similar and reliable carrier), by e-mail, or by fax showing the date and time of successful receipt. Notices shall be sent to the individuals who signed the contract using the contact information following the signatures. Each such notice shall be deemed to have been provided at the time it is actually received. By giving notice, either Party may change the contact information.

4.20 **MODIFICATIONS AND SURVIVAL:** Amendments, modifications and waivers must be in writing and signed by authorized representatives of the Parties. Any provision of this contract officially declared void, unenforceable, or against public policy, shall be ignored and the remaining provisions shall be interpreted, as far as possible, to give effect to the Parties' intent. All provisions that by their nature would be expected to survive, shall survive termination. In the event of a conflict between the State's and the Vendor's terms, conditions and attachments, the State's terms, conditions and attachments shall prevail.

4.21 **PERFORMANCE RECORD / SUSPENSION:** Upon request of the State, Vendor shall meet to discuss performance or provide contract performance updates to help ensure proper performance of the contract. The State may consider Vendor's performance under this contract and compliance with law and rule to determine whether to continue the contract, suspend Vendor from doing future business with the State for a specified period of time, or to determine whether Vendor can be considered responsible on specific future contract opportunities.

4.22 **FREEDOM OF INFORMATION ACT:** This contract and all related public records maintained by, provided to or required to be provided to the State are subject to the Illinois Freedom of Information Act (FOIA) (50 ILCS 140) notwithstanding any provision to the contrary that may be found in this contract.

4.23 **SCHEDULE OF WORK:** Any work performed on State premises shall be done during the hours designated by the State and performed in a manner that does not interfere with the State and its personnel.

4.24 **WARRANTIES FOR SUPPLIES AND SERVICES:**

4.24.1. Vendor warrants that the supplies furnished under this contract will: (a) conform to the standards, specifications, drawing, samples or descriptions furnished by the State or furnished by the Vendor and agreed to by the State, including but not limited to all specifications attached as exhibits hereto; (b) be merchantable, of good quality and workmanship, and free from defects for a period of twelve months or longer if so specified in writing, and fit and sufficient for the intended use; (c) comply with all federal and state laws, regulations and ordinances pertaining to the manufacturing, packing, labeling, sale and delivery of the supplies; (d) be of good title and be free and clear of all liens and encumbrances and; (e) not infringe any patent, copyright or other intellectual property rights of any third party. Vendor agrees to reimburse the State for any losses, costs, damages or expenses, including without limitations, reasonable attorney's fees and expenses, arising from failure of the supplies to meet such warranties.

4.24.2. Vendor shall insure that all manufacturers' warranties are transferred to the State and shall provide a copy of the warranty. These warranties shall be in addition to all other warranties, express, implied or statutory, and shall survive the State's payment, acceptance, inspection or failure to inspect the supplies.

4.24.3. Vendor warrants that all services will be performed to meet the requirements of the contract in an efficient and effective manner by trained and competent personnel. Vendor shall monitor performances of each individual and shall reassign immediately any individual who is not performing in accordance with the contract, who is disruptive or not respectful of others in the workplace, or who in any way violates the contract or State policies.

4.25 REPORTING, STATUS AND MONITORING SPECIFICATIONS: Vendor shall immediately notify the State of any event that may have a material impact on Vendor's ability to perform the contract.

4.26 EMPLOYMENT TAX CREDIT: Vendors who hire qualified veterans and certain ex-offenders may be eligible for tax credits. 35 ILCS 5/216, 5/217. Please contact the Illinois Department of Revenue (telephone #: 217-524-4772) for information about tax credits.

5. SUPPLEMENTAL PROVISIONS

5.1. STATE SUPPLEMENTAL PROVISIONS

☐ Illinois Tollway Definitions

Click here to enter text.

☐ Required Federal Clauses, Certifications and Assurances

Click here to enter text.

☐ Public Works Requirements (construction and maintenance of a public work) 820 ILCS 130/4.

Click here to enter text.

☐ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, and security services, if valued at more than $200 per month or $2,000 per year or printing) 30 ILCS 500/25-60.

Click here to enter text.

☐ Illinois Tollway Specific Terms and Conditions

Click here to enter text.

☐ Other (describe)

Click here to enter text.

5.2. TOLLWAY SUPPLEMENTAL PROVISIONS:

☐ Definitions

☐ Required Federal Clauses, Certifications and Assurances

☐ ARRA Requirements (American Recovery and Reinvestment Act of 2009)

☐ Public Works Requirements (construction and maintenance of a public work) (820 ILCS 130/4)

☐ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, and security services, if valued at more than $200 per month or $2000 per year (30 ILCS 500/25-60)

☐ Prevailing Wage (all printing contracts) (30 ILCS 500/25-60)

☐ BEP Subcontracting Requirements (Utilization Plan and Letter of Intent)

☒ PAYMENT OF TOLLS: The Vendor shall be required to pay the full amount of tolls, if any, incurred by it during the duration of the contract. Said tolls will not be refunded by the Illinois Tollway. Furthermore, in the event that a final determination is made by the Illinois Tollway that the Contractor has failed to pay any required tolls and associated fines, the Illinois Tollway is authorized to take steps necessary to withhold the amounts of the unpaid tolls and fines from any payment due the contractor by the Illinois Tollway and/or other Tollway of Illinois office, department, commission, board or agency.

5.3 AGENCY SUPPLEMENTAL TERMS AND CONDITIONS:

5.3.1 Order of Precedence:

With respect to any inconsistency or conflict, the following order of precedence shall prevail:

1. Sections 1-7 of this Contract
2. The Vendor's Response to the RFP including Vendor submissions subsequent to the initial proposal that were part of the negotiation process, to the extent applicable and agreed upon (included in Section 8 of this Contract)
3. The RFP, including any addendum thereto (also included in Section 8 of this Contract)

NOTE: This contract establishes the terms and conditions under which the Vendor is available to be assigned by the Tollway, on an as-needed basis as determined by the Tollway, to underwrite Tollway bonds or other debt. Any such underwriting shall be pursuant to a bond purchase agreement or other appropriate form of agreement entered into by the Vendor and the Tollway at the time the Vendor underwrites the Tollway bonds or other debt. Such bond purchase agreement or other appropriate form of agreement shall be the exclusive agreement governing any such underwriting with respect to each party's performance, duties, rights, responsibilities, obligations and liabilities.

5.3.2 Agents and Employees:

Vendor shall be responsible for the negligent acts and omissions of its agents, employees and if applicable, subcontractors in their performance of Vendor's duties under this Contract. Vendor represents that it shall utilize the services of individuals skilled in the profession for which they will be used in performing services or supplying goods hereunder. In the event that the Tollway/Buyer determines that any individual performing services or supplying goods for Vendor hereunder is not providing such skilled services or delivery of goods, it shall promptly notify the Vendor and the Vendor shall replace that individual.

5.3.3 Publicity:

Vendor shall not, in any advertisement or any other type of solicitation for business, state, indicate or otherwise imply that it is under contract to the Tollway/Buyer nor shall the Tollway/Buyer's name be used in any such advertisement or solicitation without prior written approval except as required by law.

5.3.4 Consultation:

Vendor shall keep the Tollway/Buyer fully informed as to the progress of matters covered by this Contract. Where time permits and Vendor is not otherwise prohibited from so doing, Vendor shall offer the Tollway/Buyer the opportunity to review relevant documents prior to filing with any public body or adversarial party.

5.3.5 Third Party Beneficiaries:

There are no third party beneficiaries to this Contract. This Contract is intended only to benefit the Tollway/Buyer and the Vendor.

5.3.6 Successors in Interest:

All the terms, provisions, and conditions of the Contract shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives.

5.3.7 Vendor's Termination Duties:

The Vendor, upon receipt of notice of termination or upon request of the Tollway/Buyer, shall:

5.3.7.1 Cease work under this Contract and take all necessary or appropriate steps to limit disbursements and minimize costs, and furnish a report within thirty (30) days of the date of notice of termination, describing the status of all work under the Contract, including, without limitation, results accomplished, conclusions resulting there from, any other matters the Tollway/Buyer may require;

5.3.7.2 Immediately cease using and return to the Tollway/Buyer any personal property or materials, whether tangible or intangible, provided by the Tollway/Buyer to the Vendor;

5.3.7.3 Comply with the Tollway/Buyer's instructions for the timely transfer of any active files and work product produced by the Vendor under this Contract;

5.3.7.4 Cooperate in good faith with the Tollway/Buyer, its employees, agents and contractors during the transition period between the notification of termination and the substitution of any replacement contractor;

5.3.7.5 Immediately return to the Tollway/Buyer any payments made by the Tollway/Buyer for services that were not rendered by the Vendor.

5.3.8. Inspector General:
The Vendor/Contractor hereby acknowledges that pursuant to Section 8.5 of the Toll Highway Act (605 ILCS 10/8.5) the Inspector General of The Illinois State Toll Highway Authority has the authority to conduct investigations into certain matters including but not limited to allegations of fraud, waste and abuse, and to conduct reviews. The Vendor/Contractor will fully cooperate in any OIG investigation or review. Cooperation includes providing access to all information and documentation related to the goods/services described in this Agreement, and disclosing and making available all personnel involved or connected with these goods/services or having knowledge of these goods/services. All subcontracts must inform Subcontractors of this provision and their duty to comply.

5.4 OVERTIME:
Not applicable. If overtime is contemplated and provided for in this contract, all work performed by Vendor at overtime rates shall be pre-approved by the Tollway/Buyer.

5.5 VENUE AND ILLINOIS LAW:
Any claim against the Tollway arising out of this contract must be filed exclusively with Circuit Court for the Eighteenth Judicial Circuit, DuPage County, Illinois for State claims and the U.S. District Court for the Northern District of Illinois for Federal claims.

5.5.1 Whenever "State" is used or referenced in this Contract, it shall be interpreted to mean the Illinois State Toll Highway Authority.

5.5.2 The State Prompt Payment Act (30 ILCS 40) does not apply to the Tollway. Therefore, the first two sentences of paragraph 4.1.1 are deleted.

5.5.3. The Tollway is not currently an annually appropriated agency. Therefore, to the extent paragraph 3.5 concerns the Tollway being an annually appropriated agency, it does not apply.

5.5.4. The second sentence ofparagraph 4.1.6 does not apply to the Tollway and is deemed stricken.

5.6 REPORT OF A CHANGE IN CIRCUMSTANCES:
The Vendor agrees to report to the Tollway as soon as practically possible, but no later than 21 days following any change in facts or circumstances that might impact the Vendor's ability to satisfy its legal or contractual responsibilities and obligations under this contract. Required reports include, but are not limited to, changes in the Vendor's Certification/Disclosure Forms, the Vendor's IDOT pre-qualification (if/as applicable), or any certification or licensing required for this project. Additionally, Vendor agrees to report to the Tollway within the above timeframe any arrests, indictments, convictions or other

matters involving the Vendor, or any of its principals, that might occur while this contract is in effect. This reporting requirement does not apply to common offenses, including but not limited to minor traffic/vehicle offenses.

Further, the Vendor agrees to incorporate substantially similar reporting requirements into the terms of any and all subcontracts relating to work performed under this agreement. The Vendor agrees to forward or relay to the Tollway any reports received from subcontractors pursuant to this paragraph within 21 days.

Finally, the Vendor acknowledges and agrees that the failure of the Vendor to comply with this reporting requirement shall constitute a material breach of contract which may result in this contract being declared void.

STATE OF ILLINOIS
FORMS B CERTIFICATIONS AND DISCLOSURES

IPB Reference #: 22039948   Procurement/Contract #: Bond Underwriting Services, RFP #16-0155

This Forms B may be used when responding to an Invitation for Bid (IFB) or a Request for Proposal (RFP) if the vendor is registered in the Illinois Procurement Gateway (IPG) and has a valid IPG Registration Number.

If a vendor does not have a valid IPG registration number, then the vendor must complete and submit Forms A with their response. Failure to do so may render the submission non-responsive and result in disqualification.

Please read this entire section and provide the requested information as applicable. All parts in Forms B must be completed in full and submitted along with the vendor's response.

1. **Certification of Illinois Procurement Gateway Registration**
   My business has a valid Illinois Procurement Gateway (IPG) registration. The State of Illinois Chief Procurement Office approved the registration and provided the IPG registration number and expiration date disclosed in this Forms B.

   To ensure that you have a valid registration in the IPG, search for your business name in the IPG Registered Vendor Directory. If your company does not appear in the search results, then you do not have a valid IPG registration.

   IPG Registration #: 20425009   IPG Expiration Date: July 15, 2017

2. **Certification Timely to this Solicitation or Contract**
   Vendor certifies it is not barred from having a contract with the State based upon violating the prohibitions related to either submitting/writing specifications or providing assistance to an employee of the State of Illinois by reviewing, drafting, directing, or preparing any invitation for bids, a request for proposal, or request of information, or similar assistance (except as part of a public request for such information). 30 ILCS 500/50-10.5(e), amended by Public Act No. 97-0895 (August 3, 2012). ☒ Yes ☐ No

3. **Replacement Certification to IPG Certification #6 (supersedes response in IPG)**
   If Vendor has been convicted of a felony, Vendor certifies at least five years have passed since the date of completion of the sentence for such felony, unless no person held responsible by a prosecutor's office for the facts upon which the conviction was based continues to have any involvement with the business. Vendor further certifies that it is not barred from being awarded a contract. 30 ILCS 500/50-10. ☒ Yes ☐ No

4. **Disclosure of Lobbyist or Agent** (Complete only if bid, offer, or contract has an annual value over $50,000)
   Is your company or parent entity(ies) represented by or do you or your parent entity(ies) employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or an agent who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below. ☐ Yes ☒ No

   If yes, please identify each lobbyist and agent, including the name and address below. If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information. Additional rows may be inserted into the table or an attachment may be provided if needed.

STATE OF ILLINOIS
FORMS B CERTIFICATIONS AND DISCLOSURES

Name	Address	Relationship to Disclosing Entity

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract:

5. **Disclosure of Current and Pending Contracts**

Complete only if: (a) your business is for-profit and (b) the bid, offer, or contract has an annual value over $50,000. Do not complete if you are a not-for-profit entity.

☒ Yes ☐ No. Do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment in the same format may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #
Illinois Finance Authority	SRF Underwriting Services	Extended	TBD	14-0007
Illinois Tollway	Bond Underwriting and Remarketing Services	Ongoing Contract	TBD	Contract #: 12-0045 IPB Rf. #: 22037040

6. **Signature**

As of the date signed below, I certify that:

- My business' information and the certifications made in the Illinois Procurement Gateway are truthful and accurate.
- The certifications and disclosures made in this Forms B are truthful and accurate.

This Forms B is signed by an authorized officer or employee on behalf of the bidder, offeror, or vendor pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code, and the affirmation of the accuracy of the financial disclosures is made under penalty of perjury.

This disclosure information is submitted on behalf of:

Vendor Name: Piper Jaffray & Co.

Street Address: 800 Nicollet Mall, Suite 800

City, State, Zip: Minneapolis, MN 55402

Phone: 312-267-5193

Email: neil.a.pritz@pjc.com

Vendor Contact: Neil Pritz

Signature: [redacted]

Date: February 3, 2017

Printed Name: Neil Pritz

Title: Managing Director

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

I certify that:

The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and

I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

I am a U.S. person (including a U.S. resident alien).

- If you are an individual, enter your name and SSN as it appears on your Social Security Card.
- If you are a sole proprietor, enter the owner's name on the name line followed by the name of the business and the owner's SSN or EIN.
- If you are a single-member LLC that is disregarded as an entity separate from its owner, enter the owner's name on the name line and the D/B/A on the business name line and enter the owner's SSN or EIN.
- If the LLC is a corporation or partnership, enter the entity's business name and EIN and for corporations, attach IRS acceptance letter (CP261 or CP277).
- For all other entities, enter the name of the entity as used to apply for the entity's EIN and the EIN.

Name: Piper Jaffray & Co.

Business Name: Piper Jaffray & Co.

Taxpayer Identification Number:

Social Security Number: Click here to enter text.

or

Employer Identification Number: [redacted]

Legal Status (check one):

☐ Individual	☐ Governmental
☐ Sole Proprietor	☐ Nonresident alien
☐ Partnership	☐ Estate or trust
☐ Legal Services Corporation	☐ Pharmacy (Non-Corp.)
☐ Tax-exempt	☐ Pharmacy/Funeral Home/Cemetery (Corp.)
☐ Corporation providing or billing medical and/or health care services	☐ Limited Liability Company (select applicable tax classification)
☒ Corporation NOT providing or billing medical and/or health care services	☐ C = corporation ☐ P = partnership

Signature of Authorized Representative: [redacted]

Date: February 3, 2017

Vendor Registration: View

Help & Tools

General | Public Profile | Users | Commodity Codes | Contacts & Owners | Comments | Reviews | Certifications | Site Visits | Registrations

Piper Jaffray & Co.

System Vendor Number: **20425009**

1 flag has been added to this record. See below for details.

Show only flagged items.

Vendor Registration

TYPE	State of Illinois Vendor Registration
DESCRIPTION	Register to do business with the State of Illinois
DATE SUBMITTED	7/14/2016
STATUS	Accepted
REVIEWER	David Littrell
DATE REVIEWED	7/15/2016
PUBLIC REVIEW COMMENTS	
PRIVATE REVIEW COMMENTS	
EXPIRATION DATE	7/15/2017
FLAG FORM	Add Flag

Settings

SMALL BUSINESS SET-ASIDE PROGRAM (SBSP) REGISTERED	No
REGISTERING AS A	Prime & Subcontractor

Vendor Registration: View Form

Help & Tools

General | Public Profile | Users | Commodity Codes | Contacts & Owners | Comments | Reviews | Certifications | Site Visits | Registrations

Piper Jaffray & Co. System Vendor Number: **20425009**

Return to Main Form

1 flag has been added to this record. See below for details.

Show only flagged items.

Vendor Registration

FORM NAME	**I. Financial Disclosure & Conflicts of Interest**
DESCRIPTION	**Complete the Financial Disclosure & Conflicts of Interest form**
DATE SUBMITTED	7/14/2016
STATUS	Accepted
BUSINESS NAME	**Piper Jaffray & Co.**
POINT OF CONTACT	Brian LePenske
FLAG FORM	Add Flag

I. Financial Disclosures & Conflicts of Interest

A. IDENTIFY THE APPLICABLE ENTITY TYPE.

Other Privately Held Entity (i.e. LLC, partnership, privately held corporation with 100 or fewer shareholders, or other **entity type not clearly identified in another option)**

B. IS THERE A PARENT ENTITY THAT OWNS 100% OF THE BUSINESS?

Yes

Document	Status
Parent Form Parent Disclosures (DOCX, 178.81 KB) PJC_Q4_2015_10K--FILED.pdf (PDF, 5.32 MB)	Attached by Brian LePenske on 7/14/2016

C. INSTRUMENT OF OWNERSHIP OR BENEFICIAL INTEREST

Corporate Stock (C-Corporation, S-Corporation, Professional Corporation, Service Corporation)

1. IS THERE ANY INDIVIDUAL OR ENTITY WHO MEETS ANY OF THE FOLLOWING THRESHOLDS: (A) OWNS MORE THAN 5% OF THE BUSINESS, (B) HOLDS OWNERSHIP SHARE OF THE BUSINESS VALUED IN EXCESS OF $106,447.20, (C) IS ENTITLED TO MORE THAN 5% OF THE BUSINESS' DISTRIBUTIVE INCOME, OR (D) IS ENTITLED TO MORE THAN $106,447.20 OF THE BUSINESS' DISTRIBUTIVE INCOME?

Yes, the information is not publicly available (If any individuals are listed, answer Yes or No to questions 5-8 and 11-20.)

Document	Status
List of individuals or entities meeting one or more of the listed thresholds. IPG_Percentage_of_Ownership_and_Distributive_Income_Form(1).docx (DOCX, 147.07 KB)	Attached by Brian LePenske on 7/14/2016

2. PLEASE CERTIFY THAT THE FOLLOWING STATEMENT IS TRUE: ALL INDIVIDUALS OR ENTITIES THAT HOLD AN OWNERSHIP INTEREST IN THE BUSINESS OF GREATER THAN 5% OR VALUED GREATER THAN $106,447.20 HAVE BEEN DISCLOSED IN QUESTION 1.

Yes

3. PLEASE CERTIFY THAT THE FOLLOWING STATEMENT IS TRUE: ALL INDIVIDUALS OR ENTITIES THAT WERE ENTITLED TO RECEIVE DISTRIBUTIVE INCOME IN AN AMOUNT GREATER THAN $106,447.20 OR GREATER THAN 5% OF THE TOTAL DISTRIBUTIVE INCOME OF THE BUSINESS HAVE BEEN DISCLOSED IN QUESTION 1.

Yes

4. DISCLOSURE OF BOARD OF DIRECTORS FOR NOT-FOR-PROFIT ENTITIES.

Not applicable - For-Profit Entity

5. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, ARE ANY OF THEM A PERSON WHO HOLDS AN ELECTIVE OFFICE IN THE STATE OF ILLINOIS OR HOLDS A SEAT IN THE GENERAL ASSEMBLY, OR ARE THEY THE SPOUSE OR MINOR CHILD OF SUCH PERSON?

Not applicable - No individuals disclosed in question 1

6. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, ARE ANY OF THEM APPOINTED TO OR EMPLOYED IN ANY OFFICES OR AGENCIES OF STATE GOVERNMENT AND RECEIVE COMPENSATION FOR SUCH EMPLOYMENT IN EXCESS OF 60% ($106,447.20) OF THE SALARY OF THE GOVERNOR, OR ARE ANY OF THEM THE SPOUSE OR MINOR CHILD OF SUCH PERSON?

Not applicable - No individuals disclosed in question 1

7. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, ARE ANY OF THEM AN OFFICER OR EMPLOYEE OF THE CAPITAL DEVELOPMENT BOARD OR THE ILLINOIS TOLL HIGHWAY AUTHORITY, OR ARE ANY OF THEM THE SPOUSE OR MINOR CHILD OF SUCH PERSON?

Not applicable - No individuals disclosed in question 1

8. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, ARE ANY OF THEM APPOINTED AS A MEMBER OF A BOARD, COMMISSION, AUTHORITY, OR TASK FORCE AUTHORIZED OR CREATED BY STATE LAW OR BY EXECUTIVE ORDER OF THE GOVERNOR, OR ARE THEY THE SPOUSE OR AN IMMEDIATE FAMILY MEMBER WHO CURRENTLY RESIDES OR RESIDED WITH SUCH PERSON WITHIN THE LAST 12 MONTHS?

Not applicable - No individuals disclosed in question 1

9. IF ANY QUESTION IN 5-8 ABOVE IS ANSWERED YES, PLEASE ANSWER THE FOLLOWING: DO ANY OF THE INDIVIDUALS IDENTIFIED, THEIR SPOUSE, OR MINOR CHILD RECEIVE FROM THE ENTITY MORE THAN 7.5% OF THE ENTITY'S TOTAL DISTRIBUTABLE INCOME OR AN AMOUNT OF DISTRIBUTABLE INCOME IN EXCESS OF THE SALARY OF THE GOVERNOR ($177,412.00)?

Not applicable - I answered No in Questions 5-8

10. IF ANY QUESTION IN 5-8 ABOVE IS ANSWERED YES, PLEASE ANSWER THE FOLLOWING: IS THERE A COMBINED INTEREST OF ANY INDIVIDUAL IDENTIFIED ALONG WITH THEIR SPOUSE OR MINOR CHILD OF MORE THAN 15% IN THE AGGREGATE OF THE ENTITY'S DISTRIBUTABLE INCOME OR AN AMOUNT OF DISTRIBUTABLE INCOME IN EXCESS OF TWO TIMES THE SALARY OF THE GOVERNOR ($354,824.00)?

Not applicable - I answered No in Questions 5-8

11. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM CURRENTLY HAVE, OR IN THE PREVIOUS 3 YEARS HAD STATE EMPLOYMENT, INCLUDING CONTRACTUAL EMPLOYMENT OF SERVICES? THIS DOES NOT INCLUDE CONTRACTS TO PROVIDE GOODS OR SERVICES TO THE STATE AS A VENDOR.

Not applicable - No individuals disclosed in question 1

12. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, HAVE THEIR SPOUSE, FATHER, MOTHER, SON, OR DAUGHTER, HAD STATE EMPLOYMENT, INCLUDING CONTRACTUAL EMPLOYMENT FOR SERVICES, IN THE PREVIOUS 2 YEARS? THIS DOES NOT INCLUDE CONTRACTS TO PROVIDE GOODS OR SERVICES TO THE STATE AS A VENDOR.

Not applicable - No individuals disclosed in question 1

13. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM CURRENTLY HOLD OR HAVE HELD IN THE PREVIOUS 3 YEARS ELECTIVE OFFICE OF THE STATE OF ILLINOIS, THE GOVERNMENT OF THE UNITED STATES, OR ANY UNIT OF LOCAL GOVERNMENT AUTHORIZED BY THE CONSTITUTION OF THE STATE OF ILLINOIS OR THE STATUTES OF THE STATE OF ILLINOIS?

Not applicable - No individuals disclosed in question 1

14. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM HAVE A RELATIONSHIP TO ANYONE (SPOUSE, FATHER, MOTHER, SON, OR DAUGHTER) HOLDING ELECTIVE OFFICE CURRENTLY OR IN THE PREVIOUS 2 YEARS?

Not applicable - No individuals disclosed in question 1

15. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM HOLD OR HAVE HELD IN THE PREVIOUS 3 YEARS ANY APPOINTIVE GOVERNMENT OFFICE OF THE STATE OF ILLINOIS, THE UNITED STATES OF AMERICA, OR ANY UNIT OF LOCAL GOVERNMENT AUTHORIZED BY THE CONSTITUTION OF THE STATE OF ILLINOIS OR THE STATUTES OF THE STATE OF ILLINOIS, WHICH OFFICE ENTITLES THE HOLDER TO COMPENSATION IN EXCESS OF EXPENSES INCURRED IN THE DISCHARGE OF THAT?

Not applicable - No individuals disclosed in question 1

16. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM HAVE A RELATIONSHIP TO ANYONE (SPOUSE, FATHER, MOTHER, SON, OR DAUGHTER) HOLDING APPOINTIVE OFFICE CURRENTLY OR IN THE PREVIOUS 2 YEARS?

Not applicable - No individuals disclosed in question 1

17. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM CURRENTLY HAVE OR IN THE PREVIOUS 3 YEARS HAD EMPLOYMENT AS OR BY ANY REGISTERED LOBBYIST OF THE STATE GOVERNMENT?

Not applicable - No individuals disclosed in question 1

18. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM CURRENTLY HAVE OR IN THE PREVIOUS 2 YEARS HAD A RELATIONSHIP TO ANYONE (SPOUSE, FATHER, MOTHER, SON, OR DAUGHTER) THAT IS OR WAS A REGISTERED LOBBYIST?

Not applicable - No individuals disclosed in question 1

19. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM CURRENTLY HAVE OR IN THE PREVIOUS 3 YEARS HAD COMPENSATED EMPLOYMENT BY ANY REGISTERED ELECTION OR RE-ELECTION COMMITTEE REGISTERED WITH THE SECRETARY OF STATE OR ANY COUNTY CLERK IN THE STATE OF ILLINOIS, OR ANY POLITICAL ACTION COMMITTEE REGISTERED WITH EITHER THE SECRETARY OF STATE OR THE FEDERAL BOARD OF ELECTIONS?

Not applicable - No individuals disclosed in question 1

20. FOR THE INDIVIDUALS DISCLOSED ABOVE IN QUESTION 1 AND FOR SOLE PROPRIETORS, DO ANY OF THEM CURRENTLY HAVE OR IN THE PREVIOUS 2 YEARS HAD A RELATIONSHIP TO ANYONE (SPOUSE, FATHER, MOTHER, SON, OR DAUGHTER) WHO IS OR WAS A COMPENSATED EMPLOYEE OF ANY REGISTERED ELECTION OR REELECTION COMMITTEE REGISTERED WITH THE SECRETARY OF STATE OR ANY COUNTY CLERK IN THE STATE OF ILLINOIS, OR ANY POLITICAL ACTION COMMITTEE REGISTERED WITH EITHER THE SECRETARY OF STATE OR THE FEDERAL BOARD OF ELECTIONS?

Not applicable - No individuals disclosed in question 1

21. HAS THERE BEEN ANY DEBARMENT FROM CONTRACTING WITH ANY GOVERNMENTAL ENTITY WITHIN THE PREVIOUS TEN YEARS? THIS APPLIES TO ALL SOLE PROPRIETORS, FOR-PROFIT ENTITIES, NOT-FOR-PROFIT ENTITIES, AND FOR THE INDIVIDUALS DISCLOSED IN QUESTION 1 ABOVE.

No

22. HAS THERE BEEN ANY PROFESSIONAL LICENSURE DISCIPLINE WITHIN THE PREVIOUS TEN YEARS? THIS APPLIES TO ALL SOLE PROPRIETORS, FOR-PROFIT ENTITIES, NOT-FOR-PROFIT ENTITIES, AND FOR THE INDIVIDUALS DISCLOSED IN QUESTION 1 ABOVE.

No

23. HAS THERE BEEN ANY BANKRUPTCY WITHIN THE PREVIOUS TEN YEARS? THIS APPLIES TO ALL SOLE PROPRIETORS, FOR-PROFIT ENTITIES, NOT-FOR-PROFIT ENTITIES, AND FOR THE INDIVIDUALS DISCLOSED IN QUESTION 1 ABOVE.

No

24. HAVE THERE BEEN ANY ADVERSE CIVIL JUDGMENTS AND/OR ADMINISTRATIVE FINDINGS WITHIN THE PREVIOUS TEN YEARS? THIS APPLIES TO ALL SOLE PROPRIETORS, FOR-PROFIT ENTITIES, NOT-FOR-PROFIT ENTITIES, AND FOR THE INDIVIDUALS DISCLOSED IN QUESTION 1 ABOVE.

Yes

Due to the nature of our business, we are involved in a variety of legal proceedings on an ongoing basis. These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, transactional activity, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory **scrutiny applied to securities firms has increased dramatically in recent years, resulting in a higher number of regulatory investigations and enforcement actions and significantly greater uncertainty regarding the likely outcome of these matters. Piper Jaffray has no reason to believe that current and past regulatory matters or litigation will affect in any way Piper's ability to provide any of the services contemplated by this Request for Proposal.Regulatory investigations can result in substantial fines and/or limitations or other restrictions on our business activities, and consequently those investigations potentially could be deemed to have a material impact on our business. Our Form 10-Q and 10-K as filed with the Securities and Exchange Commission** requires disclosure of any material legal proceedings, including regulatory proceedings, and we are unable to provide information on any pending or completed investigation not disclosed within our Form 10-Q and 10-K. Any and all completed regulatory investigations that result in a material disciplinary **action, including fines, suspensions or other significant undertakings or limitations are also publicly reported to the Financial Industry Regulatory Authority ("FINRA"). For more information, please refer to Piper Jaffray's Form BD filed with FINRA. You can request electronic delivery of the relevant sections of a Company's Form BD by accessing FINRA's website at http://www.finra.org/ and conducting a FINRA Broker Check.**

25. HAVE THERE BEEN ANY CRIMINAL FELONY CONVICTIONS WITHIN THE PREVIOUS TEN YEARS? THIS APPLIES TO ALL SOLE PROPRIETORS, FOR-PROFIT ENTITIES, NOT-FOR-PROFIT ENTITIES, AND FOR THE INDIVIDUALS DISCLOSED IN QUESTION 1 ABOVE.

No

Additional Information

STAFF ATTACHED FILE(S)

Attach File

Refresh List after attaching file(s).

ILLINOIS PROCUREMENT GATEWAY
PERCENTAGE OF OWNERSHIP AND DISTRIBUTIVE INCOME FORM

Vendor Name: Piper Jaffray & Co.

DBA: Click here to enter text.

INSTRUCTIONS:

1. Ownership Share – Provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, **or** the dollar value of their ownership if said dollar value exceeds $106,447.20.

2. Distributive Income – Provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, **or** the dollar value of their distributive income if said dollar value exceeds $106,447.20.

3. Additional rows may be inserted into the tables or an attachment in a substantially similar format may be provided if needed.

Name	Address	% of Ownership	$ Value of Ownership	% of Distributive Income	$ Value of Distributive Income
Piper Jaffray Companies	800 Nicollet Mall, Suite 1000 Minneapolis, MN 55402	100%	$495,000,000	100%	$56,000,000
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.

ILLINOIS PROCUREMENT GATEWAY
FINANCIAL DISCLOSURES AND CONFLICTS OF INTEREST FORM FOR PARENT ENTITY

This Financial Disclosures and Conflicts of Interest Form must be accurately completed and submitted by the Parent Entity with 100% ownership of the Vendor applying for or holding registration within the Illinois Procurement Gateway. If Parent Entity is 100% owned by another entity ("Parent's Parent Entity"), then the Parent's Parent Entity must complete this disclosure form. This disclosure requirement continues for each successive parent until the level where the parent entity does not have 100% ownership. Parent entities with less than 100% ownership do not need to complete this form.

There are **seven** steps to this form and each must be completed as instructed. The Agency/University will consider this form when evaluating the vendor's bid, offer, or proposal or awarding the contract.

The requirement of disclosure of financial interests and conflicts of interest is a continuing obligation. If circumstances change and the disclosure is no longer accurate, then disclosing entities must provide an updated form.

Vendor Name	Piper Jaffray & Co.
Doing Business As (DBA)	Click here to enter text.
Disclosing Entity	Piper Jaffray Companies
Disclosing Entity's Parent Entity	Click here to enter text.
Instrument of Ownership or Beneficial Interest	Corporate Stock (C-Corporation, S-Corporation, Professional Corporation, Service Corporation) ☐ If you selected Other, please describe: Click here to enter text.

FINANCIAL DISLCOSURES AND CONFLICTS OF INTEREST FORM
FOR PARENT ENTITY

STEP 1
SUPPORTING DOCUMENTATION SUBMITTAL

You must select one of the six options below and select the documentation you are submitting. You must provide the documentation the applicable section requires with this form.

☒ Option 1 – Publicly Traded Entities

1.A. ☐ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

1.B. ☒ Attach a copy of the Federal 10-K or provide a web address of an electronic copy of the Federal 10-K, and skip to Step 3.

☐ Option 2 – Privately Held Entities with more than 200 Shareholders

2.A. ☐ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

2.B. ☐ Complete Step 2, Option A for each qualifying individual or entity holding any ownership share in excess of 5% and attach the information Federal 10-K reporting companies are required to report under 17 CFR 229.401.

☐ Option 3 – All other Privately Held Entities, not including Sole Proprietorships

3.A. ☐ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

☐ Option 4 – Foreign Entities

4.A. ☐ Complete Step 2, Option A for each qualifying individual or entity holding any ownership or distributive income share in excess of 5% or an amount greater than 60% ($106,447.20) of the annual salary of the Governor.

OR

4.B. ☐ Attach a copy of the Securities Exchange Commission Form 20-F or 40-F and skip to Step 3.

☐ Option 5 – Not-for-Profit Entities

☐ Complete Step 2, Option B.

☐ Option 6 – Sole Proprietorships

☐ Skip to Step 3.

FINANCIAL DISLCOSURES AND CONFLICTS OF INTEREST FORM
FOR PARENT ENTITY

STEP 2
DISCLOSURE OF FINANCIAL INTEREST OR BOARD OF DIRECTORS

Complete **either** Option A (for all entities other than not-for-profits) or Option B (for not-for-profits). Additional rows may be inserted into the tables or an attachment may be provided if needed.

OPTION A – Ownership Share and Distributive Income

Ownership Share – If you selected Option 1.A., 2.A., 2.B., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of ownership if said percentage exceeds 5%, or the dollar value of their ownership if said dollar value exceeds $106,447.20.

☐ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – X

Name	Address	Percentage of Ownership	$ Value of Ownership
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.

Distributive Income – If you selected Option 1.A., 2.A., 3.A., or 4.A. in Step 1, provide the name and address of each individual or entity and their percentage of the disclosing vendor's total distributive income if said percentage exceeds 5% of the total distributive income of the disclosing entity, or the dollar value of their distributive income if said dollar value exceeds $106,447.20.

☐ Check here if including an attachment with requested information in a format substantially similar to the format below.

TABLE – Y

Name	Address	% of Distributive Income	$ Value of Distributive Income
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.	Click here to enter text.	Click here to enter text.

Please certify that the following statements are true.

I have disclosed all individuals or entities that hold an ownership interest of greater than 5% or greater than $106,447.20.

☐ Yes ☐ No

I have disclosed all individuals or entities that were entitled to receive distributive income in an amount greater than $106,447.20 or greater than 5% of the total distributive income of the disclosing entity.

☐ Yes ☐ No

OPTION B – Disclosure of Board of Directors (Not-for-Profits)

If you selected Option 5 in Step 1, list members of your board of directors. Please include an attachment if necessary.

TABLE – Z	
Name	**Address**
Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.
Click here to enter text.	Click here to enter text.

STEP 3
PROHIBITED CONFLICTS OF INTEREST

Step 3 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above. Please provide the name of the person for which responses are provided: Click here to enter text.

1. Do you hold or are you the spouse or minor child who holds an elective office in the State of Illinois or hold a seat in the General Assembly? ☐ Yes ☐ No
2. Have you, your spouse, or minor child been appointed to or employed in any offices or agencies of State government and receive compensation for such employment in excess of 60% ($106,447.20) of the salary of the Governor? ☐ Yes ☐ No
3. Are you or are you the spouse or minor child of an officer or employee of the Capital Development Board or the Illinois Toll Highway Authority? ☐ Yes ☐ No

4. Have you, your spouse, or an immediate family member who lives in your residence currently or who lived in your residence within the last 12 months been appointed as a member of a board, commission, authority, or task force authorized or created by State law or by executive order of the Governor? ☐ Yes ☐ No

5. If you answered yes to any question in 1-4 above, please answer the following: Do you, your spouse, or minor child receive from the vendor more than 7.5% of the vendor's total distributable income or an amount of distributable income in excess of the salary of the Governor ($177,412.00)? ☐ Yes ☐ No

6. If you answered yes to any question in 1-4 above, please answer the following: Is there a combined interest of self with spouse or minor child more than 15% ($354,824.00) in the aggregate of the vendor's distributable income or an amount of distributable income in excess of two times the salary of the Governor? ☐ Yes ☐ No

STEP 4
POTENTIAL CONFLICTS OF INTEREST RELATING TO PERSONAL RELATIONSHIPS

Step 4 must be completed for each person disclosed in Step 2, Option A and for sole proprietors identified in Step 1, Option 6 above.

Please provide the name of the person for which responses are provided: Click here to enter text.

1. Do you currently have, or in the previous 3 years have you had State employment, including contractual employment of services? ☐ Yes ☐ No
2. Has your spouse, father, mother, son, or daughter, had State employment, including contractual employment for services, in the previous 2 years? ☐ Yes ☐ No
3. Do you hold currently or have you held in the previous 3 years elective office of the State of Illinois, the government of the United States, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois? ☐ Yes ☐ No
4. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding elective office currently or in the previous 2 years? ☐ Yes ☐ No
5. Do you hold or have you held in the previous 3 years any appointive government office of the State of Illinois, the United States of America, or any unit of local government authorized by the Constitution of the State of Illinois or the statutes of the State of Illinois, which office entitles the holder to compensation in excess of expenses incurred in the discharge of that office? ☐ Yes ☐ No
6. Do you have a relationship to anyone (spouse, father, mother, son, or daughter) holding appointive office currently or in the previous 2 years? ☐ Yes ☐ No
7. Do you currently have or in the previous 3 years had employment as or by any registered lobbyist of the State government? ☐ Yes ☐ No

8. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) that is or was a registered lobbyist? ☐ Yes ☐ No

9. Do you currently have or in the previous 3 years had compensated employment by any registered election or re-election committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? ☐ Yes ☐ No

10. Do you currently have or in the previous 2 years had a relationship to anyone (spouse, father, mother, son, or daughter) who is or was a compensated employee of any registered election or reelection committee registered with the Secretary of State or any county clerk in the State of Illinois, or any political action committee registered with either the Secretary of State or the Federal Board of Elections? ☐ Yes ☐ No

STEP 5
EXPLANATION OF AFFIRMATIVE RESPONSES

If you answered "Yes" in Step 3 or Step 4, please provide on an additional page a detailed explanation that includes, but is not limited to the name, salary, State agency or university, and position title of each individual.

Click here to enter text.

STEP 6
POTENTIAL CONFLICTS OF INTEREST
RELATING TO DEBARMENT & LEGAL PROCEEDINGS

This step must be completed for each person disclosed in Step 2, Option A, Step 3, and for each entity and sole proprietor disclosed in Step 1.

Please provide the name of the person or entity for which responses are provided: Piper Jaffray Companies

1. Within the previous ten years, have you had debarment from contracting with any governmental entity? ☐ Yes ☒ No

2. Within the previous ten years, have you had any professional licensure discipline? ☐ Yes ☒ No

3. Within the previous ten years, have you had any bankruptcies? ☐ Yes ☒ No

FINANCIAL DISLCOSURES AND CONFLICTS OF INTEREST FORM
FOR PARENT ENTITY

4. Within the previous ten years, have you had any adverse civil judgments and administrative findings? ☐ Yes ☒ No

5. Within the previous ten years, have you had any criminal felony convictions? ☐ Yes ☒ No

If you answered "Yes", please provide a detailed explanation that includes, but is not limited to the name, State agency or university, and position title of each individual. Click here to enter text.

STEP 7
SIGN THE DISCLOSURE

This disclosure is signed, and made under penalty of perjury for all for-profit entities, by an authorized officer or employee on behalf of the bidder or offeror pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code. This disclosure information is submitted on behalf of:

Name of Disclosing Entity: Piper Jaffray Companies

Signature [redacted] Date: July 6, 2016

Printed Name: Neil Pritz

Title: Managing Director

Phone Number: 312-267-5193

Email Address: neil.a.pritz@pjc.com

PiperJaffray

February 3, 2017

Illinois State Toll Highway Authority

Response to Request for Proposal

Bond Underwriting Services, RFP #16-0155

Specifications/Qualifications/Statement of Work

Illinois Tollway

Piper Jaffray
444 W. Lake Street
33rd Floor
Chicago, IL 60606

Neil Pritz
Managing Director
Tel: +1 312 267-5193
Email: neil.a.pritz@pjc.com

Brian LePenske
Vice President
Tel: +1 312 267-5165
Email: brian.r.lepenske@pjc.com

G23 Disclosure: We are providing this material to you with certain regulatory disclosures as required by the Municipal Securities Rulemaking Board. As part of our services, Piper Jaffray may provide advice concerning the structure, timing, terms, and other similar matters concerning an issue of municipal securities that Piper Jaffray is underwriting or placing. However, Piper Jaffray intends to serve as an underwriter and not as a financial advisor to you in this transaction; and the primary role of Piper Jaffray is to purchase securities for resale to investors or arrange for the placement of securities in an arm's-length commercial transaction between you and Piper Jaffray. Piper Jaffray has financial and other interests that differ from your interests.

Muni-Advisor Rule Disclaimer: Piper Jaffray is providing the information contained herein for discussion purposes only in anticipation of being engaged to serve as underwriter or placement agent on a future transaction and not as a financial advisor or municipal advisor. In providing the information contained herein, Piper Jaffray is not recommending an action to you and the information provided herein is not intended to be and should not be construed as a "recommendation" or "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. Piper Jaffray is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act or under any state law to you with respect to the information and material contained in this communication. As an underwriter or placement agent, Piper Jaffray's primary role is to purchase or arrange for the placement of securities with a view to distrbution in an arm's-length commercial transaction, is acting for its own interests and has financial and other interests that differ from your interests. You should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

The information contained herein may include hypothetical interest rates or interest rate savings for a potential refunding. Interest rates used herein take into consideration conditions in today's market and other factual information such as credit rating, geographic location and market sector. Interest rates descrbed herein should not be viewed as rates that Piper Jaffray expects to achieve for you should we be selected to act as your underwriter or placement agent. Information about interest rates and terms for SLGs is based on current publically available information and treasury or agency rates for open-market escrows are based on current market interest rates for these types of credits and should not be seen as costs or rates that Piper Jaffrey could achieve for you should we be selected to act as your underwriter or placement agent. More particularized information and analysis may be provided after you have engaged Piper Jaffray as an underwriter or placement agent or under certain other exceptions as descrbe in the Section 15B of the Exchange Act.

Piper Jaffray Companies (NYSE: PJC) is a leading, international investment bank and asset management firm. Securities brokerage and investment banking services are offered in the U.S. through Piper Jaffray & Co., member SIPC and FINRA; in Europe through Piper Jaffray Ltd., authorized and regulated by the U.K. Financial Conduct Authority and Simmons & Company International Limited, authorized and regulated by the U.K. Financial Conduct Authority and the Dubai Financial Services Authority; in Hong Kong through Piper Jaffray Hong Kong Limited, authorized and regulated by the Securities and Futures Commission. Asset management products and services are offered through four separate investment advisory affiliates—U.S. Securities and Exchange Commission (SEC) registered Advisory Research, Inc., Piper Jaffray Investment Management LLC and PJC Capital Partners LLC; and Guernsey-based Parallel General Partners Limited, authorized and regulated by the Guernsey Financial Services Commission.

Since 1895. Member SIPC and NYSE

1. TABLE OF CONTENTS

2. TRANSMITTAL LETTER

PiperJaffray.

444 W. Lake Street, 33rd Floor, Chicago, IL 60606
Piper Jaffray & Co. Since 1895. Member SIPC and NYSE.

Ms. Desiree Liberti
Purchasing Supervisor
Illinois Tollway
2700 Ogden Avenue
Downers Grove, Illinois 60515

February 3, 2017

Dear Ms. Liberti,

Piper Jaffray & Co. ("Piper Jaffray", "we" or "us") is pleased to submit this proposal to provide senior managing underwriting and remarketing services to the Illinois State Toll Highway Authority ("Illinois Tollway" or "Tollway"). The experience and capabilities we offer, which previously qualified us to serve the Tollway in this capacity–in transportation, marketing, sales and underwriting, municipal credit analytics, expanded significantly upon Piper Jaffray's purchase in 2015 of Chicago-based BMO Capital Markets. We welcome the opportunity in this proposal to further discuss our credentials, and financing and marketing ideas. Thank you.

Sincerely,

[redacted]

Neil Pritz, Managing Director
444 W. Lake Street
Suite 3300
Chicago, Illinois 60606
Phone: (312) 267-5193
Email: neil.a.pritz@pjc.com

3. EXECUTIVE SUMMARY

Piper Jaffray & Co, which succeeded BMO Capital Markets in providing the Tollway senior manager and remarketing agent services, proposes to continue to offer these underwriting services and is responding for the Senior Pool. Having served the Tollway in numerous capacities over many years, including senior managing the Tollway's Series 2016B offering, we understand the Tollway's expectations of our role as senior as well as co-senior manager, all as outlined under D.2 of this RFP. Piper Jaffray is a registered broker-dealer, meets all qualifications in MSRB Rules G-2 and G-3 necessary to provide the services for the Tollway's Senior Pool, and will agree with Section 3 F "Standard Terms and Conditions", with proposed exceptions to such agreement in Section 3 G.

Overview of Qualifications. Piper Jaffray & Co is the principal subsidiary of Piper Jaffray Companies (NYSE:PJC) , with Public Finance being one of Piper Jaffray's three core business lines (see www.piperjaffray.com), and Chicago the firm's largest office (public finance, investment banking, sales, trading and research) outside of our Minneapolis headquarters. Public Finance accounts for approximately a third of the firm's revenues. Since 2007 we have opened 21 new public finance offices and 8 new sales offices. Our public finance group has grown from 85 bankers in 17 office locations in 2007 to 142 bankers in 36 locations today. Members of the public finance team serving the Tollway have a strong understanding of the Tollway with experience, including work at other firms, of serving as senior manager, co-senior manager and remarketing agent. Piper Jaffray continues to be a top ten underwriter of municipal bonds, with general markets and dedicated transportation finance expertise. This expertise is based on noteworthy senior managed underwriting (Illinois Tollway, Pennsylvania Turnpike, Texas Transportation Commission) financial advisory (Sound Transit, State of Washington DOT, E470 Public Highway Authority) and P3 advisory (New York MTA, MassDOT and Oregon DOT) experience. In 2016, excluding over 300 private placements not recorded by SDC, Piper Jaffray senior managed 676 transactions totaling $16.4 billion in par and ranked #5 by number of issues and #10 by total par for long-term municipal bond issues senior or sole managed. We have fixed rate and short term underwriting desks and one of the largest sales forces in the country (123 sales people in 24 locations) specializing in selling municipal bonds as well as taxable and other fixed-income products. In marketing Tollway bonds, our sales force will cover both the 100 large tier one (actual and prospective) buyers of Tollway bonds as well as hundreds of medium and smaller institutional investors nationally with potential interest in Tollway offerings.

[Remainder of page intentionally left blank]

4. EXPERIENCE/QUALIFICATIONS

4(a). EXPERIENCE/QUALIFICATIONS OF THE FIRM

Location of the firm headquarters and the principal place(s) of business related to public finance; t.

Public Finance and Underwriting. Piper Jaffray is headquartered and our principal long term underwriting desk is in Minneapolis. Our short-term underwriting desk is in New York. Chicago, where the Tollway's primary coverage bankers are located, is the firm's largest office outside of Minneapolis, with 5 senior bankers, 2 junior bankers, 2 support staff, 30 institutional sales people, 8 traders, and 7 analysts focusing on economic, market and credit research. Piper Jaffray is an established practice leader in public finance and in the last decade has opened 21 new public finance offices and 8 new sales offices. We have underwriting desks in 6 offices (designated by an * in the list below) staffed by 16 underwriters covering all sectors in the municipal market.

Office	# of Employees (Pub Fin / UW)	Office	# of Employees (Pub Fin / UW)	Office	# of Employees (Pub Fin / UW)	Office	# of Employees (Pub Fin / UW)
Albany	3	Charlotte	1	Jacksonville	1	Phoenix	8
Albuquerque	1	Chicago	7	Kansas City*	9 / 2	Pittsburgh	6
Atlanta	1	Columbus	1	Memphis	4	Portland*	5 / 1
Austin	1	Denver	5	Milwaukee	2	Sacramento	2
Barrington, IL	1	Des Moines	4	Minneapolis*	17 / 9	San Antonio	2
Birmingham	2	El Segundo	8	Nashville	1	San Francisco*	3 / 1
Boise	2	Hartford	1	New York*	3 / 3	Seattle	11
Boston	1	Houston	6	Orange County	3	St. Louis	5
Charleston	1	Indianapolis	2	Philadelphia	9	Washington, D.C.	3

U.S. Sales Professionals. Piper Jaffray has 124 sales professionals (including 1 retail sales professional) in 24 locations nationwide.

Provide a brief overview of your firm including its business operations, organizational structure, and total number of employees.

Firm Overview. Piper Jaffray & Co is the principal subsidiary of Piper Jaffray Companies (NYSE:PJC), founded in 1895 and headquartered in Minneapolis with offices throughout the United States and in Europe and Asia. Piper Jaffray is a full-service investment banking firm with 1,163 employees dedicated to delivering superior financial advice, transaction execution and investment products to corporations, government, non-profit entities and institutional investors in three selected sectors of the financial services marketplace: 1) public finance services, 2) corporate and institutional services and 3) asset management (see www.piperjaffray.com)

With our public finance bankers strategically located throughout the country, we offer a strong understanding of the local markets and the issues affecting our clients' financing success. In addition to general government finance for state and local governments, Piper Jaffray offers distinctive sector expertise in numerous sectors: Transportation, Municipal Utility (SRFs, Water and Sewer); Public Power; Health Care; Higher Education; Hospitality; Charter Schools; Senior Living; Economic Development and Project Finance.

Senior Manager Underwriter Rankings				
Year	Rank by # of Issues	# of Issues	Rank by Par	Par Amt ($MMs)
2016	5	676	10	$16,421.6
2015	5	714	10	$14,861.5
2014	5	517	11	$9,817.6

In 2016, excluding over 300 private placements not tabulated in national rankings, we senior managed 676 negotiated bond issues totaling $16.4 billion (Source: Thomson Reuters).

Transportation Practice. Piper Jaffray established its Transportation Finance Group in 2009 with the hiring of senior bankers previously with UBS, Bank of America and Bear Stearns. Since that time, Piper Jaffray has established a broad-based transportation practice resulting in senior managed underwriting engagements for major issuers of toll revenue and motor fuel tax revenue bonds, airport revenue bonds, as well as in unique P3 and other municipal advisory engagements that benefit from the extensive experience of the group in innovative transportation finance.

Since its formation, the Transportation Finance Group at Piper Jaffray has senior-managed issues for the Metropolitan Washington Airports Authority, the Metropolitan Transportation Authority, the Pennsylvania Turnpike Commission, the Massachusetts Bay Transportation Authority, the Greater Cleveland Regional Transit Authority, and the Texas Department of Transportation.

Additionally, we have served in various underwriting capacities for the New Jersey Turnpike, MassDOT, the Chesapeake Expressway and the Triborough Bridge and Tunnel Authority. Our advisory work in areas of transportation finance is noteworthy as well. These include engagements as Amtrak's Financial Advisor for the negotiation of a $2.4 billion federal loan for the acquisition of 28 Next Generation High-Speed Rail trainsets; advisor to the City of Chicago on the negotiation of a repurchase of the Loop Parking garages; and advisor to the E-470 Public Highway Authority on its bid for the Northwest Parkway.

Piper Jaffray's specific qualifications in toll road finance are augmented by our competency in nascent toll roads as well as managed/express toll lanes. Dave Klinges, the senior transportation banker on our Tollway financing team, for example, has served as investment banker to the proposed E-470 toll road since 1987. That project, which was funded in stages in 1991, 1995 and 2000, has become a standard bearer for start-up toll road finance, as the first toll road to receive an investment grade rating from Moody's prior to construction and afterwards to receive multiple upgrades from all three rating agencies. Klinges also completed the initial bond financing for the Dulles Greenway, the Pocahontas Parkway, the Northwest Parkway, the 91 Express Lanes and Camino Colombia.

Given the project development for the I-55 Managed Lanes Project, we believe our competency in Managed Lanes/Express Toll Lanes could be useful to the Tollway. Our transportation bankers were instrumental to the 91 Express Lanes Project, Financial Advisor to the 495 Express Lanes proposal, P3 Advisor to MassDOT for the Route 3 South Express Toll Lanes Project and TIFIA Independent Financial Advisor for the I-595 Managed Lanes Project. While the I-55 Managed Lane Project is not a Tollway Project, its implementation would be material to the Tollway due to the use of I-PASS. Managed Lane projects are complex, and industry experience highlights challenges that must be navigated for successful project implementation. The traveling public, in our opinion, will not perceive a management distinction between the Authority's toll roads and the I-55 Managed Lane, and it would benefit all parties if IDOT worked collaboratively with the Authority, drawing on the Authority's tolling expertise and technology as opposed to attempting to develop this expertise independently.

Provide a listing of your transportation clients within the past three years, noting the services provided.

Senior Manager Negotiated Underwriter or Placement Agent. Piper Jaffray has served as senior manager on 27 transportation transactions totaling $3.9 billion of par and as co-senior manager on 7 transportation transactions totaling $5.8 billion of par over the past three years. We have served as co-manager on an additional $30.0 billion of par over the past three years.

Sale Date	Par Amt ($MMs)	Issuer	State	Main Use of Proceeds	Issue Description	Series	Role
12/15/16	8.540	Port of Olympia-Washington	WA	Seaports/ Marine Terminals	Limited Tax GO Refunding Bonds	Series 2016 B	Senior
12/15/16	8.805	Port of Olympia-Washington	WA	Seaports/ Marine Terminals	Limited Tax GO & Refunding Bonds	Series 2016 A	Senior
11/30/16	65.250	Chicago City-Illinois	IL	Airports	Gen Airport Sr Lien Rev bonds	Series 2016 G	Co-Snr
11/30/16	1,052.000	Chicago City-Illinois	IL	Airports	Gen Airport Sr Lien Rev bonds	Series 2016 D-F	Co-Snr
11/29/16	7.000	Cleveland-Cuyahoga Co Port Auth	OH	Seaports/ Marine Terminals	Revenue Bonds	Series 2016	Senior
10/31/16	15.500	Cleveland-Cuyahoga Co Port Auth	OH	Seaports/ Marine Terminals	1 Cleveland Prop Lease Rev Bonds	Series 2016	Senior
10/26/16	1,300.000	New Jersey Trans Trust Fund Au	NJ	Toll Roads, Highways & Streets	Revenue Notes	2016 Subseries A-2	Co-Snr
10/26/16	1,441.425	New Jersey Trans Trust Fund Au	NJ	Toll Roads, Highways & Streets	Revenue Notes	2016 Subseries A-1	Co-Snr
09/08/16	.190	McFarland City- Kansas	KS	Toll Roads, Highways & Streets	General Obligation Bonds	Series 2016 A	Senior
07/11/16	2.100	Weston City-Missouri	MO	Toll Roads, Highways & Streets	General Obligation Bonds	Series 2016	Senior
06/08/16	140.590	Pennsylvania Turnpike Commission	PA	Toll Roads, Highways & Streets	Turnpike Revenue Bonds (% LIBOR)	Series A-2 of 2016	Senior
06/08/16	447.850	Pennsylvania Turnpike Commission	PA	Toll Roads, Highways & Streets	Turnpike Revenue Bonds	Series A-1 of 2016	Senior
06/02/16	7.610	Port of Newport-Oregon	OR	Seaports/ Marine Terminals	GO Refunding Bonds	Series 2016	Senior
05/18/16	300.000	Illinois State Toll Highway Auth	IL	Toll Roads, Highways & Streets	Toll Highway Senior Revenue Bonds	2016 Series B	Senior
05/11/16	3.510	Cleveland-Cuyahoga Co Port Auth	OH	Seaports/ Marine Terminals	Development Revenue Bonds	Series 2016 A & B	Senior
05/04/16	15.410	Greater Cleveland Reg Transit Au	OH	Mass Transportation	Sales Tax Capital Imp Ref Bonds	Series 2016	Senior
02/12/16	12.170	Jackson Co-Oregon	OR	Airports	Airport Revenue Refunding Bonds	Series 2016	Senior
02/04/16	482.530	Dallas Area Rapid Transit Auth	TX	Mass Transportation	Sr Lien Sales Tax Rev Ref Bonds	Series 2016 A	Co-Snr
11/19/15	400.000	Illinois State Toll Highway Auth	IL	Toll Roads, Highways & Streets	Toll Highway Senior Revenue Bonds	2015 Series B	Co-Snr
09/16/15	911.360	Texas Transportation Commission	TX	Toll Roads, Highways & Streets	GO Mobility Fund Refunding Bonds	Series 2015 A	Senior
07/22/15	6.170	Carson City-Nevada	NV	Toll Roads, Highways & Streets	Highway Revenue Ref Bonds	Series 2015	Senior
05/27/15	4.115	Port of Port Townsend	WA	Seaports/ Marine Terminals	Limited Tax GO Refunding Bonds	Series 2015	Senior
04/22/15	50.000	Pennsylvania Turnpike Commission	PA	Toll Roads, Highways & Streets	Turnpike Subordinate Rev Bonds (SIFMA Index)	Series A-2 of 2015	Senior
04/22/15	209.010	Pennsylvania Turnpike Commission	PA	Toll Roads, Highways & Streets	Tunrpike Sub Rev & Ref Bonds	Series A-1 of 2015	Senior
03/18/15	51.425	Greater Cleveland Reg Transit Au	OH	Mass Transportation	Sales Tax Cap Imp & Ref Bonds	Series 2015	Senior
03/18/15	73.600	Columbus Regional Airport Auth	OH	Airports	Airport Development Revenue Bonds	Series 2015 A & B	Senior
01/16/15	3.485	Jefferson Co County Commission	WV	Mass Transportation	Lease Revenue Bonds	Series 2015	Senior
11/18/14	4.500	Cleveland-Cuyahoga Co Port Auth	OH	Seaports/ Marine Terminals	Development Revenue Bonds	Series 2014 D	Senior
11/06/14	135.600	Denver City and Co-Denver International Airport	CO	Airports	Airport System Revenue Bonds	Suber 2007 G-1&2	Senior
10/23/14	9.305	Cleveland-Cuyahoga Co Port Auth	OH	Seaports/ Marine Terminals	Revenue Bonds	Series 2014 C	Senior
09/18/14	.200	Weston City-Missouri	MO	Toll Roads, Highways & Streets	General Obligation Bonds	Series 2014	Senior
08/01/14	125.000	New Jersey Turnpike Authority	NJ	Toll Roads, Highways & Streets	Turnpike Revenue Bonds	Series 2014 B 1- 3	Co-Snr
07/24/14	101.895	New Jersey Transit Corporation	NJ	Mass Transportation	GANs	Series 2014 B	Co-Snr
07/24/14	381.790	New Jersey Transit Corporation	NJ	Mass Transportation	GANs	Series 2014 A	Co-Snr
07/21/14	4.890	Port of Pasco-Washington	WA	Airports	Airport & General Port Rev Bonds	Series 2014 B	Senior
07/21/14	19.755	Port of Pasco-Washington Tri-Cities Airport	WA	Airports	Airport & General Port Rev Bonds	Series 2014 A	Senior
05/20/14	13.140	Yakima City-Washington	WA	Toll Roads, Highways & Streets	Ltd Tax General Obligation Bonds	Series 2014 A	Senior
04/30/14	3.578	Lawrence City-Indiana	IN	Mass Transportation	Transportation Ref Revenue Bonds	Series 2014	Senior
04/11/14	500.000	Metropolitan Transport Auth (MTA)	NY	Mass Transportation	Transportation Revenue Bonds	Series 2014 B	Co-Snr
03/07/14	300.000	Texas Transportation Commission	TX	Toll Roads, Highways & Streets	State Highway Fund Rev Bonds (SIFMA Index)	Series 2014-B	Senior
03/07/14	1,157.795	Texas Transportation Commission	TX	Toll Roads, Highways & Streets	State Highway Fd Rev & Ref Bonds	Series 2014-A	Senior
01/16/14	11.185	Colorado Springs City-Colorado Springs Airport	CO	Airports	Airport System Revenue Ref Bonds	Series 2014	Senior

Remarketing Agent. Piper Jaffray serves as remarketing agent on $405.4 million of variable rate transportation bonds as detailed in the list below.

Cusip	Outstanding Par	Issuer	Issue Description	LOC Type	Tax Status	Frequency
167562LZ8	54,725,000	City of Chicago	Midway Airport Revenue Bonds, Series 2004C-1	Direct Pay	AMT	Weekly
167562LX3	64,425,000	City of Chicago	Midway Airport Revenue Bonds, Series 2004C-2	Direct Pay	AMT	Weekly
167562JW8	13,050,000	City of Chicago	Midway Airport Revenue Bonds, Series 2004D	Direct Pay	T/E	Weekly
19954RAA4	51,430,000	Columbus Regional Airport Authority (Columbus, Ohio)	Adj Mode Airport Development Rev Bonds, Series 2015A	Gty Agreement	AMT	Weekly
19954RAB2	22,170,000	Columbus Regional Airport Authority (Columbus, Ohio)	Adj Mode Airport Development Rev Bonds, Series 2015B	Gty Agreement	AMT	Weekly
366741AB2	6,765,000	Gary/Chicago International Airport Authority	Multi-Modal Special Purpose Facility Rev Bonds, Series 2011	Direct Pay	AMT	Weekly
751073GK7	55,200,000	Raleigh-Durham Airport Authority (North Carolina)	Airport Revenue Refunding Bonds, Series 2008C	Direct Pay	T/E	Weekly

Financial Advisor – Non-Capital Markets Related Services.

Client	Role
Chicago Transit Authority	Municipal Advisor Pool
NY Metro Transit Authority	Strategic Financial Advisor (e.g. Federal Loans and P3)
MassDOT	P3 Advisor
Sound Transit (Seattle)	Since 2013, maintain & modify debt components of capital funding/financing model $1.33 billion TIFIA Loan in January 2015; $1.99 billion TIFIA Loan in January 2017
Amtrak	Led solicitation and negotiation with commercial banks related to a $500 million commercial paper program Advisor on Amtrak's $2.45 billion RRIF loan
State of Washington	Assisted with creation of initial toll financing platform Worked with Washington DOT to secure State's first TIFIA loan
Port of Seattle	Assisted with rating strategy associated with new alliance with the Port of Tacoma Establishment of initial swap policy and new intermediate lien credit
E-470 Authority	Advisor on E-470's bid to acquire the Northwest Parkway Authority; Development of the E-470 capital structure

Financial Advisor – Neg/Comp. Piper Jaffray has served as FA on 33 transportation transactions totaling $5.0 billion of par.

Sale Date	Par Amt ($MMs)	Issuer	State	Main Use of Proceeds	Issue Description	Series
01/10/17	49.230	Washington	WA	Toll Roads, Highways & Streets	Motor Vehicle Fuel Tax & Ref Bond	Series 2017 E&R-17 D
12/07/16	400.000	Central Puget Sound Reg Tran Au	WA	Mass Transportation	Motor Vehicle Excise Tax Bonds	Series 2016 S-1
11/17/16	2.500	Kingman Co-Kansas (Bridges)	KS	Bridges	General Obligation Bonds	Series 2016
09/07/16	90.370	Washington	WA	Toll Roads, Highways & Streets	Mortor Vehicle Fuel Tax GO Bonds	Series 2017 C
09/07/16	134.200	Washington	WA	Toll Roads, Highways & Streets	Mortor Vehicle Fuel Tax GO Bonds	Series 2017 B
07/19/16	6.180	Port of Seattle-Seattle-Tacoma Intl Airport	WA	Seaports/ Marine Terminals	1st Lien Revenue Refunding Bonds	Series 2016 C
07/19/16	118.660	Port of Seattle-Seattle-Tacoma Intl Airport	WA	Airports	1st & Inter Lien Rev Ref Bonds	Series 2016 & A
07/19/16	124.380	Port of Seattle-Seattle-Tacoma Intl Airport	WA	Seaports/ Marine Terminals	1st Lien Revenue Refunding Bonds	Series 2016 B
06/28/16	271.585	Washington	WA	Toll Roads, Highways & Streets	Motor Vehicle Fuel GO Ref Bonds	Series R-2017 B
06/14/16	20.000	Tucson City-Arizona	AZ	Mass Transportation	General Obligation Bonds	Series 2012-D (2016)
03/22/16	1.900	Platte City-Missouri	MO	Toll Roads, Highways & Streets	General Obligation Bonds	Series 2016
03/16/16	22.540	Montana Dept of Transportation	MT	Toll Roads, Highways & Streets	Refunding GANs	Series 2016
02/09/16	199.065	Washington	WA	Mass Transportation	Motor Vehicle Fuel Tax GO Bonds	Series 2016 D
09/30/15	188.020	Washington	WA	Mass Transportation	Motor Vehicle Fuel Tax GO Bonds	Series 2016 B
09/02/15	8.500	Leavenworth Co-Kansas	KS	Toll Roads, Highways & Streets	GO Sales Tax Bonds	Series 2015
08/17/15	12.985	Liberty City-Missouri	MO	Toll Roads, Highways & Streets	General Obligation Bonds	
08/04/15	150.000	Central Puget Sound Reg Tran Au	WA	Mass Transportation	Sales Tax Improvement Bonds	Ser 2015 S-2 A & B
08/04/15	792.840	Central Puget Sound Reg Tran Au	WA	Mass Transportation	Sales Tax Improvement & Ref Bonds	Series 2015 S-1
07/21/15	72.010	Port of Seattle-Washington	WA	Airports	Intermediate Lien Revenue Bonds	Series 2015 A
07/21/15	226.275	Port of Seattle-Washington	WA	Airports	Intermediate Lien Revenue Bonds	Series 2015 C
07/21/15	284.440	Port of Seattle-Washington	WA	Airports	Intermediate Lien Rev Ref Bonds	Series 2015 B
06/10/15	41.550	E-470 Public Highway Auth	CO	Toll Roads, Highways & Streets	Senior Revenue Bonds	Series 2015 A
06/09/15	27.415	Tucson City-Arizona	AZ	Toll Roads, Highways & Streets	Revenue Refunding Bonds	Series 2015
05/06/15	169.135	Seattle City-Washington	WA	Seaports/ Marine Terminals	Unltd Tax GO Improvement Bonds	Series 2015
04/09/15	24.835	Chesterfield Valley Transport Dev Dt	MO	Mass Transportation	Transportation Sales Tax Bonds	Series 2015
03/24/15	156.990	Port of Seattle-Washington	WA	Mass Transportation	Limited Tax GO & Refunding Bonds	Series 2015
03/03/15	1.650	Beloit City-Wisconsin	WI	Toll Roads, Highways & Streets	GO Temporary Notes	Series 2015 1
02/10/15	393.385	Washington	WA	Mass Transportation	Various Purpose & GO Ref Bonds	Series R-2015 F G H
01/21/15	199.920	Washington	WA	Mass Transportation	Motor Vehicle Fuel Tax GO Bonds	Series 2015 C
12/31/14	11.700	College Park Business & IDA	GA	Airports	Revenue Bonds	Series 2014
07/21/14	3.695	Milwaukie City-Oregon	OR	Mass Transportation	General Obligation Bonds	Series 2014
06/25/14	420.545	Washington	WA	Mass Transportation	Motor Vehicle Fuel GO Ref Bonds	Series R-2015 B
06/11/14	8.660	Chandler City-Arizona	AZ	Toll Roads, Highways & Streets	Street & Hway User Rev Ref Bonds	Series 2014
06/10/14	2.060	Rogersville-Missouri	MO	Toll Roads, Highways & Streets	General Obligation Street Bonds	Series 2014
06/10/14	20.000	Tucson City-Arizona	AZ	Toll Roads, Highways & Streets	General Obligation Bonds	Series 2012-B (2014)
06/04/14	20.000	Tucson City-Arizona	AZ	Mass Transportation	Certificates of Participation	Series 2014
03/17/14	8.350	Hway 71/291 Partners in Prog Trans Dev	MO	Toll Roads, Highways & Streets	Transport Sales Tax Rev Bonds	Series 2014
02/28/14	72.565	E-470 Public Highway Auth	CO	Toll Roads, Highways & Streets	Senior Revenue Bonds	Series 2014 A
01/22/14	265.710	Washington	WA	Mass Transportation	Motor Vehicle Fuel Tax GO Bonds	Series 2014 E

Provide a listing of up to five additional clients for which you have served as senior managing underwriter, co-senior managing underwriter, or co-managing underwriter that you deem particularly representative of the services requested by this RFP for the pool for which you have applied.

Date	Par (MMs)	Issuer	Issue Description	Interest Type	Piper Role
January 2017	$345.150	University of Connecticut	General Obligation Bonds, Series 2017	Fixed Rate	Senior Manager
Nov 2016	$47.660	City of San Antonio	Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2012C	Soft Put Term Bond	Sole Manager
June 2016	$343.975	Metro Gov't of Nashville and Davidson County	General Obligation Refunding Bonds, Series 2016	Fixed Rate	Senior Manager
April 2016	$412.000	State Water Resources Board - California Infra & Econ. Dev. Bank	Clean Water State Revolving Fund Revenue Bonds, Series 2016	Fixed Rate	Senior Manager
Ongoing	$150.000	Michigan Finance Authority	School Loan Revolving Fund Rev. Bonds, Series 2010C	Variable Rate (Weekly)	Remarketing Agent

Underwriting experience for tax-exempt obligations of $100 million or more of transportation revenue bonds from January 1, 2014 to present.

Please see Tab 9 for the requested list of thirty (30) transportation revenue bonds and other relevant issues of $100 million or more.

4(b). EXPERIENCE/QUALIFICATIONS OF PERSONNEL

Identify the firm representative who would be directly responsible for overseeing this engagement.

Neil Pritz, Managing Director.

Provide a staffing plan listing the individuals who would be assigned to the Tollway. In summary form, list their name, title, engagement role, office location, time with the firm, and summarize their qualifications and experience. Key personnel's relevant experience at prior firms may be included. Information relating to personnel responsible for marketing the Bonds may be provided on an aggregate rather than an individual basis. The respondent may (but is not required to) divide such aggregate information into sub-categories (e.g. institutional vs retail, tax-exempt vs. taxable, geographically, etc.). Information relating to marketing personnel should be accompanied by narrative describing the plan for utilizing such marketing personnel and how the respondent's marketing resources provide value to the Tollway in the context of the pool for which the respondent is applying. Note, resumes of key personnel may be attached in Tab 9 without counting towards the 17-page limit for response to Tabs 3-6.

Piper Jaffray's investment banking team is outlined below, with more detailed resumes provided in Tab 9.

Investment Banking	
Neil Pritz, *Managing Director* **Role:** Engagement Lead **Location:** Chicago Tel: (312) 267-5193 neil.a.pritz@pjc.com	[redacted]
David Klinges, *Managing Director* **Role:** National Transportation Expertise **Location:** Philadelphia Tel: (212) 284-9526 david.h.klinges@pjc.com	[redacted]
Brian LePenske, *Vice President* **Role:** Day-to-Day Contact **Location:** Chicago Tel: (312) 267-5165 brian.r.lepenske@pjc.com	
Adrivit Mukherjee, *Associate* Role: Quantitative Analysis & Transaction Support Location: Chicago Tel: (312) 267-5125 adrivit.x.mukherjee@pjc.com	
David Heetderks, *Analyst* **Role:** Transaction & Quantitative Support **Location:** Chicago Tel: (312) 267-5188 david.c.heetderks@pjc.com	

Marketing Personnel: The investment banking team will coordinate with the groups and team members below to meet the Tollway's financing goals. Piper Jaffray brings the Tollway separate, dedicated underwriting desks for long-term tax-exempt, long-term taxable and short-term (tax-exempt & taxable) financings

- **Municipal Sales**: John Miller, Head of National Institutional Sales, with 27 years in municipal sales, will oversee and coordinate efforts of 123 institutional sales professionals located in 24 different offices across the country. This sales group covers Tier I institutions, investment funds of all types, insurance companies, large banks and trust departments, and money managers. The institutional ability of Piper Jaffray to distribute municipal bonds is unsurpassed within our region and exceeds many national firms. Our sales force is among the nation's largest and provides us with the capability to sell a wide variety of taxable and other specialized fixed-income products in addition to our traditional municipal bond business.
- **Underwriting (Tax-Exempt):** Steve Cavalier, Head National Underwriter, with 27 years of underwriting experience, will be responsible for underwriting the Tollway's tax-exempt fixed rate transactions. Steve will provide pricing and market updates to the Tollway and senior banking team as well as consistent interaction with the salesforce and underwriting syndicate.
- **Underwriting (Taxable):** Brent Rivard, Managing Director with 10 years of experience underwriting taxable bonds, will be responsible for underwriting taxable fixed rate transactions. Brent will provide consistent interaction with the taxable sales and trading team as well as the underwriting syndicate.
- **Underwriting (Short-Term):** Joanna Brody, Managing Director and Head Short-Term Underwriter, with 24 years of short-term underwriting experience including as head of UBS' short term desk, will be responsible for underwriting the Tollway's short-term transactions. Joanna remarkets all our variable rate paper and manages all short-term underwritings including variable rate, FRNs and other short-term index-based or put products.
- **Research and Credit Analytics:** Peter Stettler, with background as senior analyst at Fitch and Ricondo, will provide input on the Tollway credit as well as the toll road industry as a whole. This analysis will be utilized in all aspects of the marketing process of the Tollway's bonds and he will work closely with the investment banking team to ensure the credit story is communicated clearly to the rating agencies, sales team and its prospective investors.
- **Strategic Analytics Group:** Piper Jaffray's 7 member Strategic Analytics Group ("SAG"), headed by Justin Hoogendoorn (with 22 years of experience as an economics analyst and investment advisor, will provides insight into overall market conditions nationally and internationally and offer perspectives to the Tollway and its investors on market trends, market timing, pricing anomalies, and investment capital movements.

The Offeror shall provide references for three transactions within the past twelve months for which: (a) the Offeror served as bond underwriter; and (b) the primary contact person designated in the Transmittal Letter served as the primary contact for the Offeror. If the primary contact designated in the Transmittal Letter has not worked on three such transactions, then other transactions for which the Offeror served as bond underwriter may be included. Submit references per the form included in Section 3, Part J. The references may be included in Tab 9 without counting against the 17-page limit for response to Tabs 3-6. The Tollway may contact one or more of these references for each Offeror and reserves the right to contact additional references, and information from such references may be factored into scoring.

Please see Tab 9 for Piper Jaffray's references.

Planned Changes: Describe any potential or planned changes or initiatives that, in the next twelve months, could significantly change any of the information provided regarding the firm and its personnel. Include any plans for significant restructuring of staff. The Tollway reserves the right to reconsider award if, subsequent to award, there are changes related to key personnel.

Piper Jaffray does not have any such changes or initiatives.

[Remainder of page intentionally left blank]

5. FINANCIAL CAPACITY

The Tollway will allocate up to 10 points to financial capacity for applicants to the Senior Pool and up to 5 points for applicants to the Co-Manager Pool. In addition to the information requested below, the Tollway may consider information from the Offeror's financial statements and/or credit rating agencies in assessing financial capacity.

Provide your firm's total capital and uncommitted excess net capital as of each of the most recent quarter ends available and the most recent two fiscal year ends available. As of each of those dates, specify any limitations that existed on utilizing such capital for public finance.

FIRM CAPITAL. Piper Jaffray is one of the strongest capitalized financial institutions in the municipal bond industry due to our strong equity capital position and minimal leverage. As an investment bank, we do not have capital set-aside requirements of banks and other lending institutions, and our firm capital is dedicated principally to underwriting and trading municipal bonds. Our underwriting desk has standing authority to take down $100 million of bonds in a single transaction, and can take down more with senior management approval.

Piper Jaffray Capital Position			
	As of 9/30/2016	FYIE 12/31/2015	FYE 12/31/2014
Total Capital	784,480,000	783,659,000	819,912,000
Net Capital	184,792,000	187,880,000	165,329,000
Uncommitted Excess Net Capital	183,792,000	186,880,000	164,329,000
Legal Underwriting Capacity	**2,625,000,000**	**2,660,000,000**	**2,347,000,000**

In 2016, we committed over $2.0 billion to underwrite unsold new issue balances. We believe that having a certain amount of unsold bonds when the underwriting commitment is made is an indication that the issuer received a fair pricing. Piper Jaffray's aggregate capital commitments for lead managed transactions from 2014 through 2016 are provided in the table below.

Piper Jaffray Capital Commitments - Lead Managed Transactions				
Period	# of Financings	Par ($)	$ Committed	Unsold % Committed
2016	722	$17,050,407,517	$2,099,057,786	12.3%
2015	692	$13,684,201,361	$1,973,570,395	14.4%
2014	558	$11,654,151,173	$1,447,028,785	12.4%

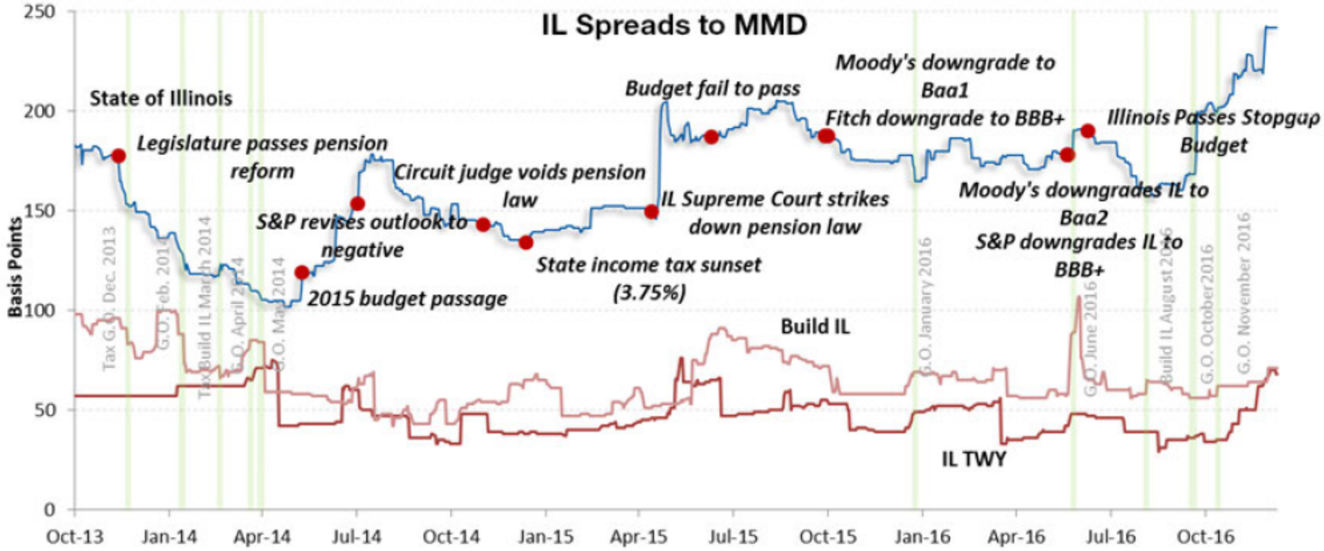
[Remainder of page intentionally left blank]

6. TECHNICAL APPROACH

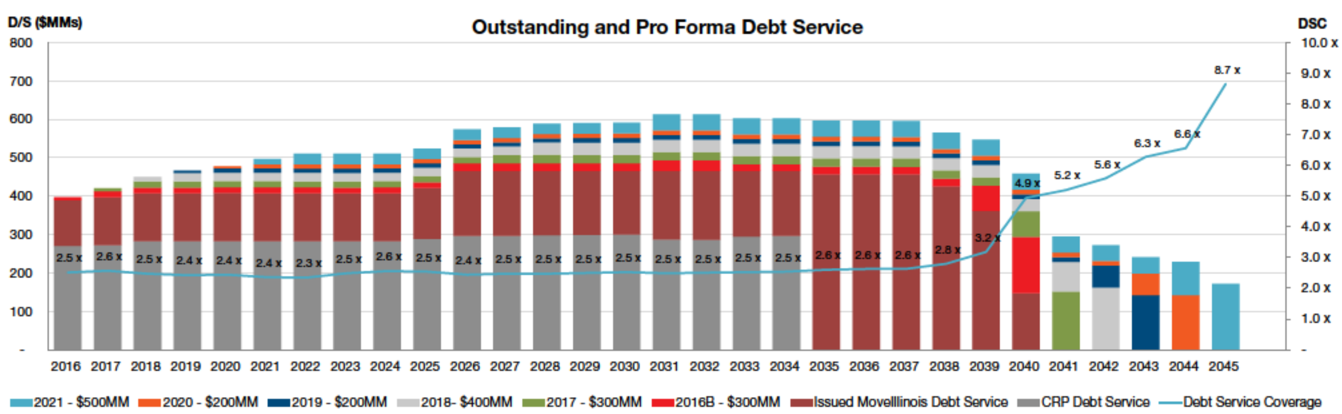
6(a). TECHNICAL APPROACH – STRUCTURING

Identify and describe recommendations and strategies your firm would propose to best position the Tollway to achieve a favorable cost of borrowing during the years 2017-2021 on its estimated $1.6 billion of projected new money bond issuance (per the schedule included in section D.3 of this RFP). Describe any challenges you foresee with respect to your recommendations.

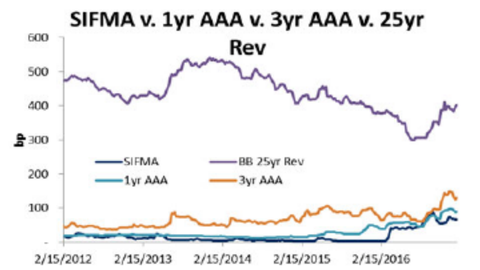
Piper Jaffray has analyzed the Tollway's current capital structure, future borrowing needs, statutory limitations (e.g., 25 year maximum maturity), other legal constraints, policies and practices, along with rating agency issues. The Tollway's capital structure is currently 80% traditional fixed rate and 20% synthetic fixed rate (via SIFMA Swaps) and has been structured to achieve relatively level debt service through 2041. We understand the desirability of maintaining two times debt service coverage, and the Tollway's careful management of variable rate exposure over time. The Tollway's stability and credit strengths are well –recognized, and its conventional fixed rate bonds consistently outperform those of the State of Illinois.



Based on a pro forma model of the Tollway's cash flows including future planned debt issuance from 2017 through 2021, as provided in Section D.3 of the RFP, the Tollway would continue to remain in good fiscal shape even if it funded its planned capital borrowing with 100% fixed-rate bonds: at an overall assumed fixed borrowing rate of 5.50%, the Tollway should maintain a debt service coverage ratio over 2.5x or greater in the majority of years through the end of the contemplated borrowings in 2021.



Short term financing considerations. The Tollway's debt management policy calls for no more than 25% of its outstanding debt to be in the form of variable rate (either hedged or unhedged). It is now at 20%, all hedged with swaps matching the life and amortization of related variable rate bonds. For the rating agencies and municipal credit analysts, hedged variable rate debt raises the issue of counterparty risk and less so rate and other risks associated with unhedged short term financings. Furthermore, It is considered credit neutral to maintain an amount of unhedged variable rate debt roughly equal to cash balances on hand, as an increase in short-term rates and debt service can be largely or entirely offset (managed) by the concomitant increase in investment earnings. The rating agencies are generally comfortable with mature toll roads having 10% of its debt in the form of unhedged short term adjustable rate bonds (variable, CP, FRNs, put bonds) The difference, current and historic, between short term and long-term fixed rates, and associated borrowing cost differential, is notable.



Given the significant amount of cash the Tollway has on hand annually from operations, and assumed availability for managing short term interest rate risk, we think it prudent for the Tollway to evaluate further issuing some form of unhedged short term debt to finance a portion ($150 to $200 million) of its capital improvements over the next 5 years.

Junior Lien Indenture. The Tollway's senior lien bond indenture, and specifically the Additional Bonds Test, clearly ought not to be the basis for considering issuance of unhedged short-term debt, because balloon amounts or amounts deemed due in any single year associated with mandatory tenders would count toward and limit the Tollways issuance of Additional Bonds. We believe instead that the initial use of the Tollway's subordinate lien would be appropriate, as this would not place any stress on the working senior lien. Any unhedged short-term debt ought to be issued under such junior lien indenture which has not been activated and provides an opportunity for developing terms and provisions in consideration of the types, structure and terms of short-term borrowings.

Short Term Borrowing with TIFIA Loan Guarantee. In developing junior lien indenture terms more fully, we think it worthwhile for the Tollway to revisit the idea of issuing short term debt of some kind backed by a USDOT TIFIA loan guarantee in lieu of a bank credit facility. The TIFIA Program has become much more efficient in processing applications in recent years, and Piper Jaffray was advisor to both a $2.4 billion loan to Amtrak and a $2 billion Master Credit Agreement for Sound Transit during 2016.

In the 20 years that the TIFIA Loan Program has been available and used, the loan guarantee in particular has only been used once so far as we know. Benefits of a loan guarantee include:

- It is available for a term of up to 35 years;
- There is no fee for the use of a USDOT loan guarantee (the only cost is for the Program advisor and legal counsel);
- Short term facility would be rated Aaa/AA+;
- The Tollway could use any number of short term debt instruments;
- TIFIA Program permits use of subordinate debt obligations so long as they have an investment grade rating.

As the Tollway knows, the use of TIFIA would federalize the issuance of its borrowings under this loan guarantee program, making its borrowing taxable as well as requiring compliance with certain federal procurement requirements (Buy America, Davis- Bacon etc.). Speaking here only of the potential economic advantages of this program for the Tollway— the market demand for these (AAA) issuances, particularly if sold in a weekly or CP mode, would be enormous as there is little such paper of this rating category. Given absence of annual credit fees, the Tollway's short term borrowing cost under TIFIA over time should outperform a comparable tax-exempt weekly floating rate program.

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD
Average CP 30-Day Rate	5.11	2.51	0.25	0.22	0.23	0.17	0.12	0.13	0.20	0.40	0.62
Average SIFMA Rate	3.62	2.21	0.40	0.27	0.18	0.16	0.09	0.05	0.03	0.42	0.67
Difference	1.49	0.29	(0.15)	(0.04)	0.05	0.01	0.03	0.08	0.17	(0.02)	(0.05)

Provide refunding recommendations and other strategies for managing the Tollway's bond portfolio during the next five years, including regarding the Tollway's $1.2 billion of variable rate bonds, all of which are swapped to synthetic fixed rate. .

Fixed-Rate Refunding Criteria for Consideration. The Tollway's Debt Management Guidelines sets forth a minimum present value savings threshold of 3.0% of the refunded bond principal amount. Assuming current market conditions, there are currently no advance refundable candidates which meet this threshold. However, as detailed to the right, the Tollway has $353 million of par that will be currently callable prior to 2021 and an additional $2.5 billion of advance refundable bonds with call dates from 2023 to 2026. If tax-exempt interest rates were to return to lows seen in 2016, many of these bonds will provide for attractive refunding opportunities.

To assist with deciding what candidates provide the best value to the Tollway to refund, Piper Jaffray employs various criteria in addition to present value thresholds. We present a few of those tests and criteria below. We think it worthwhile for the Tollway to review these alternative refunding criteria and evaluate the applicability to the Tollway's refunding policy.

Alternative Refunding Policy (similar to State of Wisconsin OCI%). This policy tests the volatility of refunding savings due to changes in the yield curve. The criterion selects candidates with a minimum of 0.25% PV Savings and whose PV Savings change by less than 30% following a 25 basis point parallel reduction in the yield curve. Intuitive Analytics, founded by Peter Orr, published its research on the topic of refunding policies (http://www.intuitive-analytics.com/blog/why-this-is-the-best-refunding-policy-ever) where it compared its "Alternative Policy" to that of 30 other issuer policies. Part of the research was "backtesting" its policy using historical municipal yields going back 50 years and found it consistently outperformed the other 30 tests.

Breakeven Analysis. It is worthwhile for an issuer to compare present value savings today with a future current refunding of the same bonds at current rates to gauge how high future rates would need to increase for the issuer to breakeven by waiting to do a current refunding. The issuer can weigh this breakeven rate movement against the market's and its own future rate expectations.

Refunding Opportunity Cost Index. When considering an advance refunding, we will analyze and compare the value of: (1) "today's" advance refunding at current rates vs. (2) "tomorrow's" current refunding of the same bonds at the call date using projected rates based on the 10 year MMD average. In effect, we recommend taking a second look at advance refundings to estimate and analyze the opportunity cost of waiting for a current refunding given, in particular, the negative arbitrage associated with long escrows.

Negative Arbitrage. For advanced refundings with call dates longer than 18 months, it is appropriate to consider negative arbitrage as part of the refunding criteria. Some issuers limit negative arbitrage to a specified percentage of present value savings. Another measure of negative arbitrage is an Escrow Efficiency test, which calculates the ratio of the market escrow versus a perfect escrow invested at the maximum permitted yield. We have found an escrow efficiency or negative arbitrage as a % of present value savings can complement traditional refunding tests and criteria.

Variable Rate Credit Facilities. The Tollway's $1.2 billion variable rate portfolio is currently 100% in weekly mode and is covered by 84% credit facilities (remainder is a direct purchase). Over the next 5-years leading up to each facility renew date, the Tollway should compare the costs of extending the facilities (plus remarketing expenses) versus the pricing spreads on index based floating rate notes or the fixed cost of a put bond. Piper Jaffray's short-term underwriting desk has extensive experience selling these types of bonds, as illustrated in the tombstones to the right. Additionally, the Tollway could explore applying for a TIFIA loan guarantee in lieu of a bank credit facility as described in our response to the prior question.

$47,660,000	$140,590,000	$50,000,000	$300,000,000
City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds Series 2012C (Soft Put Term Bonds)	**Pennsylvania Turnpike Commission** Variable Rate Revenue Bonds Series 2016A-2 (Hard Put – 70% of LIBOR)	**Metropolitan Transportation Authority** Transportation Revenue Bonds Series 2012A-2 (Hard Put – SIFMA Index)	**Texas Transportation Commission** State Highway Fund First Tier Revenue Bonds Series 2014-B (Soft Put – SIFMA Index)
Sole Manager November 2012 & 2016	*Senior Manager* June 2016	*Senior Manager* May 2014	*Senior Manager* April 2014

Variable Rate Conversion to Fixed-Rate/Swap Termination. The Tollway maintains seven SIFMA interest rate swaps totaling just under $1.2 billion of notional par. All of them on mark to market basis show a loss ($224.7 million in total). We understand the Tollway evaluates timing and market conditions as part of the calculation for unwinding some portion or all of its swaps with idea of converting or refunding the variable rate bonds into fixed rate bonds at a favorable all-in replacement cost which factors in any cost of swap termination. Since the swap termination cost is driven largely by the (PV of the) difference between the Tollway's existing swap rates and those rates today, the ideal market conditions for unwinding swaps, as the Tollway understands, is when spread between prevailing SIFMA swap rates and Tollway bond rates widen significantly, specifically when: (1)SIFMA swap rates (correlated more with LIBOR swap rates) are higher than they are today, which lowers the termination cost and (2) Tollway's bond rates for the comparable period are lower, which reduces the fixed rate borrowing cost, including termination costs, associated with refunding and replacing the variable rate bonds with fixed rate bonds. As the adjoining table indicates, unwinding swaps today will be costly.

Current SIFMA Swap* vs Tollway Bond Rates

Term	5Y	7Y	10Y	20Y
SIFMA Swap Rate	1.589	1.773	1.950	2.264
Tollway Bond Rate	2.050	2.420	2.850	3.590

*Source: Bloomberg 2/1/2017 *Mid*

The financial decision-making process regarding whether to retain or unwind swaps is fairly straightforward: it begins by calculating the all-in interest cost of refunding the existing variable rate bonds with traditional fixed rate bonds and financing the termination cost of the associated swap. For example, the Tollway may decide to unwind swaps so long as the resulting interest cost does not increase in comparison to the synthetic fixed rate cost (including annual support costs) by more than, say, 0.50% or another level determined by the Board. We have provided a table below detailing the all-in refunding cost, including the termination payment (at mid-market), for the Tollway's outstanding variable rate portfolio. Actual results will depend on future market conditions and the cooperation of the current counterparty.

Series	2007A-1a	2007A-1b	2007A-2a	2007A-2b	2007A-2c	2007A-2d	2008A-1a	2008A-1b	2008A-2
Refunded Par (mil)	175,000	175,000	100,000	107,500	55,000	87,500	191,500	191,600	95,800
Swap Value (current)[1]	(34,847)	(34,847)	(28,315)	(30,439)	(15,573)	(24,800)	(48,900)	(48,900)	(24,351)
Swap Rate	3.972%	3.972%	3.993%	3.993%	3.993%	3.993%	3.774%	3.774%	3.764%
Facility Fee/Spread to Index[2]	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
Remarketing Fee	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
Synthetic Fixed Cost	4.412%	4.412%	4.433%	4.433%	4.433%	4.433%	4.214%	4.214%	4.204%
Refunding Fixed All-In TIC[3]	5.351%	5.351%	5.373%	5.373%	5.373%	5.429%	5.205%	5.203%	5.195%
Difference	-0.939%	-0.939%	-0.940%	-0.940%	-0.940%	-0.996%	-0.991%	-0.989%	-0.991%
Debt Service Savings	(18,012)	(20,135)	(10,628)	(11,128)	(6,148)	(10,160)	(17,548)	(20,912)	(8,778)
PV Debt Service Savings	(14,180)	(15,969)	(8,363)	(8,741)	(4,856)	(8,012)	(13,847)	(16,616)	(6,927)
PV01	161	161	92	99	51	78	168	168	84

(1) Indicative pricing shown above is subject to market conditions and credit approval. All mark-to-market figures are estimates for information only. Figures assume a uniform increase in swap rates across the curve. Actual values will depend on future market conditions. Both counterparties must agree to early terminations except as defined in the swap documents.
(2) Average for all facilities and direct purchase (2008A-1b) as provided by Addendum #1 to the RFP
(3) Refunding All-In TIC includes cost of swap termination
Assumptions: Market rates as of January 27, 2017; COI = $5/bond; Delivery Date = April 4, 2017

Other Considerations: Build America Bonds Crossover Refunding: The Tollway currently has $100 million of Series 2009A Build America Bonds ("BABs") outstanding callable at par on January 1, 2019. The par call provisions of the outstanding BABs may provide the Tollway with favorable future tax-exempt refunding results considering that tax-exempt rates have fallen since the issuance of the BABs. However, the Tollway must be careful not to trigger a reissuance of the BABs through a legal defeasance in the eyes of the IRS and thereby risk losing the federal BABs subsidy (the "Subsidy").

To avoid a reissuance, the Tollway may consider issuing tax-exempt crossover refunding bonds to lock in favorable tax-exempt rates after the call date. The proceeds of the crossover refunding bonds are invested in securities that pay for the refunding bond interest (like capitalized interest) until the "crossover date" (usually the call date) and for the refunded bond principal and any call premium. Since a crossover refunding is not a legal defeasance of debt, and the interest payments on the crossover refunded bonds continue to be paid by the issuer until the crossover date, most bond counsel are of the opinion the issuer can continue to receive the Federal Subsidy on the crossover refunded bonds until the crossover date. The refunded bonds will still carried on the Tollway's books and need to be included in the Additional Bonds Test (unless provision is made for their issuance under the junior lien indenture). Currently, crossover refunding savings do not meet the Tollway's 3% PV threshold, but the financing is worth monitoring.

Refunding Summary Statistics			
	Crossover	Current Refunding	Current Refunding + 52bps
Delivery Date	3/1/2017	12/2/2018	12/2/2018
Arbitrage yield	2.077%	1.733%	2.252%
Escrow yield	1.146%	0.00%	0.00%
Value of Negative Arbitrage	1,355,061	-	-
Refunded Bond Par Amount	78,060,000	78,060,000	78,060,000
Refunding Bond Par Amount	73,940,000	73,750,000	74,805,000
All-In TIC	2.195%	1.917%	2.439%
Net PV Savings to 3/1/2017	1,298,940	2,454,733	1,303,990
%PV savings of refunded bonds	1.664%	3.145%	1.670%

Provide descriptions of two or three recent examples of municipal financings that demonstrate your firm's creative skills and services for the benefit of its municipal clientele, as relating to the structuring and underwriting of a bond financing.

Pennsylvania Turnpike achieved the lowest all-in rate for a 30-year senior lien bond structure at the tightest spreads	
Issuer	Pennsylvania Turnpike Commission ("PTC")
Role	Senior Manager
Description	$447,850,000 Turnpike Revenue Bonds, Series 2016A-1 (Fixed Rate)
	$140,590,000 Variable Rate Turnpike Revenue Bonds, Series 2015A-2 (70% of LIBOR)

Debt Strategies. With a $7 billion 10-year capital program, $450 million in annual Pennsylvania Act 44 obligations utilized to fund statewide transit funding requirements, and over $10 billion in debt outstanding (50% of which has been issued since 2008 upon the enactment of Act 44), Piper Jaffray has taken an active role in the development of debt strategies that enables the PTC to meet its capital funding needs along with their contributions towards transit funding as required under state law. Piper Jaffray has assisted the PTC with developing and implementing their funding strategies over the past several years, serving as an underwriter on over $3 billion of debt, including senior managing $170 million in 2013, $259 million in 2015, and $588 million in 2016.

Piper Jaffray has developed a linear optimization financial model that provides the PTC staff with a tool that allows them to (1) forecast projected financial ratios based upon different operating inputs and capital funding scenarios and (2) in comparison with four other Turnpike credits, develop capital funding solutions which achieve lowest true interest costs while maintaining debt coverages consistent with policy.

Bond Marketing Plan Summary. A challenge leading into the transaction was the flurry of recent Pennsylvania Turnpike transactions ahead of the Series 2016A issuance. The Commission had come to market 3 times with a total par amount of over $1.5 billion within an 8-week period leading up to the Series 2016A issuance. A number of these transactions were undersubscribed, driving concerns that institutional investors had limited capacity for the 2016A Bonds. Piper Jaffray's marketing process focused on targeting large anchor accounts with Pennsylvania Turnpike holdings and further expanded our investor targets to smaller Tier 1 accounts along with Tier 2 and Tier 3 buyers. Significantly, Piper secured orders from 46 institutional investors who had not previously purchased Turnpike bonds, representing $120 million in final allotments. Our sales outreach focused on emphasizing the improvements in the Commission's underlying senior lien credit, including significant net operating income performance in through the first three quarters of 2016 versus the same period in 2015. Additionally, the capital program had been modified to focus on state-of-good repair rather than expansion projects, which ultimately reduced the size of the capital program. Given this reduction, the updated PTC financial model projected lower senior lien debt issuance and more conservative debt structuring assumptions, including the elimination of deferred interest bonds. Through the use of the investor net roadshow and one on one calls with investors, the Piper team highlighted these changes to investors to help explain the improved financial metrics related to the Commission's credit.

Texas Transportation Commission: Commission's first use of soft put	
Issuer	Texas Transportation Commission (the "Commission")
Role	Senior Manager
Description	$300,000,000 State Highway Fund First Tier Revenue Bonds, Series 2014-B (SIFMA Index Floating Rate Bonds)

In 2014, Piper Jaffray was named as book running joint senior manager for the Texas Transportation Commission (the "Commission") Series 2014A ($1,157,795,000) and 2014B (SIFMA Index Floating Rate) Bonds that priced on Thursday, March 6, 2014. The Series 2014-B portion was structured as a 3-year SIFMA Index Soft Put Bond with a mandatory tender date of 4/1/2017. This was the Commission's first experience with the use of a soft put, and we worked closely with the Commission and its financing team in developing the structure and terms of this new issue.

The SIFMA structure was selected to take advantage of low variable interest rates and diversify the Commission's debt portfolio. The Series 2014B Bonds were premarketed at a spread of +35 basis points to SIFMA and a stepped rate of 8%. Investors on prior comparable transactions had focused on the stepped rate, pushing it higher. However, due to the Commission's Aaa/AAA ratings and high coverage ratios, there was very little pushback from investors on this transaction. At the end of the order period, there were $806,725,000 of total orders for the Series 2014B Bonds, $686,725,000 of which were priority orders from 17 different investors. The Bonds were 2.3 times oversubscribed on a priority basis.

School District of Greenville, SC: Private placement locked in significant present value savings of non-advance refundable bonds through forward delivery bonds	
Issuer	The School District of Greenville, SC (the "District")
Role	Placement Agent
Description	$452,500,000 Installment Purchase Revenue Refunding Bonds, Series 2016

In July 2015, Piper Jaffray served as placement agent on the District's $452.5 million forward delivery bonds. The refunded bonds were callable on December 1, 2016, but were non-advance refundable on a tax-exempt basis. Piper Jaffray presented a comparison of refunding options to the District and its financial advisor including a taxable advance refunding, forward delivery bond (general market and private placement), MMD rate lock and a Cinderella bond structure. Ultimately, Piper Jaffray was able to locate a large national commercial bank interested in the private placement at an attractive rate to the District. The forward delivery bonds locked in net PV savings of $56 million (12.0% of refunded par), plus a resulting debt service reserve fund release of $27.5 million. The results of the sale compared very favorably to a taxable advance refunding which would have resulted in an estimated net PV savings of $31.3 million (6.4% of refunded par).

Provide your firm's ideas on how best to conduct a negotiated sale. For purposes of this response, assume a $300 million senior lien fixed rate bond issue with maturities in years 15-25. You may include recommendations on the optimal size of the underwriting group, including the number of senior managing underwriters, co-senior managing underwriters and co-managing underwriters, and recommendations for supporting fair allocations among members of the underwriting group.

Our response to this question is exemplified by the manner and results associated with our management of the Tollway's Series 2016B bonds which were marketed to the full spectrum of investors. At the time of the offering, our group's premarketing efforts proved of great importance because what had been a steady strong tax-exempt market , with all time low yields of the prior week, started to drift weaker due to increased supply and reports of a surplus of investor high grade bond balances. After the order period, rates continued to weaken after the release of hawkish FOMC minutes that put the market on notice for a June rate hike. While we were not able to adjust spreads lower at the long-end of the bonds, the Tollway achieved its lowest spreads to MMD of 44 basis points (compared to prior day MMD) since the State of Illinois credit decline began.

Par	$300,000,000				$333,060,000			
Series	2016 Series B				2016 Series A (Refunding)			
Underwriter	Piper Jaffray & Co.				RBC Capital Markets			
Maturity	1-Jan				1-Dec			
Par Call Date	7/1/2026				1/1/2026			
Pricing Date	5/18/2016				12/8/2015			
Maturity Count	Coupon	Yield	MMD (5/18)	Spread	Coupon	Yield	MMD	Spread
11	5.000%	2.030%	1.690%	0.34			2.110%	
12	5.000%	2.150%	1.780%	0.37			2.190%	
13	5.000%	2.220%	1.830%	0.39			2.270%	
14	5.000%	2.310%	1.900%	0.41			2.350%	
15	5.000%	2.380%	1.950%	0.43			2.420%	
16	5.000%	2.450%	2.010%	0.44	5.000%	3.030%	2.470%	0.56
17	5.000%	2.510%	2.070%	0.44	5.000%	3.070%	2.520%	0.55
18	5.000%	2.570%	2.130%	0.44			2.570%	
19	5.000%	2.630%	2.190%	0.44			2.620%	
20	5.000%	2.680%	2.240%	0.44			2.670%	
21	5.000%	2.730%	2.290%	0.44			2.720%	
22	5.000%	2.760%	2.320%	0.44			2.770%	
23			2.350%				2.810%	
24			2.380%				2.830%	
25	5.000%	2.840%	2.400%	0.44			2.850%	
		Weighted Average:		0.44		Weighted Average:		0.55

Par	$400,000,000				$400,000,000			
Series	2015 Series B				2015 Series A			
Underwriter	Ramirez & Co.				BAML			
Maturity	1-Jan				1-Jan			
Par Call Date	1/1/2026				1/1/2025			
Pricing Date	11/19/2015				7/9/2015			
Maturity Count	Coupon	Yield	MMD	Spread	Coupon	Yield	MMD	Spread
11			2.230%				2.390%	
12	5.000%	2.770%	2.330%	0.44	5.000%	3.020%	2.510%	0.51
13	5.000%	2.920%	2.410%	0.51	5.000%	3.170%	2.610%	0.56
14	5.000%	3.100%	2.490%	0.61	5.000%	3.290%	2.690%	0.60
15	5.000%	3.180%	2.570%	0.61	5.000%	3.420%	2.760%	0.66
16	5.000%	3.250%	2.630%	0.62	5.000%	3.540%	2.820%	0.72
17	5.000%	3.300%	2.680%	0.62	5.000%	3.590%	2.870%	0.72
18	5.000%	3.370%	2.730%	0.64	5.000%	3.620%	2.910%	0.71
19	5.000%	3.420%	2.780%	0.64	5.000%	3.700%	2.950%	0.75
20	5.000%	3.470%	2.830%	0.64	5.000%	3.740%	2.990%	0.75
21	5.000%	3.540%	2.880%	0.66	5.000%	3.780%	3.030%	0.75
22	5.000%	3.590%	2.930%	0.66	5.000%	3.850%	3.070%	0.78
23			2.960%				3.100%	
24			2.980%				3.130%	
25	5.000%	3.650%	3.000%	0.65	5.000%	3.850%	3.160%	0.69
		Weighted Average:		0.65		Weighted Average:		0.70

Par	$400,000,000			
Series	2014 Series C			
Underwriter	Morgan Stanley			
Maturity	1-Jan			
Par Call Date	1/1/2025			
Pricing Date	10/30/2014			
Maturity Count	Coupon	Yield	MMD	Spread
11			2.140%	
12			2.240%	
13	5.000%	2.820%	2.310%	0.51
14	5.000%	2.950%	2.370%	0.58
15	5.000%	3.040%	2.420%	0.62
16	5.000%	3.110%	2.470%	0.64
17	5.000%	3.170%	2.520%	0.65
18	5.000%	3.230%	2.570%	0.66
19	5.000%	3.280%	2.620%	0.66
20	5.000%	3.330%	2.670%	0.66
21	5.000%	3.380%	2.720%	0.66
22	5.000%	3.430%	2.770%	0.66
23	5.000%	3.480%	2.820%	0.66
24	5.000%	3.510%	2.850%	0.66
25	5.000%	3.530%	2.880%	0.65
		Weighted Average:		0.65

While anchored by the Tollway's largest bondholders, including Nuveen, Blackrock, CapRe and Fidelity, the 2016B sale also included 13 new institutional investors . Those new investors included reputable but less recognized investors such as Bluefin Trading LLC, Gannet Welsh & Kotler Investment Management, and Eagle Asset Management.

Conducting the Sale. *Senior Manager Responsibilities.* Tollway should require its senior managers to communicate frequently with co-managers beginning at least four weeks prior to pricing. With advance notice, the lead banker from each co-manager will be accountable and motivated to manage internal procedures, provide advance notice on calendars, and communicate with sales staff.

Preliminary Official Statement (POS) Posting. Given the volume of new offerings and secondary market trading, an issue becomes "real" and gets the internal attention of staff when the finance team posts the POS. Posting the POS and investor presentation at least two weeks prior to pricing gives firms greater opportunity market an issue prior to the sale date.

Proactive Analysis of Alternative Structures (Coupons, Call Dates). The Tollway can spur additional competition by making alternative structures available to investors during the marketing period. The Tollway credit will attract a different mix of investor types which will drive the popularity of different structures. Notably, the Tollway could find interest from direct retail for par-ish coupons at the 15- and 20-year maturities. The decision as to whether to offer alternative structures requires the Tollway to appreciate the comparative economic value or cost. Although 4% coupons may, in the short term, present the Tollway with lower debt service costs, this often comes at the expense of potential refunding opportunities in the future. Theoretically, pricing and structuring decisions should taking into account both the refunding of the initial bonds, and the refunding of the subsequent refunding bonds, i.e. the "second generation" refunding, to get a total projected all in Refunding Adjusted Yield ("RAY"). Unfortunately, traditional Option Adjusted Spread models do not reflect the issuer specific value of potential call options and therefore may not accurately reflect refunding economics for each issuer. Piper Jaffray utilizes bond structuring and solution software which uses an issuer's actual refunding criteria in order to evaluate different coupon structures and call dates by looking at the long-term expected capital cost of a bond, properly accounting for future refundability.

We have provided two examples of the analysis below performed on new money callable bonds maturing January 1, 2037 and assuming the Tollway's current market pricing. As Senior Manager, we would test all maturities where the Desk believes there would be interest for alternative structures. This analysis would provide a breakeven pricing for the alternative structures necessary to provide value to the Tollway, which would then be compared to the pricing the market is willing to accept.

- *Alternate Coupons.* As our intuition would tell us, the yield to maturity on the 5% coupon is higher than the 4% coupon. However, since the 5% coupon is more likely to be refunded one or more times before maturity, its Refunded Adjusted Yield ("RAY") is less than that of a 4% coupon bond by 18 basis points.
- *Alternate Call Dates.* This example compares a traditional 10-year par call to an 8-year par call. While the market is currently pricing the yield to call the same, as expected the yield to maturity on the shorter call is higher than that of the 10-year call option. The resulting analysis suggests that over the life of that bond, the shorter call will provide the Tollway with a lower cost of capital versus the traditional call option by approximately 10 basis points.

Comparison	Coupon (%)	Call Option	Maturity (1/1)	Yield to Call (%)	Yield to Maturity (%)	Ref Adj Yield - 1st Gen (%)	Ref Adj Yield - 2nd Gen (%)
Couponing	5.00	10-year	2037	3.59	4.14	3.103	2.969
	4.00	10-year	2037	3.94	3.97	3.287	3.148
Call Date	5.00	10-year	2037	3.59	4.14	3.103	2.969
	5.00	8-year	2037	3.59	4.28	3.009	2.872

Syndicate Makeup and Allocation Rules. The Tollway was well served by the syndicate structure and size during the last underwriter contract period (e.g. 2 Joint Bookrunners; 2 Co-Senior Managers; 5 Co-Managers) The size allowed the Tollway to assemble a group of firms capable of effectively marketing its offerings to a diverse group of investors. Adding more members would potentially hurt overall marketing by diluting salesforce compensation and thereby discouraging active marketing by all account managers. The determination of firms chosen to participate in a Tollway's syndicate should balance the objectives of rewarding firms which have provided relevant banking coverage and financial analysis and also of including firms viewed as likely to be effective marketers of the Tollway's offerings to the broadest range of investors. A Group Net designation policy also ensures that the takedown will be shared more proportionally between syndicate members to meet the Tollway's goals.

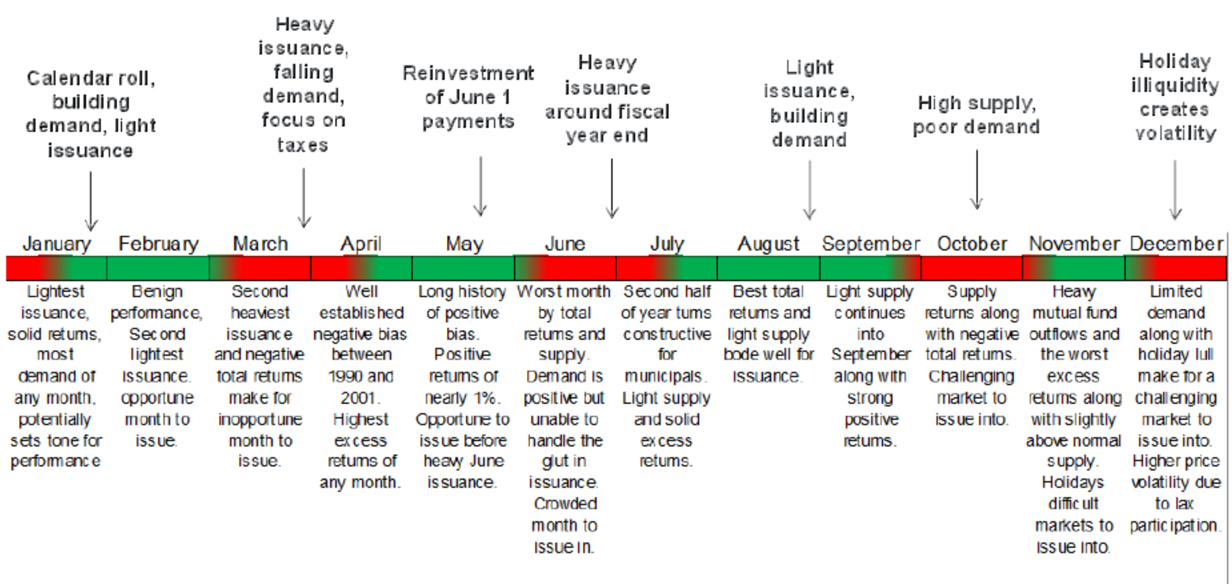
6(b). TECHNICAL APPROACH – MARKETING

Provide a marketing plan for Tollway bonds, assuming a $300 million senior lien fixed rate bond issue with maturities in years 15-25, which capitalizes on your firm's marketing strengths to help broaden the market for the Tollway's bonds.

The Tollway is a mature, well-respected and received credit among all investor classes, one of the strongest in Illinois, and our aim in marketing a $300 million Tollway issue would be develop strategies for distributing the bonds even more widely than now and to further, positively distinguish the Tollway from other similarly rated and toll road credits to maximize the price for each maturity of bonds. The marketing fundamentals, involving ongoing communication with the Tollway and underwriting syndicate members, consist of sound rating agency presentations, thorough official statement disclosure for communicating with investors, and sale timing based on economic announcements, competing issues, and general municipal supply and demand patterns. Three key elements necessary for a successful sale and worth elaborating on center on (1) market timing (2) credit and rating agency considerations and (3) investor focus.

Market Timing. A simple and straightforward matter, but worth emphasizing: Because the Tollway credit is so-well received , it becomes even more imperative for establishing scheduling parameters; data (highlighted in the diagram below concerning seasonal issuance patterns) shows historically better and worse times for issuers like the Tollway to sell bonds to ensure it gets the most attention and competition among investors. Timing of the Tollway's sale can be adjusted accordingly, but our proposed plan for issuance timing will have three focuses:

- national economic and municipal finance considerations involving new issuance supply and expectations, Fed actions, major economic announcements, interest rate outlook provides overarching framework
- new issuance calendar both nationally and locally (principally major Chicago area and State of Illinois issues) which helps guide timing away from large competing sales
- Seasonal investor patterns concerning factors such as municipal mutual fund flows offer insights into the optimal time to issue, as do trends such as traditional retail buying patterns



Credit and Rating Agency Considerations. In light of recent several credit related events that affected the municipal bond market, notably the financial distress of Detroit and Puerto Rico, investors are placing an increased focus on the underlying credit quality of municipal bond issuers. As a result, it is more important than ever for the Tollway to continually update market participants, including investors and the rating agencies, on the progress of its capital program, factors affecting demand for its services, and the status of its financial operations. A prime opportunity to communicate with key market participants arises with a bond transaction, thus the Tollway should take the time to assure it presents its message to the market in the most effective means possible.

When initiating the marketing plan for a particular transaction, attention should be paid to developing a strategy for approaching the rating agencies regarding a review of the Tollway's credit including a timeline for key events. The Tollway should alert the agencies once the timing for a transaction is known to allow them sufficient time to assign analysts and incorporate the request into their work flow. By doing so, the Tollway creates an opportunity for the agencies to indicate any particular concerns or credit issues that the Tollway needs to address during the formal ratings meeting. Key documents and information should be provided to the agencies at least one week prior to a planned rating meeting. Furthermore, the Tollway should allow a minimum of one week between the rating meeting and the publication of the ratings and POS to allow the analysts to complete their review, ask any follow up questions, and take the credit to committee.

Based on our review of the most recent rating agency reports, the Tollway maintains a sound credit profile with ratings of Aa3 / AA- / AA- with stable outlooks from Moody's, S&P and Fitch, respectively. The major concerns expressed by the agencies center on the Authority's future capital program and related borrowings, construction risk associated with the program -particularly with the planned western bypass of O'Hare International Airport- and the maintenance of the Tollway's strong debt service coverage levels.

In our opinion, the Tollway's rating presentation should focus on the demonstrated need for the projects in the capital program; the progress of the capital program and adherence to schedule and budget; and the recent performance of the system: it recorded an increase in transactions of 5.06% through the third quarter of 2016 compared to the same period in 2015, resulting in a 5.99% gain in revenues bolstered by the second of three scheduled toll increases for commercial vehicles in January 2016. The Tollway should be ready to address questions regarding: the financial challenges of the State and major regional local governments, and the possible implications to the Tollway both directly (any specific actions that affect the Tollway) and indirectly (in terms of economic consequences); and progress on the proposed western bypass and recent news reports regarding difficulties in negotiations with the Canadian Pacific Railroad about the planned alignment through the freight yard south of O'Hare.

The rating agencies and investors also look to comparable toll facilities to assess the relative strength of a municipal issuer. In the table below, we provide a snapshot of comparable facilities based on metrics from fiscal year 2015. In general, the Tollway compares favorably to its peers in terms of operating margin, debt service coverage and debt to net operating income. Toll roads have performed well in recent years due to economic conditions and lower gasoline prices that drove a nationwide increase in vehicle miles travelled. However, financial pressure on state budgets led several states to request ongoing transfers of toll revenues to fund general transportation needs, undermining the credit quality of the toll facility. Also, the lack of progress of the industry to achieve either electronic toll collection (ETC) interoperability or reciprocity of state toll enforcement has affected toll facilities on the east coast to a greater extent than the Tollway. We believe that the Tollway's ability to achieve the highest level of ETC penetration among its peer group is a positive credit factor.

Toll Authority	IL Tollway	Central Texas Reg. Mobility	Florida Turnpike*	Mass Turnpike	New Hampshire	NJ Turnpike	New York Thruway	North Texas Tollway*	OH Turnpike	PA Turnpike
Senior Ratings (M / S / F)	Aa3	Aa3	Aa2	Aa2	A1	A2	A2	A1	Aa3	Aa3
Roadway Miles	287	17.80	483	16	89	320	570	80	241	535
Transactions (000s)	881.6	62,055.00	767.9	95.8	111.4	628.9	259.7	676.5	53.4	198.3
Gross Revenues ($000)	1,241.3	53,995.00	894.9	348	122 .5	1,712.2	729.1	655.6	312.5	1,088.7
Operating Expense ($000)	350.7	16,903.00	177.7	185.2	51.9	503.4	345.8	1673.3	111 .1	455.1
Net Operating Income ($000)	890.6	37,093.00	717 .2	162.8	70 .6	1,208.7	383.3	482.3	201.3	633.6
Operating Margin	71.5%	68.50	80.1%	46.3%	56.5%	69.1%	52.5%	73.4%	63.4%	56.8%
Total Debt ($000)	5,784.2	794,863.00	2,777.2	1,908.5	419.0	10,786.9	4,892.5	7,840.3	1,593.3	10,058.0
Revenue per Transaction ($)	1.30	0.86	1.13	2.21	1.06	2.647	2.66	0.91	5.25	5.20
Operating Expense per Transaction ($)	0.40	0.27	0.23	1.93	0.47	0.80	1.33	0.26	2.08	2.30
O&M Expense per Roadway Mile ($000)	1,224	950	368	11,364	5783	1,573	607	2,166	461	851
Debt to NOI	649%	2143%	387%	1,173%	593%	892%	1,276%	1626%	791%	1588%
Senior Coverage	2.5x	2.1	2.8x	1.1x	2.0x	1.8x	1.6x	1.6x	3.4x	2.9x

Source: Moody's Municipal Financial Ratio Analysis Database (MFRA), as of January 25, 2017
Represents toll facilities that have completed AET implementations

Investor Focus--General Marketing The central marketing document for communicating with investors is the official statement which needs to be extraordinarily thorough and detailed, providing well known and reported economic strengths of the Tollway, critical to investors. Tollway's Finance and Investor Information portion of its website provides comprehensive information and material very useful for marketing that can be drawn upon. There needs to be adequate time – we recommend two weeks to do a thorough job – between the time of the publication of the official statement and communicating information therein to multiple investor groups. This amount of time will give the Tollway several options for communicating with investors including investor meetings and/or calls (which can be recorded and made available widely) and internet road shows.

Given current investor focus on credit quality, the marketing period affords investors the opportunity to fully examine and get up-to-date on the Tollway's credit and circumstances. At the same time it enables the sales force to get a sense of investor's appetite for alternative structures (e.g. alternative couponing, bifurcated maturities, short call dates, etc.) potentially beneficial to the Tollway. Given the size of the final maturities the Tollway has recently sold, diversifying structures can help broaden demand and diversify and elicit new investors.

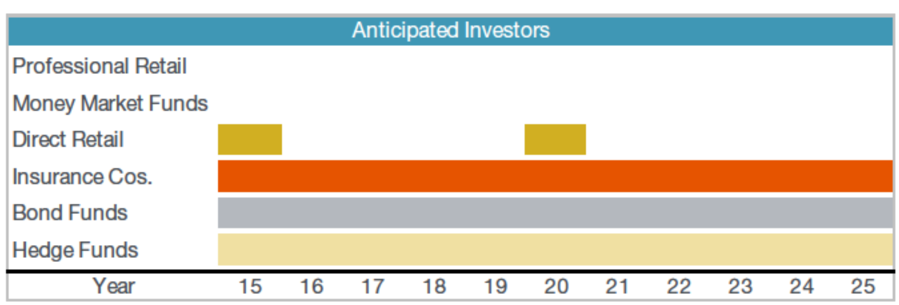
Our pre-marketing campaign, focused on sales force (weekly calls) and investor education, will do the following:

- Electronically distribute the POS, which reflects the credit of the Tollway, at least two weeks prior to pricing;
- Produce and broadcast an Internet Roadshow
- Use Piper Jaffray's dedicated Research Group to create and distribute internal memoranda to our national sales force, highlighting the transaction and key points which we would emphasize to investors as well:
    - Essentiality of the Tollway System to the region
    - Demonstrated willingness to increase rates when necessary
    - Strong debt service coverage in excess of 2.0x
    - High grade revenue bond structure, double A category, distinctive among Illinois credits for its demographic and financial strengths and unique asset class
- Develop Marketing material for any type of investor meetings

We will work with the Tollway's municipal advisor and staff to prepare an investor presentation highlighting the Tollway's financial results, management, budgetary and financing plans. This presentation has elements taken from rating agency presentations, but for regulatory purposes all information conveyed to investors has to come from the Official Statement, which places critical importance on the extent and scope of such information reported therein. An investor "Net Road Show" does offer institutional investors an opportunity to learn salient information about the Tollway, hear directly from Tollway staff members and to address any credit concerns they might have. Investors often will not ask questions during an in-person Internet Roadshow, and prefer an opportunity to ask management directly to address a number of concerns. Arranging one-on-one conference calls following the Internet Roadshow, or as part of targeted outreach, can provide an important opportunity to address these concerns. As a matter of practice, as Senior Managing Underwriter, Piper would identify 6 or more investors who would benefit from additional interaction with management. These calls would occur 2 or 3 days prior to pricing.

Investor Marketing - Demand Optimization and Expansion. Piper Jaffray has a solid reputation among all investor tiers and can bring that expertise to the Tollway when acting as the senior manager on a new issue. We negotiate, and sell to all investor groups, approximately 700 transactions a year, of all dollar sizes, from one million to over one billion. Accordingly, in addition to our coverage of Tier 1 investors, Piper Jaffray offers the Tollway a middle market sales force numbering over 100 in fifteen regional hubs across the country that focus on Tier 2 and 3 accounts. *The added distribution channel to Tier 2 and 3 investors is a distinctive capability that will assure the Tollway further competition for its bonds from a smaller asset group but numerically larger number of potentially new investors.*

We believe that it is vital that the marketing strategy focus on attracting new investors and to strengthen relationships with current investors who, due to their size, may have the ability to expand their holdings. To achieve both of these goals, Piper Jaffray will identify and target investors across diverse segments of the market according to the amortization structure being offered. Piper Jaffray has experience in this form of investor outreach, and we have included below some of our thoughts regarding investors and market segments that will and will not participate in a transaction assuming a $300 million maturating in years 15 through 25.



- Tier 1 – Our principal sales and marketing plan which will focus on broadening and deepening the number of Tier 1 investors, profiled below, essential for long term stability of the Tollway's borrowing programs
- Tier 2 and 3 – As a group, these accounts are numerous enough to generate real buying power, and a meaningful part of the sales book for a transaction. Piper recommends that a concentrated effort be made to market the Tollway's bonds these investors. We are singularly qualified to assist the Tollway in this effort, due to our unique distribution network and experience on similar efforts for issuers.
- Due to the amortization structure, we would not expect to see much participation from money managers/trust departments (e.g. Northern Trust, Wilmington, Standish, Thornburg, etc.) as they prefer the 10-12 year portion of the yield curve.

Analysis of changes in investor composition of Tollway debt is central to our marketing strategy and investor targeting. Since the Tollway has been a frequent issuer in the public debt markets and its credit is widely known by investors in the tax-exempt arena, the key to our proposed marketing strategy will be to build upon the Tollway's most recent marketing success with its Series 2016B sale led by Piper Jaffray and our understanding of the changes in profile of investors purchasing Tollway bonds. The table below illustrates the current top investors in the Tollway's tax-exempt bonds and their quarterly changes in positions dating back 2 years. Based on our review of the current bondholders, we believe the Tollway is well represented and appears to have more support than its peer toll roads.

Top Bondholders	Investor Type	Current Par Held	Total Change since Q1 2015	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1 Par Held
		($000s)	($000s)	($000s)	($000s)	($000s)	($000s)	($000s)	($000s)	($000s)	($000s)
The Vanguard Group, Inc.	MF	291,385	(24,030)	495	(10,975)	(31,225)	(12,565)	67,210	(13,970)	(23,000)	315,415
Nuveen Asset Management, LLC	MF	231,080	148,135	3,450	32,715	57,705	(935)	38,930	18,995	(475)	82,945
BlackRock Advisors, LLC	IM	217,148	14,804	(38,790)	1,055	5,990	(56,915)	39,510	21,755	(646)	202,344
Capital Research & Management Company (U.S.)	IM	159,225	34,105	(3,800)	(5,000)	30,905		15,000	(3,000)		125,120
Fidelity Investments Money Management, Inc.	MF	136,315	77,275	(13,325)	(25,475)	33,250		34,500	35,000		59,040
AllianceBernstein, L.P. (U.S.)	IM	101,715	61,110	5,000			19,310	40,410	(3,610)		40,605
AIG Asset Management (U.S.), LLC	INS	91,810	91,810		85,650				6,160		
State Farm Investment Management Corporation	INS	75,000	(22,800)						(22,800)		97,800
PineBridge Investments, LLC	INS	74,230	(18,044)	(2,505)	(4,995)			(3,874)	(6,300)	(2,875)	92,274
T. Rowe Price Associates, Inc.	IM	61,400	22,975			32,125		350	(9,500)		38,425
Deutsche Investment Management Americas, Inc.	IM	57,795	(21,095)	(1,485)	1,485		(4,000)	11,420	(30,000)		78,890
PGIM, Inc.	IM	57,725	11,100			1,000		13,100	2,000	(5,000)	46,625
Columbia Threadneedle Investments (U.S.)	MF	49,605	14,830			3,500	(150)	18,480	(2,000)	(5,000)	34,775
Wells Capital Management, Inc.	IM	37,550	26,550		(5,000)			31,550	(23,000)	23,000	11,000
USAA Asset Management Company	INS	36,470	36,470			13,000		5,000	18,470		
MFS Investment Management	MF	29,500									29,500
Northern Trust Investments, Inc.	IM	29,000	(20,400)	(1,000)	(11,175)	5,500	(10,900)	14,500	(19,325)	1,000	49,400
Wilmington Trust Investment Advisors, Inc.	IM	28,295	4,784		(2,405)	(300)	2,680	505	1,170	3,835	23,511
Guardian Investor Services, LLC	INS	27,350	23,850		25,350		(1,500)				3,500
Standish Mellon Asset Management Company, LLC	IM	27,185	17,935					17,935			9,250

Where services are to be performed:

Location where services will be performed: **State of Illinois, United States**

Percentage of contract of services performed at this location: **100%**

7. FINANCIALS

PDF versions of Piper Jaffray's Annual Financial Reports for 2013, 2014 and 2015 are included on the enclosed CD.

PiperJaffray®

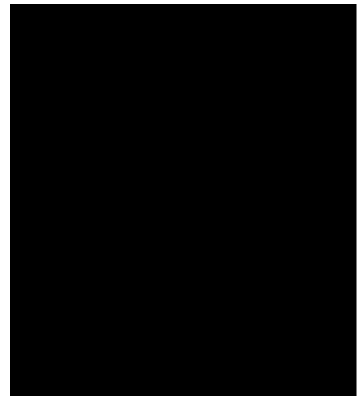
REALIZE THE POWER
OF PARTNERSHIP℠

2015 Annual Report

Piper Jaffray Companies

Chairman's Letter

Fellow Shareholders —



As we reflect on the year just completed, we find significant progress and accomplishment. The firm produced record revenues in 2015. Since 2011, we have increased operating profits by 150%, and tripled our return on equity. We also advanced our strategy of moving the firm toward higher margin, less volatile businesses. None of this would have been possible without the commitment and drive to succeed of my 1,100 partners in the firm.

It is on the back of our strong internal partnership that we produced solid results for you, our shareholders. Partnership at Piper Jaffray, however, means more than this. We also partner with our clients to understand their businesses and what they need to meet their goals. We help them with advice they trust and securing funds to achieve their goals. Partnership at Piper Jaffray also extends beyond our corporate clients, as we partner with communities that want to improve educational opportunities or expand care for their senior citizens. Our partnership with communities is deep and personal, as both the firm and our employees contribute time and money to address special challenges faced by our communities.

From our shareholders, to our clients, to our communities, we demonstrate every day what can be accomplished working together as partners towards a common goal. This was the impetus for creating a new brand which embodies the Piper Jaffray partnership culture: **Realize the Power of Partnership**℠. Our brand speaks to the strength of the partnership that is interwoven throughout Piper Jaffray, and that extends to our clients and communities. It embodies our belief that the greatest success comes from working in partnership.

2015 Highlights

As your fellow shareholder, I know that sometimes it is difficult to see beyond the financial results and look to the underlying quality of the firm and its people to understand what drives these results. Certainly, market conditions influence our results. And while we cannot control the markets, we do control our commitment to high performance. For 2015, you will see examples of this commitment prominent in every part of the firm.

Firm Highlights

We made significant strides to build value for our shareholders, the results of which can be seen in a number of areas. First, we purposely remixed the business over the past few years to higher margin, less volatile businesses that require less capital. With the remix, we believe that our shareholders should derive the dual benefits of increased earnings plus an expansion of the multiple on those earnings.

In 2015, building on a multi-year effort, asset management, advisory and public finance represented 56% of our revenue versus 29% prior to the acquisition of Advisory Research in 2010, our last major asset management investment.

Market share gains across several businesses mark another sign of our commitment to high performance. We outperformed the market across our public finance, advisory and equity capital raising businesses as we gained market share in each of these areas in 2015.

Chairman’s Letter

Equity Investment Banking

Our goals for equity investment banking have remained consistent over the past few years: remix our business to include a greater portion of advisory services (mergers and acquisitions) and enter the two industry sectors where we previously did not compete—financial institutions and energy.

Relative to advisory, we reaped the rewards of multi-year investments and development efforts. Advisory revenue in 2015 topped $200 million and averaged about $200 million over the past two years. In the five years prior to 2014, revenue in our advisory business averaged about $75 million. Internal development of our people, coupled with selective hiring and acquisitions, have contributed to the significant market share gains for this business.

Our patient approach to expanding into financial institutions and energy paid off this year. We executed on a major hiring effort in our financial institutions group (“FIG”), supplemented by the acquisition of River Branch. In addition, we announced the acquisition of Simmons & Company International (“Simmons”) to compete in the energy sector. These initiatives solidly position us in two major economic sectors where we heretofore had no presence, contribute to our goal of remixing the business to advisory, and represent growth opportunities as we bring our broader set of products to bear for our new clients.

In equity capital raising, we grew market share as we increased revenue by 4% for the year, compared to a flat fee pool for the market within our focus sectors. We were book runner on 70% of our deals in 2015, compared to 52% in 2014, which reflects the strength of our capital markets franchise.

Public Finance and Fixed Income

Revenue for our public finance group also reached a new record, while our fixed income business generated impressive performance on the strength of our longstanding leadership in municipals together with solid risk management.

In public finance, market share gains driven by geographic, sector and product diversification led to strong results in 2015. We completed more than 700 municipal negotiated transactions, which moved us up to #2 in the overall rankings (in terms of number of deals). Our public finance revenues increased 45% in 2015 compared to an 18% increase market-wide in municipal-negotiated issuance, reflecting our market share gains.

Our fixed income business also took a major step forward in 2015 with the acquisition of BMO Capital Markets’ GKST Inc. subsidiary. This expanded our middle market sales force by over 25%, strengthened our trading desks and enhanced our strategic analytic capabilities. The additional flow from the larger sales force enables us to manage our capital more efficiently through increased turnover and improved trading capabilities.

Chairman's Letter

Asset Management

We produced strong performance in a number of our key products including Small Cap Value and Japan Value, which exceeded their benchmarks by 700 basis points and 300 basis points, respectively, in 2015. Moreover, we achieved neutral asset flows for the year in the context of market headwinds caused by a persistent migration of funds to passive strategies.

Undoubtedly, declining market valuations were tough for our asset management business this year. These declines particularly were acute due to our exposure to the energy sector through one of our flagship strategies, MLPs. Nevertheless, we still saw positive net inflows into this product throughout the year.

Corporate Support

The skill and dedication of our corporate support group is a key differentiator for the firm, and a major contributor to our strategic initiatives. In 2015, we completed two acquisitions and agreed to a third acquisition, which closes in the first quarter of 2016. The group's planning and execution for converting the acquired firms to the Piper Jaffray platform help us capture, and often exceed, targeted cost synergies. Between the organic initiatives of the past few years, and the acquisitions, our corporate support group now supports over 20% more revenue producers with essentially the same level of resources, producing meaningful returns for our shareholders.

Capital Management

We have consistently demonstrated our commitment to returning capital to shareholders through aggressive repurchasing of shares over the past few years, including 2015. Also, we conveyed to our shareholders that a critical aspect of our strategy involved improving the strength, competitiveness and performance of our firm. With these improvements we would enjoy the dual benefits of attracting opportunities and having the management and financial capacity to execute on these opportunities. Our discipline in effectively managing capital over the past few years has allowed us to make significant strides in both returning capital to shareholders and investing in future growth.

During the year, we repurchased 2.7 million shares. Over the past four years, we have reduced our shares outstanding by 3.9 million shares, or 21%. This does not mean we aren't investing in the long-term—we are. But we are doing so prudently, as our three recent acquisitions were essentially cash transactions. This includes Simmons, where we have already repurchased a substantial amount of the equity issued and are on our way to repurchasing all of the equity.

Chairman's Letter

2016 Outlook

As we contemplate the outlook for 2016, the markets certainly have presented us with a challenging start to the year. The range and number of initiatives we have underway position us to build on our strong performance of the last several years irrespective of market conditions. These include the investments we have made last year and in prior years, highlighted by our three recent acquisitions. The strength and diversity of our franchise should help us weather adverse market conditions.

Our overall momentum in advisory, which we expect to continue into 2016, is a solid foundation for our investment banking division. The acquisition of Simmons and continued seasoning of our FIG hires should have a favorable impact on our investment banking group over the long-term. Our demonstrated strength in equity capital raising, and our expanded set of products including debt advisory and restructuring capabilities provide Simmons with more avenues to generate revenue despite difficult market conditions. We are devoting considerable efforts to realize these opportunities.

We also intend to maintain and improve on our market share gains in public finance. This will complement the improved productivity in our fixed income sales group attributable to the GKST addition, and will increase our operating leverage which should help us achieve our goal of higher returns on capital used in this business.

Based on our progress and strong results, we have emerged as one of the leading franchises serving middle market clients. Our primary focus in 2016 is to execute on 2015's major initiatives to ensure our shareholders reap the benefits of these investments.

Finally, we believe that we are well-positioned to attract opportunities that may arise in challenging markets. We intend to maintain our discipline, assessing all opportunities through the filters of our strategic objectives.

On behalf of all of my partners at Piper Jaffray, we thank you for the trust you place in us, and we look forward to producing strong returns for you this year.

Sincerely,

[redacted]

Andrew S. Duff
Chairman & CEO
Piper Jaffray Companies

Board of Directors

Andrew S. Duff
Chairman and Chief Executive Officer
Piper Jaffray Companies

Addison (Tad) L. Piper
Former Chairman and Chief Executive Officer
Piper Jaffray Companies Inc.

William R. Fitzgerald
Chairman and Chief Executive Officer
Ascent Capital Group, Inc.

Michael E. Frazier
Former Chairman and Chief Executive Officer
Simmons & Company International

B. Kristine Johnson
President
Affinity Capital Management

Lisa K. Polsky
Former Executive Vice President, Chief Risk Officer
CIT Group Inc.

Sherry Smith
Former Executive Vice President,
Chief Financial Officer
SUPERVALU INC.

Philip E. Soran
Former President
Dell Compellent Inc.

Scott C. Taylor
Executive Vice President,
General Counsel and Secretary
Symantec Corp.

Michele Volpi
Chief Executive Officer
Betafence Holding NV

Executive Leadership

Andrew S. Duff
Chairman and Chief Executive Officer

Chad R. Abraham
Global Co-Head of Investment Banking and
Capital Markets

Christopher D. Crawshaw
Head of Asset Management

Christine N. Esckilsen
Chief Human Capital Officer

Frank E. Fairman
Head of Public Finance

John W. Geelan
General Counsel and Secretary

Jeff P. Klinefelter
Global Head of Equities

R. Scott LaRue
Global Co-Head of Investment Banking and
Capital Markets

Debbra L. Schoneman
Chief Financial Officer

Thomas G. Smith
Chief Strategy Officer

M. Brad Winges
Head of Fixed Income Services and
Piper Jaffray Firm Investments and Trading

Our Guiding Principles

We create and implement superior financial solutions for our clients. Serving clients is our fundamental purpose.

We earn our clients' trust by delivering the best guidance and service.

Great people working together as a team are our competitive advantage.

As we serve, we are committed to these core values:

- Always place our clients' interests first
- Conduct ourselves with integrity and treat others with respect
- Work in partnership with our clients and each other
- Maintain a high-quality environment that attracts, retains and develops the best people
- Contribute our talents and resources to serve the communities in which we live and work

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2015
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 **Minneapolis, Minnesota**	**55402**
(Address of Principal Executive Offices)	*(Zip Code)*

(612) 303-6000
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☑

The aggregate market value of the 14,474,232 shares of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates based upon the last sale price, as reported on the New York Stock Exchange, of the Common Stock on June 30, 2015 was approximately $632 million.

As of February 18, 2016, the registrant had 14,926,391 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2016 Annual Meeting of Shareholders to be held on May 4, 2016.

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2015 (this "Form 10-K") contains forward-looking statements. 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 conditions 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 this Form 10-K and in our subsequent reports filed with the Securities and Exchange Commission ("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 "Risk Factors" in Item 1A, as well as those factors discussed under "External Factors Impacting Our Business" included in "Management’s Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K and in our subsequent reports filed with the SEC. Our SEC reports are available at our Web site at www.piperjaffray.com and at the SEC’s Web site at 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.

ITEM 1. *BUSINESS.*

Overview

Piper Jaffray Companies ("Piper Jaffray") is an investment bank and asset management firm, serving the needs of corporations, private equity groups, public entities, non-profit entities and institutional investors in the U.S. and internationally. Founded in 1895, Piper Jaffray provides a broad set of products and services, including equity and debt capital markets products; public finance services; financial advisory services; equity and fixed income institutional brokerage; equity and fixed income research; and asset management services. Our headquarters are located in Minneapolis, Minnesota and we have offices across the United States and international locations in London, Hong Kong and Zurich. We market our investment banking and institutional securities business under a single name – Piper Jaffray – which gives us a consistent brand across this business. Our traditional asset management business is marketed under Advisory Research, Inc.

Prior to 1998, Piper Jaffray was an independent public company. U.S. Bancorp acquired the Piper Jaffray business in 1998 and operated it through various subsidiaries and divisions. At the end of 2003, U.S. Bancorp facilitated a tax-free distribution of our common stock to all U.S. Bancorp shareholders, causing Piper Jaffray to become an independent public company again.

Our Businesses

We operate through two reportable business segments, Capital Markets and Asset Management. We believe that the mix of activities across our business segments helps to provide diversification in our business model.

Capital Markets

The Capital Markets segment provides investment banking and institutional sales, trading and research services for various equity and fixed income products. This segment also includes the results from our alternative asset management funds and our principal investments.

- *Investment Banking* – For our corporate clients, we help raise capital through equity and debt financings. We also provide advisory services, primarily relating to mergers and acquisitions, equity private placements, debt advisory, and municipal financial advisory services. We operate in the following focus sectors: healthcare; consumer; diversified industrials and services; business services; technology; financial institutions; and agriculture, clean technologies and renewables, primarily focusing on middle-market clients. For our government and non-profit clients, we underwrite debt issuances and provide financial advisory, loan placement and interest rate risk management services. Our public finance investment banking capabilities focus on state and local governments, cultural and social service non-profit entities, and the education, healthcare, hospitality, senior living and transportation sectors.

- *Equity and Fixed Income Institutional Brokerage* – We offer both equity and fixed income advisory and trade execution services for institutional investors and government and non-profit entities. Integral to our capital markets efforts, we have equity sales and trading relationships with institutional investors in the United States and Europe that invest in our core sectors. Our research analysts provide investment ideas and support to our trading clients on approximately 700 companies. Our fixed income sales and trading professionals have expertise in municipal, corporate, mortgage, agency, treasury and structured product securities and cover a range of institutional investors. We engage in trading activities for both customer facilitation and strategic trading purposes. Our strategic trading activities (i.e. proprietary trading) are dedicated solely to investing firm capital, and focus on proprietary investments in municipal bonds, mortgage-backed securities and U.S. government agency securities. The strategic trading activities related to municipal bonds are principally operated in a fund structure vehicle with a limited number of employee investors.
- *Principal Investments* – We engage in merchant banking activities, which involve equity or debt investments in late stage private companies. Additionally, we have investments in private equity funds and other firm investments.
- *Alternative Asset Management Funds* – We have created alternative asset management funds in merchant banking and senior living in order to invest firm capital as well as to manage capital from outside investors. In the second half of 2015, we closed and completed liquidation of a municipal bond fund managed for the benefit of outside investors.

Asset Management

The Asset Management segment includes our traditional asset management business and our investments in registered funds and private funds or partnerships that we manage. Our traditional asset management business offers specialized investment management solutions for institutions, private clients and investment advisors. We manage value-oriented domestic, international and global strategies, as well as MLP and energy infrastructure strategies, through open-end and closed-end funds. We also provide customized solutions to our clients. In many cases, we offer both diversified and more concentrated versions of our products, generally through separately managed accounts.

- *Value Equity* – We take a value-driven approach to managing assets in the domestic and international equity markets. These investment strategies have an investment philosophy that centers on fundamental security selection across industries and regions with a focus on analyzing, among other things, a company's financial position, liquidity and profitability in light of its valuation. By focusing on securities with attractive net asset values, we seek to generate competitive long-term returns while minimizing investment risk.
- *Master Limited Partnerships ("MLPs") and Energy Infrastructure* – We also manage MLPs, energy infrastructure, and related operating entity assets focused on the energy sector. These strategies focus on growth, yet seek to limit exposure to riskier securities by placing greater importance on characteristics which support stable distributions and are representative of higher quality MLPs, including less volatile businesses, strategic assets, cleaner balance sheets and proven management teams. In addition to our MLP-focused funds, we manage other private funds focused on energy sector securities.

As of December 31, 2015, total assets under management ("AUM") were $8.9 billion, of which approximately 56 percent was invested in equities and 44 percent in MLPs. As of the same date, approximately 18 percent of our AUM was invested in international and global investment strategies and 82 percent was invested in domestic investment strategies. Approximately 79 percent of our AUM as of December 31, 2015 was managed on behalf of institutional clients, including foundations, endowments, pension funds and corporations, and through mutual fund sponsors and registered advisors. Approximately 13 percent of our AUM was managed on behalf of individual client relationships, which are principally high net worth individuals, and approximately 8 percent of our AUM was managed through sub-advisory relationships on closed-end funds.

Discontinued Operations

Our discontinued operations include the costs to liquidate our Hong Kong capital markets business, which ceased operations in 2012, and the operating results of Fiduciary Asset Management, LLC ("FAMCO"), an asset management subsidiary we sold in 2013. For further information on our discontinued operations, see Note 5 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Financial Information about Geographic Areas

As of December 31, 2015, the substantial majority of the Company's net revenues and long-lived assets were located in the U.S.

Competition

Our business is subject to intense competition driven by large Wall Street and international firms operating independently or as part of a large commercial banking institution. We also compete with regional broker dealers, boutique and niche-specialty firms, asset management firms and alternative trading systems that effect securities transactions through various electronic venues. Competition is based on a variety of factors, including price, quality of advice and service, reputation, product selection, transaction execution, financial resources and investment performance. Many of our large competitors have greater financial resources than we have and may have more flexibility to offer a broader set of products and services than we can.

In addition, there is significant competition within the securities industry for obtaining and retaining the services of qualified employees. Our business is a human capital business and the performance of our business is dependent upon the skills, expertise and performance of our employees. Therefore, our ability to compete effectively is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation.

Employees

As of February 18, 2016, we had approximately 1,192 employees, of whom approximately 750 were registered with the Financial Industry Regulatory Authority ("FINRA").

Regulation

As a participant in the financial services industry, our business is regulated by U.S. federal and state regulatory agencies, self-regulatory organizations ("SROs") and securities exchanges, and by foreign governmental agencies, financial regulatory bodies and securities exchanges. We are subject to complex and extensive regulation of most aspects of our business, including the manner in which securities transactions are effected, net capital requirements, recordkeeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, conduct, experience and training requirements for certain employees, and the manner in which we prevent and detect money-laundering and bribery activities. The regulatory framework of the financial services industry is designed primarily to safeguard the integrity of the capital markets and to protect customers, not creditors or shareholders.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Conditions in the global financial markets and economy, including the 2008 financial crisis, caused legislators and regulators to increase the examination, enforcement and rule-making activity directed toward the financial services industry, which we expect to continue in the coming years. This intensified regulatory environment, will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our U.S. broker dealer subsidiary (Piper Jaffray & Co.) is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. In July of 2007, the National Association of Securities Dealers and the member regulation, enforcement and arbitration functions of the New York Stock Exchange ("NYSE") consolidated to form FINRA, which now serves as the primary SRO of Piper Jaffray & Co., although the NYSE continues to have oversight over NYSE-related market activities. FINRA regulates many aspects of our U.S. broker dealer business, including registration, education and conduct of our employees, examinations, rulemaking, enforcement of these rules and the federal securities laws, trade reporting and the administration of dispute resolution between investors and registered firms. We have agreed to abide by the rules of FINRA (as well as those of the NYSE and other SROs), and FINRA has the power to expel, fine and otherwise discipline Piper Jaffray & Co. and its officers, directors and employees. Among the rules that apply to Piper Jaffray & Co. are the uniform net capital rule of the SEC (Rule 15c3-1) and the net capital rule of FINRA. Both rules set a minimum level of net capital a broker dealer must maintain and also require that a portion of the broker dealer's assets be relatively liquid. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below FINRA requirements. In addition, Piper Jaffray & Co. is subject to certain notification requirements related to withdrawals of excess net capital. As a result of these rules, our ability to make withdrawals of capital from Piper Jaffray & Co. may be limited. In addition, Piper Jaffray & Co. is licensed as a broker dealer in each of the 50 states, requiring us to comply with applicable laws, rules and regulations of each state. Any state may revoke a license to conduct a securities business and fine or otherwise discipline broker dealers and their officers, directors and employees.

We also operate an entity that is authorized, licensed and regulated by the U.K. Financial Conduct Authority and registered under the laws of England and Wales, as well as an entity that is authorized, licensed and regulated by the Hong Kong Securities and Futures Commission and registered under the laws of Hong Kong, China. The U.K. Financial Conduct Authority and the Hong Kong Securities and Futures Commission regulate these entities (in their respective jurisdictions) in areas of capital adequacy, customer protection and business conduct, among others.

Entities in the jurisdictions identified above are also subject to anti-money laundering regulations. Piper Jaffray & Co., our U.S. broker dealer subsidiary, is subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations requiring us to implement standards for verifying client identification at account opening, monitoring client transactions and reporting suspicious activity. Our entities in Hong Kong and the United Kingdom are subject to similar anti-money laundering laws and regulations. We are also subject to the U.S. Foreign Corrupt Practices Act as well as other anti-bribery laws in the jurisdictions in which we operate. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage.

We maintain asset management subsidiaries that are registered as investment advisers with the SEC and subject to regulation and oversight by the SEC. These entities are Advisory Research, Inc. ("ARI"), Piper Jaffray Investment Management LLC ("PJIM"), and PJC Capital Partners LLC. As registered investment advisors, these entities are subject to requirements that relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between advisor and advisory clients, as well as general anti-fraud prohibitions. Certain investment funds that we manage are registered investment companies under the Investment Company Act, as amended. Those funds and entities that serve as the funds' investment advisors are subject to the Investment Company Act and the rules and regulations of the SEC, which regulate the relationship between a registered investment company and its investment advisor and prohibit or severely restrict principal transactions or joint transactions, among other requirements. ARI is also authorized by the Irish Financial Services Regulatory Authority as an investment advisor in Ireland and cleared by the Luxembourg Commission de Surviellance du Secteur Financier as a manager to Luxembourg funds. ARI is the investment advisor for Advisory Research Global Funds PLC, an open-ended investment company with variable capital authorized and regulated by the Central Bank of Ireland pursuant to the European Communities Regulations (Undertakings for Collective Investments in Transferable Securities or UCITS). ARI has established a Tokyo office which is a Representative Office of a Foreign Investment Advisor subject to Japanese laws and regulations. PJIM is registered with the Commodity Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”) as a commodities pool operator. The registrations with the CFTC and NFA allow PJIM to enter into derivative instruments (e.g., interest rate swaps and credit default swap index contracts) to hedge risks associated with certain security positions of funds managed by PJIM.

Certain of our businesses also are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges governing the privacy of client information. Any failure with respect to our practices, procedures and controls in any of these areas could subject us to regulatory consequences, including fines, and potentially other significant liabilities.

Executive Officers

Information regarding our executive officers and their ages as of February 18, 2016, are as follows:

Name	Age	Position(s)
Andrew S. Duff	58	Chairman and Chief Executive Officer
Chad R. Abraham	47	Co-Head of Global Investment Banking and Capital Markets
Christopher D. Crawshaw	49	Head of Asset Management
Christine N. Esckilsen	47	Chief Human Capital Officer
Frank E. Fairman	58	Head of Public Finance
John W. Geelan	40	General Counsel and Secretary
Jeff P. Klinefelter	48	Global Head of Equities
R. Scott LaRue	55	Co-Head of Global Investment Banking and Capital Markets
Debbra L. Schoneman	47	Chief Financial Officer
Thomas G. Smith	59	Chief Strategy Officer
M. Brad Winges	47	Head of Fixed Income Services and Piper Jaffray Firm Investments and Trading

Andrew S. Duff is our chairman and chief executive officer. Mr. Duff became chairman and chief executive officer of Piper Jaffray Companies following completion of our spin-off from U.S. Bancorp on December 31, 2003. He also has served as chairman of our broker dealer subsidiary since 2003, as chief executive officer of our broker dealer subsidiary since 2000, and as president of our broker dealer subsidiary since 1996. He has been with Piper Jaffray since 1980. Prior to the spin-off from U.S. Bancorp, Mr. Duff also was a vice chairman of U.S. Bancorp from 1999 through 2003.

Chad R. Abraham is our co-head of global investment banking and capital markets, a position he has held since October 2010. Prior to his current role, he served as head of equity capital markets since November 2005. Mr. Abraham joined Piper Jaffray in 1991.

Christopher D. Crawshaw is our head of asset management. He has served in this role since January 2014. Mr. Crawshaw joined Piper Jaffray from Advisory Research, Inc., a Chicago-based asset management firm that we acquired in 2010, where he had been a managing director since 2004, having joined the company in 2001. Mr. Crawshaw was named president of Advisory Research in 2012.

Christine N. Esckilsen is our chief human capital officer, a title she has held since January 2016. Ms. Esckilsen has been our global head of human capital and a managing director since 2011. She joined Piper Jaffray in 2002 as an assistant general counsel responsible for employment matters and litigation.

Frank E. Fairman is head of our public finance services business, a position he has held since July 2005. Prior to that, he served as head of the firm's public finance investment banking group from 1991 to 2005, as well as the head of the firm's municipal derivative business from 2002 to 2005. He has been with Piper Jaffray since 1983.

John W. Geelan is our general counsel and secretary. He served as assistant general counsel and assistant secretary from November 2007 until becoming general counsel in January 2013. Mr. Geelan joined Piper Jaffray in 2005.

Jeff P. Klinefelter is the global head of our equities business, a position he has held since July 2012. From May 2010 until July 2012, he served as head of equity research. Mr. Klinefelter joined Piper Jaffray in 1997 as a research analyst.

R. Scott LaRue is our co-head of global investment banking and capital markets, a position he has held since October 2010. He had previously served as global co-head of consumer investment banking since February 2010, after having served as co-head of consumer investment banking since August 2004. He has been with Piper Jaffray since 2003.

Debbra L. Schoneman is our chief financial officer. Ms. Schoneman joined Piper Jaffray in 1990 and has held her current position since May 2008. She previously served as treasurer from August 2006 until May 2008. Prior to that, she served as finance director of our corporate and institutional services business from July 2002 until July 2004 when the role was expanded to include our public finance services division.

Thomas G. Smith is our chief strategy officer, a title he has held since January 2016 which encompasses his roles as our head of strategy, corporate development, and investor relations. He joined Piper Jaffray in 1998 as a managing director in our technology investment banking group. He became head of corporate development in 2006 and head of investor relations in 2012.

M. Brad Winges is head of fixed income services, a position he has held since January 2009, and became head of Piper Jaffray firm investments and trading in February 2014. Mr. Winges joined Piper Jaffray in 1991 and served as head of public finance services sales and trading from June 2005 until obtaining his current position. Prior to that, he served as head of municipal sales and trading from June 2003 until June 2005.

Additional Information

Our principal executive offices are located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota 55402, and our general telephone number is (612) 303-6000. We maintain an Internet Web site at http://www.piperjaffray.com. The information contained on and connected to our Web site is not incorporated into this report. We make available free of charge on or through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the SEC, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the SEC. “Piper Jaffray,” the “Company,” “registrant,” “we,” “us” and “our” refer to Piper Jaffray Companies and our subsidiaries. The Piper Jaffray logo and the other trademarks, tradenames and service marks of Piper Jaffray mentioned in this report, including Piper Jaffray®, are the property of Piper Jaffray.

ITEM 1A. *RISK FACTORS.*

Developments in market and economic conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability and cause volatility in our results of operations.

Economic and market conditions have had, and will continue to have, a direct and material impact on our results of operations and financial condition because performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity. For example:

- Our equities investment banking revenue, in the form of underwriting, placement and financial advisory fees, is directly related to macroeconomic conditions and corresponding financial market activity. When the outlook for macroeconomic conditions is uncertain or negative, financial market activity generally tends to be decreased, which can reduce our equities investment banking revenues. As an example, a significant component of our investment banking revenues are derived from initial public offerings of middle-market companies in growth sectors, and activity in this area is highly correlated to the macroeconomic environment and market conditions. Beginning in the third quarter of 2015, volatility in equity markets began increasing leading up to the Federal Reserve's decision to raise the federal funds rate in December. This volatility has continued into the first quarter of 2016 as the markets weigh falling commodity prices, depressed energy markets, a slowdown in global economic growth, including in China and other developing markets, and weakening growth in the U.S. In addition, U.S. financial markets remain vulnerable to the potential risks posed by exogenous shocks, which could include, among other things, further conflict in the Middle East and in Eastern Europe, political and financial uncertainty in the European Union and further government debt crises, and a more severe and prolonged downturn in China's economy. If these factors were to worsen or if an exogenous shock were to materialize, it could lead to further or more severe equity market declines and volatility, which would likely have a significant negative impact on our results of operations.
- Interest rates have a significant impact on our business, particularly our fixed income institutional business. This includes the direction and rate of change in rates, as well as uncertainy around both of these. Volatility generally increased in 2015, reflecting the uncertainty and volatility around the Federal Reserve's decision to raise the federal funds rate for the first time in nearly a decade, slowing economic growth in China, and the potential for a global economic slowdown. Yields are expected to be impacted in 2016 by perceptions around the strength of the U.S. economy and the ability of the Federal Reserve to gradually raise the federal funds rate through the year. As to the impact to our business, a large percentage of our securities inventory - both that held for facilitating client activity as well as our own proprietary trading - consist of fixed income securities, and a rapid increase in interest rates would decrease the value of these positions, possibly significantly. Further, our interest rate hedging strategies may not mitigate this volatility as we generally do not hedge all of our interest rate risk and volatility may reduce the correlation (i.e., effectiveness) between certain hedging vehicles and the securities inventory we are attempting to hedge. In addition, interest rate increases in 2016, both gradual and more severe, may negatively impact the volume of debt refinancing issuances underwritten by our public finance investment banking business, as well as our managed funds focused on master limited partnerships ("MLPs"), which may underperform in a rising interest rate environment.
- An unsustainable U.S. economic recovery, or a significant worsening of global economic conditions, would likely result in a decline in the financial markets, reducing asset valuations and adversely impacting our asset management business. A reduction in asset values would negatively impact this business by reducing the value of assets under management, and as a result, the revenues generated from this business.

It is difficult to predict the market conditions for 2016, which are dependent in large part upon the pace of global and U.S. economic growth. Our smaller scale compared to many of our competitors and the cyclical nature of the economy and this industry leads to volatility in our financial results, including our operating margins, compensation ratios and revenue and expense levels. Our financial performance may be limited by the fixed nature of certain expenses, the impact from unanticipated losses or expenses during the year, and the inability to scale back costs in a timeframe to match decreases in revenue-related changes in market and economic conditions. As a result, our financial results may vary significantly from quarter-to-quarter and year-to-year.

Developments in specific business sectors of the U.S. and global economy, as well as areas of the markets in which we conduct our business, have in the past adversely affected, and may in the future adversely affect, our business and profitability.

Our results for a particular period may be disproportionately impacted by declines in specific sectors of the U.S. or global economy, or for certain products within the financial services industry, due to our business mix and focus areas. For example:

- Our equities investment banking business focuses on specific sectors, specifically healthcare, consumer, diversified industrials and services, business services, technology, financial institutions, and agriculture, clean technologies and renewables. Volatility, uncertainty, or slowdowns in these sectors, particularly healthcare, may adversely affect our business, sometimes disproportionately, and may cause volatility in the net revenues we receive from our capital markets and corporate advisory activities. In recent years, the healthcare sector has been a significant contributor to our overall results, and negative developments in this sector would materially and disproportionately impact us, even if general economic conditions were strong. Further, energy markets are currently suffering from a prolonged depression in oil and natural gas prices, and uncertainty regarding the outlook for future oil prices is dampening the prospects of many energy companies and reducing capital markets and corporate advisory activities in the sector. We recently announced the acquisition of Simmons & Company International, an energy-based investment banking firm, and the transaction is expected to close in the first quarter of 2016. Upon close, the energy sector will become one of our most significant sectors of coverage for our equity investment banking business. Disproportionately negative market conditions in the energy sector will slow and hinder our ability to realize the benefits from the acquisition. Lastly, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, such as real estate, and our operating results may not correlate with the results of other firms which participate in these sectors.
- Our fixed income institutional business derives its revenue from sales and trading activity in the municipal market and from products within the taxable market, including structured mortgages, hybrid preferreds and government agency products. Our operating results for our fixed income institutional business may not correlate with the results of other firms or the fixed income market generally because we do not participate in significant segments of the fixed income markets such as credit default swaps, corporate high-yield bonds, currencies and commodities.
- Our public finance investment banking business depends heavily upon conditions in the municipal market. Our public finance business focuses on investment banking activity in sectors that include state and local government, education, senior living, healthcare, transportation, and hospitality sectors, with an emphasis on transactions with a par value of $500 million or less. Challenging market conditions for these sectors that are disproportionately worse than those impacting the broader economy or municipal markets generally may adversely impact our business. More broadly, our fixed income institutional business and our public finance business are tied to the municipal market and the enactment, or the threat of enactment, of any legislation that would alter the financing alternatives available to municipalities through the elimination or reduction of tax-exempt bonds.
- A significant portion of our asset management revenues are derived from actively managed equity products, and this type of investment product has experienced asset outflows in recent years, including in 2015. In addition, U.S. equity markets were largely flat or slightly down in 2015, and the beginning of 2016 saw further declines and increased volatility. Uncertainty relating to global and U.S. economic growth and equity valuations, the continued shift into lower-cost passively-managed funds, and other negative events impacting investor confidence could cause the negative trend for actively-managed equity products to continue. Outflows for this investment product negatively affect results of operations for this business, as revenues are closely tied to assets under management.
- Management and performance fees we earn on assets invested by institutions and individuals in our managed funds focused on MLPs and other investments related to the energy infrastructure sector are a meaningful contributor to our asset management revenues. Return on investment in the energy infrastructure sector is dependent to a meaningful degree on the prices of energy commodities such as natural gas, natural gas liquids, crude oil, refined petroleum products or coal. Persistently depressed prices for any of these products, such as those experienced in 2015, will likely lead to a further deterioration of market conditions for companies in the energy infrastructure sector and poorer returns by our funds, and, consequently, a reduction in the management and performance fees we receive.

Our stock price may fluctuate as a result of several factors, including but not limited to, changes in our revenues, operating results, tangible book value and return on equity.

We have experienced, and expect to experience in the future, fluctuations in the market price of our common stock due to factors that relate to the nature of our business, including but not limited to changes in our revenues, operating results, tangible book value, and return on equity. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which causes fluctuations in our stock price that may be significant. Other factors that have affected, and may further affect, our stock price include changes in or news related to economic or market events or conditions, changes in market conditions in the financial services industry, including developments in regulation affecting our business, failure to meet the expectations of market analysts, changes in recommendations or outlooks by market analysts, and aggressive short selling similar to that experienced in the financial industry in 2008.

We may make strategic acquisitions and minority investments, engage in joint ventures or divest or exit existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business and may not yield the benefits we expect.

We may grow in part through corporate development activities that may include acquisitions, joint ventures and minority investment stakes. For example, we expanded our existing asset management business in March 2010 with the acquisition of ARI, a Chicago-based asset management firm, and we added to our public finance and fixed income sales and trading and corporate advisory businesses with our acquisitions of Seattle-Northwest Securities Corporation and Edgeview Partners, L.P. in July 2013. In 2015, we expanded our equities investment banking business into the financial institutions and energy sectors, respectively, through our completed acquisition of River Branch Holdings LLC and our announced acquisition of Simmons & Company International, which is expected to close in the first quarter of 2016. We also added scale to our fixed income institutional sales and trading business through our acquisition of BMO Capital Markets GKST Inc. There are a number of risks associated with corporate development activities. Costs or difficulties relating to a transaction, including integration of products, employees, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing our estimates to differ from actual results. Importantly, we may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. We may incur unforeseen liabilities of an acquired company that could impose significant and unanticipated legal costs on us. Also, our share price could decline after we announce or complete a transaction if investors view the transaction as too costly or unlikely to improve our competitive position. Longer-term, these activities may require increased costs in the form of management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline. More generally, any difficulties that we experience could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. We also may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects. For example, we shut down our Hong Kong capital markets business in 2012, and realized a pre-tax loss on the investment in our Hong Kong subsidiaries.

Our proprietary trading and principal investments expose us to risk of loss.

We engage in a variety of activities in which we commit or invest our own capital, including proprietary trading and principal investing. Our proprietary trading activities (which we also refer to as "strategic trading" in this report) related to municipal bonds and mortgage-backed securities have been a meaningful contributor to our overall financial results. Fixed income proprietary trading activities comprise a meaningful percentage of our Level III assets within our securities inventory. Level III assets have little or no pricing observability, and may be less liquid than other securities that we hold in our securities inventory. In addition to proprietary trading, we engage in principal investing, having established alternative asset management funds for merchant banking (focused on investments in the equity and debt instruments of private companies) and senior living construction projects. We have invested firm capital in these funds alongside capital raised from outside investors, and intend to continue to develop these alternative asset management strategies. Additionally, we make principal investments in funds managed by ARI, our asset management subsidiary, which are generally invested in publicly traded equities.

Our results from these activities may vary significantly from quarter to quarter. We may incur significant losses from our proprietary trading activities and principal investments due to fixed income or equity market fluctuations and volatility from quarter to quarter. For example, in 2015, our principal investments in ARI funds focused on MLPs and other investments related to the energy sector, and, as a result, suffered significant declines related to the ongoing downturn in that sector. In addition, we may engage in hedging transactions that if not successful, could result in losses. With respect to principal investing, there often is not an established liquid trading market for these investments or our investments may be otherwise subject to restrictions on sale or hedging, and our ability to withdraw our capital from these investments may be limited, increasing our risk of losses. Also, our merchant banking activity involves investments in late stage private companies, and we may be unable to realize our investment objectives by sale or other disposition at attractive prices.

Damage to our reputation could damage our business.

Maintaining our reputation is critical to attracting and maintaining clients, customers, investors, and employees. If we fail to deal with, or appear to fail to deal with, issues that may give rise to reputational risk, such failure or appearance of failure could have a material adverse effect on our business and stock price. These issues include, but are not limited to, any of the risks discussed in this Item 1A, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering, cybersecurity, and the proper identification of the strategic, market, credit, liquidity, human capital, and operational risks inherent in our business and products.

Financing and advisory services engagements are transactional in nature and do not generally provide for subsequent engagements.

Even though we work to represent our clients at every stage of their lifecycle, we are typically retained on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions. As a consequence, the timing of when fees are earned, and, therefore, our financial results from capital markets and corporate advisory activities may experience volatility quarter to quarter based on equity market conditions as well as the macroeconomic business cycle more broadly. In particular, our revenues related to acquisition and disposition transactions tend to be highly volatile and unpredictable (or "lumpy") from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high levels of revenue in one quarter will not necessarily be predictive of continued high levels of revenue in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from the successful completion of those transactions, our business and results of operations will likely be adversely affected.

The volume of anticipated investment banking transactions may differ from actual results.

The completion of anticipated investment banking transactions in our pipeline is uncertain and partially beyond our control, and our investment banking revenue is typically earned only upon the successful completion of a transaction. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If parties fail to complete a transaction on which we are advising or an offering in which we are participating, we earn little or no revenue from the transaction and may have incurred significant expenses (for example, travel and legal expenses) associated with the transaction. Accordingly, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties, and the number of engagements we have at any given time (and any characterization or description of our deal pipelines) is subject to change and may not necessarily result in future revenues.

Asset management revenue may vary based on investment performance and market and economic factors.

We have grown our asset management business in recent years, including with the acquisition of ARI in 2010, which has increased the risks associated with this business relative to our overall operations. Assets under management are a significant driver of this business, as revenues are primarily derived from management fees paid on the assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with major investors.

Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. Poor investment performance and other competitive factors could reduce our revenues and impair our growth in many ways: existing clients may withdraw funds from our asset management business in favor of better performing products or a different investment style or focus; our capital investments in our investment funds or the seed capital we have committed to new asset management products may diminish in value or may be lost; and our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our investment performance is perceived to be poor in either relative or absolute terms, our asset management revenues will likely be reduced and our ability to attract new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make. Further, as the size and number of investment funds, including exchange-traded funds, hedge funds and private equity funds increases, it is possible that it will become increasingly difficult for us to attract new assets under management or price competition may mean that we are unable to maintain our current fee structures.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Historically, the market for qualified employees within the financial services industry has been marked by intense competition, and the performance of our business may suffer to the extent we are unable to attract and retain employees effectively, particularly given the relatively small size of our company and our employee base compared to some of our competitors and the geographic locations in which we operate. The primary sources of revenue in each of our business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by our employees, who have historically been recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Some specialized areas of our business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Further, recruiting and retention success often depends on the ability to deliver competitive compensation, and we may be at a disadvantage to some competitors given our size and financial resources. Our inability or unwillingness to meet compensation needs or demands may result in the loss of some of our professionals or the inability to recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. Our ability to retain and recruit also may be hindered if we limit our aggregate annual compensation and benefits expense as a percentage of annual net revenues.

An inability to readily divest trading positions may result in financial losses to our business.

Timely divestiture of our trading positions, including equity, fixed income and other securities positions, can be impaired by decreased trading volume, increased price volatility, rapid changes in interest rates, concentrated trading positions, limitations on the ability to divest positions in highly specialized or structured transactions and changes in industry and government regulations. This is true both for customer transactions that we facilitate as well as proprietary trading positions that we maintain. While we hold a security, we are vulnerable to valuation fluctuations and may experience financial losses to the extent the value of the security decreases and we are unable to timely divest or hedge our trading position in that security. The value may decline as a result of many factors, including issuer-specific, market or geopolitical events. In addition, in times of market uncertainty, the inability to transfer inventory positions may have an impact on our liquidity as funding sources generally decline and we are unable to pledge the underlying security as collateral. Our liquidity may also be impacted if we choose to facilitate liquidity for specific products and voluntarily increase our inventory positions in order to do so, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions.

In addition, reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and advisor clients, may expose us to greater risk of financial loss from unsettled trades than is the case with other types of institutional investors. Concentration of risk may result in losses to us even when economic and market conditions are generally favorable for others in our industry.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets.

The nature of our businesses exposes us to the risk that third parties who owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of securities or obligations we hold could result in losses and adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Although we review credit exposures to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. Also, concerns about, or a default by, one institution generally leads to losses, significant liquidity problems, or defaults by other institutions, which in turn adversely affects our business.

Particular activities or products within our business expose us to increased credit risk, including inventory positions, interest rate swap contracts with customer credit exposure, counterparty risk with two major financial institutions related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, customer margin accounts, and trading counterparty activities related to settlement and similar activities. With respect to interest rate swap contracts with customer credit exposure, we have retained the credit exposure with five public finance counterparties totaling $24.4 million at December 31, 2015 as part of our matched-book interest rate swap program. In the event of a termination of the contract, the counterparty would owe us the applicable amount of the credit exposure. If our counterparty is unable to make its payment to us, we would still be obligated to pay our hedging counterparty, resulting in credit losses. Non-performance by our counterparties, clients and others, including with respect to our inventory positions, interest rate swap contracts with customer credit exposures and our merchant banking debt investments could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition and results of operations.

Liquidity, or ready access to funds, is essential to our business. Several large financial institutions failed or merged with others during the credit crisis following significant declines in asset values in securities held by these institutions, and, during 2011, a financial institution failed due to liquidity issues related to the European sovereign debt crisis. To fund our business, we rely on commercial paper and bank financing as well as other funding sources such as the repurchase markets. Our bank financing includes uncommitted credit lines, which could become unavailable to us on relatively short notice. In an effort to mitigate this funding risk, we renewed a $250 million committed credit facility for the seventh consecutive year in 2015. We also have $175 million of unsecured notes. The notes consist of two classes, with $125 million maturing in October 2018 and $50 million maturing in May 2017. In order to further diversify our short-term funding needs, we also continue to maintain three commercial paper programs in the amounts of $300 million, $150 million, and $125 million.

Our access to funding sources, particularly uncommitted funding sources, could be hindered by many factors, and many of these factors we cannot control, such as economic downturns, the disruption of financial markets, the failure or consolidation of other financial institutions, negative news about the financial industry generally or us specifically. We could experience disruptions with our credit facilities in the future, including the loss of liquidity sources and/or increased borrowing costs, if lenders or investors develop a negative perception of our short- or long-term financial prospects, which could result from decreased business activity. Our liquidity also could be impacted by the activities resulting in concentration of risk, including proprietary activities from long-term investments and/or investments in specific markets or products without liquidity. Our access to funds may be impaired if regulatory authorities take significant action against us, or if we discover that one of our employees has engaged in serious unauthorized or illegal activity.

In the future, we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to execute our growth initiatives that may include acquisitions and other investments. Similarly, our access to funding sources may be contingent upon terms and conditions that may limit or restrict our business activities and growth initiatives. For example, the unsecured notes discussed above include covenants that, among other things, limit our leverage ratio and require maintenance of certain levels of tangible net worth, regulatory net capital, and operating cash flow to fixed charges.

Lastly, we currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our sales and trading, proprietary trading, merchant banking and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. This concentration of risk may cause us to suffer losses even when economic and market conditions are generally favorable for our competitors. Further, disruptions in the credit markets can make it difficult to hedge exposures effectively and economically.

Our information and technology systems, including outsourced systems, are critical components of our operations, and failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss and constrain our growth.

We typically transact thousands of securities trades on a daily basis across multiple markets. Our data and transaction processing, custody, financial, accounting and other technology and operating systems are essential to this task. A system malfunction (due to hardware failure, capacity overload, security incident, data corruption, etc.) or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. For example, we have entered into contracts with Broadridge Financial Solutions, Inc. ("Broadridge"), pursuant to which Broadridge handles our trade and back office processing, and Unisys Corporation ("Unisys"), pursuant to which Unisys supports our data center and helpdesk needs. We also contract with third parties for market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees. We contract with other vendors to produce and mail our customer statements and to provide other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs, geographic expansion and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting, risk management, compliance, and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Our clients routinely provide us with sensitive and confidential information. Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks, and those of our clients, vendors, service providers, counterparties and other third parties, may be vulnerable to unauthorized access, cyberattacks, security breaches, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. We work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against these events, but we do not have, and may be unable to put in place, secure capabilities with all of these third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. If one or more of such events occur, this potentially 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 those of third parties, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to reputational harm as well as litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

Legislative and regulatory proposals could significantly curtail the revenue from certain products that we currently provide.

Proposed changes in laws or regulations relating to our business could decrease, perhaps significantly, the revenue that we receive from certain products or services that we provide. For example, federal law currently allows investors in debt issuances by government and non-profit entities to exclude the bond interest for federal income tax purposes, resulting in lower interest expense for the issuer as compared to a taxable financing. In recent years, federal lawmakers have presented various proposals to limit or eliminate the tax-exempt status of this bond interest. Our public finance investment banking business receives significant revenues as a result of underwriting activity in connection with debt issuances by government and non-profit clients, primarily on a tax-exempt basis. Also, a significant percentage of our securities inventory — both positions held for client activity and our own proprietary trading positions — consist of municipal securities. Any reduction or elimination of tax-exempt bond interest could negatively impact the value of the municipal securities we hold in our securities inventory as well as our public finance investment banking business more generally, which would negatively impact the results of operations for these businesses.

Our exposure to legal liability is significant, and could lead to substantial damages.

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our capital markets, asset management and other businesses. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. Our experience has been that adversarial proceedings against financial services firms typically increase during and following a market downturn. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

Our inability to identify and address actual, potential, or perceived conflicts of interest may negatively impact our reputation and have a material adverse effect on our business.

We regularly address actual, potential or perceived conflicts of interest in our business, including situations where our services to a particular client or our own investments or other interests conflict, or are perceived to conflict, with the interests of another client. Appropriately identifying and dealing with conflicts of interest is complex and difficult, and we face the risk that our current policies, controls and procedures do not timely identify or appropriately manage such conflicts of interest. It is possible that actual, potential or perceived conflicts could give rise to client dissatisfaction, litigation or regulatory enforcement actions. Our reputation could be damaged if we fail, or appear to fail, to deal appropriately with potential or actual conflicts of interest. Client dissatisfaction, litigation, or regulatory enforcement actions arising from a failure to adequately deal with conflicts of interest, and the reputational harm suffered as a consequence, could have a material adverse effect on our business.

Our business is subject to extensive regulation in the jurisdictions in which we operate, and a significant regulatory action against our company may have a material adverse financial effect or cause significant reputational harm to our company.

As a participant in the financial services industry, we are subject to complex and extensive regulation of many aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations (including securities exchanges) and by foreign governmental agencies, regulatory bodies and securities exchanges. Specifically, our operating subsidiaries include broker dealer and related securities entities organized in the United States, the United Kingdom, and Hong Kong, China. Each of these entities is registered or licensed with the applicable local securities regulator and is subject to all of the applicable rules and regulations promulgated by those authorities. In addition, our asset management subsidiaries, ARI, PJIM, and PJC Capital Partners LLC are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC.

Generally, the requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These requirements are not designed to protect our shareholders. Consequently, broker dealer regulations often serve to limit our activities, through net capital, customer protection and market conduct requirements and restrictions on the businesses in which we may operate or invest. We also must comply with asset management regulations, including requirements related to fiduciary duties to clients, recordkeeping and reporting and customer disclosures. Compliance with many of these regulations entails a number of risks, particularly in areas where applicable regulations may be newer or unclear. In addition, regulatory authorities in all jurisdictions in which we conduct business may intervene in our business and we and our employees could be fined or otherwise disciplined for violations or prohibited from engaging in some of our business activities.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes. We are subject to contingent tax risk that could adversely affect our results of operations, to the extent that our interpretations of tax laws are disputed upon examination or audit, and are settled in amounts in excess of established reserves for such contingencies.

The effort to combat money laundering also has become a high priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities. In addition, our international operations require compliance with anti-bribery laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act 2010. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. While our employees and agents are required to comply with these laws, we cannot ensure that our internal control policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents, which acts could subject our company to fines or other regulatory consequences.

Risk management processes may not fully mitigate exposure to the various risks that we face, including market risk, liquidity risk and credit risk.

We refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we may fail to identify or anticipate particular risks that our systems are capable of identifying, or the systems that we use, and that are used within the industry generally, may not be capable of identifying certain risk, or every economic and financial outcome, or the specifics and timing of such outcomes. In addition, our risk management techniques and strategies seek to balance our ability to profit from our market-making and investing positions with our exposure to potential losses. Some of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

Use of derivative instruments as part of our financial risk management techniques may not effectively hedge the risks associated with activities in certain of our businesses.

We use interest rate swaps, interest rate locks, credit default swap index contracts and option contracts as a means to manage risk in certain inventory positions and to facilitate customer transactions. With respect to risk management, we enter into derivative contracts to hedge interest rate and market value risks associated with our security positions, including fixed income inventory positions we hold both for facilitating client activity as well as for our own proprietary trading operations. The instruments use interest rates based upon the Municipal Market Data ("MMD"), LIBOR or SIFMA index. We also enter into credit default swap index contracts to hedge risks associated with our taxable fixed income securities, and option contracts to hedge market value risk associated with convertible securities and mortgage-backed securities. Generally, we do not hedge all of our interest rate risk. In addition, these hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate and market value risk, especially when market volatility reduces the correlation between a hedging vehicle and the securities inventory being hedged.

There are risks inherent in our use of these products, including counterparty exposure and basis risk. Counterparty exposure refers to the risk that the amount of collateral in our possession on any given day may not be sufficient to fully cover the current value of the swaps if a counterparty were to suddenly default. Basis risk refers to risks associated with swaps where changes in the value of the swaps may not exactly mirror changes in the value of the cash flows they are hedging. We may incur losses from our exposure to derivative interest rate products and the increased use of these products in the future.

The use of estimates and valuations in measuring fair value involve significant estimation and judgment by management.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, investments in private companies, accounting for goodwill and intangible assets, establishing provisions for potential losses that may arise from litigation, and regulatory proceedings and tax examinations. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements.

Financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold but not yet purchased, are recorded at fair value, and 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 a transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Difficult market environments, such as those experienced in 2008, may cause financial instruments to become substantially more illiquid and difficult to value, increasing the use of valuation models. Our future results of operations and financial condition may be adversely affected by the valuation adjustments that we apply to these financial instruments.

Investments 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 valuation techniques require significant management estimation and judgment.

The financial services industry and the markets in which we operate are subject to systemic risk that could adversely affect our business and results.

Participants in the financial services industry and markets increasingly are closely interrelated as a result of credit, trading, clearing, technology and other relationships between them. A significant adverse development with one participant (such as a bankruptcy or default) may spread to others and lead to significant concentrated or market-wide problems (such as defaults, liquidity problems or losses) for other participants, including us. This systemic risk was evident during 2008 following the demise of Bear Stearns and Lehman Brothers, and the resulting events (sometimes described as “contagion”) had a negative impact on the remaining industry participants, including us. Further, the control and risk management infrastructure of the markets in which we operate often is outpaced by financial innovation and growth in new types of securities, transactions and markets. Systemic risk is inherently difficult to assess and quantify, and its form and magnitude can remain unknown for significant periods of time.

Regulatory capital requirements may limit our ability to expand or maintain our present levels of business or impair our ability to meet our financial obligations.

We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from Piper Jaffray & Co., our U.S. broker dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Underwriting commitments require a charge against net capital and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations.

As Piper Jaffray Companies is a holding company, it depends on dividends, distributions and other payments from our subsidiaries to fund its obligations. The regulatory restrictions described above may impede access to funds our holding company needs to make payments on any such obligations.

We may not be able to compete successfully with other companies in the financial services industry who often have significantly greater resources than we do.

The financial services industry remains extremely competitive, and our revenues and profitability will suffer if we are unable to compete effectively. We compete generally on the basis of such factors as quality of advice and service, reputation, price, product selection, transaction execution and financial resources. Pricing and other competitive pressures in investment banking, including trends toward multiple book runners, co-managers, and multiple financial advisors handling transactions, have continued and could adversely affect our revenues. The trend toward multiple book runners has also been accompanied by an increasing disparity in the relative economics between or among book runners, with the senior book runner(s) receiving a large percentage of the economics.

We remain at a competitive disadvantage given our relatively small size compared to some of our competitors. Large financial services firms have a larger capital base, greater access to capital and greater resources than we have, affording them greater capacity for risk and potential for innovation, an extended geographic reach and flexibility to offer a broader set of products. For example, these firms have used their resources and larger capital base to take advantage of growth in international markets and to support their investment banking business by offering credit products to corporate clients, which is a significant competitive advantage. With respect to our fixed income institutional and public finance investment banking businesses, it is more difficult for us to diversify and differentiate our product set, and our fixed income business mix currently is concentrated in the municipal market and to a lesser extent corporate credits and structured mortgage products, potentially with less opportunity for growth than other firms which have grown their fixed income businesses by investing in, developing and offering non-traditional products (e.g., credit default swaps, interest rate products and currencies and commodities).

The business operations that we conduct outside of the United States subject us to unique risks.

To the extent we conduct business outside the United States, for example in Asia and Europe, we are subject to risks including, without limitation, the risk that we will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, and the general economic and political conditions in countries where we conduct business, which may differ significantly from those in the United States. With respect to our Asia-based capital markets activity, we facilitated underwritten capital-raising transactions for Asia-based issuers, which may have exposed us to greater underwriting risk in our capital markets business as compared to the U.S., as noted above.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include limitations on our shareholders' ability to act by written consent and to call special meetings. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

ITEM 2. *PROPERTIES.*

As of February 18, 2016, we conducted our operations through 54 principal offices in 29 states, and the District of Columbia, and in London, Hong Kong, Tokyo and Zurich. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota 55402 and, as of February 18, 2016, comprises approximately 124,000 square feet of space under a lease which expires November 30, 2025, with an early termination option effective January 31, 2022.

ITEM 3. *LEGAL PROCEEDINGS.*

Due to the nature of our business, we are involved in a variety of legal proceedings (including, but not limited to, those described below). These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, underwriting or other transactional activity, client account activity, employment matters, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory scrutiny applied to securities firms is intense, resulting in a significant number of regulatory investigations and enforcement actions and uncertainty regarding the likely outcome of these matters.

Litigation-related expenses include amounts we reserve and/or pay out as legal and regulatory settlements, awards or judgments, and fines. Parties who initiate litigation and arbitration proceedings against us may seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines being imposed on us. We reserve for contingencies related to legal proceedings at the time and to the extent we determine the amount to be probable and reasonably estimable. However, it is inherently difficult to predict accurately the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines. We assess each proceeding based on its particular facts, our outside advisors' and our past experience with similar matters, and expectations regarding the current legal and regulatory environment and other external developments that might affect the outcome of a particular proceeding or type of proceeding. Subject to the foregoing and except for the legal proceeding described below, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and taking into account our established reserves, that pending legal actions, investigations and regulatory proceedings, will be resolved with no material adverse effect on our consolidated financial condition, results of operations or cash flows. However, there can be no assurance that our assessments will reflect the ultimate outcome of pending proceedings, and the outcome of any particular matter may be material to our operating results for any particular period, depending, in part, on the operating results for that period and the amount of established reserves. We generally have denied, or believe that we have meritorious defenses and will deny, liability in all significant cases currently pending against us, and we intend to vigorously defend such actions.

Municipal Derivatives Litigation

Several class action complaints were brought on behalf of a purported class of state, local and municipal government entities in connection with the bidding or sale of municipal investment contracts and municipal derivative products directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated into a single nationwide class action entitled *In re Municipal Derivatives Antitrust Litigation*, MDL No. 1950 (Master Docket No. 08-2516), allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. The consolidated complaint seeks unspecified treble damages under Section 1 of the Sherman Act. Several California municipalities also brought separate class action complaints in California federal court, and approximately eighteen California municipalities and two New York municipalities filed individual lawsuits that are not as part of class actions, all of which have since been transferred to the Southern District of New York and consolidated for pretrial purposes. All three sets of complaints assert similar claims under federal (and for the California and New York plaintiffs, state) antitrust claims. The plaintiffs in the consolidated class action and Piper Jaffray entered into a settlement agreement for *In re Municipal Derivatives Antitrust Litigation* on February 22, 2016. The settlement is subject to court approval after notice to the class. If approved, Piper Jaffray will be required to pay $9.8 million to settle the MDL class action. Litigation in the separate California and New York cases is ongoing.

ITEM 4. *MINE SAFETY DISCLOSURES.*

Not applicable.

PART II

ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

Our common stock is listed on the New York Stock Exchange under the symbol "PJC." The following table contains historical quarterly price information for the years ended December 31, 2015 and 2014. On February 18, 2016, the last reported sale price of our common stock was $41.87.

	2015 Fiscal Year		**2014 Fiscal Year**	
	High	**Low**	**High**	**Low**
First Quarter	**$ 58.24**	**$ 51.05**	$ 45.80	$ 37.13
Second Quarter	**55.39**	**43.45**	51.77	40.30
Third Quarter	**46.24**	**36.17**	56.30	50.54
Fourth Quarter	**42.81**	**34.40**	59.35	46.15

Shareholders

We had 15,462 shareholders of record and approximately 27,193 beneficial owners of our common stock as of February 18, 2016.

Dividends

We do not currently pay cash dividends on our common stock. Our board of directors is free to change our dividend policy at any time. Restrictions on our U.S. broker dealer subsidiary's ability to pay dividends are described in Note 25 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

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 December 31, 2015.

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 (October 1, 2015 to October 31, 2015)	—	$ —	—	$ 158 million
Month #2 (November 1, 2015 to November 30, 2015)	209,672 (2)	$ 38.68	200,960	$ 150 million
Month #3 (December 1, 2015 to December 31, 2015)	455,100 (3)	$ 40.81	453,554	$ 131 million
Total	664,772	$ 40.14	654,514	$ 131 million

(1) *Effective October 1, 2014, our board of directors authorized the repurchase of up to $100.0 million of common stock through September 30, 2016, and we repurchased the full amount of this authorization in 2015. Additionally, effective August 14, 2015, our board of directors authorized the repurchase of up to an additional $150.0 million of common stock through September 30, 2017.*

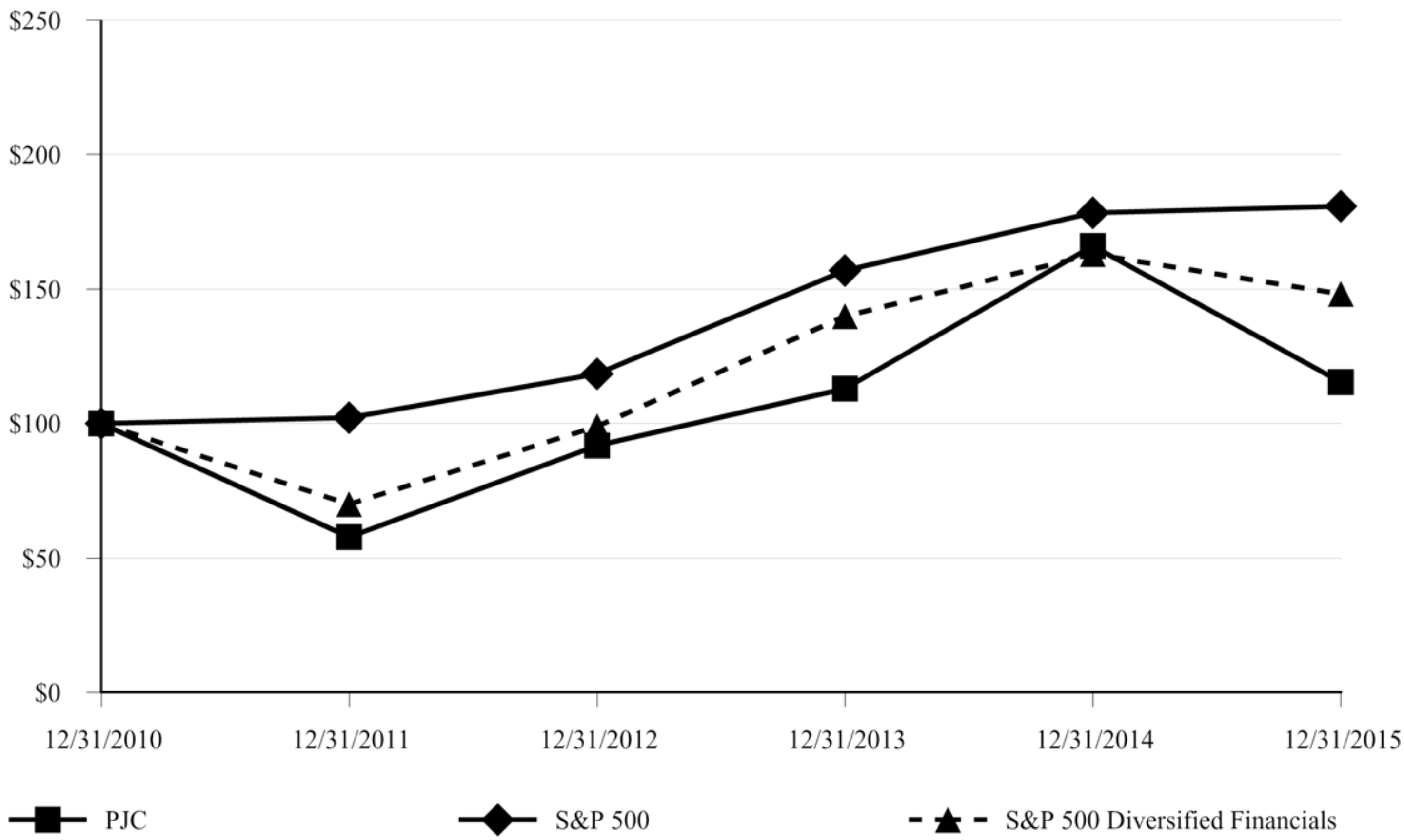
(2) *Consists of 200,960 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price of $38.79 per share, and 8,712 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of $36.19.*

(3) *Consists of 453,554 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price of $40.82 per share, and 1,546 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of $40.50.*

Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2010 through December 31, 2015, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on December 31, 2010, in each of our common stock, the S&P 500 Index and the S&P 500 Diversified Financials Index and that all dividends were reinvested on the date of payment without payment of any commissions. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

FIVE YEAR TOTAL RETURN FOR PIPER JAFFRAY COMPANIES COMMON STOCK, THE S&P 500 INDEX AND THE S&P DIVERSIFIED FINANCIALS INDEX



Company/Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Piper Jaffray Companies	100	57.70	91.77	112.97	165.92	115.40
S&P 500 Index	100	102.11	118.45	156.82	178.29	180.75
S&P 500 Diversified Financials.....	100	69.97	98.89	139.82	162.98	148.15

ITEM 6. *SELECTED FINANCIAL DATA.*

The following table presents our selected consolidated financial data in accordance with U.S. generally accepted accounting principles for the periods and dates indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto.

	For the year ended December 31,					
(Dollars and shares in thousands, except per share data)	**2015**	**2014**	**2013**	**2012**	**2011**	
Revenues:						
Investment banking	**$ 414,118**	$ 369,811	$ 248,563	$ 232,958	$ 202,513	
Institutional brokerage	**154,889**	156,809	146,648	166,642	135,358	
Asset management	**75,017**	85,062	83,045	65,699	63,307	
Interest	**41,557**	48,716	50,409	37,845	43,447	
Investment income	**10,736**	12,813	21,566	4,903	8,178	
Total revenues	**696,317**	673,211	550,231	508,047	452,803	
Interest expense	**23,399**	25,073	25,036	19,095	20,720	
Net revenues	**672,918**	648,138	525,195	488,952	432,083	
Non-interest expenses:						
Compensation and benefits	**421,733**	394,510	322,464	296,882	265,015	
Restructuring and integration costs	**10,652**	—	4,689	3,642	—	
Goodwill impairment	**—**	—	—	—	120,298	
Other	**154,110**	143,317	122,429	119,417	126,959	
Total non-interest expenses	**586,495**	537,827	449,582	419,941	512,272	
Income/(loss) from continuing operations before income tax expense	**86,423**	110,311	75,613	69,011	(80,189)	
Income tax expense	**27,941**	35,986	20,390	19,470	9,120	
Net income/(loss) from continuing operations	**58,482**	74,325	55,223	49,541	(89,309)	
Discontinued operations:						
Loss from discontinued operations, net of tax	**—**	—	(4,739)	(5,807)	(11,248)	
Net income/(loss)	**58,482**	74,325	50,484	43,734	(100,557)	
Net income applicable to noncontrolling interests	**6,407**	11,153	5,394	2,466	1,463	
Net income/(loss) applicable to Piper Jaffray Companies	**$ 52,075**	$ 63,172	$ 45,090	$ 41,268	$ (102,020)	
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	**$ 48,060**	$ 58,141	$ 40,596	$ 35,335	$ (102,020)	(1)
Amounts applicable to Piper Jaffray Companies						
Net income/(loss) from continuing operations	**$ 52,075**	$ 63,172	$ 49,829	$ 47,075	$ (90,772)	
Net loss from discontinued operations	**—**	—	(4,739)	(5,807)	(11,248)	
Net income/(loss) applicable to Piper Jaffray Companies	**$ 52,075**	$ 63,172	$ 45,090	$ 41,268	$ (102,020)	
Earnings/(loss) per basic common share						
Income/(loss) from continuing operations	**$ 3.34**	$ 3.88	$ 2.98	$ 2.58	$ (5.79)	
Loss from discontinued operations	**—**	—	(0.28)	(0.32)	(0.72)	
Earnings/(loss) per basic common share	**$ 3.34**	$ 3.88	$ 2.70	$ 2.26	$ (6.51)	
Earnings/(loss) per diluted common share						
Income/(loss) from continuing operations	**$ 3.34**	$ 3.87	$ 2.98	$ 2.58	$ (5.79)	
Loss from discontinued operations	**—**	—	(0.28)	(0.32)	(0.72)	
Earnings/(loss) per diluted common share	**$ 3.34**	$ 3.87	$ 2.70	$ 2.26	$ (6.51)	(2)
Weighted average number of common shares						
Basic	**14,368**	14,971	15,046	15,615	15,672	
Diluted	**14,389**	15,025	15,061	15,616	15,672	(2)
Other data						
Total assets	**$ 2,138,518**	$ 2,623,917	$ 2,318,157	$ 2,087,733	$ 1,655,721	
Long-term debt	**$ 175,000**	$ 125,000	$ 125,000	$ 125,000	$ 115,000	
Total common shareholders' equity	**$ 783,659**	$ 819,912	$ 734,676	$ 733,292	$ 718,391	
Total shareholders' equity	**$ 832,820**	$ 969,460	$ 882,072	$ 790,175	$ 750,600	
Total employees (3)	**1,152**	1,026	1,026	907	919	

(1) No allocation of income was made due to loss position.

(2) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.

(3) Number of employees reflect continuing operations.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

The following information should be read in conjunction with the accompanying audited 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, 2015 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, 2015, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at 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, return on average common shareholders' equity, 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 its operating results across periods.

Executive Overview

Our 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 investments in municipal bonds, mortgage-backed securities and U.S. government agency securities. We have created alternative asset management funds in merchant banking that involve equity or debt investments in late stage private companies; and senior living, which provides financing to U.S. senior living facilities, in order to invest firm capital and to manage capital from outside investors. We receive management and performance fees for managing these funds.

During 2015, we accelerated our growth strategy, primarily by expanding into new sectors within equity investment banking and the expansion of our fixed income middle market sales platform. The following is a summary of our most significant activity for the year.

- On September 30, 2015, we acquired the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. The acquisition further strengthens our mergers and acquisitions leadership in the middle markets and adds investment banking resources dedicated to banks, thrifts, and depository institutions, building upon the organic expansion of our financial institutions group.
- On October 9, 2015, we completed the acquisition of BMO Capital Markets GKST Inc. ("BMO GKST"), a municipal bond sales, trading and origination business of BMO Financial Corp. This acquisition expands our fixed income institutional sales, trading and underwriting platforms. Additionally, it strengthens our strategic analytic and advisory capabilities, and supports our growing financial institutions group with their coverage of bank clients.
- As part of our strategy to expand our investment banking business into the energy sector, on November 16, 2015, we entered into a definitive agreement to purchase 100 percent of the common stock of Simmons & Company International ("Simmons"), including its subsidiaries. Simmons is an employee-owned investment bank and broker dealer focused on the energy industry. The transaction is expected to close in the first quarter of 2016, subject to regulatory approvals and customary closing conditions.
- For more information on our acquisitions, see Note 4 of our consolidated financial statements. We incurred $10.7 million of restructuring, integration and transactions costs in the year ended December 31, 2015 principally related to the River Branch and BMO GKST acquisitions.

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

Results for the year ended December 31, 2015

Net income applicable to Piper Jaffray Companies in 2015 was $52.1 million, or $3.34 per diluted common share, compared with $63.2 million, or $3.87 per diluted common share, in 2014. In 2015, we generated a return on average common shareholders' equity on a GAAP basis of 6.4 percent, compared with 8.1 percent for 2014. Net revenues from continuing operations for the year ended December 31, 2015 were $672.9 million, up 3.8 percent from $648.1 million in the year-ago period, due to higher investment banking revenues driven by strong advisory services and debt financing revenues, partially offset by lower asset management revenues. For the year ended December 31, 2015, non-compensation expenses were $164.8 million, up from $143.3 million in 2014. The increase was due to restructuring and integration costs of $10.7 million related to severance benefits and integration costs incurred primarily in conjunction with our acquisitions of River Branch and BMO GKST, and a $9.8 million charge related to settlement of a multi-district class action antitrust litigation related to municipal derivatives. This litigation originated in 2006 and is described in greater detail in "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2015.

For the year ended December 31, 2015, adjusted net income applicable to Piper Jaffray Companies was $65.9 million(1), or $4.22(1) per diluted common share, compared with $72.1 million(1), or $4.42(1) per diluted common share, for the prior-year period. In 2015, we generated an adjusted return on average common shareholders' equity of 8.1 percent(2), compared with 9.2 percent(2) for 2014. Adjusted net revenues for the year ended December 31, 2015 were $663.1 million(1), an increase of 4.8 percent from $632.4 million(1) reported in the year-ago period. For the year ended December 31, 2015, adjusted non-compensation expenses were $143.0 million(1), up 10.5 percent compared to $129.5 million(1) for the year ended December 31, 2014.

---

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

	Year Ended December 31,	
(Amounts in thousands, except per share data)	**2015**	**2014**
Net revenues:		
Net revenues – U.S. GAAP basis	**$ 672,918**	$ 648,138
Adjustments		
Revenue related to noncontrolling interests	**(9,810)**	(15,699)
Adjusted net revenues	**$ 663,108**	$ 632,439
Non-compensation expenses:		
Non-compensation expenses – U.S. GAAP basis	**$ 164,762**	$ 143,317
Adjustments		
Non-compensation expenses related to noncontrolling interests	**(3,403)**	(4,546)
Restructuring and integration costs	**(10,652)**	—
Amortization of intangible assets related to acquisitions	**(7,662)**	(9,272)
Adjusted non-compensation expenses	**$ 143,045**	$ 129,499
Net income applicable to Piper Jaffray Companies:		
Net income applicable to Piper Jaffray Companies – U.S. GAAP basis	**$ 52,075**	$ 63,172
Adjustments		
Compensation from acquisition-related agreements	**2,586**	3,195
Restructuring and integration costs	**6,508**	—
Amortization of intangible assets related to acquisitions	**4,681**	5,747
Adjusted net income applicable to Piper Jaffray Companies	**$ 65,850**	$ 72,114
Earnings per diluted common share:		
Earnings per diluted common share – U.S. GAAP basis	**$ 3.34**	$ 3.87
Adjustments		
Compensation from acquisition-related agreements	**0.17**	0.20
Restructuring and integration costs	**0.42**	—
Amortization of intangible assets related to acquisitions	**0.30**	0.35
Adjusted earnings per diluted common share	**$ 4.22**	$ 4.42

(2) Adjusted return on average common shareholders' equity is computed by dividing adjusted net income applicable to Piper Jaffray Companies for the last 12 months by average monthly common shareholders' equity. For a detailed explanation of the components of adjusted net income, see "Reconciliation of U.S. GAAP to adjusted non-GAAP financial information" in footnote (1).

Market Data

The following table provides a summary of relevant market data over the past three years.

Year Ended December 31,	2015	2014	2013	2015 v2014	2014 v2013
Dow Jones Industrials Average *(a)*	**17,425**	17,823	16,577	(2.2)%	7.5 %
NASDAQ *(a)*	**5,007**	4,736	4,177	5.7 %	13.4 %
NYSE Average Daily Number of Shares Traded (millions of shares)	**1,187**	1,039	1,034	14.2 %	0.5 %
NASDAQ Average Daily Number of Shares Traded (millions of shares)	**1,895**	1,955	1,762	(3.1)%	11.0 %
Mergers and Acquisitions (number of transactions in U.S.) *(b)*	**10,319**	10,263	9,146	0.5 %	12.2 %
Public Equity Offerings (number of transactions in U.S.) *(c) (e)*	**909**	1,107	1,125	(17.9)%	(1.6)%
Initial Public Offerings (number of transactions in U.S.) *(c)*	**171**	282	221	(39.4)%	27.6 %
Municipal Negotiated Issuances (number of transactions in U.S.) *(d)*	**8,764**	7,261	7,628	20.7 %	(4.8)%
Municipal Negotiated Issuances (value of transactions in billions in U.S.) *(d)*	**$ 315.9**	$ 266.1	$ 263.8	18.7 %	0.9 %
10-Year Treasuries Average Rate	**2.14%**	2.21%	2.35%	(3.2)%	(6.0)%
3-Month Treasuries Average Rate	**0.05%**	0.03%	0.06%	66.7 %	(50.0)%

(a) Data provided is at period end.

(b) Source Securities Data Corporation.

(c) Source Dealogic (offerings with reported market value greater than $20 million).

(d) Source Thomson Reuters.

(e) Number of transactions includes convertible offerings.

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, overall market liquidity, 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, 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.

Outlook for 2016

We continue to encounter mixed signals relative to the strength of the recovery for the U.S. economy. In 2016, we believe the U.S. economy will continue its sluggish growth pattern. Risks to continued growth include ongoing or accelerating weakness in major economies internationally, falling oil prices, or significant geopolitical events (including terrorism) or conflicts, which could adversely impact the rate of growth in the U.S. and continue to inject volatility into the U.S. equity and debt markets. The 2016 presidential election could also influence the volatility or direction of markets based on investors' assessment of the outcome and the overall political outlook in the United States.

The Federal Reserve increased short-term interest rates for the first time in almost ten years at the end of 2015, however the beginning of 2016 has seen lower interest rates among most fixed income securities as volatility in global markets has created uncertainty in the marketplace. If lower interest rates persist through 2016 it is generally favorable for our municipal debt underwriting business as refunding activity increases, however lower interest rates will likely reduce activity in our fixed income institutional brokerage business. Given the impact of new regulations and capital requirements on major market participants, we may experience periods when volatility is exacerbated by the withdrawal of liquidity historically provided by these participants. We generally anticipate maintaining a conservative bias in managing our inventories and hedging strategies to mitigate market volatility and our exposure to interest rates.

As to our businesses tied to the equity markets, we expect that market conditions will likely remain volatile given the mixed outlook for the U.S. economy coupled with global economic and geopolitical risks. While higher volatility typically benefits our equity sales and trading business, a period of sustained market volatility or prolonged market correction may be disruptive to our capital raising activities.

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. Our exposure to energy through a dedicated energy fund, our MLP strategies and energy holdings in our domestic strategies, adversely impacted our assets under management in the second half of 2015. Sharp fluctuations in the price of oil may continue to increase the volatility of energy-related equity holdings in 2016.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional discussion and reconciliations.

Financial Summary

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.

	Year Ended December 31,					As a Percentage of Net Revenues for the Year Ended December 31,		
(Dollars in thousands)	**2015**	**2014**	**2013**	**2015 v2014**	**2014 v2013**	**2015**	**2014**	**2013**
Revenues:								
Investment banking	**$ 414,118**	$ 369,811	$ 248,563	12.0 %	48.8%	**61.5%**	57.1%	47.3%
Institutional brokerage	**154,889**	156,809	146,648	(1.2)	6.9	**23.0**	24.2	27.9
Asset management	**75,017**	85,062	83,045	(11.8)	2.4	**11.1**	13.1	15.8
Interest	**41,557**	48,716	50,409	(14.7)	(3.4)	**6.2**	7.5	9.6
Investment income	**10,736**	12,813	21,566	(16.2)	(40.6)	**1.6**	2.0	4.1
Total revenues	**696,317**	673,211	550,231	3.4	22.4	**103.5**	103.9	104.8
Interest expense	**23,399**	25,073	25,036	(6.7)	0.1	**3.5**	3.9	4.8
Net revenues	**672,918**	648,138	525,195	3.8	23.4	**100.0**	100.0	100.0
Non-interest expenses:								
Compensation and benefits	**421,733**	394,510	322,464	6.9	22.3	**62.7**	60.9	61.4
Outside services	**36,218**	37,055	32,982	(2.3)	12.3	**5.4**	5.7	6.3
Occupancy and equipment	**28,301**	28,231	25,493	0.2	10.7	**4.2**	4.4	4.9
Communications	**23,762**	22,732	21,431	4.5	6.1	**3.5**	3.5	4.1
Marketing and business development	**29,990**	27,260	21,603	10.0	26.2	**4.5**	4.2	4.1
Trade execution and clearance	**7,794**	7,621	8,270	2.3	(7.8)	**1.2**	1.2	1.6
Restructuring and integration costs	**10,652**	—	4,689	N/M	N/M	**1.6**	—	0.9
Intangible asset amortization expense	**7,662**	9,272	7,993	(17.4)	16.0	**1.1**	1.4	1.5
Other operating expenses	**20,383**	11,146	4,657	82.9	139.3	**3.0**	1.7	0.9
Total non-interest expenses	**586,495**	537,827	449,582	9.0	19.6	**87.2**	83.0	85.6
Income from continuing operations before income tax expense	**86,423**	110,311	75,613	(21.7)	45.9	**12.8**	17.0	14.4
Income tax expense	**27,941**	35,986	20,390	(22.4)	76.5	**4.2**	5.6	3.9
Income from continuing operations	**58,482**	74,325	55,223	(21.3)	34.6	**8.7**	11.5	10.5
Discontinued operations:								
Loss from discontinued operations, net of tax	**—**	—	(4,739)	—	N/M	**—**	—	(0.9)
Net income	**58,482**	74,325	50,484	(21.3)	47.2	**8.7**	11.5	9.6
Net income applicable to noncontrolling interests	**6,407**	11,153	5,394	(42.6)	106.8	**1.0**	1.7	1.0
Net income applicable to Piper Jaffray Companies	**$ 52,075**	$ 63,172	$ 45,090	(17.6)%	40.1%	**7.7%**	9.7%	8.6%

N/M — Not meaningful

For the year ended December 31, 2015, we recorded net income applicable to Piper Jaffray Companies of $52.1 million. Net revenues from continuing operations for the year ended December 31, 2015 were $672.9 million, a 3.8 percent increase compared to $648.1 million in the year-ago period. In 2015, investment banking revenues increased 12.0 percent to $414.1 million, compared with $369.8 million in 2014, driven by strong advisory services and debt financing revenues as we were able to continue to capitalize on the investments we have made to strengthen these businesses. For the year ended December 31, 2015, institutional brokerage revenues were $154.9 million, compared with $156.8 million in 2014. Asset management fees were $75.0 million in 2015, compared with $85.1 million in 2014, due to lower management fees from our value equity product offerings resulting from decreased assets under management. For the year ended December 31, 2015, net interest income decreased to $18.2 million, compared with $23.6 million in 2014. The decrease primarily resulted from lower average inventory balances in municipal and treasury securities driven by the closure and liquidation of our municipal bond fund with outside investors in the second half of 2015, as well as lower interest income attributable to a merchant banking debt investment that was repaid in the second quarter of 2014. These decreases were partially offset by increased interest expense at the end of the year due to a higher amount of outstanding principal on our senior notes. In 2015, investment income was $10.7 million, compared with $12.8 million in 2014, as we recorded gains associated with our investment and the noncontrolling interests in the merchant banking fund that we manage, which were partially offset by losses on our investments of firm capital in our MLP strategies. Non-interest expenses from continuing operations were $586.5 million for the year ended December 31, 2015, an increase of 9.0 percent compared to $537.8 million in the prior year, resulting from higher compensation expenses due to increased revenues and expansion of our financial institutions group, as well as higher non-compensation expenses due to a $9.8 million legal settlement charge and restructuring and integration costs primarily associated with the acquisitions of River Branch and BMO GKST.

For the year ended December 31, 2014, we recorded net income applicable to Piper Jaffray Companies of $63.2 million. Net revenues from continuing operations for the year ended December 31, 2014 were $648.1 million, a 23.4 percent increase compared to $525.2 million in 2013. In 2014, investment banking revenues increased 48.8 percent to $369.8 million, compared with $248.6 million in 2013, driven by robust advisory services revenues as we were able to capitalize on favorable market conditions and the investments we have made to strengthen our mergers and acquisitions resources in the middle market. For the year ended December 31, 2014, institutional brokerage revenues were $156.8 million, compared with $146.6 million in 2013, due to higher fixed income institutional brokerage revenues, partially offset by lower equity institutional brokerage revenues. Asset management fees were $85.1 million in 2014, compared with $83.0 million in 2013. For the year ended December 31, 2014, net interest income decreased to $23.6 million, compared with $25.4 million in 2013. In 2014, investment income was $12.8 million, compared with $21.6 million in the prior-year period as we recorded lower investment gains associated with our merchant banking and firm investments, partially offset by higher gains associated with our investment and the noncontrolling interests in the municipal bond fund that we managed for the benefit of outside investors. Non-interest expenses from continuing operations were $537.8 million for the year ended December 31, 2014, an increase of 19.6 percent compared to $449.6 million in 2013, primarily resulting from higher compensation expenses due to increased revenues and improved operating performance and higher non-compensation expenses due to increased business activity and incremental costs associated with the acquisitions of Seattle-Northwest Securities Corporation ("Seattle-Northwest") and Edgeview Partners, L.P. ("Edgeview").

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 year ended December 31, 2015, compensation and benefits expenses increased 6.9 percent to $421.7 million from $394.5 million in 2014 due primarily to improved financial results. Compensation and benefits expenses as a percentage of net revenues was 62.7 percent in 2015, compared with 60.9 percent in 2014. The higher compensation expense ratio was attributable to incremental compensation related to the expansion of our financial institutions group as well as a change in our mix of revenues.

For the year ended December 31, 2014, compensation and benefits expenses increased 22.3 percent to $394.5 million from $322.5 million in 2013, due to improved financial results. Compensation and benefits expenses as a percentage of net revenues was 60.9 percent in 2014, compared with 61.4 percent in 2013. The lower compensation expense ratio was due to an increased revenue base.

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 decreased 2.3 percent to $36.2 million in 2015, compared with $37.1 million in the corresponding period of 2014. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses decreased 1.7 percent.

Outside services expenses increased 12.3 percent to $37.1 million in 2014, compared with $33.0 million in 2013. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 9.3 percent due primarily to higher legal and other professional fees.

Occupancy and Equipment – For the year ended December 31, 2015, occupancy and equipment expenses were $28.3 million, essentially flat compared with 2014.

For the year ended December 31, 2014, occupancy and equipment expenses increased 10.7 percent to $28.2 million, compared with $25.5 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 – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the year ended December 31, 2015, communication expenses increased 4.5 percent to $23.8 million, compared with $22.7 million for the year ended December 31, 2014. The increase resulted from higher market data service expenses due to the additional headcount associated with our financial institutions group expansion and our acquisitions of River Branch and BMO GKST.

For the year ended December 31, 2014, communication expenses increased 6.1 percent to $22.7 million, compared with $21.4 million for the year ended December 31, 2013. The increase resulted from higher market data service expenses.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. In 2015, marketing and business development expenses increased 10.0 percent to $30.0 million, compared with $27.3 million in the year ended December 31, 2014, due to higher travel expenses from increased business activity and acquisition-related travel.

In 2014, marketing and business development expenses increased 26.2 percent to $27.3 million, compared with $21.6 million in the year ended December 31, 2013, due to higher third party marketing fees associated with our asset management business, as well as higher travel expenses from increased business activity.

Trade Execution and Clearance – For the year ended December 31, 2015, trade execution and clearance expenses were $7.8 million, compared with $7.6 million million in the year ended December 31, 2014.

For the year ended December 31, 2014, trade execution and clearance expenses were $7.6 million, compared with $8.3 million in the year ended December 31, 2013, due to lower trading execution expenses.

Restructuring and Integration Costs – During the year ended December 31, 2015, we recorded restructuring and integration costs of $10.7 million primarily consisting of severance benefits and transaction costs related to the acquisitions of River Branch and BMO GKST. For the year ended December 31, 2013, we recorded restructuring and integration costs of $4.7 million, primarily related to the acquisitions of Seattle-Northwest and Edgeview. We expect to incur additional restructuring and integration costs in 2016, primarily related to the acquisition of Simmons, which is expected to close in the first quarter of 2016.

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 year ended December 31, 2015, intangible asset amortization expense was $7.7 million, compared with $9.3 million in the corresponding period of 2014. In the fourth quarter of 2015, we recorded incremental intangible asset amortization expense related to identifiable intangible assets associated with the acquisitions of River Branch and BMO GKST. In 2016, we anticipate incurring a full year of intangible asset amortization expense related to River Branch and BMO GKST and additional intangible asset amortization expense related to the acquisition of Simmons.

For the year ended December 31, 2014, intangible asset amortization expense was $9.3 million, compared with $8.0 million in the corresponding period of 2013. The increase reflects a full year of intangible asset amortization expense related to the 2013 acquisitions of Seattle-Northwest and Edgeview.

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 increased to $20.4 million in 2015, compared with $11.1 million in 2014. In 2015, we recorded a $9.8 million charge related to settlement of a legal matter.

Other operating expenses increased to $11.1 million in 2014, compared with $4.7 million in 2013. In 2013, we received insurance proceeds for the reimbursement of prior legal settlements. Additionally, in 2014, we incurred higher expenses related to our charitable giving program, driven by our increased profitability.

Income Taxes – For the year ended December 31, 2015, our provision for income taxes was $27.9 million equating to an effective tax rate, excluding noncontrolling interests, of 34.9 percent.

For the year ended December 31, 2014, our provision for income taxes was $36.0 million, equating to an effective tax rate, excluding noncontrolling interests, of 36.3 percent.

For the year ended December 31, 2013, our provision for income taxes was $20.4 million equating to an effective tax rate, excluding noncontrolling interests, of 29.0 percent. In 2013, we recorded a tax benefit for the full reversal of our U.K subsidiary's deferred tax asset valuation allowance of $4.0 million as we achieved three years of profitability and forecasted future taxable profits.

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 acquisition integration costs. For U.S. GAAP purposes, these items are included in each of their respective line items on the consolidated statements of operations.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin present the segments' results of operations excluding the impact resulting from the consolidation of noncontrolling interests in alternative asset management funds and private equity investment vehicles. Consolidation of these funds results in the inclusion of the proportionate share of the income or loss attributable to the equity interests in consolidated funds that are not attributable, either directly or indirectly, to us (i.e. noncontrolling interests). This proportionate share is reflected in net income/(loss) applicable to noncontrolling interests in the accompanying consolidated statements of operations, and has no effect on the overall financial performance of the segments, as ultimately, this income or loss is not income or loss for the segments themselves. Included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin is the actual proportionate share of the income or loss attributable to us as an investor in such funds.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin also exclude amortization of intangible assets and compensation from acquisition-related agreements. These amounts are excluded on a non-GAAP basis as they represent expenses specifically related to acquisitions that will eventually be fully amortized and therefore not part of our on-going operations. The restructuring and integration costs excluded from adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin represent charges that resulted from severance benefits, vacating redundant office space and contract termination costs. Restructuring and integration costs are excluded from our non-GAAP financial measures as they generally relate to an acquisition or a specific event and excluding these amounts provides a better understanding of our core non-compensation expenses. Management believes that presenting adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin excluding the acquisition-related amounts and restructuring and integration costs provides clarity on the financial results generated by the core operating components of our business.

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:

	Year Ended December 31,							
	2015				2014			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$ 114,468	$ —	$ —	$ 114,468	$ 109,706	$ —	$ —	$ 109,706
Debt	91,195	—	—	91,195	63,005	—	—	63,005
Advisory services	209,163	—	—	209,163	197,880	—	—	197,880
Total investment banking	414,826	—	—	414,826	370,591	—	—	370,591
Institutional sales and trading								
Equities	78,584	—	—	78,584	82,211	—	—	82,211
Fixed income	93,489	816	—	94,305	92,200	—	—	92,200
Total institutional sales and trading	172,073	816	—	172,889	174,411	—	—	174,411
Total management and performance fees	4,642	—	—	4,642	5,398	—	—	5,398
Investment income	15,474	8,994	—	24,468	8,347	15,699	—	24,046
Long-term financing expenses	(7,494)	—	—	(7,494)	(6,655)	—	—	(6,655)
Net revenues	599,521	9,810	—	609,331	552,092	15,699	—	567,791
Operating expenses	511,241	3,403	16,293	530,937	467,198	4,546	6,917	478,661
Segment pre-tax operating income	$ 88,280	$ 6,407	$ (16,293)	$ 78,394	$ 84,894	$ 11,153	$ (6,917)	$ 89,130
Segment pre-tax operating margin	14 7%			12 9%	15 4%			15 7%

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

	Year Ended December 31,	
(Dollars in thousands)	***2015***	***2014***
Compensation from acquisition-related agreements	*$ 4,019*	*$ 3,945*
Restructuring and integration costs	*10,652*	*—*
Amortization of intangible assets related to acquisitions	*1,622*	*2,972*
	$ 16,293	*$ 6,917*

Capital Markets adjusted net revenues increased 8.6 percent to $599.5 million for the year ended December 31, 2015, compared with $552.1 million in the prior-year period.

Investment banking revenues comprise all of the revenues generated through equity and debt financing and advisory services activities, which include mergers and acquisitions, equity private placements, debt advisory, and municipal financial advisory transactions. To assess the profitability of investment banking, we aggregate investment banking fees with the net interest income or expense associated with these activities.

In 2015, investment banking revenues increased 11.9 percent to $414.8 million compared with $370.6 million in the corresponding period of the prior year, due primarily to strong debt financing and advisory services revenues. For the year ended December 31, 2015, equity financing revenues were $114.5 million, up 4.3 percent compared with $109.7 million in the prior-year period, as a result of more completed transactions and slightly higher revenue per transaction. We were book runner on 70 percent of our transactions in 2015 compared to 52 percent in the prior year. During 2015, we completed 95 equity financings, raising $17.4 billion for our clients, compared with 90 equity financings, raising $20.5 billion for our clients in the year-ago period. Debt financing revenues for the year ended December 31, 2015 were $91.2 million, an increase of 44.7 percent compared with $63.0 million in the year-ago period, due to higher public finance revenues resulting from market-wide increases in the volume of municipal issuances in 2015, as well as market share gains attributable to our geographic and sector expansion and product diversification. In 2015, our par value from negotiated debt issuances increased 49.8 percent, compared to 18.7 percent for the industry. During 2015, we completed 707 negotiated municipal issues with a total par value of $14.3 billion, compared with 485 negotiated municipal issues with a total par value of $9.5 billion during the prior-year period. For the year ended December 31, 2015, advisory services revenues increased to $209.2 million, compared with $197.9 million in 2014, due to increased mergers and acquisitions services revenues from higher revenue per transaction. Our strategic focus to grow our mergers and acquisitions resources in the middle market and continued leadership in the healthcare sector has resulted in market share gains and increased revenues. We completed 82 transactions with an aggregate enterprise value of $23.0 billion in 2015, compared with 91 transactions with an aggregate enterprise value of $14.7 billion in 2014.

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 U.S. government agency 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 year ended December 31, 2015, adjusted institutional brokerage revenues decreased slightly to $172.1 million, compared with $174.4 million in the prior-year period, due to lower equity institutional brokerage revenues, partially offset by higher adjusted fixed income institutional brokerage revenues. Equity institutional brokerage revenues were $78.6 million in 2015, down 4.4 percent compared with $82.2 million in 2014. The decrease was primarily due to lower client trading volumes, offset in part by contributions from our financial institutions group expansion. For the year ended December 31, 2015, adjusted fixed income institutional brokerage revenues were $93.5 million, up slightly compared with $92.2 million in the prior-year period, as a decline in strategic trading revenues was more than offset by solid performance in our customer flow business and incremental revenues associated with our acquisition of BMO GKST.

Management and performance fees include the fees generated from our municipal bond, merchant banking and senior living funds with outside investors. For the year ended December 31, 2015, management and performance fees were $4.6 million, down 14.0 percent compared with $5.4 million in the prior-year period, due to decreased performance fees from our municipal bond fund, partially offset by higher performance fees from our merchant banking fund. In the third quarter of 2015, we closed the municipal bond fund and completed its liquidation in October 2015.

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 year ended December 31, 2015, adjusted investment income was $15.5 million, compared to $8.3 million in 2014. In 2015, we recorded higher gains on our merchant banking activities, which were partially offset by lower gains on the municipal bond fund with outside investors that we liquidated in the fourth quarter of 2015.

Long-term financing expenses primarily represent interest paid on our senior notes. For the year ended December 31, 2015, long-term financing expenses increased to $7.5 million, compared to $6.7 million in the prior-year period, as we increased the amount of outstanding principal on our senior notes in the fourth quarter of 2015 from $125 million to $175 million.

Capital Markets adjusted segment pre-tax operating margin for the year ended December 31, 2015 decreased to 14.7 percent, compared with 15.4 percent for 2014. The decrease in adjusted pre-tax operating margin was due to higher non-compensation expenses resulting from a legal settlement as well as additional expenses associated with our recent acquisitions and our financial institutions group expansion.

	Year Ended December 31,							
	2014				2013			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$ 109,706	$ —	$ —	$ 109,706	$ 94,472	$ —	$ —	$ 94,472
Debt	63,005	—	—	63,005	71,164	—	—	71,164
Advisory services	197,880	—	—	197,880	83,292	—	—	83,292
Total investment banking	370,591	—	—	370,591	248,928	—	—	248,928
Institutional sales and trading								
Equities	82,211	—	—	82,211	91,169	—	—	91,169
Fixed income	92,200	—	—	92,200	76,275	—	—	76,275
Total institutional sales and trading	174,411	—	—	174,411	167,444	—	—	167,444
Total management and performance fees	5,398	—	—	5,398	3,891	—	—	3,891
Investment income	8,347	15,699	—	24,046	21,610	8,794	—	30,404
Long-term financing expenses	(6,655)	—	—	(6,655)	(7,420)	—	—	(7,420)
Net revenues	552,092	15,699	—	567,791	434,453	8,794	—	443,247
Operating expenses	467,198	4,546	6,917	478,661	382,157	3,400	7,674	393,231
Segment pre-tax operating income	$ 84,894	$ 11,153	$ (6,917)	$ 89,130	$ 52,296	$ 5,394	$ (7,674)	$ 50,016
Segment pre-tax operating margin	15 4%			15 7%	12 0%			11 3%

(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)	*Year Ended December 31, 2014*	*2013*
Compensation from acquisition-related agreements	*$ 3,945*	*$ 1,620*
Restructuring and integration costs	*—*	*4,705*
Amortization of intangible assets related to acquisitions	*2,972*	*1,349*
	$ 6,917	*$ 7,674*

Capital Markets adjusted net revenues increased 27.1 percent to $552.1 million for the year ended December 31, 2014, compared with $434.5 million for the year ended December 31, 2013.

In 2014, investment banking revenues increased 48.9 percent to $370.6 million compared with $248.9 million in the prior year, due to higher equity financing and advisory services revenues. For the year ended December 31, 2014, equity financing revenues were $109.7 million, up 16.1 percent compared with $94.5 million in the prior-year period, as favorable equity markets, particularly in the first half of 2014, led to an increase in capital raising in our focus sectors, especially healthcare, our strongest sector, resulting in more completed transactions and higher revenue per transaction. During 2014, we completed 90 equity financings, raising $20.5 billion for our clients, compared with 82 equity financings, raising $19.3 billion for our clients in 2013. Debt financing revenues for the year ended December 31, 2014 were $63.0 million, down 11.5 percent compared with $71.2 million in the prior year, due to lower public finance revenues resulting from fewer completed transactions as our volume of new market issuances declined, and reduced underwriting spreads. During 2014, we completed 485 negotiated municipal issues with a total par value of $9.5 billion, compared with 522 negotiated municipal issues with a total par value of $9.7 billion during 2013. For the year ended December 31, 2014, advisory services revenues increased to $197.9 million, compared with $83.3 million in 2013, due to higher U.S. merger and acquisitions revenue from more completed transactions and higher revenue per transaction. Low volatility, attractive valuation levels and readily available credit created a robust mergers and acquisitions environment in 2014. Our strategic focus to strengthen our mergers and acquisitions resources in the middle market enabled us to capitalize on this environment. We completed 91 transactions with an aggregate enterprise value of $14.7 billion during 2014, compared with 46 transactions with an aggregate enterprise value of $5.3 billion in 2013.

In 2014, institutional brokerage revenues increased to $174.4 million, compared with $167.4 million in 2013, due to higher fixed income institutional brokerage revenues, partially offset by lower equity institutional brokerage revenues. Equity institutional brokerage revenues were $82.2 million in 2014, down 9.8 percent compared with $91.2 million in 2013, due to lower revenues from block trades and losses from our equity strategic trading activities compared to trading gains in the prior-year period. For the year ended December 31, 2014, fixed income institutional brokerage revenues were $92.2 million, up 20.9 percent compared with $76.3 million in the prior-year period. Higher trading gains and investments made in our middle markets team generated incremental revenue to offset the impact of client trading volumes remaining relatively flat. In the second quarter of 2013, we recorded trading losses on inventory positions due to a volatile trading environment caused by a rapid rise in interest rates and widening of credit spreads during that period.

For the year ended December 31, 2014, management and performance fees were $5.4 million, compared with $3.9 million in 2013, due to increased performance fees from our municipal bond fund with outside investors.

For the year ended December 31, 2014, adjusted investment income was $8.3 million, compared to $21.6 million in 2013. In 2013, we recorded larger gains on our merchant banking activities. Merchant banking investments made before 2010 are accounted for on a cost basis, which can result, and in 2013 did result, in significant realized gains in the period of a liquidity event for these investments. Note 12 of our consolidated financial statements highlights the difference between the fair value of investments and the cost basis for these investments.

For the year ended December 31, 2014, long-term financing expenses decreased to $6.7 million, compared to $7.4 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for 2014 increased to 15.4 percent, compared with 12.0 percent for 2013, due to operating leverage gained from increased revenues.

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:

	Year Ended December 31,							
	2015				2014			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$ 38,249	$ —	$ —	$ 38,249	$ 47,987	$ —	$ —	$ 47,987
MLP	31,918	—	—	31,918	30,785	—	—	30,785
Total management fees	70,167	—	—	70,167	78,772	—	—	78,772
Performance fees								
Value equity	208			208	684	—	—	684
MLP	—			—	208	—	—	208
Total performance fees	208	—	—	208	892	—	—	892
Total management and performance fees	70,375	—	—	70,375	79,664	—	—	79,664
Investment income/(loss)	(6,788)	—	—	(6,788)	683	—	—	683
Total net revenues	63,587	—	—	63,587	80,347	—	—	80,347
Operating expenses	49,304	—	6,254	55,558	51,582	—	7,584	59,166
Segment pre-tax operating income	$ 14,283	$ —	$ (6,254)	$ 8,029	$ 28,765	$ —	$ (7,584)	$ 21,181
Segment pre-tax operating margin	22 5%			12 6%	35 8%			26 4%
Adjusted segment pre-tax operating margin excluding investment income/(loss) (2)	29 9%				35 3%			

(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*

	Year Ended December 31,	
(Dollars in thousands)	***2015***	***2014***
Compensation from acquisition-related agreements	*$ 214*	*$ 1,284*
Amortization of intangible assets related to acquisitions	*6,040*	*6,300*
	$ 6,254	*$ 7,584*

(2) *Management believes that presenting adjusted segment pre-tax operating margin excluding investment income/(loss) provides the most meaningful basis for comparison of Asset Management operating results across periods.*

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 AUM, 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 AUM 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 AUM. 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 December 31, 2015, approximately nine percent of our AUM was eligible to earn performance fees.

For the year ended December 31, 2015, management fees were $70.2 million, a decrease of 10.9 percent, compared with $78.8 million in the prior-year period, due to decreased management fees from our value equity strategies. In 2015, management fees related to our value equity strategies were $38.2 million, down 20.3 percent compared to 2014, due to lower average AUM from net client outflows and market depreciation, as well as a lower average effective yield. The average effective revenue yield for our value equity strategies was 69 basis points for the year ended December 31, 2015, compared to 78 basis points for the year ended December 31, 2014. The decline in the average effective revenue yield was driven by large new investments from institutional investors, which have a lower fee structure. Management fees from our MLP strategies increased 3.7 percent in 2015 to $31.9 million, compared with $30.8 million in 2014, due to higher average effective revenue yields, partially offset by lower AUM, driven by sharp declines in MLP valuations. The average effective revenue yield for our MLP strategies was 61 basis points for the year ended December 31, 2015, compared to 54 basis points for the corresponding period in the prior year. The increase in the average effective revenue yield was due to more assets from individual investors in open-ended mutual funds, which earned higher fees. Our MLP strategies are energy-oriented and valuations declined significantly in the second half of 2015 and continue to decline, which meaningfully reduces our MLP AUM. Absent significant market appreciation or significant inflows, management fees from our MLP strategies will likely decline in 2016 given current conditions in the energy markets.

For the year ended December 31, 2015, performance fees were $0.2 million, compared to $0.9 million in the prior-year period. The performance fees recorded in 2015 and 2014 primarily resulted from certain funds exceeding their performance targets over a specified measurement period or 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. In 2015, we recorded an investment loss of $6.8 million driven by unrealized losses in MLP investments, compared with income of $0.7 million for the year ended December 31, 2014.

Adjusted segment pre-tax operating margin for the year ended December 31, 2015 was 22.5 percent, compared to 35.8 percent for the year ended December 31, 2014. Excluding investment income/(loss) on firm capital invested in our strategies, adjusted operating margin declined from 35.3 percent in 2014 to 29.9 percent in 2015, due to lower management fees.

	Year Ended December 31,							
	2014				2013			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$ 47,987	$ —	$ —	$ 47,987	$ 50,066	$ —	$ —	$ 50,066
MLP	30,785	—	—	30,785	21,248	—	—	21,248
Total management fees	78,772	—	—	78,772	71,314	—	—	71,314
Performance fees								
Value equity	684	—	—	684	7,620	—	—	7,620
MLP	208	—	—	208	220	—	—	220
Total performance fees	892	—	—	892	7,840	—	—	7,840
Total management and performance fees	79,664	—	—	79,664	79,154	—	—	79,154
Investment income	683	—	—	683	2,794	—	—	2,794
Total net revenues	80,347	—	—	80,347	81,948	—	—	81,948
Operating expenses	51,582	—	7,584	59,166	48,439	—	7,912	56,351
Segment pre-tax operating income	$ 28,765	$ —	$ (7,584)	$ 21,181	$ 33,509	$ —	$ (7,912)	$ 25,597
Segment pre-tax operating margin	35 8%			26 4%	40 9%			31 2%
Adjusted segment pre-tax operating margin excluding investment income (2)	35 3%				38 8%			

(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*

	Year Ended December 31,	
(Dollars in thousands)	*2014*	*2013*
Compensation from acquisition-related agreements	*$ 1,284*	*$ 1,284*
Restructuring and integration costs	*—*	*(16)*
Amortization of intangible assets related to acquisitions	*6,300*	*6,644*
	$ 7,584	*$ 7,912*

(2) *Management believes that presenting adjusted segment pre-tax operating margin excluding investment income provides the most meaningful basis for comparison of Asset Management operating results across periods.*

For the year ended December 31, 2014, management fees were $78.8 million, an increase of 10.5 percent, compared with $71.3 million in 2013, due to increased management fees from our MLP product offerings, partially offset by decreased management fees from our value equity strategies. In 2014, management fees related to our value equity strategies were $48.0 million, down 4.2 percent compared to 2013, due to lower average AUM. The average effective revenue yield for our value equity strategies was 78 basis points in 2014, compared to 79 basis points in the prior year. Management fees from our our MLP strategies increased 44.9 percent in 2014 to $30.8 million, compared with $21.2 million in 2013, due to increased average AUM from net client inflows and net market appreciation, as well as higher average effective revenue yield. Our average effective revenue yield for our MLP strategies was 54 basis points in 2014, compared to 50 basis points in 2013. The increase in the average effective revenue yield was due to more assets from individual investors in open-ended funds, which earned higher fees.

For the year ended December 31, 2014, performance fees were $0.9 million, compared to $7.8 million in 2013. The performance fees recorded in 2014 were the result of certain funds exceeding their performance targets at the time of client asset withdrawals. The performance fees recorded in 2013 resulted from certain funds exceeding their performance targets over a specified measurement period.

For the year ended December 31, 2014, investment income was $0.7 million compared with $2.8 million for 2013.

Adjusted segment pre-tax operating margin for 2014 was 35.8 percent, compared to 40.9 percent for 2013. Excluding investment income, adjusted segment pre-tax operating margin for the year ended December 31, 2014 was 35.3 percent, compared to 38.8 percent for the year ended December 31, 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)	Twelve Months Ended December 31, 2015	2014	2013
Value Equity			
Beginning of period	**$ 5,758**	**$ 6,683**	**$ 5,865**
Net outflows	(572)	(979)	(756)
Net market appreciation/(depreciation)	(232)	54	1,574
End of period	**$ 4,954**	**$ 5,758**	**$ 6,683**
MLP			
Beginning of period	**$ 5,711**	**$ 4,549**	**$ 3,186**
Net inflows	434	719	498
Net market appreciation/(depreciation)	(2,221)	443	865
End of period	**$ 3,924**	**$ 5,711**	**$ 4,549**
Total			
Beginning of period	**$ 11,469**	**$ 11,232**	**$ 9,051**
Net outflows	(138)	(260)	(258)
Net market appreciation/(depreciation)	(2,453)	497	2,439
End of period	**$ 8,878**	**$ 11,469**	**$ 11,232**

For the year ended December 31, 2015, total AUM decreased to $8.9 billion driven by net market depreciation in our MLP product offerings. Value equity AUM was $5.0 billion at December 31, 2015, compared to $5.8 billion at December 31, 2014 due to net client outflows and net market depreciation during the period. In 2015, our performance in our small/mid-cap value strategy lagged its relative benchmark which contributed to client outflows, as did the continued movement to passive funds over actively-managed funds. These outflows were offset by client inflows related to our international and energy strategies. MLP AUM decreased $1.8 billion to $3.9 billion at December 31, 2015 as net market depreciation of $2.2 billion was partially offset by net client inflows of $0.4 billion.

Total AUM increased to $11.5 billion in 2014 as market appreciation and net client inflows in our MLP product offerings were partially offset by net client outflows in our value equity strategies. Value equity AUM was $5.8 billion at December 31, 2014, compared to $6.7 billion at December 31, 2013 due to net client outflows during the period. In 2014, performance in our core domestic strategies lagged their relative benchmarks which hindered our ability to attract significant net new value equity AUM. MLP AUM increased $1.2 billion to $5.7 billion in 2014 as we experienced net client inflows of $0.7 billion and net market appreciation of $0.4 billion.

Discontinued Operations

Discontinued operations include the costs to liquidate our Hong Kong capital markets business, which ceased operations in 2012, and the operating results of FAMCO, an asset management subsidiary we sold in 2013. For the year ended December 31, 2013, we recorded a loss from discontinued operations, net of tax, of $4.7 million.

The results of discontinued operations for the Hong Kong capital markets business were as follows:

(Dollars in thousands)	**Year Ended December 31, 2013**
Other expenses	$ 1,197
Loss from discontinued operations before income tax benefit	(1,197)
Income tax benefit	(415)
Loss from discontinued operations, net of tax	$ (782)

The $1.2 million of other expenses recorded in 2013 consisted of costs to dissolve our Hong Kong subsidiaries.

The results of discontinued operations for FAMCO were as follows:

(Dollars in thousands)	**Year Ended December 31, 2013**
Net revenues	$ 1,650
Operating expenses	5,057
Loss from discontinued operations before income tax benefit	(3,407)
Income tax benefit	(1,326)
Loss from discontinued operations	(2,081)
Loss on sale, net of tax	(1,876)
Loss from discontinued operations, net of tax	$ (3,957)

The loss from discontinued operations for the year ended December 31, 2013 primarily related to an indemnification obligation related to the sale of FAMCO.

See Note 5 to our consolidated financial statements for further discussion of our discontinued operations.

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K, 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.

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K. 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 2 and Note 7 to our consolidated financial statements for additional information on the valuation of our financial instruments and our fair value processes, including specific control processes to determine the reasonableness of the fair value of our financial instruments.

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 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 December 31, 2015, we had goodwill of $218.0 million. The goodwill balance consists of $21.1 million recorded within our capital markets segment, of which $6.1 million is attributable to our recent River Branch and BMO GKST acquisitions. The remaining $196.8 million relates to our asset management segment. At December 31, 2015, we had intangible assets of $30.5 million, of which $8.3 million relates to our capital markets segment and $22.3 million relates to our asset management segment.

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. See Note 14 to our consolidated financial statements for additional information on our goodwill impairment testing.

We elected to perform a qualitative assessment to test the goodwill in our capital markets reporting unit for impairment. The following relevant events and circumstances were evaluated in concluding that it was not more likely than not that this goodwill was impaired: macroeconomic conditions, industry and market considerations and the overall financial performance of the capital markets reporting unit.

The initial recognition of goodwill and other intangible assets and the subsequent quantitative 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 our market capitalization, 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 annual goodwill impairment analysis as of October 31, 2015, and concluded there was no goodwill impairment.

We also evaluated the intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2015.

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.

See Note 22 to our consolidated financial statements for additional information about our stock-based 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 restricted compensation (i.e., restricted stock, restricted stock units, options, restricted mutual fund shares (MFRS awards), and deferred 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 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. In the fourth quarter of 2013, we reversed the full amount of our U.K. subsidiary's deferred tax asset valuation allowance based upon achieving three years of profitability and projected future earnings. This resulted in a $4.0 million tax benefit to our results of operations.

We record deferred tax benefits for future tax deductions expected upon the vesting of stock-based compensation. If deductions reported on our tax return for stock-based compensation (i.e., the value of the stock-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 stock-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 December 31, 2015, we had $7.0 million of excess tax benefits recorded as additional paid-in capital. In the first quarter of 2016, approximately 11,000 options expired and 437,000 shares vested at share prices less than the grant date fair value, resulting in a $0.9 million reduction of excess tax benefits within additional paid-in capital in the first quarter of 2016.

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 and maintain 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.

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.

Effective October 1, 2014, our board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2016. Additionally, effective August 14, 2015, our board of directors authorized the repurchase of up to an additional $150.0 million in common shares through September 30, 2017. During 2015, we repurchased 2,459,400 shares for an aggregate purchase price of $118.5 million related to these authorizations. At December 31, 2015, we had $131.5 million remaining under these authorizations.

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 2015, we purchased 281,180 shares or $14.5 million of our common shares for this purpose.

Cash Flows

Cash and cash equivalents at December 31, 2015 were $189.9 million, an increase of $174.0 million from December 31, 2014. Operating activities provided $379.5 million of cash primarily due to cash generated from earnings as well as a reduction in operating assets, particularly related to the liquidation of our municipal bond fund with outside investors, convertible securities inventory, and reverse repurchase agreements, which are principally used to make delivery on securities sold short. Investing activities in 2015 used $16.2 million of cash primarily related to the acquisitions of River Branch and BMO GKST, and the purchase of fixed assets. In 2015, financing activities used $189.0 million of cash as we repurchased $133.0 million of common stock, and experienced a $106.8 million decrease in noncontrolling interests resulting from the liquidation of our municipal bond fund with outside investors. In October 2015, we entered into a Second Amended and Restated Note Purchase Agreement under which we issued unsecured fixed rate senior notes that provided $125.0 million in financing, $75.0 million of which was used to repay our Class B variable rate senior notes that were due in November 2015.

Cash and cash equivalents decreased $107.8 million to $15.9 million at December 31, 2014 from December 31, 2013. Operating activities used $50.1 million of cash primarily due to an increase in operating assets, particularly related to our inventory and reverse repurchase agreements, which are principally used to make delivery on securities sold short. Partially offsetting these increases in operating assets were cash received from earnings and increased compensation related accruals. Investing activities in 2014 used $5.4 million of cash primarily related to the purchase of fixed assets. Cash of $52.0 million was used in financing activities as we reduced amounts due under our short-term financing related to commercial paper and our prime broker arrangement, offset in part by increases in repurchase agreements. Additionally, we experienced a $9.0 million decrease in noncontrolling interests due to net fund capital withdrawals and used $10.9 million of cash to repurchase common stock from employees selling shares to meet their tax obligations related to award vestings.

Cash and cash equivalents increased $18.3 million to $123.7 million at December 31, 2013 from December 31, 2012. Operating activities provided $42.2 million primarily due to cash received from earnings and the increase in compensation related accruals. These increases were offset in part by cash used to fund reverse repurchase agreements as we increased hedging of our inventories, deployment of capital into other firm investments and an increase in fees receivable. Investing activities in 2013 used $30.0 million of cash, the majority of which related to our acquisitions of Seattle-Northwest and Edgeview. Cash of $5.8 million was provided through financing activities as increases in noncontrolling interest were offset in part by a net decrease in repurchase agreements and short-term financing that were used to fund inventory and $71.5 million used to repurchase common stock.

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)	**December 31, 2015**	December 31, 2014
Total assets	**$ 2,138,518**	$ 2,623,917
Deduct: Goodwill and intangible assets	**(248,506)**	(242,536)
Deduct: Assets from noncontrolling interests	**(88,590)**	(308,910)
Adjusted assets	**$ 1,801,422**	$ 2,072,471
Total shareholders' equity	**$ 832,820**	$ 969,460
Deduct: Goodwill and intangible assets	**(248,506)**	(242,536)
Deduct: Noncontrolling interests	**(49,161)**	(149,548)
Tangible common shareholders' equity	**$ 535,153**	$ 577,376
Leverage ratio (1)	**2.6**	2.7
Adjusted leverage ratio (2)	**3.4**	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. 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 shareholders' 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.

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 agreement, 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 business. 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. 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. to maintain excess net capital of $120 million. The following table provides information about our commercial paper programs at December 31, 2015:

(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	154.5	29.9	92.5
Weighted average maturity, in days	65	55	21
Weighted average maturity at issuance, in days	126	99	33

Prime Broker Arrangement – Our municipal securities strategic trading activities are principally operated in a fund structure vehicle. We also previously managed a municipal bond fund with third party investors, which was liquidated in the second half of 2015. We have established an arrangement to obtain overnight financing by a single prime broker related to our strategic trading activities in municipal securities and the alternative asset management fund that we previously managed with outside investors. 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. At December 31, 2015, we had $169.3 million of financing outstanding under this prime broker arrangement.

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 minimum net capital of $120 million, and the unpaid principal amount of all advances under the facility will be due on December 17, 2016. This credit facility has been in place since 2008 and we renewed the facility for another one-year term in the fourth quarter of 2015. At December 31, 2015, we had no advances against this line of credit.

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 December 31, 2015, we had no advances against these lines of credit.

The following tables present the average balances outstanding for our various short-term funding sources by quarter for 2015 and 2014, respectively.

	Average Balance for the Three Months Ended			
(Dollars in millions)	**Dec. 31, 2015**	**Sept. 30, 2015**	**June 30, 2015**	**Mar. 31, 2015**
Funding source:				
Repurchase agreements	**$ 25.5**	$ 32.1	$ 76.9	$ 66.4
Commercial paper	**277.5**	276.8	256.3	245.1
Prime broker arrangement	**109.4**	139.8	242.8	167.1
Short-term bank loans	**0.3**	0.2	11.9	28.4
Total	**$ 412.7**	$ 448.9	$ 587.9	$ 507.0

	Average Balance for the Three Months Ended			
(Dollars in millions)	**Dec. 31, 2014**	**Sept. 30, 2014**	**June 30, 2014**	**Mar. 31, 2014**
Funding source:				
Repurchase agreements	$ 54.2	$ 10.5	$ 49.8	$ 38.3
Commercial paper	244.0	262.5	276.2	280.5
Prime broker arrangement	46.4	64.8	159.9	216.1
Short-term bank loans	19.9	6.4	18.9	28.9
Total	$ 364.5	$ 344.2	$ 504.8	$ 563.8

The average funding in the fourth quarter of 2015 decreased to $412.7 million, compared with $448.9 million during the third quarter of 2015, due to a reduction in average inventory balances and an increase of $50 million in long-term financing as a result of the new fixed rate Class C Notes issued during the quarter. The increase in average funding compared to the fourth quarter of 2014 was due to cash being used for share repurchases in 2015, which resulted in an increased need for funding when compared to the year-ago period.

The following table presents the maximum daily funding amount by quarter for 2015 and 2014, respectively.

(Dollars in millions)	**2015**	**2014**
First Quarter	$ 949.8	$ 897.2
Second Quarter	$ 876.0	$ 766.7
Third Quarter	$ 666.1	$ 543.0
Fourth Quarter	$ 531.7	$ 644.1

Senior Notes

We have entered into variable and fixed rate senior notes with certain entities advised by Pacific Investment Management Company ("PIMCO"). The following table presents the outstanding balance by note class at December 31, 2015 and 2014, respectively.

	Outstanding Balance	
(Dollars in thousands)	**December 31, 2015**	**December 31, 2014**
Class A Notes	**$ 50,000**	$ 50,000
Class B Notes	**—**	75,000
Class C Notes	**125,000**	—
Total senior notes	**$ 175,000**	$ 125,000

On October 8, 2015, we entered into a second amended and restated note purchase agreement ("Second Amended and Restated Note Purchase Agreement") under which we issued $125 million of fixed rate Class C Notes. The Class C Notes bear interest at an annual fixed rate of 5.06 percent, payable semi-annually and mature on October 9, 2018. The $50 million of variable rate Class A Notes issued in 2014 bear interest at a rate equal to three-month LIBOR plus 3.00 percent, adjusted and payable quarterly and mature on May 31, 2017. The variable rate Class B Notes with a principal amount of $75 million issued in 2012 were repaid in full on November 30, 2015, from the proceeds of the Class C Notes. The unpaid principal amounts of the senior notes are due in full on the respective maturity dates and may not be prepaid.

The Second Amended and Restated Note Purchase Agreement includes customary events of default and 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 December 31, 2015, we were in compliance with all covenants.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at December 31, 2015, in total and by remaining maturity. Excluded from the table are a number of obligations recorded on the consolidated statements of financial condition that generally are short-term in nature, including secured financing transactions, trading liabilities, short-term borrowings and other payables and accrued liabilities. The amounts presented in the table below may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation.

(Dollars in millions)	2016	2017 - 2018	2019 - 2020	2021 and thereafter	Total
Operating lease obligations	$ 12.9	$ 19.9	$ 17.6	$ 17.9	$ 68.3
Purchase commitments	19.1	17.5	0.9	—	37.5
Investment commitments (1)	—	—	—	—	32.8
Loan commitments (2)	—	—	—	—	—
Senior notes	—	175.0	—	—	175.0

(1) The investment commitments have no specified call dates. The timing of capital calls is based on market conditions and investment opportunities. Investment commitments consist of $22.3 million to an affiliated merchant banking fund, and $10.0 million to an affiliated fund, which provides financing to senior living facilities.

(2) We may commit to bridge loan financing for our clients. We are unable to estimate the timing on the funding of these commitments and had no commitments outstanding at December 31, 2015.

Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase commitments with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase commitments contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

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 approvals, notifications 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. At December 31, 2015, our net capital under the SEC's uniform net capital rule was $187.9 million, and exceeded the minimum net capital required under the SEC rule by $186.9 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 December 31, 2015, Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to, and was in compliance with, the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At December 31, 2015, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

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 for the periods presented:

	Expiration Per Period at December 31,						Total Contractual Amount	
(Dollars in thousands)	2016	2017	2018	2019 - 2020	2021 - 2022	Later	December 31, 2015	December 31, 2014
Customer matched-book derivative contracts (1) (2)	$ 62,846	$ 40,950	$ —	$ 72,596	$ 68,760	$ 4,147,288	**$ 4,392,440**	$ 4,860,302
Trading securities derivative contracts (2)	260,850	—	—	—	—	29,750	**290,600**	297,250
Credit default swap index contracts (2)	—	—	—	67,000	—	27,270	**94,270**	267,796
Futures and equity option derivative contracts (2)	1,344,586	1,000,451	—	—	—	—	**2,345,037**	19,380
Private equity investment commitments (3)	—	—	—	—	—	—	**32,819**	37,264

(1) 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 $186.4 million at December 31, 2015) 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 December 31, 2015, we had $24.4 million of credit exposure with these counterparties, including $16.9 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At December 31, 2015 and December 31, 2014, the net fair value of these derivative contracts approximated $31.8 million and $37.0 million, respectively.

(3) The investment commitments have no specified call dates. 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 consolidated financial statements.

Loan Commitments

We may commit to bridge loan financing for our clients. We had no loan commitments outstanding at December 31, 2015.

Investment Commitments

Our private equity and principal investments, including those made as part of our merchant banking activities, are made through investments in various limited partnerships or limited liability companies that provide financing or make investments in private equity funds. We commit capital or act as the managing partner of these entities. For a complete discussion of our activities related to these types of entities, see Note 8, "Variable Interest Entities," in the notes to our consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had $32.8 million of commitments outstanding at December 31, 2015, of which $22.3 million relate to an affiliated merchant banking fund, and $10.0 million relate to an affiliated fund, which provides financing for senior living facilities.

Risk Management

Risk is an inherent part of our business. The principal risks we face in operating our business include: strategic risk, market risk, liquidity risk, credit risk, operational risk, human capital risk, and legal, regulatory and compliance risks. 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 and mitigating controls 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 Board of Directors.

The audit committee of the Board of Directors oversees the risk management process as well as policies that have been developed by management to monitor and control our primary financial 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 Firm Investments and Trading, and Head of Equities. Designated members of this committee also convene an executive risk committee which meets on a regular basis to monitor and discuss our primary financial risk exposures. We also have committees which manage risks related to our asset management strategies 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, legal, regulatory and compliance matters, and third parties such as vendors and service providers.

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.

Strategic Risk

Strategic risk represents the risk associated with executive management failing to develop and execute on the appropriate overall objectives and strategic vision which demonstrates a commitment to the Company's culture, appropriately responds to external factors in the marketplace, and is in the best interests of our clients, employees and shareholders.

Our leadership team is responsible for managing our strategic risks. The Board of Directors oversees the leadership team in setting and executing our strategic plan.

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, 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 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.

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. 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.

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, mortgage-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, and mortgage-backed 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.

(Dollars in thousands)	**December 31, 2015**	December 31, 2014
Interest Rate Risk	**$ 608**	$ 740
Equity Price Risk	**119**	235
Diversification Effect (1)	**(66)**	(129)
Total Value-at-Risk	**$ 661**	$ 846

(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.

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 years ended December 31, 2015 and 2014, respectively.

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2015			
Interest Rate Risk	$ 853	$ 415	$ 582
Equity Price Risk	618	31	314
Diversification Effect (1)			(133)
Total Value-at-Risk	$ 1,128	$ 487	$ 763

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2014			
Interest Rate Risk	$ 1,344	$ 291	$ 797
Equity Price Risk	920	17	265
Diversification Effect (1)			(232)
Total Value-at-Risk	$ 1,332	$ 302	$ 830

(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. 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 six occasions during 2015.

The aggregate VaR as of December 31, 2015 was lower than the reported VaR on December 31, 2014. The decrease in VaR is due to lower volatility during the measurement period and reduced inventory levels.

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 Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-K 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 or forced to liquidate into a challenging market if funding becomes unavailable.

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 five non-publicly rated entities totaling $24.4 million at December 31, 2015. 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 69.4 percent, or $16.9 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.

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 operational policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits.

Human Capital Risk

Our business is a human capital business and our success is dependent upon the skills, expertise and performance of our employees. Our ability to compete effectively in the marketplace is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation.

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 public company reporting obligations, 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.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes.

Effects of Inflation

Because our assets are liquid and generally short-term 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 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

The information under the caption "Risk Management" in Part II, Item 7 entitled, "Management’s Discussion and Analysis of Financial Condition and Results of Operations," is incorporated herein by reference.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.***

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on its assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2015.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of Piper Jaffray Companies included in this Annual Report on Form 10-K, has issued an attestation report on internal control over financial reporting as of December 31, 2015. Their report, which expresses an unqualified opinion on the effectiveness of Piper Jaffray Companies' internal control over financial reporting as of December 31, 2015, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited Piper Jaffray Companies' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Piper Jaffray Companies' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Piper Jaffray Companies maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of Piper Jaffray Companies and our report dated February 25, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 25, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Piper Jaffray Companies

We have audited the accompanying consolidated statements of financial condition of Piper Jaffray Companies (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Piper Jaffray Companies at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Piper Jaffray Companies' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 25, 2016

Piper Jaffray Companies

Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	**$ 189,910**	$ 15,867
Cash and cash equivalents segregated for regulatory purposes	**81,022**	25,011
Receivables:		
Customers	**41,167**	9,658
Brokers, dealers and clearing organizations	**147,949**	161,009
Securities purchased under agreements to resell	**136,983**	308,165
Financial instruments and other inventory positions owned	**283,579**	507,794
Financial instruments and other inventory positions owned and pledged as collateral	**707,355**	1,108,567
Total financial instruments and other inventory positions owned	**990,934**	1,616,361
Fixed assets (net of accumulated depreciation and amortization of $51,874 and $47,327, respectively)	**18,984**	18,171
Goodwill	**217,976**	211,878
Intangible assets (net of accumulated amortization of $48,803 and $41,141, respectively)	**30,530**	30,658
Investments	**163,861**	126,840
Other assets	**119,202**	100,299
Total assets	**$ 2,138,518**	$ 2,623,917
Liabilities and Shareholders' Equity		
Short-term financing	**$ 446,190**	$ 377,767
Senior notes	**175,000**	125,000
Payables:		
Customers	**37,364**	13,328
Brokers, dealers and clearing organizations	**48,131**	25,564
Securities sold under agreements to repurchase	**45,319**	102,646
Financial instruments and other inventory positions sold, but not yet purchased	**239,155**	738,124
Accrued compensation	**251,638**	228,877
Other liabilities and accrued expenses	**62,901**	43,151
Total liabilities	**1,305,698**	1,654,457
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at December 31, 2015 and December 31, 2014;		
Shares issued: 19,510,858 at December 31, 2015 and 19,523,371 at December 31, 2014;		
Shares outstanding: 13,311,016 at December 31, 2015 and 15,265,420 at December 31, 2014	**195**	195
Additional paid-in capital	**752,066**	735,415
Retained earnings	**279,140**	227,065
Less common stock held in treasury, at cost: 6,199,842 at December 31, 2015 and 4,257,951 shares at December 31, 2014	**(247,553)**	(143,140)
Accumulated other comprehensive income/(loss)	**(189)**	377
Total common shareholders' equity	**783,659**	819,912
Noncontrolling interests	**49,161**	149,548
Total shareholders' equity	**832,820**	969,460
Total liabilities and shareholders' equity	**$ 2,138,518**	$ 2,623,917

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Operations

(Amounts in thousands, except per share data)	Year Ended December 31, 2015	2014	2013
Revenues:			
Investment banking	**$ 414,118**	$ 369,811	$ 248,563
Institutional brokerage	**154,889**	156,809	146,648
Asset management	**75,017**	85,062	83,045
Interest	**41,557**	48,716	50,409
Investment income	**10,736**	12,813	21,566
Total revenues	**696,317**	673,211	550,231
Interest expense	**23,399**	25,073	25,036
Net revenues	**672,918**	648,138	525,195
Non-interest expenses:			
Compensation and benefits	**421,733**	394,510	322,464
Outside services	**36,218**	37,055	32,982
Occupancy and equipment	**28,301**	28,231	25,493
Communications	**23,762**	22,732	21,431
Marketing and business development	**29,990**	27,260	21,603
Trade execution and clearance	**7,794**	7,621	8,270
Restructuring and integration costs	**10,652**	—	4,689
Intangible asset amortization expense	**7,662**	9,272	7,993
Other operating expenses	**20,383**	11,146	4,657
Total non-interest expenses	**586,495**	537,827	449,582
Income from continuing operations before income tax expense	**86,423**	110,311	75,613
Income tax expense	**27,941**	35,986	20,390
Income from continuing operations	**58,482**	74,325	55,223
Discontinued operations:			
Loss from discontinued operations, net of tax	**—**	—	(4,739)
Net income	**58,482**	74,325	50,484
Net income applicable to noncontrolling interests	**6,407**	11,153	5,394
Net income applicable to Piper Jaffray Companies	**$ 52,075**	$ 63,172	$ 45,090
Net income applicable to Piper Jaffray Companies' common shareholders	**$ 48,060**	$ 58,141	$ 40,596
Amounts applicable to Piper Jaffray Companies			
Net income from continuing operations	**$ 52,075**	$ 63,172	$ 49,829
Net loss from discontinued operations	**—**	—	(4,739)
Net income applicable to Piper Jaffray Companies	**$ 52,075**	$ 63,172	$ 45,090
Earnings/(loss) per basic common share			
Income from continuing operations	**$ 3.34**	$ 3.88	$ 2.98
Loss from discontinued operations	**—**	—	(0.28)
Earnings per basic common share	**$ 3.34**	$ 3.88	$ 2.70
Earnings/(loss) per diluted common share			
Income from continuing operations	**$ 3.34**	$ 3.87	$ 2.98
Loss from discontinued operations	**—**	—	(0.28)
Earnings per diluted common share	**$ 3.34**	$ 3.87	$ 2.70
Weighted average number of common shares outstanding			
Basic	**14,368**	14,971	15,046
Diluted	**14,389**	15,025	15,061

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Amounts in thousands)	Year Ended December 31, 2015	2014	2013
Net income	**$ 58,482**	$ 74,325	$ 50,484
Other comprehensive income/(loss), net of tax:			
Adjustment to unrecognized pension cost	**—**	—	(38)
Foreign currency translation adjustment	**(566)**	(519)	267
Total other comprehensive income/(loss), net of tax	**(566)**	(519)	229
Comprehensive income	**57,916**	73,806	50,713
Comprehensive income applicable to noncontrolling interests	**6,407**	11,153	5,394
Comprehensive income applicable to Piper Jaffray Companies	**$ 51,509**	$ 62,653	$ 45,319

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Changes in Shareholders' Equity

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2012	**15,213,796**	**$ 195**	**$ 754,566**	**$ 118,803**	**$ (140,939)**	**$ 667**	**$ 733,292**	**$ 56,883**	**$ 790,175**
Net income	—	—	—	45,090	—	—	45,090	5,394	50,484
Amortization/issuance of restricted stock	—	—	23,528	—	—	—	23,528	—	23,528
Repurchase of common stock through share repurchase program	(1,719,662)	—	—	—	(55,929)	—	(55,929)	—	(55,929)
Issuance of treasury shares for restricted stock vestings	1,173,180	—	(38,636)	—	38,636	—	—	—	—
Repurchase of common stock for employee tax withholding	(386,713)	—	—	—	(15,533)	—	(15,533)	—	(15,533)
Issuance of treasury shares for 401k match	96,049	—	803	—	3,136	—	3,939	—	3,939
Shares reserved to meet deferred compensation obligations	6,768	—	60	—	—	—	60	—	60
Other comprehensive income	—	—	—	—	—	229	229	—	229
Fund capital contributions, net	—	—	—	—	—	—	—	85,119	85,119
Balance at December 31, 2013	**14,383,418**	**$ 195**	**$ 740,321**	**$ 163,893**	**$ (170,629)**	**$ 896**	**$ 734,676**	**$ 147,396**	**$ 882,072**
Net income	—	—	—	63,172	—	—	63,172	11,153	74,325
Amortization/issuance of restricted stock	—	—	23,649	—	—	—	23,649	—	23,649
Issuance of treasury shares for options exercised	137,864	—	834	—	4,618	—	5,452	—	5,452
Issuance of treasury shares for restricted stock vestings	892,385	—	(30,295)	—	30,295	—	—	—	—
Repurchase of common stock for employee tax withholding	(256,055)	—	—	—	(10,854)	—	(10,854)	—	(10,854)
Issuance of treasury shares for 401k match	103,598	—	726	—	3,430	—	4,156	—	4,156
Shares reserved to meet deferred compensation obligations	4,210	—	180	—	—	—	180	—	180
Other comprehensive loss	—	—	—	—	—	(519)	(519)	—	(519)
Fund capital withdrawals, net	—	—	—	—	—	—	—	(9,001)	(9,001)
Balance at December 31, 2014	**15,265,420**	**$ 195**	**$ 735,415**	**$ 227,065**	**$ (143,140)**	**$ 377**	**$ 819,912**	**$ 149,548**	**$ 969,460**

Continued on next page

Piper Jaffray Companies

Consolidated Statements of Changes in Shareholders' Equity – Continued

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Net income	—	$ —	$ —	$ 52,075	$ —	$ —	$ 52,075	$ 6,407	$ 58,482
Amortization/issuance of restricted stock	—	—	43,237	—	—	—	43,237	—	43,237
Repurchase of common stock through share repurchase program	(2,459,400)	—	—	—	(118,464)	—	(118,464)	—	(118,464)
Issuance of treasury shares for options exercised	50,671	—	96	—	1,760	—	1,856	—	1,856
Issuance of treasury shares for restricted stock vestings	734,080	—	(26,752)	—	26,752	—	—	—	—
Repurchase of common stock for employee tax withholding	(281,180)	—	—	—	(14,461)	—	(14,461)	—	(14,461)
Shares reserved to meet deferred compensation obligations	1,425	—	70	—	—	—	70	—	70
Other comprehensive loss	—	—	—	—	—	(566)	(566)	—	(566)
Fund capital withdrawals, net	—	—	—	—	—	—	—	(106,794)	(106,794)
Balance at December 31, 2015	**13,311,016**	**$ 195**	**$ 752,066**	**$ 279,140**	**$ (247,553)**	**$ (189)**	**$ 783,659**	**$ 49,161**	**$ 832,820**

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 2015	2014	2013
Operating Activities:			
Net income	**$ 58,482**	$ 74,325	$ 50,484
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation and amortization of fixed assets	**5,058**	5,269	5,714
Deferred income taxes	**(20,959)**	(10,843)	(2,630)
Loss on sale of FAMCO	**—**	—	1,876
Stock-based and deferred compensation	**48,754**	28,764	21,598
Amortization of intangible assets	**7,662**	9,272	7,993
Amortization of forgivable loans	**6,377**	5,316	6,300
Decrease/(increase) in operating assets:			
Cash and cash equivalents segregated for regulatory purposes	**(56,011)**	18,001	(12,005)
Receivables:			
Customers	**(31,509)**	1,975	2,162
Brokers, dealers and clearing organizations	**13,060**	(33,896)	21,004
Securities purchased under agreements to resell	**171,182**	(140,290)	(22,442)
Net financial instruments and other inventory positions owned	**126,458**	(27,042)	4,685
Investments	**(37,021)**	(14,797)	(26,271)
Other assets	**2,065**	3,785	(3,727)
Increase/(decrease) in operating liabilities:			
Payables:			
Customers	**24,036**	(19,781)	(8,898)
Brokers, dealers and clearing organizations	**22,567**	(2,158)	(33,559)
Securities sold under agreements to repurchase	**18,050**	—	—
Accrued compensation	**2,178**	67,247	32,233
Other liabilities and accrued expenses	**19,095**	(15,216)	(2,354)
Net cash provided by/(used in) operating activities	**379,524**	(50,069)	42,163
Investing Activities:			
Business acquisitions, net of cash acquired	**(11,739)**	—	(24,726)
Repayment of FAMCO note	**1,500**	2,000	250
Purchases of fixed assets, net	**(5,914)**	(7,387)	(5,476)
Net cash used in investing activities	**(16,153)**	(5,387)	(29,952)
Financing Activities:			
Increase/(decrease) in short-term financing	**$ 68,423**	$ (136,944)	$ 37,697
Issuance of senior notes	**125,000**	50,000	—
Repayment of senior notes	**(75,000)**	(50,000)	—
Increase/(decrease) in securities sold under agreements to repurchase	**(75,377)**	98,249	(45,603)
Increase/(decrease) in noncontrolling interests	**(106,794)**	(9,001)	85,119
Repurchase of common stock	**(132,925)**	(10,854)	(71,462)
Excess tax benefit from stock-based compensation	**5,858**	1,081	47
Proceeds from stock option exercises	**1,856**	5,452	—
Net cash provided by/(used in) financing activities	**(188,959)**	(52,017)	5,798
Currency adjustment:			
Effect of exchange rate changes on cash	**(369)**	(343)	303
Net increase/(decrease) in cash and cash equivalents	**174,043**	(107,816)	18,312
Cash and cash equivalents at beginning of year	**15,867**	123,683	105,371
Cash and cash equivalents at end of year	**$ 189,910**	$ 15,867	$ 123,683
Supplemental disclosure of cash flow information –			
Cash paid during the year for:			
Interest	**$ 24,668**	$ 25,345	$ 23,487
Income taxes	**$ 31,950**	$ 58,599	$ 745
Non-cash financing activities –			
Issuance of common stock for retirement plan obligations:			
103,598 shares and 96,049 shares for the years ended December 31, 2014 and 2013, respectively	**$ —**	$ 4,156	$ 3,939
Issuance of restricted common stock for annual equity award:			
550,650 shares, 402,074 shares and 431,582 shares for the years ended December 31, 2015, 2014 and 2013, respectively	**$ 30,429**	$ 16,131	$ 17,699

See Notes to the Consolidated Financial Statements

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 investments in municipal bonds, mortgage-backed securities, U.S. government agency securities, and merchant banking activities involving equity or debt investments in late stage private companies. The Company has created alternative asset management funds in merchant banking and senior living in order to invest firm capital and to manage 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.

Note 2 *Summary of Significant Accounting Policies*

Principles of Consolidation

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

Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable each entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right or power to make decisions about or direct the entity's activities that most significantly impact the entity's economic performance. Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations," ("ASC 810") states that the usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interests.

VIEs are entities that lack one or more of the characteristics of a voting interest entity. With the exception of entities eligible for the deferral codified in FASB Accounting Standards Update ("ASU") No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in a VIE is present when an enterprise has one or more variable interests that have both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the entity or the rights to receive benefits from the VIE that could potentially be significant to the VIE. Accordingly, the Company consolidates VIEs in which the Company has a controlling financial interest.

Entities meeting the deferral provision defined by ASU 2010-10 are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has one or more variable interests that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest is the primary beneficiary and consolidates the VIE. Accordingly, the Company consolidates VIEs subject to the deferral provisions defined by ASU 2010-10 in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company's investment is accounted for under the equity method of accounting. The Company accounts for certain investments in partnerships under the equity method of accounting. If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at fair value, if the fair value option was elected, or at cost.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of 90 days or less at the date of origination.

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Piper Jaffray, as a registered broker dealer carrying customer accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers.

Customer Transactions

Customer securities transactions are recorded on a settlement date basis, while the related revenues and expenses are recorded on a trade-date basis. Customer receivables and payables include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated statements of financial condition.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include receivables arising from unsettled securities transactions, deposits paid for securities borrowed, receivables from clearing organizations, deposits with clearing organizations and amounts receivable for securities not delivered to the purchaser by the settlement date ("securities failed to deliver"). Payables to brokers, dealers and clearing organizations include payables arising from unsettled securities transactions, payables to clearing organizations and amounts payable for securities not received from a seller by the settlement date ("securities failed to receive"). Unsettled securities transactions related to the Company's broker dealer operations are recorded at contract value on a net basis. Unsettled securities transactions related to the Company's consolidated municipal bond fund are recorded on a gross basis.

Collateralized Securities Transactions

Securities purchased under agreements to resell and securities sold under agreements to repurchase are carried at the contractual amounts at which the securities will be subsequently resold or repurchased, including accrued interest. It is the Company's policy to take possession or control of securities purchased under agreements to resell at the time these agreements are entered into. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial institutions. Collateral is valued daily, and additional collateral is obtained from or refunded to counterparties when appropriate.

Securities borrowed and loaned result from transactions with other broker dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. These amounts are included in receivables from and payables to brokers, dealers and clearing organizations on the consolidated statements of financial condition. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash with the Company. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Interest is accrued on securities borrowed and loaned transactions and is included in (i) other assets or other liabilities and accrued expenses on the consolidated statements of financial condition and (ii) the respective interest income or interest expense amounts on the consolidated statements of operations.

Fair Value of Financial Instruments

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition consist of financial instruments (including securities with extended settlements and derivative contracts) recorded at fair value. Unrealized gains and losses related to these financial instruments are reflected on the consolidated statements of operations. Securities (both long and short), including securities with extended settlements, are recognized on a trade-date basis. Additionally, certain of the Company's investments on the consolidated statements of financial condition are recorded at fair value, either as required by accounting guidance or through the fair value election.

Fair Value Measurement – Definition and Hierarchy – FASB Accounting Standards Codification Topic 820, "Fair Value Measurement," ("ASC 820") defines fair value as the amount at which an instrument could be exchanged in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management's assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level I – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III – Instruments that have little to no pricing observability as of the report date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Valuation of Financial Instruments – Based on the nature of the Company's business and its role as a "dealer" in the securities industry or its role as a manager of alternative asset management funds, the fair values of its financial instruments are determined internally. When available, the Company values financial instruments at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of the Company's 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 involve some degree of judgment. Results from valuation models and other techniques in one period may not be indicative of 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 the Company to estimate the value of the securities using the best information available. Among the factors considered by the Company 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 the Company derives 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 instance, the Company assumes that the size of positions in securities that the Company holds would not be large enough to affect the quoted price of the securities if the firm sells them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the currently estimated fair value.

Fixed Assets

Fixed assets include furniture and equipment, software and leasehold improvements. Furniture and equipment and software are depreciated using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over their estimated useful life or the life of the lease, whichever is shorter. The Company capitalizes certain costs incurred in connection with internal use software projects and amortizes the amount over the expected useful life of the asset, generally three to seven years.

Leases

The Company leases its corporate headquarters and other offices under various non-cancelable leases. The leases require payment of real estate taxes, insurance and common area maintenance, in addition to rent. The terms of the Company's lease agreements generally range up to twelve years. Some of the leases contain renewal options, escalation clauses, rent-free holidays and operating cost adjustments.

For leases that contain escalation clauses or rent-free holidays, the Company recognizes the related rent expense on a straight-line basis from the date the Company takes possession of the property to the end of the initial lease term. The Company records any difference between the straight-line rent amounts and amounts payable under the leases as part of other liabilities and accrued expenses.

Cash or lease incentives received upon entering into certain leases are recognized on a straight-line basis as a reduction of rent expense from the date the Company takes possession of the property or receives the cash to the end of the initial lease term. The Company records the unamortized portion of lease incentives as part of other liabilities and accrued expenses.

Goodwill and Intangible Assets

Goodwill represents the fair value of the consideration transferred in excess of the fair value of identifiable net assets at the acquisition date. The recoverability of goodwill is evaluated annually, at a minimum, or on an interim basis if circumstances indicate a possible inability to realize the carrying amount. See Note 14 for additional information on the Company's goodwill impairment testing.

Intangible assets with determinable lives consist of customer relationships and non-competition agreements that are amortized over their original estimated useful lives ranging from one to ten years. Indefinite-life intangible assets consist of the ARI trade name. It is not amortized and is evaluated annually, at a minimum, or on an interim basis if events or circumstances indicate a possible inability to realize the carrying amount.

Investments

The Company's investments include equity investments in private companies and partnerships, investments in registered mutual funds, warrants of public and private companies and private company debt. Equity investments in private companies are accounted for at fair value, as required by accounting guidance or if the fair value option was elected, or at cost. Investments in partnerships are accounted for under the equity method, which is generally the net asset value. Registered mutual funds are accounted for at fair value. Company-owned warrants with a cashless exercise option are valued at fair value, while warrants without a cashless exercise option are valued at cost. Private company debt investments are recorded at fair value, as required by accounting guidance, or at amortized cost, net of any unamortized premium or discount.

Other Assets

Other assets include net deferred income tax assets, receivables and prepaid expenses. Receivables include fee receivables, accrued interest and loans made to employees, typically in connection with their recruitment. Employee loans are forgiven based on continued employment and are amortized to compensation and benefits expense using the straight-line method over the respective terms of the loans, which generally range from two to five years.

Revenue Recognition

Investment Banking – Investment banking revenues, which include underwriting and advisory fees, are recorded when services for the transactions are completed under the terms of each engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Investment banking revenues are presented net of related unreimbursed expenses for completed deals. Expenses related to investment banking deals not completed are recognized as non-interest expenses on the consolidated statements of operations.

Institutional Brokerage – Institutional brokerage revenues include (i) commissions received from customers for the execution of brokerage transactions in listed and over-the-counter (OTC) equity, fixed income and convertible debt securities, which are recorded on a trade-date basis, (ii) trading gains and losses and (iii) fees received by the Company for equity research. The Company permits institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. As the Company is not the primary obligor for these arrangements, expenses relating to soft dollars are netted against commission revenues and included in other liabilities and accrued expenses on the consolidated statements of financial condition.

Asset Management – Asset management fees include revenues the Company receives in connection with management and investment advisory services performed for separately managed accounts and various funds and partnerships. These fees are recognized in the period in which services are provided. Fees are defined in client contracts as either fixed or based on a percentage of portfolio assets under management and may include performance fees. 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 (monthly, quarterly or annually). Performance fees, if earned, are generally recognized at the end of the specified measurement period, typically the fourth quarter of the applicable year, or upon client liquidation. Performance fees are recognized as of each reporting date for certain consolidated entities.

Interest Revenue and Expense – The Company nets interest expense within net revenues to mitigate the effects of fluctuations in interest rates on the Company's consolidated statements of operations. The Company recognizes contractual interest on financial instruments owned and financial instruments sold, but not yet purchased (excluding derivative instruments), on an accrual basis as a component of interest revenue and expense. The Company accounts for interest related to its short-term financing and its senior notes on an accrual basis with related interest recorded as interest expense. In addition, the Company recognizes interest revenue related to its securities borrowed and securities purchased under agreements to resell activities and interest expense related to its securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Investment Income – Investment income includes realized and unrealized gains and losses from the Company's merchant banking and other firm investments.

Stock-based Compensation

FASB Accounting Standards Codification Topic 718, "Compensation — Stock Compensation," ("ASC 718") requires all stock-based compensation to be expensed on the consolidated statements of operations based on the grant date fair value of the award. Compensation expense related to stock-based awards that do not require future service are recognized in the year in which the awards were deemed to be earned. Stock-based awards that require future service are amortized over the relevant service period net of estimated forfeitures. See Note 22 for additional information on the Company's accounting for stock-based compensation.

Income Taxes

The Company files a consolidated U.S. federal income tax return, which includes all of its qualifying subsidiaries. The Company is also subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, 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 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 a deferred tax asset will not be realized. Tax reserves for uncertain tax positions are recorded in accordance with FASB Accounting Standards Codification Topic 740, "Income Taxes" ("ASC 740").

Earnings Per Share

Basic earnings per common share is computed by dividing net income/(loss) applicable to common shareholders by the weighted average number of common shares outstanding for the period. Net income/(loss) applicable to common shareholders represents net income/(loss) reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options.

Unvested stock-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the earnings allocation in the earnings per share calculation under the two-class method. The Company grants restricted stock and restricted stock units as part of its stock-based compensation program. Recipients of restricted stock are entitled to receive nonforfeitable dividends during the vesting period, and therefore meet the definition of a participating security. The Company's unvested restricted stock units are not participating securities as recipients are not eligible to receive nonforfeitable dividends.

Foreign Currency Translation

The Company consolidates foreign subsidiaries which have designated their local currency as their functional currency. Assets and liabilities of these foreign subsidiaries are translated at year-end rates of exchange. The gains or losses resulting from translating foreign currency financial statements are included in other comprehensive income. Gains or losses resulting from foreign currency transactions are included in net income.

Contingencies

The Company is involved in various pending and potential legal proceedings related to its business, including litigation, arbitration and regulatory proceedings. The Company establishes reserves for potential losses to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of the outcome and reserve amounts requires significant judgment on the part of management.

Note 3 *Recent Accounting Pronouncements*

Future Adoption of New Applicable Accounting Standards

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, and also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The guidance, as stated in ASU 2014-09, is effective for annual and interim periods beginning after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date by one year, with early adoption on the original effective date permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 makes several modifications to the consolidation guidance for VIEs and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. It is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2015-02 will result in the deconsolidation of certain investment partnerships with assets of approximately $9.4 million.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The amendments in ASU 2016-01 address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017. Except for the early application guidance outlined in ASU 2016-01, early adoption is not permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

Note 4 *Acquisitions*

The following 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.

River Branch Holdings LLC and BMO Capital Markets GKST Inc.

On September 30, 2015, the Company acquired the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. The purchase was completed pursuant to the Asset Purchase Agreement dated July 11, 2015.

On October 9, 2015, the Company completed the purchase of BMO Capital Markets GKST Inc. ("BMO GKST"), a municipal bond sales, trading and origination business of BMO Financial Corp. The purchase was completed pursuant to the Stock Purchase Agreement dated July 19, 2015.

The Company recorded $6.1 million of goodwill on the consolidated statements of financial condition. In management's opinion, the goodwill represents the reputation and operating expertise of River Branch and BMO GKST employees.

Identifiable intangible assets purchased by the Company consisted of customer relationships with acquisition-date fair values estimated to be $7.5 million. Transaction costs of $0.8 million were incurred for the year ended December 31, 2015, and are included in restructuring and integration costs on the consolidated statements of operations.

The results of operations of River Branch and BMO GKST have been included in the Company's consolidated financial statements prospectively from the respective dates of acquisition. The terms of these transactions were not disclosed as the acquisitions did not have a material impact on the Company's consolidated financial statements.

Seattle-Northwest Securities Corporation and Edgeview Partners, L.P.

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 acquisition of Seattle-Northwest supported 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 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 is amortized on a straight-line basis over the original requisite service period of two to five years (a weighted average remaining service period of 2.0 years).

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 employees.

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 $1.1 million were incurred for the year ended December 31, 2013, and are included in restructuring and integration costs within continuing operations on the consolidated statements of operations.

Definitive Agreement to Acquire Simmons & Company International

On November 16, 2015, the Company entered into a Securities Purchase Agreement ("Purchase Agreement") with Simmons & Company International ("Simmons"), an employee-owned investment bank and broker dealer focused on the energy industry. Pursuant to the Purchase Agreement, the Company agreed to purchase 100 percent of the capital stock of Simmons and its subsidiaries for total consideration of approximately $139.0 million, consisting of $91.0 million in cash and $48.0 million of restricted stock. The Company has committed an additional $21.0 million in cash and stock for retention purposes. The transaction is expected to close in the first quarter of 2016.

Note 5 *Discontinued Operations*

The Company's Hong Kong capital markets business ceased operations in 2012 and incurred liquidation costs extending into 2013. In accordance with the provisions of FASB Accounting Standards Codification Topic 205-20, "Discontinued Operations," the results from this business, previously reported in the Capital Markets segment, have been classified as discontinued operations for all periods presented.

The components of discontinued operations for the Hong Kong capital markets business are as follows:

(Dollars in thousands)	**Year Ended December 31, 2013**
Other expenses	$ 1,197
Loss from discontinued operations before income tax benefit	(1,197)
Income tax benefit	(415)
Loss from discontinued operations, net of tax	$ (782)

In 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. FAMCO's results, previously reported in the Asset Management segment, have been presented as discontinued operations for all periods presented.

The components of discontinued operations for FAMCO are as follows:

(Dollars in thousands)	**Year Ended December 31, 2013**
Net revenues	$ 1,650
Operating expenses	5,057
Loss from discontinued operations before income tax benefit	(3,407)
Income tax benefit	(1,326)
Loss from discontinued operations	(2,081)
Loss on sale, net of tax	(1,876)
Loss from discontinued operations, net of tax	$ (3,957)

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

(Dollars in thousands)	**December 31, 2015**	December 31, 2014
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ 9,505**	$ 50,365
Convertible securities	**18,460**	156,685
Fixed income securities	**48,654**	48,651
Municipal securities:		
Taxable securities	**111,591**	312,753
Tax-exempt securities	**416,966**	559,704
Short-term securities	**33,068**	68,717
Mortgage-backed securities	**121,794**	125,065
U.S. government agency securities	**188,140**	244,046
U.S. government securities	**7,729**	2,549
Derivative contracts	**35,027**	47,826
Total financial instruments and other inventory positions owned	**990,934**	1,616,361
Less noncontrolling interests (1)	**(43,397)**	(267,742)
	$ 947,537	$ 1,348,619
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 15,740**	$ 154,589
Fixed income securities	**39,909**	21,460
U.S. government agency securities	**21,267**	27,735
U.S. government securities	**159,037**	523,527
Derivative contracts	**3,202**	10,813
Total financial instruments and other inventory positions sold, but not yet purchased	**239,155**	738,124
Less noncontrolling interests (2)	**(4,586)**	(98,669)
	$ 234,569	$ 639,455

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $7.5 million and $123.3 million of taxable municipal securities, $35.1 million and $139.5 million of tax-exempt municipal securities, and $0.8 million and $4.9 million of derivative contracts as of December 31, 2015 and 2014, respectively.

(2) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $4.6 million and $97.6 million of U.S. government securities as of December 31, 2015 and 2014, respectively, and $1.1 million of derivative contracts as of December 31, 2014.

At December 31, 2015 and 2014, financial instruments and other inventory positions owned in the amount of $0.7 billion and $1.1 billion, 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, U.S. treasury bond and Eurodollar futures and exchange traded options.

Derivative Contract Financial Instruments

The Company uses interest rate swaps, interest rate locks, credit default swap index contracts, U.S treasury bond and Eurodollar futures and equity option contracts as a means to manage risk in certain inventory positions. The Company also enters into interest rate swaps to facilitate customer transactions. 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 and uses U.S. treasury bond and Eurodollar futures to hedge interest rate and market value risks associated with its fixed income securities. These 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.

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. The total absolute notional contract amount, representing the absolute value of the sum of gross long and short derivative contracts, provides an indication of the volume of the Company's derivative activity and does not represent gains and losses. The following table presents the gross fair market value and the total absolute notional contract amount of the Company's outstanding derivative instruments, prior to counterparty netting, by asset or liability position:

(Dollars in thousands)	**December 31, 2015**			**December 31, 2014**		
Derivative Category	**Derivative Assets (1)**	**Derivative Liabilities (2)**	**Notional Amount**	**Derivative Assets (1)**	**Derivative Liabilities (2)**	**Notional Amount**
Interest rate						
Customer matched-book ..	**$ 406,888**	**$ 386,284**	**$ 4,392,440**	$ 447,987	$ 425,227	$ 4,860,302
Trading securities	**—**	**7,685**	**290,600**	140	8,242	297,250
Credit default swap index						
Trading securities	**5,411**	**530**	**94,270**	5,808	5,188	267,796
Futures and equity options						
Trading securities	**164**	**149**	**2,345,037**	76	189	19,380
	$ 412,463	**$ 394,648**	**$ 7,122,347**	$ 454,011	$ 438,846	$ 5,444,728

(1) Derivative assets are included within financial instruments and other inventory positions owned on the consolidated statements of financial condition.

(2) Derivative liabilities are included within financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition.

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)		Year Ended December 31,		
Derivative Category	**Operations Category**	**2015**	**2014**	**2013**
Interest rate derivative contract	Investment banking	**$ (2,274)**	$ (2,790)	$ (1,529)
Interest rate derivative contract	Institutional brokerage	**534**	(1,678)	(2,511)
Credit default swap index contract	Institutional brokerage	**12,228**	(1,080)	(1,522)
Futures and equity option derivative contracts	Institutional brokerage	**(252)**	1,037	(646)
		$ 10,236	$ (4,511)	$ (6,208)

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 December 31, 2015, the Company had $24.4 million of uncollateralized credit exposure with these counterparties (notional contract amount of $186.4 million), including $16.9 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 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.

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.

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. Certain illiquid taxable 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.

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.

Mortgage-backed securities – Mortgage-backed securities are valued using observable trades, when available. Certain mortgage-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 mortgage-backed securities are categorized as Level II. Other mortgage-backed securities, which are principally collateralized by residential mortgages, have experienced low volumes of executed transactions resulting in less observable transaction data. Certain mortgage-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 mortgage-backed securities are categorized as Level III.

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 200-300 basis points ("bps") on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 14%-16% conditional prepayment rate ("CPR"). 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 swaps, interest rate locks, credit default swap index contracts, U.S treasury bond and Eurodollar futures and equity option 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 and partnerships, investments in registered mutual funds, warrants of public and private companies and private company debt. Investments in 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. Investments 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 $19.7 million and $18.4 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 December 31, 2015 and 2014, 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 $1.3 million, $2.7 million and $10.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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 December 31, 2015:

	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 - 60%	19.4%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	66 - 94%	91.0%
Mortgage-backed securities:				
Collateralized by residential mortgages	Discounted cash flow	Credit default rates (3)	1 - 12%	4.2%
		Prepayment rates (4)	2 - 21%	10.0%
		Loss severity (3)	30 - 90%	62.3%
		Valuation yields (3)	2 - 8%	4.6%
Investments at fair value:				
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 6 times	4.4 times
		EBITDA multiple (2)	10 - 12 times	10.4 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)	1 - 32 bps	6.5 bps

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.

(3) Significant changes in any of these inputs in isolation could result in a significantly different fair value. Generally, 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.

The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2015:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 7,569	$ 1,936	$ —	$ —	$ 9,505
Convertible securities	—	18,460	—	—	18,460
Fixed income securities	—	48,654	—	—	48,654
Municipal securities:					
Taxable securities	—	105,775	5,816	—	111,591
Tax-exempt securities	—	415,789	1,177	—	416,966
Short-term securities	—	32,348	720	—	33,068
Mortgage-backed securities	—	670	121,124	—	121,794
U.S. government agency securities	—	188,140	—	—	188,140
U.S. government securities	7,729	—	—	—	7,729
Derivative contracts	164	412,299	—	(377,436)	35,027
Total financial instruments and other inventory positions owned	15,462	1,224,071	128,837	(377,436)	990,934
Cash equivalents	130,138	—	—	—	130,138
Investments at fair value	34,874	—	107,907	—	142,781
Total assets	$ 180,474	$ 1,224,071	$ 236,744	$ (377,436)	$ 1,263,853
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 13,489	$ 2,251	$ —	$ —	$ 15,740
Fixed income securities	—	39,909	—	—	39,909
U.S. government agency securities	—	21,267	—	—	21,267
U.S. government securities	159,037	—	—	—	159,037
Derivative contracts	149	387,351	7,148	(391,446)	3,202
Total financial instruments and other inventory positions sold, but not yet purchased	$ 172,675	$ 450,778	$ 7,148	$ (391,446)	$ 239,155

(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 following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2014:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 39,191	$ 11,174	$ —	$ —	$ 50,365
Convertible securities	—	156,685	—	—	156,685
Fixed income securities	—	48,651	—	—	48,651
Municipal securities:					
Taxable securities	—	312,753	—	—	312,753
Tax-exempt securities	—	558,518	1,186	—	559,704
Short-term securities	—	67,997	720	—	68,717
Mortgage-backed securities	—	316	124,749	—	125,065
U.S. government agency securities	—	244,046	—	—	244,046
U.S. government securities	2,549	—	—	—	2,549
Derivative contracts	76	453,795	140	(406,185)	47,826
Total financial instruments and other inventory positions owned	41,816	1,853,935	126,795	(406,185)	1,616,361
Cash equivalents	1,562	—	—	—	1,562
Investments at fair value	20,704	—	74,165	—	94,869
Total assets	$ 64,082	$ 1,853,935	$ 200,960	$ (406,185)	$ 1,712,792
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 153,254	$ 1,335	$ —	$ —	$ 154,589
Fixed income securities	—	21,460	—	—	21,460
U.S. government agency securities	—	27,735	—	—	27,735
U.S. government securities	523,527	—	—	—	523,527
Derivative contracts	189	430,835	7,822	(428,033)	10,813
Total financial instruments and other inventory positions sold, but not yet purchased	$ 676,970	$ 481,365	$ 7,822	$ (428,033)	$ 738,124

(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 $236.7 million and $201.0 million, or 18.7 percent and 11.7 percent of financial instruments measured at fair value at December 31, 2015 and 2014, 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 year ended December 31, 2015.

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 December 31, 2014**	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at December 31, 2015**	**Unrealized gains/ (losses) for assets/ liabilities held at December 31, 2015 (1)**
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Taxable securities	**$ —**	$ 5,133	$ —	$ —	$ —	$ —	$ 683	**$ 5,816**	**$ 683**
Tax-exempt securities	**1,186**	—	—	—	—	—	(9)	**1,177**	**(9)**
Short-term securities	**720**	—	—	—	—	—	—	**720**	**—**
Mortgage-backed securities	**124,749**	130,534	(138,874)	—	—	3,301	1,414	**121,124**	**2,157**
Derivative contracts	**140**	520	—	—	—	(520)	(140)	**—**	**—**
Total financial instruments and other inventory positions owned	**126,795**	136,187	(138,874)	—	—	2,781	1,948	**128,837**	**2,831**
Investments at fair value	**74,165**	17,089	(1,089)	—	—	84	17,658	**107,907**	**17,552**
Total assets	**$ 200,960**	$ 153,276	$ (139,963)	$ —	$ —	$ 2,865	$ 19,606	**$ 236,744**	**$ 20,383**
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	**$ 7,822**	$ (10,349)	$ —	$ —	$ —	$ 10,349	$ (674)	**$ 7,148**	**$ 7,148**
Total financial instruments and other inventory positions sold, but not yet purchased	**$ 7,822**	$ (10,349)	$ —	$ —	$ —	$ 10,349	$ (674)	**$ 7,148**	**$ 7,148**

(1) 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. 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 on the consolidated statements of operations.

(Dollars in thousands)	Balance at December 31, 2013	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at December 31, 2014	Unrealized gains/ (losses) for assets/ liabilities held at December 31, 2014 (1)
Assets:									
Financial instruments and other inventory positions owned:									
Corporate securities:									
Fixed income securities	**$ 100**	$ —	$ (100)	$ —	$ —	$ —	$ —	**$ —**	**$ —**
Municipal securities:									
Tax-exempt securities	**1,433**	—	—	—	—	—	(247)	**1,186**	**(247)**
Short-term securities	**656**	—	(25)	—	—	6	83	**720**	**83**
Mortgage-backed securities	**119,799**	154,338	(161,962)	3,552	—	9,189	(167)	**124,749**	**1,745**
Derivative contracts	**691**	3,602	—	—	—	(3,602)	(551)	**140**	**140**
Total financial instruments and other inventory positions owned:	**122,679**	157,940	(162,087)	3,552	—	5,593	(882)	**126,795**	**1,721**
Investments at fair value	**49,240**	21,730	(2,368)	—	—	2,368	3,195	**74,165**	**3,195**
Total assets	**$ 171,919**	$ 179,670	$ (164,455)	$ 3,552	$ —	$ 7,961	$ 2,313	**$ 200,960**	**$ 4,916**
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	**$ 6,643**	$ (16,751)	$ —	$ —	$ —	$ 16,751	$ 1,179	**$ 7,822**	**$ 7,822**
Total financial instruments and other inventory positions sold, but not yet purchased:	**$ 6,643**	$ (16,751)	$ —	$ —	$ —	$ 16,751	$ 1,179	**$ 7,822**	**$ 7,822**

(1) 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. 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 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.

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 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 $0.4 billion and $0.6 billion at December 31, 2015 and 2014, respectively. The Company's exposure to loss from these VIEs is $8.0 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at December 31, 2015. The Company had no liabilities related to these VIEs at December 31, 2015 and 2014.

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 (generally asset managers and investment companies), 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 December 31, 2015.

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 22 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*

(Dollars in thousands)	December 31, 2015	December 31, 2014
Receivable arising from unsettled securities transactions	**$ 62,105**	$ 52,571
Deposits paid for securities borrowed	**47,508**	57,572
Receivable from clearing organizations	**3,155**	4,933
Deposits with clearing organizations	**27,019**	33,799
Securities failed to deliver	**2,100**	1,753
Other	**6,062**	10,381
Total receivables from brokers, dealers and clearing organizations	**$ 147,949**	$ 161,009

(Dollars in thousands)	December 31, 2015	December 31, 2014
Payable arising from unsettled securities transactions	**$ 34,445**	$ 11,048
Payable to clearing organizations	**3,115**	5,185
Securities failed to receive	**4,468**	2,430
Other	**6,103**	6,901
Total payables to brokers, dealers and clearing organizations	**$ 48,131**	$ 25,564

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 *Receivables from and Payables to Customers*

(Dollars in thousands)	December 31, 2015	December 31, 2014
Cash accounts	**$ 39,415**	$ 6,135
Margin accounts	**1,752**	3,523
Total receivables from customers	**$ 41,167**	$ 9,658

Securities owned by customers are held as collateral for margin loan receivables. This collateral is not reflected on the consolidated financial statements. Margin loan receivables earn interest at floating interest rates based on prime rates.

(Dollars in thousands)	December 31, 2015	December 31, 2014
Cash accounts	**$ 19,650**	$ 13,172
Margin accounts	**17,714**	156
Total payables to customers	**$ 37,364**	$ 13,328

Payables to customers primarily comprise certain cash balances in customer accounts consisting of customer funds pending settlement of securities transactions and customer funds on deposit. Except for amounts arising from customer short sales, all amounts payable to customers are subject to withdrawal by customers upon their request.

Note 11 *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 the majority of its short-term financing to mitigate risk.

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 $185.8 million and $369.7 million at December 31, 2015 and 2014, respectively, of which $175.8 million and $338.8 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 December 31, 2015:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Mortgage-backed securities	$ 27,269	$ 39,202	2.14 - 2.27%
On demand maturities:			
U.S. government securities	18,050	17,558	0.05%
	$ 45,319	$ 56,760	

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 December 31, 2015 and 2014, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of December 31, 2015 or 2014. See Note 6 for information related to the Company's offsetting of derivative contracts.

Note 12 *Investments*

The Company's 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)	December 31, 2015	December 31, 2014
Investments at fair value	**$ 142,781**	$ 94,869
Investments at cost	**3,299**	8,214
Investments accounted for under the equity method	**17,781**	23,757
Total investments	**163,861**	126,840
Less investments attributable to noncontrolling interests (1)	**(40,069)**	(32,563)
	$ 123,792	$ 94,277

(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 December 31, 2015, investments carried on a cost basis had an estimated fair market value of $4.9 million. 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 13 *Other Assets*

(Dollars in thousands)	December 31, 2015	December 31, 2014
Net deferred income tax assets	**$ 66,810**	$ 45,851
Fee receivables	**18,362**	23,959
Accrued interest receivables	**6,145**	10,061
Forgivable loans, net	**10,234**	8,366
Prepaid expenses	**6,161**	6,067
Other	**11,490**	5,995
Total other assets	**$ 119,202**	$ 100,299

See Note 26 for additional details concerning the Company's net deferred income tax assets.

Note 14 *Goodwill and Intangible Assets*

(Dollars in thousands)	Capital Markets	Asset Management	Total
Goodwill			
Balance at December 31, 2013	**$ 13,790**	**$ 196,844**	**$ 210,634**
Goodwill acquired	—	—	—
Measurement period adjustment	1,244	—	1,244
Balance at December 31, 2014	**$ 15,034**	**$ 196,844**	**$ 211,878**
Goodwill acquired	6,098	—	6,098
Balance at December 31, 2015	**$ 21,132**	**$ 196,844**	**$ 217,976**
Intangible assets			
Balance at December 31, 2013	**$ 5,316**	**$ 34,614**	**$ 39,930**
Intangible assets acquired	—	—	—
Amortization of intangible assets	(2,972)	(6,300)	(9,272)
Balance at December 31, 2014	**$ 2,344**	**$ 28,314**	**$ 30,658**
Intangible assets acquired	7,534	—	7,534
Amortization of intangible assets	(1,622)	(6,040)	(7,662)
Balance at December 31, 2015	**$ 8,256**	**$ 22,274**	**$ 30,530**

The Company tests goodwill and indefinite-life intangible assets for impairment on an annual basis and on an interim basis when circumstances exist that could indicate possible impairment. The Company tests for impairment at the reporting unit level, which is generally one level below its operating segments. The Company has identified two reporting units: capital markets and asset management. When testing for impairment, the Company has 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, the Company determines 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 the Company concludes otherwise, then the Company is 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 the reporting units based on the following factors: a discounted cash flow model using revenue and profit forecasts, the Company's market capitalization, public company comparables and multiples of recent mergers and acquisitions of similar businesses, if available. The estimated fair values of the 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 Company completed its annual goodwill impairment analysis as of October 31, 2015, and concluded there was no goodwill impairment. The Company also evaluated its intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2015. The Company concluded there was no goodwill or intangible asset impairment in 2014 and 2013, respectively.

The addition of goodwill and intangible assets during the year ended December 31, 2015 related to the acquisitions of River Branch and BMO GKST, as discussed in Note 4. Management identified intangible assets consisting of customer relationships with acquisition-date fair values currently estimated to be $7.5 million, which will be amortized over an estimated weighted average life of 2.1 years. The Company anticipates finalizing the fair values of intangible assets in the first quarter of 2016. The final goodwill and intangible assets recorded on the Company's consolidated statements of financial condition may differ from that reflected herein as a result of measurement period adjustments.

Intangible assets with determinable lives consist of customer relationships and non-competition agreements. The intangible assets are amortized over their original estimated useful lives ranging from one to ten years. The following table summarizes the future aggregate amortization expense of the Company's intangible assets with determinable lives for the years ended:

(Dollars in thousands)	
2016	$ 10,412
2017	6,109
2018	5,497
2019	4,989
Thereafter	663
Total	$ 27,670

Note 15 *Fixed Assets*

(Dollars in thousands)	**December 31, 2015**	**December 31, 2014**
Furniture and equipment	**$ 31,953**	$ 28,669
Leasehold improvements	**25,213**	23,697
Software	**13,692**	13,132
Total	**70,858**	65,498
Accumulated depreciation and amortization	**(51,874)**	(47,327)
	$ 18,984	$ 18,171

For the years ended December 31, 2015, 2014 and 2013, depreciation and amortization of furniture and equipment, leasehold improvements and software from continuing operations totaled $5.1 million, $5.3 million and $5.6 million, respectively, and are included in occupancy and equipment expense on the consolidated statements of operations.

Note 16 *Short-Term Financing*

	Outstanding Balance		**Weighted Average Interest Rate**	
(Dollars in thousands)	**December 31, 2015**	**December 31, 2014**	**December 31, 2015**	**December 31, 2014**
Commercial paper (secured)	**$ 276,894**	$ 238,013	**1.74%**	1.48%
Prime broker arrangement	**169,296**	127,754	**1.07%**	0.91%
Bank lines (secured)	**—**	12,000	**N/A**	1.50%
Total short-term financing	**$ 446,190**	$ 377,767		

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 December 31, 2015, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 65 days, 55 days and 21 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 December 31, 2015 consisted of a one-year $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2015. 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 17, 2016. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At December 31, 2015, the Company had no advances against this line of credit.

The Company's uncommitted secured lines at December 31, 2015 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 December 31, 2015, the Company had no advances against these lines of credit.

Note 17 *Senior Notes*

The Company has entered into variable and fixed rate senior notes with certain entities advised by Pacific Investment Management Company ("PIMCO"). The following table presents the outstanding balance by note class at December 31, 2015 and 2014, respectively.

	Outstanding Balance	
(Dollars in thousands)	**December 31, 2015**	**December 31, 2014**
Class A Notes	**$ 50,000**	$ 50,000
Class B Notes	**—**	75,000
Class C Notes	**125,000**	—
Total senior notes	**$ 175,000**	$ 125,000

On October 8, 2015, the Company entered into a second amended and restated note purchase agreement ("Second Amended and Restated Note Purchase Agreement") under which the Company issued $125 million of fixed rate Class C Notes. The Class C Notes bear interest at an annual fixed rate of 5.06 percent, payable semi-annually and mature on October 9, 2018. The variable rate Class A Notes bear interest at a rate equal to three-month LIBOR plus 3.00 percent, adjusted and payable quarterly and mature on May 31, 2017. The variable rate Class B Notes were repaid by the Company on November 30, 2015, from the proceeds of the Class C Notes. The unpaid principal amounts are due in full on the respective maturity dates and may not be prepaid by the Company.

The Second Amended and Restated Note Purchase Agreement includes customary events of default and 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 December 31, 2015, the Company was in compliance with all covenants.

The senior notes are recorded at amortized cost. As of December 31, 2015, the carrying value of the senior notes approximated fair value.

Note 18 *Contingencies, Commitments and Guarantees*

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.

Several class action complaints were brought on behalf of a purported class of state, local and municipal government entities in connection with the bidding or sale of municipal investment contracts and municipal derivative products directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated into a single nationwide class action entitled *In re Municipal Derivatives Antitrust Litigation*, MDL No. 1950 (Master Docket No. 08-2516), allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. The consolidated complaint seeks unspecified treble damages under Section 1 of the Sherman Act. Several California municipalities also brought separate class action complaints in California federal court, and approximately eighteen California municipalities and two New York municipalities filed individual lawsuits that are not as part of class actions, all of which have since been transferred to the Southern District of New York and consolidated for pretrial purposes. All three sets of complaints assert similar claims under federal (and for the California and New York plaintiffs, state) antitrust claims. The plaintiffs in the consolidated class action and Piper Jaffray entered into a settlement agreement for *In re Municipal Derivatives Antitrust Litigation* on February 22, 2016. The settlement is subject to court approval after notice to the class. If approved, Piper Jaffray will be required to pay $9.8 million to settle the MDL class action. Litigation in the separate California and New York cases is ongoing.

Litigation-related reserve activity from continuing operations included within other operating expenses resulted in expense of $9.7 million primarily related to the MDL class action litigation, expense of $0.8 million, and a benefit of $4.1 million primarily attributable to the receipt of insurance proceeds for the reimbursement of prior legal settlements for the years ended December 31, 2015, 2014 and 2013, respectively.

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 December 31, 2015 are as follows:

(Dollars in thousands)	
2016	$ 12,872
2017	10,169
2018	9,694
2019	9,103
2020	8,578
Thereafter	17,884
	$ 68,300

Total minimum rentals to be received from 2016 through 2020 under noncancelable subleases were $6.1 million at December 31, 2015.

Rental expense, including operating costs and real estate taxes, from continuing operations was $13.7 million, $13.8 million and $12.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Fund Commitments

As of December 31, 2015, the Company had commitments to invest approximately $32.8 million in limited partnerships that make investments in private equity companies or provide financing for senior living facilities.

Other Guarantees

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements with these entities, members generally are required to guarantee the performance of other members, and if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. In addition, the Company identifies and guarantees certain clearing agents against specified potential losses in connection with providing services to the Company or its affiliates. The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes the likelihood that the Company would be required to make payments under these arrangements is remote. Accordingly, no liability is recorded in the consolidated financial statements for these arrangements.

Concentration of Credit Risk

The Company provides investment, capital-raising and related services to a diverse group of domestic and foreign customers, including governments, corporations, and institutional and individual investors. The Company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To alleviate the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions.

Note 19 *Restructuring*

The Company incurred pre-tax restructuring charges of $9.4 million for the year ended December 31, 2015 within the Capital Markets segment. The charges included severance benefits of $8.8 million primarily in conjunction with the 2015 acquisitions discussed in Note 4. The restructuring charges included severance, benefits and outplacement costs associated with the termination of approximately 70 employees. The Company also incurred contract termination costs of $0.6 million.

For the year ended December 31, 2013, the Company incurred pre-tax restructuring charges of $3.6 million from continuing operations. The charges included severance benefits of $2.4 million, $0.5 million for vacating redundant leased office space and $0.7 million for contract termination costs.

Note 20 *Shareholders' Equity*

The certificate of incorporation of Piper Jaffray Companies provides for the issuance of up to 100,000,000 shares of common stock with a par value of $0.01 per share and up to 5,000,000 shares of undesignated preferred stock with a par value of $0.01 per share.

Common Stock

The holders of Piper Jaffray Companies common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Subject to preferences that may be applicable to any outstanding preferred stock of Piper Jaffray Companies, the holders of its common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Piper Jaffray Companies board of directors out of funds legally available for that purpose. Piper Jaffray Companies does not currently pay cash dividends on its common stock. Additionally, there are dividend restrictions as set forth in Note 25.

In the event that Piper Jaffray Companies is liquidated or dissolved, the holders of its common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to any prior distribution rights of Piper Jaffray Companies preferred stock, if any, then outstanding. Currently, there is no outstanding preferred stock. The holders of the common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Piper Jaffray Companies common stock.

During the year ended December 31, 2013, the Company repurchased 1,719,662 shares at an average price of $32.52 per share for an aggregate purchase price of $55.9 million. During the year ended December 31, 2014, the Company did not repurchase any shares of the Company's outstanding common stock.

Effective October 1, 2014, the Company's board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2016. Effective August 14, 2015, the Company's board of directors authorized the repurchase of up to an additional $150.0 million in common shares through September 30, 2017. During the year ended December 31, 2015, the Company repurchased 2,459,400 shares at an average price of $48.17 per share for an aggregate purchase price of $118.5 million related to these authorizations. The Company has $131.5 million remaining under these authorizations.

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 281,180 shares or $14.5 million, 256,055 shares or $10.9 million and 386,713 shares or $15.5 million of the Company's common stock for this purpose during the years ended December 31, 2015, 2014 and 2013, respectively.

The Company issues common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 22. During the years ended December 31, 2015, 2014 and 2013, the Company issued 503,571 shares, 774,194 shares and 786,467 shares, respectively, related to these obligations. The Company also issued common shares out of treasury stock related to obligations under the Piper Jaffray Companies Retirement Plan (the "Retirement Plan"). During the years ended December 31, 2014 and 2013, the Company issued 103,598 shares or $4.2 million and 96,049 shares or $3.9 million, respectively, out of treasury stock in fulfillment of these obligations.

Preferred Stock

The Piper Jaffray Companies board of directors has the authority, without action by its shareholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights associated with the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of common stock until the Piper Jaffray Companies board of directors determines the specific rights of the holders of preferred stock. However, the effects might include, among other things, the following: restricting dividends on its common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock and delaying or preventing a change in control of Piper Jaffray Companies without further action by its shareholders.

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 with limited employee investors of $7.0 million, a merchant banking fund of $31.8 million and private investment vehicles aggregating $10.4 million as of December 31, 2015. As of December 31, 2014, noncontrolling interests included the minority equity holders' proportionate share of the equity in a municipal bond fund with outside investors of $117.0 million, a merchant banking fund of $24.7 million and private investment vehicles aggregating $7.8 million. The Company closed and completed liquidation of the municipal bond fund with outside investors in 2015.

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 years ended December 31, 2015, 2014 and 2013.

Note 21 *Employee Benefit Plans*

The Company has various employee benefit plans, and substantially all employees are covered by at least one plan. The plans include health and welfare plans and a tax-qualified retirement plan (the "Retirement Plan"). During the years ended December 31, 2015, 2014 and 2013, the Company incurred employee benefits expenses from continuing operations of $15.1 million, $13.2 million and $12.1 million, respectively.

Health and Welfare Plans

Company employees who meet certain work schedule and service requirements are eligible to participate in the Company's health and welfare plans. The Company subsidizes the cost of coverage for employees. The health plans contain cost-sharing features such as deductibles and coinsurance.

The Company is self-insured for losses related to health claims, although it obtains third party stop loss insurance coverage on both an individual and a group plan basis. Self-insured liabilities are based on a number of factors, including historical claims experience, an estimate of claims incurred but not reported and valuations provided by third party actuaries. For the years ended December 31, 2015, 2014 and 2013, the Company recognized expense of $9.1 million, $7.7 million and $7.2 million, respectively, in compensation and benefits expense from continuing operations on the consolidated statements of operations related to its health plans.

Retirement Plan

The Retirement Plan consists of a defined contribution retirement savings plan. The defined contribution retirement savings plan allows qualified employees, at their option, to make contributions through salary deductions under Section 401(k) of the Internal Revenue Code. Employee contributions are 100 percent matched by the Company to a maximum of six percent of recognized compensation up to the social security taxable wage base. Although the Company's matching contribution vests immediately, a participant must be employed on December 31 to receive that year's matching contribution.

Note 22 *Compensation Plans*

Stock-Based Compensation Plans

The Company maintains one stock-based compensation plan, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Incentive 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 Incentive Plan equity awards (in shares or units) as of December 31, 2015:

Restricted Stock	
Annual grants	932,377
Sign-on grants	355,538
	1,287,915
Restricted Stock Units	
Market conditon leadership grants	356,242
Stock Options	157,201

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 8.2 million shares of common stock (1.6 million shares remained available for future issuance under the Incentive Plan as of December 31, 2015). 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.

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 also 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 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 2015 for its February 2016 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 grants restricted stock units to its leadership team ("Leadership Grants"). The units will vest and convert to shares of common stock at the end of each 36-month performance period only if the Company's stock performance 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's stock performance 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 was determined using a Monte Carlo simulation with the following assumptions:

Grant Year	Risk-free Interest Rate	Expected Stock Price Volatility
2015	0.90%	29.8%
2014	0.82%	41.3%
2013	0.40%	44.0%

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.

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 2010 Employment Inducement Award Plan (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 vested ratably over five years in equal annual installments ending on March 1, 2015. The Company terminated the Inducement Plan in March 2015.

Stock-Based Compensation Activity

The Company recorded total compensation expense within continuing operations of $48.2 million, $28.2 million and $21.0 million for the years ended December 31, 2015, 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 and Leadership Grants, less forfeitures of $0.5 million, $0.7 million and $1.0 million for the years ended December 31, 2015, 2014 and 2013, respectively. The tax benefit related to stock-based compensation costs totaled $18.8 million, $11.0 million and $8.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The following table summarizes the changes in the Company's unvested restricted stock under the Incentive Plan and Inducement Plan:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2012 [redacted]	**2,322,438**	**$ 37.01**
Granted	682,760	38.35
Vested	(1,165,989)	39.83
Canceled	(257,147)	38.30
December 31, 2013	**1,582,062**	**$ 35.25**
Granted	421,728	40.57
Vested	(883,761)	36.22
Canceled	(24,724)	36.02
December 31, 2014	**1,095,305**	**$ 36.51**
Granted	783,758	51.08
Vested	(575,716)	34.72
Canceled	(15,432)	40.83
December 31, 2015	**1,287,915**	**$ 46.20**

The fair value of restricted stock that vested during the years ended December 31, 2015, 2014 and 2013 was $20.0 million, $32.0 million and $46.4 million, respectively.

The following table summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2012	**173,271**	**$ 12.12**
Granted	117,265	21.32
Vested	—	—
Canceled	—	—
December 31, 2013	**290,536**	**$ 15.83**
Granted	115,290	23.42
Vested	—	—
Canceled	—	—
December 31, 2014	**405,826**	**$ 17.99**
Granted	123,687	21.83
Vested	(149,814)	12.12
Canceled	(23,457)	12.12
December 31, 2015	**356,242**	**$ 22.18**

As of December 31, 2015, there was $15.2 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.3 years.

The following table summarizes the changes in the Company's outstanding stock options:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2012	**486,563**	**$ 44.76**	**2.9**	**$ 94,150**
Granted	—	—		
Exercised	—	—		
Canceled	(17,274)	42.85		
December 31, 2013	**469,289**	**$ 44.83**	**2.0**	**$ 288,318**
Granted	—	—		
Exercised	(137,864)	39.55		
Canceled	(55)	39.62		
Expired	(113,497)	$ 47.72		
December 31, 2014	**217,873**	**$ 46.66**	**2.0**	**$ 3,066,839**
Granted	—	—		
Exercised	(50,671)	36.62		
Canceled	—	—		
Expired	(10,001)	39.62		
December 31, 2015	**157,201**	**$ 50.35**	**1.6**	**$ —**
Options exercisable at December 31, 2013	**469,289**	**$ 44.83**	**2.0**	**$ 288,318**
Options exercisable at December 31, 2014	**217,873**	**$ 46.66**	**2.0**	**$ 3,066,839**
Options exercisable at December 31, 2015	**157,201**	**$ 50.35**	**1.6**	**$ —**

Additional information regarding Piper Jaffray Companies options outstanding as of December 31, 2015 is as follows:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	**Shares**	**Weighted Average Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
$41.09	99,147	2.1	$ 41.09	99,147	$ 41.09
$47.85	10,641	0.1	$ 47.85	10,641	$ 47.85
$70.13 - $70.65	47,413	0.9	$ 70.26	47,413	$ 70.26

As of December 31, 2015, 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 $0.9 million and $0.3 million, respectively, for the year ended December 31, 2015. For the year ended December 31, 2014, the intrinsic value of options exercised and the resulting tax benefit realized was $1.7 million and $0.7 million, respectively. There were no options exercised during the year ended December 31, 2013.

The Company has a policy of issuing shares out of treasury (to the extent available) to satisfy share option exercises and restricted stock vesting. The Company expects to withhold approximately 0.3 million shares from employee equity awards vesting in 2016, related to employee individual income tax withholding obligations on restricted stock vesting. For accounting purposes, withholding shares to cover employees' tax obligations is deemed to be a repurchase of shares by the Company.

Deferred Compensation Plans

The Company maintains various deferred compensation arrangements for employees.

The nonqualified deferred compensation plan is 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 $14.6 million and $6.6 million as of December 31, 2015 and 2014, respectively, 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 $14.5 million and $6.6 million as of December 31, 2015 and 2014, respectively. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

The Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan is a fully funded 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 restricted mutual fund shares ("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.

The Company recorded total compensation expense within continuing operations of $26.6 million, $20.0 million and $15.2 million for the years ended December 31, 2015, 2014 and 2013, respectively, related to employee MFRS Awards. Total compensation cost includes year-end compensation for MFRS Awards and the amortization of sign-on MFRS Awards, less forfeitures. Forfeitures were immaterial for the years ended December 31, 2015, 2014 and 2013, respectively. MFRS Awards are owned by employee recipients and as such are not included on the consolidated statements of financial condition.

Note 23 *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:

	Year Ended December 31,		
(Amounts in thousands, except per share data)	**2015**	**2014**	**2013**
Net income from continuing operations applicable to Piper Jaffray Companies	**$ 52,075**	$ 63,172	$ 49,829
Net loss from discontinued operations	**—**	—	(4,739)
Net income applicable to Piper Jaffray Companies	**52,075**	63,172	45,090
Earnings allocated to participating securities (1)	**(4,015)**	(5,031)	(4,494)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	**$ 48,060**	$ 58,141	$ 40,596
Shares for basic and diluted calculations:			
Average shares used in basic computation	**14,368**	14,971	15,046
Stock options	**21**	54	15
Average shares used in diluted computation	**14,389**	15,025	15,061
Earnings/(loss) per basic common share:			
Income from continuing operations	**$ 3.34**	$ 3.88	$ 2.98
Loss from discontinued operations	**—**	—	(0.28)
Earnings per basic common share	**$ 3.34**	$ 3.88	$ 2.70
Earnings/(loss) per diluted common share:			
Income from continuing operations	**$ 3.34**	$ 3.87	$ 2.98
Loss from discontinued operations	**—**	—	(0.28)
Earnings per diluted common share	**$ 3.34**	$ 3.87	$ 2.70

(1) Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 1,201,610; 1,299,827 and 1,667,067 for the years ended December 31, 2015, 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 years ended December 31, 2015, 2014 and 2013.

Note 24 *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. Segment assets are based on those directly associated with each segment, and include an allocation of certain assets based on the most relevant measures applicable, including headcount and other factors. The substantial majority of the Company's net revenues and long-lived assets are located in the U.S.

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

Reportable segment financial results are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2015**	**2014**	**2013**
Capital Markets			
Investment banking			
Financing			
Equities	**$ 114,468**	$ 109,706	$ 94,472
Debt	**91,195**	63,005	71,164
Advisory services	**209,163**	197,880	83,292
Total investment banking	**414,826**	370,591	248,928
Institutional sales and trading			
Equities	**78,584**	82,211	91,169
Fixed income	**94,305**	92,200	76,275
Total institutional sales and trading	**172,889**	174,411	167,444
Management and performance fees	**4,642**	5,398	3,891
Investment income	**24,468**	24,046	30,404
Long-term financing expenses	**(7,494)**	(6,655)	(7,420)
Net revenues	**609,331**	567,791	443,247
Operating expenses (1)	**530,937**	478,661	393,231
Segment pre-tax operating income	**$ 78,394**	$ 89,130	$ 50,016
Segment pre-tax operating margin	**12.9%**	15.7%	11.3%

Continued on next page

(Dollars in thousands)	Year Ended December 31, 2015	2014	2013
Asset Management			
Management and performance fees			
Management fees	**$ 70,167**	$ 78,772	$ 71,314
Performance fees	**208**	892	7,840
Total management and performance fees	**70,375**	79,664	79,154
Investment income/(loss)	**(6,788)**	683	2,794
Net revenues	**63,587**	80,347	81,948
Operating expenses (1)	**55,558**	59,166	56,351
Segment pre-tax operating income	**$ 8,029**	$ 21,181	$ 25,597
Segment pre-tax operating margin	**12.6%**	26.4%	31.2%
Total			
Net revenues	**$ 672,918**	$ 648,138	$ 525,195
Operating expenses (1)	**586,495**	537,827	449,582
Pre-tax operating income	**$ 86,423**	$ 110,311	$ 75,613
Pre-tax operating margin	**12.8%**	17.0%	14.4%

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

(Dollars in thousands)	Year Ended December 31, 2015	2014	2013
Capital Markets	**$ 1,622**	$ 2,972	$ 1,349
Asset Management	**6,040**	6,300	6,644
Total intangible asset amortization expense	**$ 7,662**	$ 9,272	$ 7,993

Reportable segment assets are as follows:

(Dollars in thousands)	December 31, 2015	December 31, 2014
Capital Markets	**$ 1,870,272**	$ 2,352,404
Asset Management	**268,246**	271,513
	$ 2,138,518	$ 2,623,917

Note 25 *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.

At December 31, 2015, net capital calculated under the SEC rule was $187.9 million, and exceeded the minimum net capital required under the SEC rule by $186.9 million.

The Company's committed short-term credit facility and its 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 December 31, 2015, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At December 31, 2015, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

Note 26 *Income Taxes*

Income tax expense is provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, 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 components of income tax expense from continuing operations are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2015**	**2014**	**2013**
Current:			
Federal	**$ 33,818**	$ 37,331	$ 20,468
State	**7,030**	8,117	3,795
Foreign	**58**	161	183
	40,906	45,609	24,446
Deferred:			
Federal	**(11,620)**	(8,641)	(1,582)
State	**(1,901)**	(1,317)	(4,041)
Foreign	**556**	335	1,567
	(12,965)	(9,623)	(4,056)
Total income tax expense from continuing operations	**$ 27,941**	$ 35,986	$ 20,390
Total income tax benefit from discontinued operations	**$ —**	$ —	$ (2,935)

A reconciliation of federal income taxes at statutory rates to the Company's effective tax rates from continuing operations is as follows:

(Dollars in thousands)	**Year Ended December 31, 2015**	**2014**	**2013**
Federal income tax expense at statutory rates	**$ 30,248**	$ 38,609	$ 26,464
Increase/(reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**3,155**	3,857	2,785
Net tax-exempt interest income	**(4,299)**	(3,693)	(3,917)
Foreign jurisdictions tax rate differential	**191**	(63)	(185)
Change in valuation allowance	**—**	—	(4,182)
Income attributable to noncontrolling interests	**(2,243)**	(3,903)	(1,888)
Other, net	**889**	1,179	1,313
Total income tax expense from continuing operations	**$ 27,941**	$ 35,986	$ 20,390

In accordance with ASC 740, U.S. income taxes are not provided on undistributed earnings of international subsidiaries that are permanently reinvested. As of December 31, 2015, undistributed earnings permanently reinvested in the Company's foreign subsidiaries were not material.

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes. The net deferred income tax assets included in other assets on the consolidated statements of financial condition consisted of the following items:

(Dollars in thousands)	**December 31, 2015**	**December 31, 2014**
Deferred tax assets:		
Deferred compensation	**$ 74,127**	$ 56,893
Net operating loss carry forwards	**3,947**	4,854
Liabilities/accruals not currently deductible	**5,454**	1,601
Other	**5,175**	2,930
Total deferred tax assets	**88,703**	66,278
Valuation allowance	**(159)**	(159)
Deferred tax assets after valuation allowance	**88,544**	66,119
Deferred tax liabilities:		
Goodwill amortization	**16,951**	15,028
Unrealized gains on firm investments	**2,917**	3,221
Fixed assets	**1,189**	945
Other	**677**	1,074
Total deferred tax liabilities	**21,734**	20,268
Net deferred tax assets	**$ 66,810**	$ 45,851

The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The Company believes that its future tax profits will be sufficient to recognize its deferred tax assets, with the exception of $0.2 million in state net operating loss carryforwards.

The Company accounts for unrecognized tax benefits in accordance with the provisions of ASC 740, which requires tax reserves to be recorded for uncertain tax positions on the consolidated statements of financial condition. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollars in thousands)		
Balance at December 31, 2012	**$**	**290**
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		2,000
Reductions for tax positions of prior years		(90)
Settlements		—
Balance at December 31, 2013	**$**	**2,200**
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		123
Reductions for tax positions of prior years		—
Settlements		—
Balance at December 31, 2014	**$**	**2,323**
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		—
Reductions for tax positions of prior years		(2,000)
Settlements		(200)
Balance at December 31, 2015	**$**	**123**

As of December 31, 2015, approximately $0.1 million of the Company's unrecognized tax benefits would impact the annual effective rate, if recognized.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. The Company had no accruals related to the payment of interest and penalties at December 31, 2015. The Company had approximately $0.2 million for the payment of interest and penalties accrued at December 31, 2014 and 2013, respectively, which was recognized during the year ended December 31, 2013. The Company or one of its subsidiaries files income tax returns with the various states and foreign jurisdictions in which the Company operates. The Company is not subject to U.S. federal tax authorities for years before 2012 and is not subject to state and local or non-U.S. tax authorities for taxable years before 2010. The Company anticipates all of its uncertain income tax provisions will be resolved within the next twelve months.

Note 27 *Piper Jaffray Companies (Parent Company only)*

Condensed Statements of Financial Condition

(Amounts in thousands)	**December 31, 2015**	**December 31, 2014**
Assets		
Cash and cash equivalents	**$ 48**	$ 200
Investment in and advances to subsidiaries	**982,426**	956,609
Other assets	**15,843**	13,819
Total assets	**$ 998,317**	$ 970,628
Liabilities and Shareholders' Equity		
Senior notes	**$ 175,000**	$ 125,000
Accrued compensation	**36,347**	24,618
Other liabilities and accrued expenses	**3,311**	1,098
Total liabilities	**214,658**	150,716
Shareholders' equity	**783,659**	819,912
Total liabilities and shareholders' equity	**$ 998,317**	$ 970,628

Condensed Statements of Operations

	Year Ended December 31,		
(Amounts in thousands)	**2015**	**2014**	**2013**
Revenues:			
Dividends from subsidiaries	**$ 37,649**	$ 50,333	$ 46,000
Interest	**650**	662	254
Investment income/(loss)	**(2,033)**	275	198
Total revenues	**36,266**	51,270	46,452
Interest expense	**6,406**	5,463	5,850
Net revenues	**29,860**	45,807	40,602
Non-interest expenses:			
Total non-interest expenses	**3,487**	5,318	3,096
Income from continuing operations before income tax expense and equity in undistributed income of subsidiaries	**26,373**	40,489	37,506
Income tax expense	**9,191**	14,795	13,263
Income from continuing operations of parent company	**17,182**	25,694	24,243
Equity in undistributed income of subsidiaries	**34,893**	37,478	25,200
Net income from continuing operations	**52,075**	63,172	49,443
Discontinued operations:			
Loss from discontinued operations, net of tax	**—**	—	(4,353)
Net income	**$ 52,075**	$ 63,172	$ 45,090

Condensed Statements of Cash Flows

	Year Ended December 31,		
(Amounts in thousands)	**2015**	**2014**	**2013**
Operating Activities:			
Net income	**$ 52,075**	$ 63,172	$ 45,090
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based and deferred compensation	**70**	180	60
Equity in undistributed income of subsidiaries	**(34,893)**	(37,478)	(25,200)
Net cash provided by operating activities	**17,252**	25,874	19,950
Investing Activities:			
Repayment of FAMCO note	**1,500**	2,000	250
Net cash provided by investing activities	**1,500**	2,000	250
Financing Activities:			
Issuance of senior notes	**125,000**	50,000	—
Repayment of senior notes	**(75,000)**	(50,000)	—
Advances from/(to) subsidiaries	**49,560**	(28,010)	34,996
Repurchase of common stock	**(118,464)**	—	(55,929)
Net cash used in financing activities	**(18,904)**	(28,010)	(20,933)
Net decrease in cash and cash equivalents	**(152)**	(136)	(733)
Cash and cash equivalents at beginning of year	**200**	336	1,069
Cash and cash equivalents at end of year	**$ 48**	$ 200	$ 336
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ (5,756)**	$ (4,801)	$ (5,596)
Income taxes	**$ (9,191)**	$ (14,795)	$ (13,263)

Piper Jaffray Companies

Supplementary Data

Quarterly Information (unaudited)

(Amounts in thousands, except per share data)	2015 Fiscal Quarter First	Second	Third	Fourth
Total revenues	$ 168,431	$ 170,110	$ 154,732	$ 203,044
Interest expense	6,560	6,044	5,115	5,680
Net revenues	161,871	164,066	149,617	197,364
Non-interest expenses	130,579	138,207	142,829	174,880
Income before income tax expense	31,292	25,859	6,788	22,484
Income tax expense	9,490	9,542	1,573	7,336
Net income	21,802	16,317	5,215	15,148
Net income/(loss) applicable to noncontrolling interests	4,830	(682)	384	1,875
Net income applicable to Piper Jaffray Companies	$ 16,972	$ 16,999	$ 4,831	13,273
Net income applicable to Piper Jaffray Companies' common shareholders	$ 15,810	$ 15,699	$ 4,448	$ 12,147
Earnings per common share				
Basic	$ 1.03	$ 1.08	$ 0.32	$ 0.88
Diluted	$ 1.03	$ 1.08	$ 0.32	$ 0.88
Weighted average number of common shares				
Basic	15,294	14,487	13,938	13,775
Diluted	15,332	14,513	13,952	13,782

(Amounts in thousands, except per share data)	2014 Fiscal Quarter First	Second	Third	Fourth
Total revenues	$ 173,894	$ 175,976	$ 165,947	$ 157,394
Interest expense	5,761	5,945	6,521	6,846
Net revenues	168,133	170,031	159,426	150,548
Non-interest expenses	135,420	139,614	133,734	129,059
Income before income tax expense	32,713	30,417	25,692	21,489
Income tax expense	9,827	10,049	8,596	7,514
Net income	22,886	20,368	17,096	13,975
Net income applicable to noncontrolling interests	5,138	2,155	2,428	1,432
Net income applicable to Piper Jaffray Companies	$ 17,748	$ 18,213	$ 14,668	$ 12,543
Net income applicable to Piper Jaffray Companies' common shareholders	$ 16,089	$ 16,717	$ 13,552	$ 11,700
Earnings per common share				
Basic	$ 1.10	$ 1.12	$ 0.90	$ 0.77
Diluted	$ 1.10	$ 1.11	$ 0.90	$ 0.77
Weighted average number of common shares				
Basic	14,612	14,958	15,066	15,241
Diluted	14,657	15,013	15,129	15,293

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.*

None.

ITEM 9A. *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 fourth quarter of our fiscal year ended December 31, 2015, 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.

Management’s Report on Internal Control Over Financial Reporting and the attestation report of our independent registered public accounting firm on management’s assessment of internal control over financial reporting are included in Part II, Item 8 entitled "Financial Statements and Supplementary Data" and are incorporated herein by reference.

ITEM 9B. *OTHER INFORMATION.*

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

The information regarding our executive officers included in Part I of this Form 10-K under the caption "Executive Officers" is incorporated herein by reference. The information in the definitive proxy statement for our 2016 annual meeting of shareholders to be held on May 4, 2016, under the captions "Item I — Election of Directors," "Information Regarding the Board of Directors and Corporate Governance — Committees of the Board — Audit Committee," "Information Regarding the Board of Directors and Corporate Governance — Codes of Ethics and Business Conduct" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. *EXECUTIVE COMPENSATION.*

The information in the definitive proxy statement for our 2016 annual meeting of shareholders to be held on May 4, 2016, under the captions "Executive Compensation," "Certain Relationships and Related Transactions — Compensation Committee Interlocks and Insider Participation," "Information Regarding the Board of Directors and Corporate Governance — Compensation Program for Non-Employee Directors" and "Information Regarding the Board of Directors and Corporate Governance — Non-Employee Director Compensation for 2015" is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.*

The information in the definitive proxy statement for our 2016 annual meeting of shareholders to be held on May 4, 2016, under the captions "Security Ownership — Beneficial Ownership of Directors, Nominees and Executive Officers," "Security Ownership — Beneficial Owners of More than Five Percent of Our Common Stock" and "Executive Compensation — Outstanding Equity Awards" are incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.*

The information in the definitive proxy statement for our 2016 annual meeting of shareholders to be held on May 4, 2016, under the captions "Information Regarding the Board of Directors and Corporate Governance — Director Independence," "Certain Relationships and Related Transactions — Transactions with Related Persons" and "Certain Relationships and Related Transactions — Review and Approval of Transactions with Related Persons" is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES.*

The information in the definitive proxy statement for our 2016 annual meeting of shareholders to be held on May 4, 2016, under the captions "Audit Committee Report and Payment of Fees to Our Independent Auditor — Auditor Fees" and "Audit Committee Report and Payment of Fees to Our Independent Auditor — Auditor Services Pre-Approval Policy" is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.*

(a)(1) FINANCIAL STATEMENTS OF THE COMPANY.

The Consolidated Financial Statements are incorporated herein by reference and included in Part II, Item 8 to this Form 10-K.

(a)(2) FINANCIAL STATEMENT SCHEDULES.

All financial statement schedules for the Company have been included in the consolidated financial statements or the related footnotes, or are either inapplicable or not required.

(a)(3) EXHIBITS.

Exhibit Number	Description
2.1	Separation and Distribution Agreement dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies (incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). #
2.2	Securities Purchase Agreement dated November 16, 2015 among Piper Jaffray Companies, Piper Jaffray & Co., Simmons & Company International, SCI JV LP, SCI GP, LLC, and Simmons & Company International Holdings LLC (*excluding schedules and exhibits, which the registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request*) (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed November 17, 2015).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed August 3, 2007).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed August 3, 2007).
4.1	Form of Specimen Certificate for Piper Jaffray Companies Common Stock. *
4.2	Second Amended and Restated Indenture dated as of June 11, 2012 (Secured Commercial Paper Notes), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, filed August 2, 2012).

Exhibit Number	Description
4.3	Indenture dated as of April 2, 2012 (Secured Commercial Paper Notes -- Series II), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 5, 2012).
4.4	Second Amended and Restated Indenture dated April 21, 2014 (Secured Commercial Paper Notes -- Series III), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 21, 2014).
10.1	Form of director indemnification agreement between Piper Jaffray Companies and its directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 17, 2014). †
10.2	Office Lease Agreement, dated May 30, 2012, by and among Piper Jaffray & Co. and Wells REIT – 800 Nicollett Avenue Owner, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 1, 2012).
10.3	U.S. Bancorp Piper Jaffray Inc. Second Century 2000 Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). †
10.4	U.S. Bancorp Piper Jaffray Inc. Second Century Growth Deferred Compensation Plan, as amended and restated effective September 30, 1998 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). †
10.5	Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (as amended May 31, 2015) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 14, 2015). †
10.6	Piper Jaffray Companies Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed July 31, 2013). †
10.7	Form of Restricted Stock Agreement for Employee Grants in 2011, 2012, and 2013 (related to 2010, 2011, and 2012 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011). †
10.8	Form of Restricted Stock Agreement for Employee Grants in 2014 (related to 2013 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014). †
10.9	Form of Restricted Stock Agreement for Employee Grants in 2015 (related to 2014 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed February 26, 2015). †
10.10	Form of Restricted Stock Agreement for California-based Employee Grants in 2015 (related to 2014 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed February 26, 2015). †
10.11	Form of Stock Option Agreement for Employee Grants in 2004 and 2005 (related to 2003 and 2004 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 4, 2004). †

Exhibit Number	Description
10.12	Form of Stock Option Agreement for Employee Grants in 2006 (related to 2005 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 1, 2006). †
10.13	Form of Stock Option Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed March 1, 2007). †
10.14	Form of Stock Option Agreement for Non-Employee Director Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 4, 2004). †
10.15	Form of Performance Share Unit Agreement for 2012 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, filed August 2, 2012). †
10.16	Form of Performance Share Unit Agreement for 2013 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed July 31, 2013). †
10.17	Form of Performance Share Unit Agreement for 2014 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed July 30, 2014). †
10.18	Form of Performance Share Unit Agreement for 2015 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015, filed August 5, 2015). †
10.19	Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011). †
10.20	Summary of Non-Employee Director Compensation Program. † *
10.21	Form of Notice Period Agreement (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed March 1, 2007). †
10.22	Amended and Restated Loan Agreement dated December 28, 2012, between Piper Jaffray & Co. and U.S. Bank National Association (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 27, 2013).
10.23	First Amendment to Amended and Restated Loan Agreement, dated December 28, 2013, between Piper Jaffray & Co. and U.S. Bank National Association (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014).
10.24	Second Amendment to Amended and Restated Loan Agreement, dated December 19, 2014, between Piper Jaffray & Co. and U.S. Bank National Association (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed February 26, 2015).

Exhibit Number	Description
10.25	Third Amendment to Amended and Restated Loan Agreement, dated December 18, 2015, between Piper Jaffray & Co. and U.S. Bank National Association. *
10.26	Amended and Restated Note Purchase Agreement dated June 2, 2014 among Piper Jaffray Companies, Piper Jaffray & Co. and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 5, 2014).
10.27	Second Amended and Restated Note Purchase Agreement dated October 8, 2015 among Piper Jaffray Companies, Piper Jaffray & Co., and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 13, 2015).
10.28	Consulting Agreement dated March 19, 2014, by and between Advisory Research, Inc. and Brien M. O'Brien (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 19, 2014).
10.29	Compensation Arrangement with M. Brad Winges (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 27, 2013). †
10.30	Restricted Limited Partnership Interest Agreement dated February 23, 2015, by and between Piper Jaffray Investment Management LLC and M. Brad Winges (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed February 26, 2015). †
10.31	Advisory Research, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014). †
10.32	Amended and Restated Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.33	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2012 and 2013 (related to performance in 2011 and 2012, respectively) (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.34	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2014 (related to performance in 2013) (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014). †
10.35	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2015 (related to performance in 2014) (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed February 26, 2015). †
10.36	Form of Mutual Fund Restricted Share Agreement for California-based Employee Grants in 2015 (related to performance in 2014) (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed February 26, 2015). †
10.37	Form of Restricted Stock and Mutual Fund Restricted Share Agreement for Employee Grants in 2016 (related to performance in 2015) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan and Mutual Fund Restricted Share Investment Plan. † *
10.38	Form of Restricted Stock and Mutual Fund Restricted Share Agreement for California-based Employee Grants in 2016 (related to performance in 2015) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan and Mutual Fund Restricted Share Investment Plan. † *
21.1	Subsidiaries of Piper Jaffray Companies *

Exhibit Number	Description
23.1	Consent of Ernst & Young LLP *
24.1	Power of Attorney *
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer. *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. *
32.1	Section 1350 Certifications. **
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of December 31, 2015 and December 31, 2014, (ii) the Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013 and (v) the notes to the Consolidated Financial Statements.

\# *The Company hereby agrees to furnish supplementally to the Commission upon request any omitted exhibit or schedule.*

† *This exhibit is a management contract or compensatory plan or agreement.*

* *Filed herewith*

** *This information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.*

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 February 25, 2016.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff

Its Chairman and Chief Executive Officer

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 February 25, 2016.

SIGNATURE	TITLE
[redacted] Andrew S. Duff	Chairman and Chief Executive Officer (Principal Executive Officer)
[redacted] Debbra L. Schoneman	Chief Financial Officer (Principal Financial and Accounting Officer)
[redacted] William R. Fitzgerald	Director
[redacted] B. Kristine Johnson	Director
[redacted] Addison L. Piper	Director
[redacted] Lisa K. Polsky	Director
[redacted] Sherry M. Smith	Director
[redacted] Philip E. Soran	Director
[redacted] Scott C. Taylor	Director
[redacted] Michele Volpi	Director

Corporate Headquarters
Piper Jaffray Companies
Mail Stop J09SSH
800 Nicollet Mall, Suite 1000
Minneapolis, MN 55402
612 303-6000

Company Website
www.piperjaffray.com

Stock Transfer Agent and Registrar
Wells Fargo acts as transfer agent and registrar for Piper Jaffray Companies and maintains all shareholder records for the company. For questions regarding owned Piper Jaffray Companies stock, stock transfers, address corrections or changes, lost stock certificates or duplicate mailings, please contact Wells Fargo:

Wells Fargo Shareowner Services
P.O. Box 64874
St. Paul, MN 55164-0874

Tel: 651 450-4064
Toll-Free: 800 872-4409
Available Monday through Friday,
7 a.m. to 7 p.m. CT

Street Address for Overnight Deliveries
Wells Fargo Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Website Access to Registrar
Shareholders may access their investor statements online 24 hours a day, seven days a week at www.shareowneronline.com.

Independent Accountants
Ernst & Young LLP

Common Stock Listing
New York Stock Exchange (symbol: PJC)

Investor Inquiries
Shareholders, securities analysts and investors seeking more information about the company should contact Tom Smith, Director of Investor Relations, at thomas.g.smith@pjc.com, 612 303-6336, or the corporate headquarters address.

Website Access to SEC Reports and Corporate Governance Information
Piper Jaffray Companies makes available free of charge on its website, www.piperjaffray.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as all other reports filed by Piper Jaffray Companies with the SEC, as soon as reasonably practicable after it electronically files them with, or furnishes them to, the SEC. Piper Jaffray Companies also makes available free of charge on its website the company's codes of ethics and business conduct, its corporate governance principles and the charters of the audit, compensation, and nominating and governance committees of the board of directors. Printed copies of these materials will be mailed upon request.

Dividends
Piper Jaffray Companies does not currently pay cash dividends on its common stock.

Forward-Looking Statements
This annual report and the preceding letter to shareholders contain forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are subject to significant risks and uncertainties that are difficult to predict. A number of these risks and uncertainties are described in our SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2015.

2014 ANNUAL *report*

PIPER JAFFRAY COMPANIES

PiperJaffray®

CHAIRMAN'S LETTER

Fellow Shareholders,

In 2014, we achieved one of our best years of profitability as a public company through sound strategy and solid execution in a year characterized by favorable market conditions for our equities and investment banking business. Significantly, our one- and three-year total shareholder returns were at or near the top of our middle market peer group. With earnings per diluted common share from continuing operations of $3.87, net income from continuing operations applicable to Piper Jaffray Companies of $63.2 million and a return on average common shareholders' equity of 8.1%, we achieved the highest level of operating results we've had since our spin-off from U.S. Bancorp in 2003. Our successful strategy centered on two primary objectives: cost and operating discipline, and a focus on our differentiated and higher margin businesses.

Relative to costs, our firmwide effort in 2011 to instill cost discipline reduced our baseline non-compensation expenses by about 15%. And we have worked to maintain this discipline, which has led to enhanced returns and increased capacity to invest in the business. By increasing responsibility for profitability deeper into the organization, we improved our productivity and intensified our commitment toward internal development of our most promising professionals. We have seen improved productivity and enhanced operating leverage, which has been a significant contributor to our top-tier performance.

The second objective of our strategy concentrated our resources, both human and financial capital, on those businesses where we have a competitively differentiated position and which offer higher margins and return on capital. Exiting businesses with challenged operating performance and lower margins was necessary, and this led to a significant reduction in our international activities. Conversely, investments in our higher margin businesses over the past few years yielded significant results. Examples include investments in equity investment banking to bolster our industry-leading healthcare team, growth and development of our consumer team, and expansion of our advisory services business. In public finance, we made great strides in building a national footprint, which now competes in markets coast-to-coast.

Looking ahead, we are confident that our strong performance will allow us to attract and execute on more significant growth opportunities as producers and firms look to our successful platform. We experienced this firsthand with our acquisitions of Edgeview Partners and Seattle Northwest in 2013. Based on the quality of our people and the strength of our current businesses, we are confident in our ability to continue to execute on new opportunities as they emerge.

Capital Markets

This segment encompasses our equities and investment banking businesses, together with our public finance and fixed income services businesses. We had an outstanding year in equities and investment banking, with the two major areas of this business—equity capital raising and advisory services—achieving excellent results. On the capital raising side, investments in biotech and our leading position in medical technology yielded results, as equity capital raising efforts in the healthcare sector during 2014 remained strong. Overall, our revenue from equity capital raising in 2014 reflected the longest sustained period of accommodative market conditions since 2007.

For our advisory business, 2014 represented a breakout year for us. With favorable market conditions driven by ready access to capital, increasing CEO confidence and a strengthening U.S. economy, we fully realized the returns from our investments in internal development, selective hiring and the Edgeview Partners acquisition. Our traditionally strong healthcare team produced a great year. Our consumer team, which advised on several marquee transactions, also made significant contributions to our record advisory services results.

Our equity institutional brokerage business largely met our expectations this year, although it was down year-over-year. The decline was attributable to lackluster market-wide trading volumes for much of the year, as well as a decline in revenues from strategic trading. Nevertheless, the business remained profitable and has several initiatives underway intended to produce growth in 2015. Further, the distribution capabilities within this business provided meaningful support for equity capital raising during the year.

In public finance, markets for debt issuance were essentially flat year-over-year, while our business was down slightly. Our performance was largely attributable to challenging market conditions in California. That state represents our largest practice, which is built on the strength of our market leadership in secondary education funding. The combination of lower issuance volumes and pressure on underwriting spreads in California impeded revenue growth for our public finance business overall. Strong performance in other markets, including Texas and Kansas, and other sectors, such as senior living, partially offset the adverse impact of California.

Looking at our fixed income institutional brokerage business, our posture toward rates was consistent with the broader market as we entered 2014. We expected rates would increase gradually throughout the year, but the trend was not clear, so we adopted a neutral posture. As the year progressed, beginning with economic contraction in the U.S. in the first quarter and deceleration in major global economies in the second half of the year, rates actually declined throughout 2014. Given our largely neutral bias toward rates, we did not benefit generally from these declines, but we produced year-over-year growth in our fixed income institutional brokerage business. This growth resulted from more favorable trading results given the less volatile market conditions in 2014 as compared to 2013.

Asset Management

Our asset management business performed well overall, with areas of significant performance in certain product that offset challenges elsewhere. Net new assets for the year were flat across our range of strategies, and our exposure to the oil and gas industry created a drag on the business in the second half of the year. Even with challenges in the energy sector, our energy-based MLP team had another exceptional year of growth, with assets under management for the year increasing from $4.5 billion to $5.7 billion. We also saw some significant inflows into our international products, finishing the year with nearly $1 billion under management across several strategies. Countering these strong results were challenges in our value equity strategies, with net outflows for the year as our core domestic strategies lagged their respective benchmarks. Improving performance in this area is a key priority for us as we look ahead.

Outlook and Strategy

As we enter 2015, we expect U.S. economic growth to continue to strengthen as a result of improving employment levels and low energy prices, though growth could be challenged by conditions in Europe or a slowdown in China. If the U.S. economy continues to strengthen—capital is available to fund growth and CEO confidence levels remain high—we expect market conditions generally to be accommodative for our equities and investment banking and asset management businesses. In this environment, the Federal Reserve has signaled its intention to start raising interest rates, and a gradual increase in interest rates should help our fixed income institutional brokerage business without disrupting our equity-related businesses.

The caveat to this U.S. growth scenario is that possible negative economic conditions globally would reverberate back to the U.S. economy. And weak economic conditions and low rates outside the U.S. could challenge efforts by the Fed to raise interest rates gradually, possibly leading to dislocations and volatility. So we generally intend to continue our neutral posture pending better visibility in future interest rate movements.

Regardless of the conditions, we will continue our operating discipline and look for opportunities to invest in our higher margin businesses, particularly asset management and advisory services. We have the management strength, financial resources and core competency within our support groups to acquire and absorb new firms and increase our operating leverage.

On behalf of all of my employee partners, we thank all of our clients and you, our shareholders, for the trust you place in us.

Sincerely,

[redacted]

Andrew S. Duff
Chairman and Chief Executive Officer

BOARD OF DIRECTORS

Andrew S. Duff
Chairman and Chief Executive Officer
Piper Jaffray Companies

Addison (Tad) L. Piper
Retired
Former Chairman and Chief Executive Officer
Piper Jaffray Companies Inc.

William R. Fitzgerald
Chairman and Chief Executive Officer
Ascent Capital Group, Inc.

B. Kristine Johnson
President
Affinity Capital Management

Lisa K. Polsky
Executive Vice President, Chief Risk Officer
CIT Group Inc.

Philip E. Soran
Retired
Former President
Dell Compellent Inc.

Scott C. Taylor
Executive Vice President,
General Counsel and Secretary
Symantec Corp.

Michele Volpi
Chief Executive Officer
Betafence Holdings NV

EXECUTIVE LEADERSHIP

Andrew S. Duff
Chairman and Chief Executive Officer

Chad R. Abraham
Co-Head of Global Investment Banking
and Capital Markets

Chris D. Crawshaw
Head of Asset Management

Frank E. Fairman
Head of Public Finance

John W. Geelan
General Counsel and Secretary

Jeffrey P. Klinefelter
Global Head of Equities

R. Scott LaRue
Co-Head of Global Investment Banking
and Capital Markets

Debbra L. Schoneman
Chief Financial Officer

M. Brad Winges
Head of Fixed Income Services and
Piper Jaffray Firm Investments and Trading

We create and implement superior financial solutions
for our clients. Serving clients is our fundamental purpose.

We earn our clients' trust by delivering
the best guidance and service.

Great people working together as a team
are our competitive advantage.

As we serve, we are committed to these core values:

Always place our clients' interests first

Conduct ourselves with integrity and treat others with respect

Work in partnership with our clients and each other

*Maintain a high-quality environment that attracts,
retains and develops the best people*

*Contribute our talents and resources to
serve the communities in which we live and work*

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014
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 **Minneapolis, Minnesota**	**55402**
(Address of Principal Executive Offices)	*(Zip Code)*

(612) 303-6000
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☑

The aggregate market value of the 15,685,715 shares of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates based upon the last sale price, as reported on the New York Stock Exchange, of the Common Stock on June 30, 2014 was approximately $812 million.

As of February 18, 2015, the registrant had 16,735,300 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2015 Annual Meeting of Shareholders to be held on May 13, 2015.

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K for the year ended December 31, 2014 contains forward-looking statements. 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 conditions 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 this Form 10-K and in our subsequent reports filed with the Securities and Exchange Commission ("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 "Risk Factors" in Item 1A, as well as those factors discussed under "External Factors Impacting Our Business" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K and in our subsequent reports filed with the SEC. Our SEC reports are available at our Web site at www.piperjaffray.com and at the SEC's Web site at 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.

ITEM 1. *BUSINESS.*

Overview

Piper Jaffray Companies is an investment bank and asset management firm, serving the needs of corporations, private equity groups, public entities, non-profit entities and institutional investors in the U.S. and internationally. Founded in 1895, Piper Jaffray provides a broad set of products and services, including equity and debt capital markets products; public finance services; financial advisory services; equity and fixed income institutional brokerage; equity and fixed income research; and asset management services. Our headquarters are located in Minneapolis, Minnesota and we have offices across the United States and international locations in London, Hong Kong and Zurich. We market our investment banking and institutional securities business under a single name – Piper Jaffray – which gives us a consistent brand across this business. Our traditional asset management business is marketed under Advisory Research, Inc.

Prior to 1998, Piper Jaffray was an independent public company. U.S. Bancorp acquired the Piper Jaffray business in 1998 and operated it through various subsidiaries and divisions. At the end of 2003, U.S. Bancorp facilitated a tax-free distribution of our common stock to all U.S. Bancorp shareholders, causing Piper Jaffray to become an independent public company again.

Our Businesses

We operate through two reportable business segments, Capital Markets and Asset Management. We believe that the mix of activities across our business segments helps to provide diversification in our business model.

Capital Markets

The Capital Markets segment provides investment banking and institutional sales, trading and research services for various equity and fixed income products. This segment also includes the results from our two alternative asset management funds and our principal investments.

- *Investment Banking* – We help raise capital through equity financings and provide advisory services, primarily relating to mergers and acquisitions, for our corporate clients. We operate in the following focus sectors: healthcare, consumer and retail, business services, clean technologies, industrials, and technology, media and telecommunications, primarily focusing on middle-market clients. For our government and non-profit clients, we underwrite debt issuances and provide financial advisory and interest rate risk management services. Our public finance investment banking capabilities focus on state and local governments, cultural and social service non-profit entities, and the education, healthcare, hospitality, senior living and transportation sectors.
- *Equity and Fixed Income Institutional Brokerage* – We offer both equity and fixed income advisory and trade execution services for institutional investors and government and non-profit entities. Integral to our capital markets efforts, we have equity sales and trading relationships with institutional investors in the United States and Europe that invest in our core sectors. Our research analysts provide investment ideas and support to our trading clients on approximately 600 companies. Our fixed income sales and trading professionals have expertise in municipal, corporate, mortgage,

agency, treasury and structured product securities and cover a range of institutional investors. We engage in trading activities for both customer facilitation and strategic trading purposes. Our strategic trading activities (i.e. proprietary trading) are dedicated solely to investing firm capital, and focus on proprietary investments in a variety of securities, including municipal bonds, mortgage-backed securities and equity securities.

- *Principal Investments* – We engage in merchant banking activities, which involve equity or debt investments in late stage private companies. Additionally, we have investments in private equity and venture capital funds and other firm investments.
- *Alternative Asset Management Funds* – As certain of our strategic trading and merchant banking efforts have matured and an investment process has been developed, we have created alternative asset management funds in municipal securities and merchant banking in order to invest firm capital as well as to seek capital from outside investors.

Asset Management

The Asset Management segment includes our traditional asset management business and our seed investments in registered funds and private funds or partnerships that we manage. Our traditional asset management business offers specialized investment management solutions for institutions, private clients and investment advisors. We manage value-oriented domestic, international and global strategies, as well as MLP and energy infrastructure strategies, through open-end and closed-end funds. We also provide customized solutions to our clients. In many cases, we offer both diversified and more concentrated versions of our products, generally through separately managed accounts.

- *Value Equity* – We take a value-driven approach to managing assets in the domestic and international equity markets. These investment strategies have an investment philosophy that centers on fundamental security selection across industries and regions with a focus on analyzing, among other things, a company's financial position, liquidity and profitability in light of its valuation. By focusing on securities with attractive net asset values, we seek to generate competitive long-term returns while minimizing investment risk.
- *Master Limited Partnerships ("MLPs")* – We also manage MLPs focused on the energy sector. These strategies focus on growth, yet seek to limit exposure to riskier securities by placing greater importance on characteristics which support stable distributions and are representative of higher quality MLPs, including less volatile businesses, strategic assets, cleaner balance sheets and proven management teams.

As of December 31, 2014, total assets under management ("AUM") were $11.5 billion, of which approximately 50 percent was invested in equities and 50 percent in MLPs. As of the same date, approximately 8 percent of our AUM was invested in international and global investment strategies and 92 percent was invested in domestic investment strategies. Approximately 78 percent of our AUM as of December 31, 2014 was managed on behalf of institutional clients, including foundations, endowments, pension funds and corporations, and through mutual fund sponsors and registered advisors. Approximately 16 percent of our AUM was managed on behalf of individual client relationships, which are principally high net worth individuals, and approximately 6 percent of our AUM was managed through sub-advisory relationships on closed-end funds.

Discontinued Operations

Our Hong Kong capital markets business ceased operations in 2012. Additionally, we sold Fiduciary Asset Management, LLC, an asset management subsidiary, in 2013. For further information on our discontinued operations, see Note 5 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Financial Information about Geographic Areas

For financial information concerning our geographic regions for each of the years ended December 31, 2014, 2013, and 2012, respectively, see Note 26 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Competition

Our business is subject to intense competition driven by large Wall Street and international firms operating independently or as part of a large commercial banking institution. We also compete with regional broker dealers, boutique and niche-specialty firms, asset management firms and alternative trading systems that effect securities transactions through various electronic venues. Competition is based on a variety of factors, including price, quality of advice and service, reputation, product selection, transaction execution, financial resources and investment performance. Many of our large competitors have greater financial resources than we have and may have more flexibility to offer a broader set of products and services than we can.

In addition, there is significant competition within the securities industry for obtaining and retaining the services of qualified employees. Our business is a human capital business and the performance of our business is dependent upon the skills, expertise and performance of our employees. Therefore, our ability to compete effectively is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation.

Employees

As of February 18, 2015, we had approximately 1,055 employees, of whom approximately 655 were registered with the Financial Industry Regulatory Authority ("FINRA").

Regulation

As a participant in the financial services industry, our business is regulated by U.S. federal and state regulatory agencies, self-regulatory organizations ("SROs") and securities exchanges, and by foreign governmental agencies, financial regulatory bodies and securities exchanges. We are subject to complex and extensive regulation of most aspects of our business, including the manner in which securities transactions are effected, net capital requirements, recordkeeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, conduct, experience and training requirements for certain employees, and the manner in which we prevent and detect money-laundering and bribery activities. The regulatory framework of the financial services industry is designed primarily to safeguard the integrity of the capital markets and to protect customers, not creditors or shareholders.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Conditions in the global financial markets and economy, including the 2008 financial crisis, caused legislators and regulators to increase the examination, enforcement and rule-making activity directed toward the financial services industry, which we expect to continue in the coming years. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, and regulation of fiduciary duties owed by municipal advisors or conduit borrowers of municipal securities. In addition, a section of Dodd-Frank referred to as the "Volcker Rule" provides for a limitation on proprietary trading and investments by certain bank holding companies. We are not a bank holding company and, as a result, the Volcker Rule does not apply to us. Even though portions of Dodd-Frank do not apply to us (e.g. the Volcker Rule), Dodd-Frank as a whole and the intensified regulatory environment, will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our U.S. broker dealer subsidiary (Piper Jaffray & Co.) is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. In July of 2007, the National Association of Securities Dealers and the member regulation, enforcement and arbitration functions of the New York Stock Exchange ("NYSE") consolidated to form FINRA, which now serves as the primary SRO of Piper Jaffray & Co., although the NYSE continues to have oversight over NYSE-related market activities. FINRA regulates many aspects of our U.S. broker dealer business, including registration, education and conduct of our employees, examinations, rulemaking, enforcement of these rules and the federal securities laws, trade reporting and the administration of dispute resolution between investors and registered firms. We have agreed to abide by the rules of FINRA (as well as those of the NYSE and other SROs), and FINRA has the power to expel, fine and otherwise discipline Piper Jaffray & Co. and its officers, directors and employees. Among the rules that apply to Piper Jaffray & Co. are the uniform net capital rule of the SEC (Rule 15c3-1) and the net capital rule of FINRA. Both rules set a minimum level of net capital a broker dealer must maintain and also require that a portion of the broker dealer's assets be relatively liquid. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below FINRA requirements. In addition, Piper Jaffray & Co. is subject to certain notification requirements related to withdrawals of excess net capital. As a result of these rules, our ability to make withdrawals of capital from Piper Jaffray & Co. may be limited. In addition, Piper Jaffray & Co. is licensed as a broker dealer in each of the 50 states, requiring us to comply with applicable laws, rules and regulations of each state. Any state may revoke a license to conduct a securities business and fine or otherwise discipline broker dealers and their officers, directors and employees.

We also operate an entity that is authorized, licensed and regulated by the U.K. Financial Conduct Authority and registered under the laws of England and Wales. While we ceased operations related to our Hong Kong capital markets business as of September 30, 2012, we expect to maintain a more limited presence in the Hong Kong region to facilitate our U.S. advisory business. Accordingly, we have applied for a regulatory license to be registered with and subject to the Hong Kong Securities and Futures Commission. The U.K. Financial Conduct Authority and the Hong Kong Securities and Futures Commission regulate these entities (in their respective jurisdictions) in areas of capital adequacy, customer protection and business conduct, among others.

Entities in the jurisdictions identified above are also subject to anti-money laundering regulations. Piper Jaffray & Co., our U.S. broker dealer subsidiary, is subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations requiring us to implement standards for verifying client identification at account opening, monitoring client transactions and reporting suspicious activity. Our entities in Hong Kong and the United Kingdom are subject to similar anti-money laundering laws and regulations. We are also subject to the U.S. Foreign Corrupt Practices Act as well as other anti-bribery laws in the jurisdictions in which we operate. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage.

We maintain asset management subsidiaries that are registered as investment advisers with the SEC and subject to regulation and oversight by the SEC. These entities are Advisory Research, Inc. ("ARI"), Piper Jaffray Investment Management LLC ("PJIM"), and PJC Capital Partners LLC. As registered investment advisors, these entities are subject to requirements that relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between advisor and advisory clients, as well as general anti-fraud prohibitions. Certain investment funds that we manage are registered investment companies under the Investment Company Act, as amended. Those funds and entities that serve as the funds' investment advisors are subject to the Investment Company Act and the rules and regulations of the SEC, which regulate the relationship between a registered investment company and its investment advisor and prohibit or severely restrict principal transactions or joint transactions, among other requirements. ARI is also authorized by the Irish Financial Services Regulatory Authority as an investment advisor in Ireland and cleared by the Luxembourg Commission de Surviellance du Secteur Financier as a manager to Luxembourg funds. ARI is the investment advisor for Advisory Research Global Funds PLC, an open-ended investment company with variable capital authorized and regulated by the Central Bank of Ireland pursuant to the European Communities Regulations (Undertakings for Collective Investments in Transferable Securities or UCITS). ARI has established a Tokyo office which is a Representative Office of a Foreign Investment Advisor subject to Japanese laws and regulations. PJIM is registered with the Commodity Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”) as a commodities pool operator. The registrations with the CFTC and NFA allow PJIM to enter into derivative instruments (e.g, interest rate swaps and credit default swap index contracts) to hedge risks associated with certain security positions of funds managed by PJIM.

Certain of our businesses also are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges governing the privacy of client information. Any failure with respect to our practices, procedures and controls in any of these areas could subject us to regulatory consequences, including fines, and potentially other significant liabilities.

Executive Officers

Information regarding our executive officers and their ages as of February 18, 2015, are as follows:

Name	Age	Position(s)
Andrew S. Duff	57	Chairman and Chief Executive Officer
Chad R. Abraham	46	Co-Head of Global Investment Banking and Capital Markets
Christopher D. Crawshaw	48	Head of Asset Management
Frank E. Fairman	57	Head of Public Finance
John W. Geelan	39	General Counsel and Secretary
Jeff P. Klinefelter	47	Global Head of Equities
R. Scott LaRue	54	Co-Head of Global Investment Banking and Capital Markets
Debbra L. Schoneman	46	Chief Financial Officer
M. Brad Winges	46	Head of Fixed Income Services and Piper Jaffray Firm Investments and Trading

Andrew S. Duff [redacted]

Chad R. Abraham [redacted]

Christopher D. Crawshaw [redacted]

Frank E. Fairman [redacted]

John W. Geelan [redacted]

Jeff P. Klinefelter [redacted]

R. Scott LaRue [redacted]

Debbra L. Schoneman [redacted]

M. Brad Winges [redacted]

Additional Information

Our principal executive offices are located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota 55402, and our general telephone number is (612) 303-6000. We maintain an Internet Web site at http://www.piperjaffray.com. The information contained on and connected to our Web site is not incorporated into this report. We make available free of charge on or through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the SEC, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the SEC. "Piper Jaffray," the "Company," "registrant," "we," "us" and "our" refer to Piper Jaffray Companies and our subsidiaries. The Piper Jaffray logo and the other trademarks, tradenames and service marks of Piper Jaffray mentioned in this report, including Piper Jaffray®, are the property of Piper Jaffray.

ITEM 1A. ***RISK FACTORS.***

Developments in market and economic conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability and cause volatility in our results of operations.

Economic and market conditions have had, and will continue to have, a direct and material impact on our results of operations and financial condition because performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity. For example:

- Our equities investment banking revenue, in the form of underwriting, placement and financial advisory fees, is directly related to macroeconomic conditions and corresponding financial market activity. As an example, a significant component of our investment banking revenues are derived from initial public offerings of middle-market companies in growth sectors, and activity in this area is highly correlated to the macroeconomic environment. Even though equity markets were strong, volatility generally was low, and the U.S. economy showed signs of improvement in 2014, growth has been uneven across various sectors. In addition, the U.S. economic recovery and financial markets remain vulnerable to the possible risks posed by certain economic conditions or exogenous shocks, which could include, among other things, the possibility of slowing global economic growth, tepid wage and consumer spending growth, deflation and stagnation in the European Union, a resurgence of the European sovereign debt crisis, and the continued potential for a deterioration in global economic conditions as a result of a significant downturn in one or more major economic regions. If these factors were to worsen or if an exogenous shock were to materialize, it could lead to equity market declines and volatility, which would likely have a significant negative impact on our results of operations.
- Although interest rates gradually declined throughout 2014 as a result of continued high demand for U.S. Treasuries amidst slowing global economic growth and a variety of perceived geopolitical risks, interest rate volatility in 2015, especially if the changes are rapid or severe, could negatively impact our fixed income institutional business. As an example, a large percentage of our securities inventory - both that held for facilitating client activity as well as our own proprietary trading - consist of fixed income securities, and a rapid increase in interest rates would decrease the value of these positions, possibly significantly. Further, our interest rate hedging strategies may not mitigate this volatility as we generally do not hedge all of our interest rate risk and volatility may reduce the correlation (i.e., effectiveness) between certain hedging vehicles and the securities inventory we are attempting to hedge. In addition, interest rate increases in 2015, both gradual and more severe, may negatively impact the volume of debt refinancing issuances underwritten by our public finance investment banking business, as well as our managed funds focused on master limited partnerships ("MLPs"), which may underperform in a rising interest rate environment.
- An unsustainable U.S. economic recovery, or a significant worsening of global economic conditions, would likely result in a decline in the financial markets, reducing asset valuations and adversely impacting our asset management business. A reduction in asset values would negatively impact this business by reducing the value of assets under management, and as a result, the revenues generated from this business.

It is difficult to predict the market conditions for 2015, which are dependent in large part upon the pace and sustainability of the U.S. economic recovery as well as the rate at which other of the world's major economies grow in 2015. Our smaller scale compared to many of our competitors and the cyclical nature of the economy and this industry leads to volatility in our financial results, including our operating margins, compensation ratios and revenue and expense levels. Our financial performance may be limited by the fixed nature of certain expenses, the impact from unanticipated losses or expenses during the year, and the inability to scale back costs in a timeframe to match decreases in revenue-related changes in market and economic conditions. As a result, our financial results may vary significantly from quarter-to-quarter and year-to-year.

Developments in specific business sectors of the U.S. and global economy, as well as areas of the markets in which we conduct our business, have in the past adversely affected, and may in the future adversely affect, our business and profitability.

Our results for a particular period may be disproportionately impacted by declines in specific sectors of the U.S. or global economy, or for certain products within the financial services industry, due to our business mix and focus areas. For example:

- Our equity investment banking business focuses on specific sectors, specifically healthcare, business services, clean technology and renewables, consumer, diversified industrials and services, and technology, media and telecommunications. Volatility or uncertainty in the business environment for these sectors, including but not limited to challenging market conditions for these sectors that are disproportionately worse than those impacting the economy and markets generally or downturns in these sectors that are independent of general economic and market conditions, may adversely affect our business and may cause volatility in the net revenues we receive from our capital markets and corporate advisory activities. Further, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, such as depository financial institutions, energy and mining, and industrials, and our operating results may not correlate with the results of other firms which participate in these sectors.
- Our fixed income institutional business derives its revenue from sales and trading activity in the municipal market and from products within the taxable market, including structured mortgages, hybrid preferreds and government agency products. Our operating results for our fixed income institutional business may not correlate with the results of other firms or the fixed income market generally because we do not participate in significant segments of the fixed income markets such as credit default swaps, currencies and commodities.
- Similar to our fixed income institutional business, our public finance investment banking business depends heavily upon conditions in the municipal market. Our ability to effect investment banking transactions in the state and local government sectors has been, and may continue to be, challenged by concerns over debt levels for municipal issuers and fiscal budgets. Our public finance business focuses on investment banking activity in sectors that include state and local government, education, senior living, healthcare, transportation, and hospitality sectors, with an emphasis on transactions with a par value of $500 million or less. Challenging market conditions for these sectors that are disproportionately worse than those impacting the broader economy or municipal markets generally may adversely impact our business. More broadly, our fixed income institutional business and our public finance business are tied to the municipal market and the enactment, or the threat of enactment, of any legislation that would alter the financing alternatives available to municipalities through the elimination or reduction of tax-exempt bonds.
- A significant portion of our asset management revenues are derived from actively managed equity products, and this type of investment product has experienced asset outflows in recent years. Although equity markets performed well in 2014 and most equity products experienced asset inflows during the year, equity market uncertainty, the increased prevalence of lower-cost passively-managed funds, and other negative events impacting investor confidence could cause the negative trend for actively-managed equity products to continue. Outflows for this investment product negatively affect results of operations for this business, as revenues are closely tied to assets under management.
- Management and performance fees we earn on assets invested by institutions and individuals in our managed funds focused on MLPs and other investments related to the energy infrastructure sector are a meaningful contributor to our asset management revenues. Return on investment in the energy infrastructure sector is partly dependent on the prices of energy commodities such as natural gas, natural gas liquids, crude oil, refined petroleum products or coal. Persistently depressed prices for any of these products could potentially lead to a deterioration of market conditions for companies in the energy infrastructure sector and poorer returns by our funds, and, consequently, a reduction in the management and performance fees we receive.

Our proprietary trading and principal investments expose us to risk of loss.

We engage in a variety of activities in which we commit or invest our own capital, including proprietary trading and principal investing. Our proprietary trading activities (which we also refer to as "strategic trading" in this report) related to municipal bonds, non-agency mortgage bonds, and equities are a meaningful contributor to our overall financial results. Fixed income proprietary trading activities - particularly with respect to non-agency mortgage bonds - comprise a meaningful percentage of our Level III assets within our securities inventory. Level III assets have little or no pricing observability, and may be less liquid than other securities that we hold in our securities inventory. In addition to proprietary trading, we engage in principal investing, having established alternative asset management funds for municipal securities and merchant banking. We have invested firm capital in these funds alongside capital raised from outside investors, and intend to continue to develop these alternative asset management strategies. Additionally, we have principal investments in equity and debt instruments of private companies, and in private equity and venture capital funds, among other firm investments.

Our results from these activities may vary significantly from quarter to quarter, especially as it relates to proprietary trading activity. We may incur significant losses from our proprietary activities due to fixed income or equity market fluctuations and volatility from quarter to quarter. In addition, we may engage in hedging transactions that if not successful, could result in losses. With respect to principal investing, there often is not an established liquid trading market for these investments or our investments may be otherwise subject to restrictions on sale or hedging, and our ability to withdraw our capital from these investments may be limited, increasing our risk of losses. Also, our merchant banking activity involves investments in late stage private companies, and we may be unable to realize our investment objectives by sale or other disposition at attractive prices.

Our stock price may fluctuate as a result of several factors, including but not limited to, changes in our revenues, operating results, tangible book value and return on equity.

We have experienced, and expect to experience in the future, fluctuations in the market price of our common stock due to factors that relate to the nature of our business, including but not limited to changes in our revenues, operating results, tangible book value, and return on equity. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which causes fluctuations in our stock price that may be significant. Other factors that have affected, and may further affect, our stock price include changes in or news related to economic or market events or conditions, changes in market conditions in the financial services industry, including developments in regulation affecting our business, failure to meet the expectations of market analysts, changes in recommendations or outlooks by market analysts, and aggressive short selling similar to that experienced in the financial industry in 2008.

Financing and advisory services engagements are transactional in nature and do not generally provide for subsequent engagements.

Even though we work to represent our clients at every stage of their lifecycle, we are typically retained on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions. As a consequence, the timing of when fees are earned, and, therefore, our financial results from capital markets and corporate advisory activities may experience volatility quarter to quarter based on equity market conditions as well as the macroeconomic business cycle more broadly. In particular, our revenues related to acquisition and disposition transactions tend to be highly volatile and unpredictable (or "lumpy") from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high levels of revenue in one quarter will not necessarily be predictive of continued high levels of revenue in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from the successful completion of those transactions, our business and results of operations will likely be adversely affected.

The volume of anticipated investment banking transactions may differ from actual results.

The completion of anticipated investment banking transactions in our pipeline is uncertain and partially beyond our control, and our investment banking revenue is typically earned only upon the successful completion of a transaction. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If parties fail to complete a transaction on which we are advising or an offering in which we are participating, we earn little or no revenue from the transaction and may have incurred significant expenses (for example, travel and legal expenses) associated with the transaction. Accordingly, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties, and the number of engagements we have at any given time (and any characterization or description of our deal pipelines) is subject to change and may not necessarily result in future revenues.

Asset management revenue may vary based on investment performance and market and economic factors.

We have grown our asset management business in recent years, including with the acquisition of ARI in 2010, which has increased the risks associated with this business relative to our overall operations. Assets under management are a significant driver of this business, as revenues are primarily derived from management fees paid on the assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with major investors.

Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. Poor investment performance and other competitive factors could reduce our revenues and impair our growth in many ways: existing clients may withdraw funds from our asset management business in favor of better performing products or a different investment style or focus; our capital investments in our investment funds or the seed capital we have committed to new asset management products may diminish in value or may be lost; and our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our investment performance is perceived to be poor in either relative or absolute terms, our asset management revenues will likely be reduced and our ability to attract new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make. Further, as the size and number of investment funds, including exchange-traded funds, hedge funds and private equity funds increases, it is possible that it will become increasingly difficult for us to attract new assets under management or price competition may mean that we are unable to maintain our current fee structures.

An inability to readily divest trading positions may result in financial losses to our business.

Timely divestiture of our trading positions, including equity, fixed income and other securities positions, can be impaired by decreased trading volume, increased price volatility, rapid changes in interest rates, concentrated trading positions, limitations on the ability to divest positions in highly specialized or structured transactions and changes in industry and government regulations. This is true both for customer transactions that we facilitate as well as proprietary trading positions that we maintain. While we hold a security, we are vulnerable to valuation fluctuations and may experience financial losses to the extent the value of the security decreases and we are unable to timely divest or hedge our trading position in that security. The value may decline as a result of many factors, including issuer-specific, market or geopolitical events. In addition, in times of market uncertainty, the inability to transfer inventory positions may have an impact on our liquidity as funding sources generally decline and we are unable to pledge the underlying security as collateral. Our liquidity may also be impacted if we choose to facilitate liquidity for specific products and voluntarily increase our inventory positions in order to do so, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions.

In addition, reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and advisor clients, may expose us to greater risk of financial loss from unsettled trades than is the case with other types of institutional investors. Concentration of risk may result in losses to us even when economic and market conditions are generally favorable for others in our industry.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets.

The amount and duration of our credit exposures has been volatile over the past several years. This exposes us to the increased risk that third parties who owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of securities or obligations we hold could result in losses and adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Although we review credit exposures to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. Also, concerns about, or a default by, one institution generally leads to losses, significant liquidity problems, or defaults by other institutions, which in turn adversely affects our business.

Particular activities or products within our business expose us to increased credit risk, including inventory positions, interest rate swap contracts with customer credit exposure, merchant banking debt investments, counterparty risk with two major financial institutions related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, customer margin accounts, and trading counterparty activities related to settlement and similar activities. With respect to interest rate swap contracts with customer credit exposure, we have credit exposure with six counterparties totaling $28.3 million at December 31, 2014 as part of our matched-book interest rate swap program. In the event of a termination of the contract, the counterparty would owe us the applicable amount of the credit exposure, and we would owe that amount to our hedging counterparty. If our counterparty is unable to make its payment to us, we would still be obligated to pay our hedging counterparty, resulting in credit losses. Non-performance by our counterparties, clients and others, including with respect to our inventory positions, interest rate swap contracts with customer credit exposures and our merchant banking debt investments could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition and results of operations.

Liquidity, or ready access to funds, is essential to our business. Several large financial institutions failed or merged with others during the credit crisis following significant declines in asset values in securities held by these institutions, and, during 2011, a financial institution failed due to liquidity issues related to the European sovereign debt crisis. To fund our business, we rely on commercial paper and bank financing as well as other funding sources such as the repurchase markets. Our bank financing includes uncommitted credit lines, which could become unavailable to us on relatively short notice. In an effort to mitigate this funding risk, we renewed a $250 million credit facility for the sixth consecutive year in 2014, and also issued $125 million of unsecured variable rate notes at the end of 2012, refinancing a three-year secured credit facility. The notes consist of two classes, with $75 million maturing in November 2015 and $50 million maturing in May 2017. In order to further diversify our short-term funding needs, we also continue to maintain three commercial paper programs in the amounts of $300 million, $150 million, and $125 million.

Our access to funding sources, particularly uncommitted funding sources, could be hindered by many factors, and many of these factors we cannot control, such as economic downturns, the disruption of financial markets, the failure or consolidation of other financial institutions, negative news about the financial industry generally or us specifically. We could experience disruptions with our credit facilities in the future, including the loss of liquidity sources and/or increased borrowing costs, if lenders or investors develop a negative perception of our short- or long-term financial prospects, which could result from decreased business activity. Our liquidity also could be impacted by the activities resulting in concentration of risk, including proprietary activities from long-term investments and/or investments in specific markets or products without liquidity. Our access to funds may be impaired if regulatory authorities take significant action against us, or if we discover that one of our employees has engaged in serious unauthorized or illegal activity.

In the future, we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to execute our growth initiatives that may include acquisitions and other investments. Similarly, our access to funding sources may be contingent upon terms and conditions that may limit or restrict our business activities and growth initiatives. For example, the variable rate notes discussed above include covenants that, among other things, limit our leverage ratio and require maintenance of certain levels of tangible net worth, regulatory net capital, and operating cash flow to fixed charges.

Lastly, we currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our sales and trading, proprietary trading, merchant banking and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. This concentration of risk may cause us to suffer losses even when economic and market conditions are generally favorable for our competitors. Further, disruptions in the credit markets can make it difficult to hedge exposures effectively and economically.

We may make strategic acquisitions and minority investments, engage in joint ventures or divest or exit existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business and may not yield the benefits we expect.

We may grow in part through corporate development activities that may include acquisitions, joint ventures and minority investment stakes. For example, we expanded our existing asset management business in March 2010 with the acquisition of ARI, a Chicago-based asset management firm, and we added to our public finance and fixed income sales and trading and corporate advisory businesses with our acquisitions of Seattle-Northwest Securities Corporation and Edgeview Partners, L.P. in July 2013. There are a number of risks associated with corporate development activities. Costs or difficulties relating to a transaction, including integration of products, employees, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing our estimates to differ from actual results. We may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. We may incur unforeseen liabilities of an acquired company that could impose significant and unanticipated legal costs on us. Also, our share price could decline after we announce or complete a transaction if investors view the transaction as too costly or unlikely to improve our competitive position. Longer-term, these activities may require increased costs in the form of management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline. More generally, any difficulties that we experience could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. We also may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects. For example, we shut down our Hong Kong capital markets business in 2012, and realized a pre-tax loss on the investment in our Hong Kong subsidiaries.

Our information and technology systems, including outsourced systems, are critical components of our operations, and failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss and constrain our growth.

We typically transact thousands of securities trades on a daily basis across multiple markets. Our data and transaction processing, custody, financial, accounting and other technology and operating systems are essential to this task. A system malfunction (due to hardware failure, capacity overload, security incident, data corruption, etc.) or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. For example, we have entered into contracts with Broadridge Financial Solutions, Inc. ("Broadridge") pursuant to which Broadridge handles our trade and back office processing, and Unisys Corporation ("Unisys"), pursuant to which Unisys supports our data center and helpdesk needs. We also contract with third parties for market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees. We contract with other vendors to produce and mail our customer statements and to provide other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs, geographic expansion and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting, risk management, compliance, and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Our clients routinely provide us with sensitive and confidential information. Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks, and those of our clients, vendors, service providers, counterparties and other third parties, may be vulnerable to unauthorized access, cyberattacks, security breaches, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. We work with our clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against these events, but we do not have, and may be unable to put in place, secure capabilities with all of these third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. If one or more of such events occur, this potentially 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 those of third parties, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to reputational harm as well as litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

Legislative and regulatory proposals could significantly curtail the revenue from certain products that we currently provide.

Proposed changes in laws or regulations relating to our business could decrease, perhaps significantly, the revenue that we receive from certain products or services that we provide. For example, federal law currently allows investors in debt issuances by government and non-profit entities to exclude the bond interest for federal income tax purposes, resulting in lower interest expense for the issuer as compared to a taxable financing. In recent years, federal lawmakers have presented various proposals to limit or eliminate the tax-exempt status of this bond interest, and further negotiations in 2015 regarding the budget deficit and federal spending cuts may also include similar proposals. Our public finance investment banking business receives significant revenues as a result of underwriting activity in connection with debt issuances by government and non-profit clients, primarily on a tax-exempt basis. Also, a significant percentage of our securities inventory — both positions held for client activity and our own proprietary trading positions — consist of municipal securities. Any reduction or elimination of tax-exempt bond interest could negatively impact the value of the municipal securities we hold in our securities inventory as well as our public finance investment banking business more generally, which would negatively impact the results of operations for these businesses.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Historically, the market for qualified employees within the financial services industry has been marked by intense competition, and the performance of our business may suffer to the extent we are unable to attract and retain employees effectively, particularly given the relatively small size of our company and our employee base compared to some of our competitors and the geographic locations in which we operate. The primary sources of revenue in each of our business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by our employees, who have historically been recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Some specialized areas of our business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Further, recruiting and retention success often depends on the ability to deliver competitive compensation, and we may be at a disadvantage to some competitors given our size and financial resources. Our inability or unwillingness to meet compensation needs or demands may result in the loss of some of our professionals or the inability to recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. Our ability to retain and recruit also may be hindered if we limit our aggregate annual compensation and benefits expense as a percentage of annual net revenues.

Our exposure to legal liability is significant, and could lead to substantial damages.

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our capital markets, asset management and other businesses. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. Our experience has been that adversarial proceedings against financial services firms typically increase during and following a market downturn. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

Our inability to identify and address actual, potential, or perceived conflicts of interest may negatively impact our reputation and have a material adverse effect on our business.

We regularly address actual, potential or perceived conflicts of interest in our business, including situations where our services to a particular client or our own investments or other interests conflict, or are perceived to conflict, with the interests of another client. Appropriately identifying and dealing with conflicts of interest is complex and difficult, and we face the risk that our current policies, controls and procedures do not timely identify or appropriately manage such conflicts of interest. It is possible that actual, potential or perceived conflicts could give rise to client dissatisfaction, litigation or regulatory enforcement actions. Our reputation could be damaged if we fail, or appear to fail, to deal appropriately with potential or actual conflicts of interest. Client dissatisfaction, litigation, or regulatory enforcement actions arising from a failure to adequately deal with conflicts of interest, and the reputational harm suffered as a consequence, could have a material adverse effect on our business.

Our business is subject to extensive regulation in the jurisdictions in which we operate, and a significant regulatory action against our company may have a material adverse financial effect or cause significant reputational harm to our company.

As a participant in the financial services industry, we are subject to complex and extensive regulation of many aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations (including securities exchanges) and by foreign governmental agencies, regulatory bodies and securities exchanges. Specifically, our operating subsidiaries include broker dealer and related securities entities organized in the United States and the United Kingdom, and we have applied for a regulatory license in Hong Kong Special Administrative Region of the People's Republic of China ("PRC") as we expect to maintain a more limited presence in the region to facilitate our U.S. advisory business following the cessation of operations in 2012. Each of these entities is registered or licensed (or has applied to be licensed) with the applicable local securities regulator and is subject to all of the applicable rules and regulations promulgated by those authorities. In addition, our asset management subsidiaries, ARI, PJIM, and PJC Capital Partners LLC are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC.

Generally, the requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These requirements are not designed to protect our shareholders. Consequently, broker dealer regulations often serve to limit our activities, through net capital, customer protection and market conduct requirements and restrictions on the businesses in which we may operate or invest. We also must comply with asset management regulations, including requirements related to fiduciary duties to clients, recordkeeping and reporting and customer disclosures. Compliance with many of these regulations entails a number of risks, particularly in areas where applicable regulations may be newer or unclear. In addition, regulatory authorities in all jurisdictions in which we conduct business may intervene in our business and we and our employees could be fined or otherwise disciplined for violations or prohibited from engaging in some of our business activities.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes. We are subject to contingent tax risk that could adversely affect our results of operations, to the extent that our interpretations of tax laws are disputed upon examination or audit, and are settled in amounts in excess of established reserves for such contingencies.

The effort to combat money laundering also has become a high priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities. In addition, our international operations require compliance with anti-bribery laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act 2010. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. While our employees and agents are required to comply with these laws, we cannot ensure that our internal control policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents, which acts could subject our company to fines or other regulatory consequences.

Risk management processes may not fully mitigate exposure to the various risks that we face, including market risk, liquidity risk and credit risk.

We refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we may fail to identify or anticipate particular risks that our systems are capable of identifying, or the systems that we use, and that are used within the industry generally, may not be capable of identifying certain risk, or every economic and financial outcome, or the specifics and timing of such outcomes. In addition, our risk management techniques and strategies seek to balance our ability to profit from our market-making and investing positions with our exposure to potential losses. Some of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

Use of derivative instruments as part of our risk management techniques may not effectively hedge the risks associated with activities in certain of our businesses.

We use interest rate swaps, interest rate locks, credit default swap index contracts and option contracts as a means to manage risk in certain inventory positions and to facilitate customer transactions. With respect to risk management, we enter into derivative contracts to hedge interest rate and market value risks associated with our security positions, including fixed income inventory positions we hold both for facilitating client activity as well as for our own proprietary trading operations. The instruments use interest rates based upon the Municipal Market Data ("MMD"), LIBOR or SIFMA index. We also enter into credit default swap index contracts to hedge risks associated with our taxable fixed income securities, and option contracts to hedge market value risk associated with convertible securities and asset-backed securities. Generally, we do not hedge all of our interest rate risk. In addition, these hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate and market value risk, especially when market volatility reduces the correlation between a hedging vehicle and the securities inventory being hedged.

With respect to customer transactions, our fixed income business provides swaps and other interest rate derivative products to public finance clients, which we in turn hedge through a counterparty. There are risks inherent in our use of these products, including counterparty exposure and basis risk. Counterparty exposure refers to the risk that the amount of collateral in our possession on any given day may not be sufficient to fully cover the current value of the swaps if a counterparty were to suddenly default. Basis risk refers to risks associated with swaps where changes in the value of the swaps may not exactly mirror changes in the value of the cash flows they are hedging. We may incur losses from our exposure to derivative interest rate products and the increased use of these products in the future. For example, if the derivative instruments that we use to hedge the risks associated with interest rate swap contracts with public finance clients where we have retained the credit risk are terminated as a result of a client credit event, we may incur losses if we make a payment to our hedging counterparty without recovering any amounts from our client.

The use of estimates and valuations in measuring fair value involve significant estimation and judgment by management.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, accounting for goodwill and intangible assets, establishing provisions for potential losses that may arise from litigation, and regulatory proceedings and tax examinations. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements.

Certain financial instruments, including financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold but not yet purchased, are recorded at fair value, and 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 a transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Difficult market environments, such as those experienced in 2008, may cause financial instruments to become substantially more illiquid and difficult to value, increasing the use of valuation models. Our future results of operations and financial condition may be adversely affected by the valuation adjustments that we apply to these financial instruments.

We have experienced volume declines and pricing pressures in our institutional sales and trading business, which may adversely impact our revenues and profitability.

In recent years, we have experienced volume declines and pricing pressures within our institutional sales and trading business. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins in certain instances. In the equity market, volumes have declined and institutional clients increasingly limit the number of trading partners with whom they conduct business. The increased use of electronic and direct market access trading has caused additional downward competitive pressure on trading margins, and the trend toward using alternative trading systems continues to grow. These market dynamics may result in decreased trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter "soft dollar" practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or “unbundle”) payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins.

The financial services industry and the markets in which we operate are subject to systemic risk that could adversely affect our business and results.

Participants in the financial services industry and markets increasingly are closely interrelated as a result of credit, trading, clearing, technology and other relationships between them. A significant adverse development with one participant (such as a bankruptcy or default) may spread to others and lead to significant concentrated or market-wide problems (such as defaults, liquidity problems or losses) for other participants, including us. This systemic risk was evident during 2008 following the demise of Bear Stearns and Lehman Brothers, and the resulting events (sometimes described as “contagion”) had a negative impact on the remaining industry participants, including us. Further, the control and risk management infrastructure of the markets in which we operate often is outpaced by financial innovation and growth in new types of securities, transactions and markets. Systemic risk is inherently difficult to assess and quantify, and its form and magnitude can remain unknown for significant periods of time.

Regulatory capital requirements may limit our ability to expand or maintain our present levels of business or impair our ability to meet our financial obligations.

We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from Piper Jaffray & Co., our U.S. broker dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Underwriting commitments require a charge against net capital and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations.

As Piper Jaffray Companies is a holding company, it depends on dividends, distributions and other payments from our subsidiaries to fund its obligations, including any share repurchases that we may make. The regulatory restrictions described above may impede access to funds our holding company needs to make payments on any such obligations.

We may not be able to compete successfully with other companies in the financial services industry who often have significantly greater resources than we do.

The financial services industry remains extremely competitive, and our revenues and profitability will suffer if we are unable to compete effectively. We compete generally on the basis of such factors as quality of advice and service, reputation, price, product selection, transaction execution and financial resources. Pricing and other competitive pressures in investment banking, including trends toward multiple book runners, co-managers, and multiple financial advisors handling transactions, have continued and could adversely affect our revenues. The trend toward multiple book runners has also been accompanied by an increasing disparity in the relative economics between or among book runners, with the senior book runner(s) receiving a large percentage of the economics.

We remain at a competitive disadvantage given our relatively small size compared to some of our competitors. Large financial services firms have a larger capital base, greater access to capital and greater resources than we have, affording them greater capacity for risk and potential for innovation, an extended geographic reach and flexibility to offer a broader set of products. For example, these firms have used their resources and larger capital base to take advantage of growth in international markets and to support their investment banking business by offering credit products to corporate clients, which is a significant competitive advantage. With respect to our fixed income institutional and public finance investment banking businesses, it is more difficult for us to diversify and differentiate our product set, and our fixed income business mix currently is concentrated in the municipal market and to a lesser extent corporate credits and structured mortgage products, potentially with less opportunity for growth than other firms which have grown their fixed income businesses by investing in, developing and offering non-traditional products (e.g., credit default swaps, interest rate products and currencies and commodities).

The business operations that we conduct outside of the United States subject us to unique risks.

To the extent we conduct business outside the United States, for example in Asia and Europe, we are subject to risks including, without limitation, the risk that we will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, and the general economic and political conditions in countries where we conduct business, which may differ significantly from those in the United States. In 2012, we shut down our Hong Kong capital markets business following a sustained period of operating losses, though we have applied for a regulatory license in Hong Kong to maintain a presence in the region to facilitate U.S. advisory engagements. With respect to our Asia-based capital markets activity, we facilitated underwritten capital-raising transactions for Asia-based issuers, which may have exposed us to greater underwriting risk in our capital markets business as compared to the U.S., as noted above.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include limitations on our shareholders' ability to act by written consent and to call special meetings. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

ITEM 2. *PROPERTIES.*

As of February 18, 2015, we conducted our operations through 51 principal offices in 28 states, and the District of Columbia, and in London, Hong Kong and Zurich. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota and, as of February 18, 2015, comprises approximately 124,000 square feet of space under a lease which expires November 30, 2025, with an early termination option effective January 31, 2022.

ITEM 3. *LEGAL PROCEEDINGS.*

Due to the nature of our business, we are involved in a variety of legal proceedings (including, but not limited to, those described below). These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, underwriting or other transactional activity, client account activity, employment matters, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory scrutiny applied to securities firms is intense, resulting in a significant number of regulatory investigations and enforcement actions and uncertainty regarding the likely outcome of these matters.

Litigation-related expenses include amounts we reserve and/or pay out as legal and regulatory settlements, awards or judgments, and fines. Parties who initiate litigation and arbitration proceedings against us may seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines being imposed on us. We reserve for contingencies related to legal proceedings at the time and to the extent we determine the amount to be probable and reasonably estimable. However, it is inherently difficult to predict accurately the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines. We assess each proceeding based on its particular facts, our outside advisors' and our past experience with similar matters, and expectations regarding the current legal and regulatory environment and other external developments that might affect the outcome of a particular proceeding or type of proceeding. Subject to the foregoing and except for the legal proceeding described below, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and taking into account our established reserves, that pending legal actions, investigations and regulatory proceedings, will be resolved with no material adverse effect on our consolidated financial condition, results of operations or cash flows. However, there can be no assurance that our assessments will reflect the ultimate outcome of pending proceedings, and the outcome of any particular matter may be material to our operating results for any particular period, depending, in part, on the operating results for that period and the amount of established reserves. We generally have denied, or believe that we have meritorious defenses and will deny, liability in all significant cases currently pending against us, and we intend to vigorously defend such actions.

ITEM 4. *MINE SAFETY DISCLOSURES.*

Not applicable.

PART II

ITEM 5. *MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

Our common stock is listed on the New York Stock Exchange under the symbol "PJC." The following table contains historical quarterly price information for the years ended December 31, 2014 and 2013. On February 18, 2015, the last reported sale price of our common stock was $54.56.

	2014 Fiscal Year		2013 Fiscal Year	
	High	Low	High	Low
First Quarter	**$ 45.80**	**$ 37.13**	$ 41.97	$ 32.95
Second Quarter	**51.77**	**40.30**	36.26	30.50
Third Quarter	**56.30**	**50.54**	36.14	30.99
Fourth Quarter	**59.35**	**46.15**	39.55	32.33

Shareholders

We had 16,093 shareholders of record and approximately 32,888 beneficial owners of our common stock as of February 18, 2015.

Dividends

We do not currently pay cash dividends on our common stock. Our board of directors is free to change our dividend policy at any time. Restrictions on our U.S. broker dealer subsidiary's ability to pay dividends are described in Note 27 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

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 December 31, 2014.

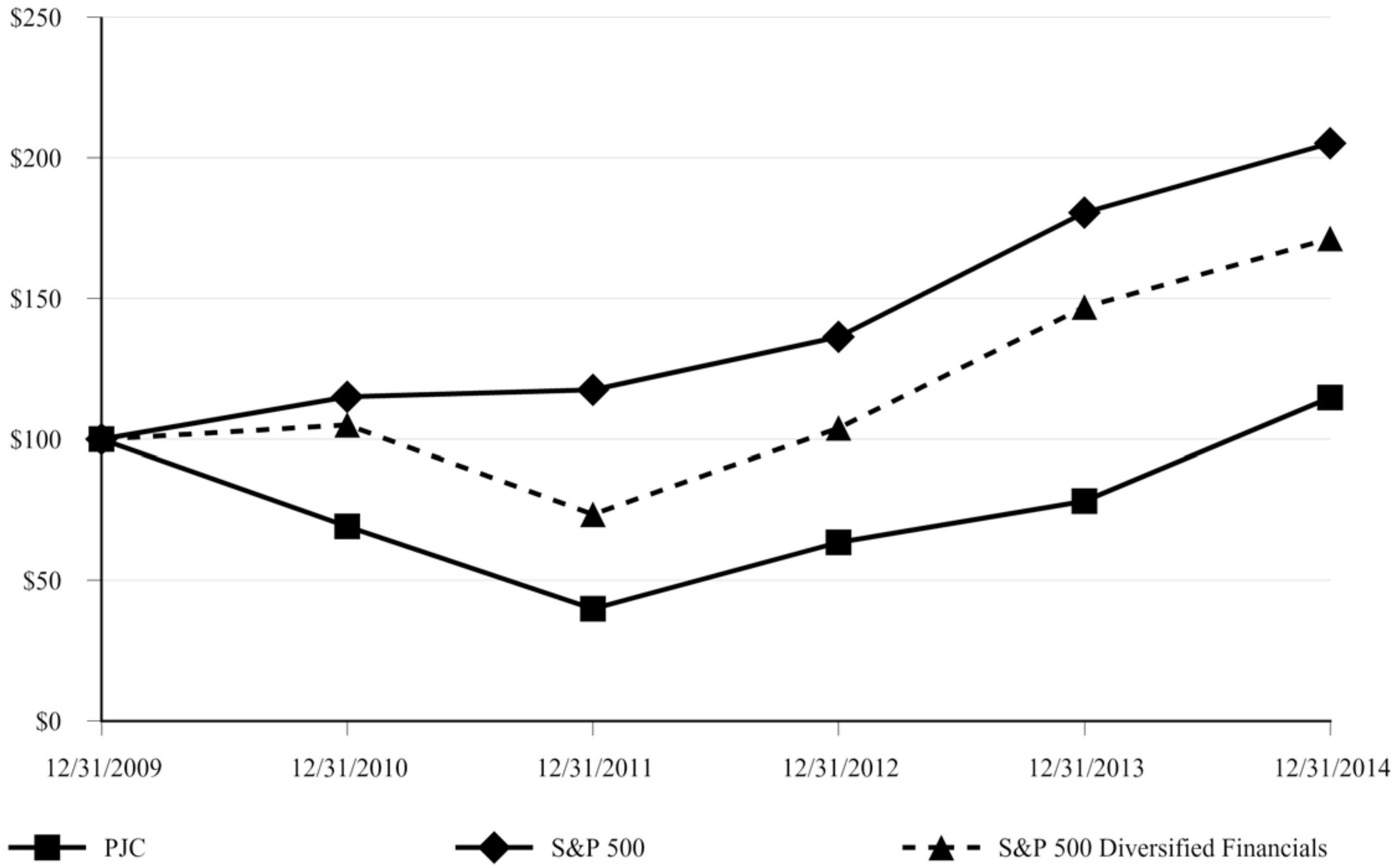
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Yet to Purchased Under the Plans or Programs (1)
Month #1 (October 1, 2014 to October 31, 2014)	—	$ —	—	$ 100 million
Month #2 (November 1, 2014 to November 30, 2014)	5,051	$ 57.54	—	$ 100 million
Month #3 (December 1, 2014 to December 31, 2014)	—	$ —	—	$ 100 million
Total	5,051	$ 57.54	—	$ 100 million

(1) Effective October 1, 2014, our board of directors authorized the repurchase of up to $100.0 million of common stock through September 30, 2016.

Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2009 through December 31, 2014, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on December 31, 2009, in each of our common stock, the S&P 500 Index and the S&P 500 Diversified Financials Index and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

FIVE YEAR TOTAL RETURN FOR PIPER JAFFRAY COMPANIES COMMON STOCK, THE S&P 500 INDEX AND THE S&P DIVERSIFIED FINANCIALS INDEX



Company/Index	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Piper Jaffray Companies	100	69.18	39.91	63.49	78.15	114.78
S&P 500 Index	100	115.06	117.49	136.30	180.44	205.14
S&P 500 Diversified Financials	100	105.08	73.52	103.91	146.92	171.25

ITEM 6. *SELECTED FINANCIAL DATA.*

The following table presents our selected consolidated financial data in accordance with U.S. generally accepted accounting principles for the periods and dates indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto.

	For the year ended December 31,				
(Dollars and shares in thousands, except per share data)	**2014**	**2013**	**2012**	**2011**	**2010**
Revenues:					
Investment banking	**$ 369,811**	$ 248,563	$ 232,958	$ 202,513	$ 239,630
Institutional brokerage	**156,809**	146,648	166,642	135,358	161,698
Asset management	**85,062**	83,045	65,699	63,307	55,948
Interest	**48,716**	50,409	37,845	43,447	40,474
Investment income	**12,813**	21,566	4,903	8,178	5,371
Total revenues	**673,211**	550,231	508,047	452,803	503,121
Interest expense	**25,073**	25,036	19,095	20,720	23,187
Net revenues	**648,138**	525,195	488,952	432,083	479,934
Non-interest expenses:					
Compensation and benefits	**394,510**	322,464	296,882	265,015	280,047
Restructuring and integration costs	**—**	4,689	3,642	—	10,699
Goodwill impairment	**—**	—	—	120,298	—
Other	**143,317**	122,429	119,417	126,959	135,371
Total non-interest expenses	**537,827**	449,582	419,941	512,272	426,117
Income/(loss) from continuing operations before income tax expense	**110,311**	75,613	69,011	(80,189)	53,817
Income tax expense	**35,986**	20,390	19,470	9,120	32,163
Net income/(loss) from continuing operations	**74,325**	55,223	49,541	(89,309)	21,654
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	**—**	(4,739)	(5,807)	(11,248)	2,276
Net income/(loss)	**74,325**	50,484	43,734	(100,557)	23,930
Net income/(loss) applicable to noncontrolling interests	**11,153**	5,394	2,466	1,463	(432)
Net income/(loss) applicable to Piper Jaffray Companies	**$ 63,172**	$ 45,090	$ 41,268	$ (102,020)	$ 24,362
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	**$ 58,141**	$ 40,596	$ 35,335	$ (102,020) (1)	$ 18,929
Amounts applicable to Piper Jaffray Companies					
Net income/(loss) from continuing operations	**$ 63,172**	$ 49,829	$ 47,075	$ (90,772)	$ 22,086
Net income/(loss) from discontinued operations	**—**	(4,739)	(5,807)	(11,248)	2,276
Net income/(loss) applicable to Piper Jaffray Companies	**$ 63,172**	$ 45,090	$ 41,268	$ (102,020)	$ 24,362
Earnings/(loss) per basic common share					
Income/(loss) from continuing operations	**$ 3.88**	$ 2.98	$ 2.58	$ (5.79)	$ 1.12
Income/(loss) from discontinued operations	**—**	(0.28)	(0.32)	(0.72)	0.12
Earnings/(loss) per basic common share	**$ 3.88**	$ 2.70	$ 2.26	$ (6.51)	$ 1.23
Earnings/(loss) per diluted common share					
Income/(loss) from continuing operations	**$ 3.87**	$ 2.98	$ 2.58	$ (5.79)	$ 1.12
Income/(loss) from discontinued operations	**—**	(0.28)	(0.32)	(0.72)	0.11
Earnings/(loss) per diluted common share	**$ 3.87**	$ 2.70	$ 2.26	$ (6.51) (2)	$ 1.23
Weighted average number of common shares					
Basic	**14,971**	15,046	15,615	15,672	15,348
Diluted	**15,025**	15,061	15,616	15,672 (2)	15,378
Other data					
Total assets	**$ 2,623,917**	$ 2,318,157	$ 2,087,733	$ 1,655,721	$ 2,033,787
Long-term debt	**$ 125,000**	$ 125,000	$ 125,000	$ 115,000	$ 125,000
Total common shareholders' equity	**$ 819,912**	$ 734,676	$ 733,292	$ 718,391	$ 813,312
Total shareholders' equity	**$ 969,460**	$ 882,072	$ 790,175	$ 750,600	$ 818,101
Total employees (3)	**1,026**	1,026	907	919	922

(1) *No allocation of income was made due to loss position.*

(2) *Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.*

(3) *Number of employees reflect continuing operations.*

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

The following information should be read in conjunction with the accompanying audited 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, 2014 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, 2014, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at 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 its 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 consolidated financial statements.

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 2013. As a result of discontinuing our Hong Kong capital markets business, we realized net cash proceeds of approximately $19.1 million, due principally to a U.S. tax benefit for the realized loss on the investment in our Hong Kong subsidiaries. See Note 5 to our consolidated financial statements for further discussion of our discontinued operations.

Results for the year ended December 31, 2014

Net income applicable to Piper Jaffray Companies from continuing operations in 2014 was $63.2 million, or $3.87 per diluted common share, compared with $49.8 million, or $2.98 per diluted common share, in 2013. The prior-year period results of operations include a $4.0 million, or $0.24 per diluted common share, tax benefit from reversing the full amount of our U.K. subsidiary's deferred tax asset valuation allowance. In 2014, we generated a return on average common shareholders' equity of 8.1 percent, compared with 6.2 percent for 2013. Net revenues from continuing operations for the year ended December 31, 2014 were $648.1 million, up 23.4 percent from $525.2 million in the year-ago period, driven by significantly higher advisory services revenues. For the year ended December 31, 2014, non-compensation expenses from continuing operations were $143.3 million, up from $127.1 million in 2013. The increase was due to higher expenses from increased business activity and incremental costs associated with the acquisitions of Seattle-Northwest and Edgeview. Additionally, non-compensation expenses from continuing operations were reduced in 2013 due to the receipt of insurance proceeds for the reimbursement of prior legal settlements.

For the year ended December 31, 2014, adjusted net income applicable to Piper Jaffray Companies from continuing operations was $72.1 million(1), or $4.42(1) per diluted common share, compared with $59.5 million(1), or $3.56(1) per diluted common share, for the prior-year period. Adjusted net revenues for the year ended December 31, 2014 were $632.4 million(1), an increase of 22.5 percent from $516.4 million(1) reported in the year-ago period. For the year ended December 31, 2014, adjusted non-compensation expenses were $129.5 million(1), up 16.6 percent compared to $111.0 million(1) for the year ended December 31, 2013.

---

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

	Year Ended December 31,	
(Dollars in thousands)	***2014***	*2013*
Net revenues:		
Net revenues – U.S. GAAP basis	***$ 648,138***	*$ 525,195*
Adjustments		
Revenue related to noncontrolling interests	***(15,699)***	*(8,794)*
Adjusted net revenues	***$ 632,439***	*$ 516,401*
Non-compensation expenses:		
Non-compensation expenses – U.S. GAAP basis	***$ 143,317***	*$ 127,118*
Adjustments		
Non-compensation expenses related to noncontrolling interests	***(4,546)***	*(3,400)*
Restructuring and integration costs	***—***	*(4,689)*
Amortization of intangible assets related to acquisitions	***(9,272)***	*(7,993)*
Adjusted non-compensation expenses	***$ 129,499***	*$ 111,036*
Net income from continuing operations applicable to Piper Jaffray Companies:		
Net income from continuing operations applicable to Piper Jaffray Companies – U.S. GAAP basis	***$ 63,172***	*$ 49,829*
Adjustments		
Compensation from acquisition-related agreements	***3,195***	*1,774*
Restructuring and integration costs	***—***	*2,865*
Amortization of intangible assets related to acquisitions	***5,747***	*5,079*
Adjusted net income from continuing operations applicable to Piper Jaffray Companies	***$ 72,114***	*$ 59,547*
Earnings per diluted common share from continuing operations:		
Earnings per diluted common share from continuing operations – U.S. GAAP basis	***$ 3.87***	*$ 2.98*
Adjustments		
Compensation from acquisition-related agreements	***0.20***	*0.11*
Restructuring and integration costs	***—***	*0.17*
Amortization of intangible assets related to acquisitions	***0.35***	*0.30*
Adjusted earnings per diluted common share from continuing operations	***$ 4.42***	*$ 3.56*

Market Data

The following table provides a summary of relevant market data over the past three years.

Year Ended December 31,	**2014**	2013	2012	**2014 v2013**	**2013 v2012**
Dow Jones Industrials Average *(a)*	**17,823**	16,577	13,104	7.5 %	26.5 %
NASDAQ *(a)*	**4,736**	4,177	3,020	13.4 %	38.3 %
NYSE Average Daily Number of Shares Traded (millions of shares)	**1,039**	1,034	1,146	0.5 %	(9.8)%
NASDAQ Average Daily Number of Shares Traded (millions of shares)	**1,955**	1,762	1,741	11.0 %	1.2 %
Mergers and Acquisitions (number of transactions in U.S.) *(b)*	**10,263**	9,146	8,400	12.2 %	8.9 %
Public Equity Offerings (number of transactions in U.S.) *(c) (e)*	**1,107**	1,125	748	(1.6)%	50.4 %
Initial Public Offerings (number of transactions in U.S.) *(c)*	**282**	221	139	27.6 %	59.0 %
Managed Municipal Underwritings (number of transactions in U.S.) *(d)*	**10,867**	11,485	13,115	(5.4)%	(12.4)%
Managed Municipal Underwritings (value of transactions in billions in U.S.) *(d)*	**$ 334.4**	$ 334.1	$ 379.6	0.1 %	(12.0)%
10-Year Treasuries Average Rate	**2.54%**	2.35%	1.72%	8.1 %	36.6 %
3-Month Treasuries Average Rate	**0.03%**	0.06%	0.07%	(50.0)%	(14.3)%

(a) Data provided is at period end.

(b) Source Securities Data Corporation.

(c) Source Dealogic (offerings with reported market value greater than $20 million).

(d) Source Thomson Financial.

(e) Number of transactions includes convertible offerings.

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.

Outlook for 2015

Economic growth in the U.S. appears to be strengthening going into 2015, despite the moderating growth we saw at the end of 2014. If the U.S. economy continues to strengthen, we would expect that interest rates generally will increase in response to the rate of economic growth and inflation expectations in the U.S. We do not anticipate much movement in rates in the first half of the year based on guidance from the Federal Reserve, however, the timing, magnitude and velocity of rate increases is difficult to predict. Exogenous factors, like continued weakening in major economies internationally or significant geopolitical events or conflicts, could adversely impact the rate of growth in the U.S. and possibly inject volatility into the U.S. equity and debt markets. Moreover, external factors arising internationally, such as persistently low growth, relatively low yields or significant political conflicts, could trigger capital flows into the U.S. which would overwhelm efforts by the Federal Reserve to gradually raise rates, possibly leading to market dislocations and abrupt shifts in rates.

A rising interest rate environment in 2015 may generate mixed financial results across our debt financing and fixed income institutional brokerage businesses. We expect that municipal debt underwriting activity in 2015 will be flat with 2014 levels, as 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. Low interest rates and credit spreads reduced fixed income trading volumes during 2014, which impacted our customer flow trading revenues. A gradual increase in interest rates in 2015 generally should be accommodative to our fixed income institutional brokerage business. We intend to maintain a conservative bias in managing our inventories and hedging strategies to mitigate market volatility and our exposure to interest rates.

Favorable equity market conditions in 2014 resulted in strong financial results across both our equity capital raising and mergers and acquisitions businesses. If the U.S. economy continues to strengthen in 2015, we expect market conditions generally to be accommodative for our equity-related businesses. With a strengthening U.S. economy, we believe that the equity markets will continue to appreciate in 2015, but at more modest levels. While periods of heightened volatility during this time would benefit our equity sales and trading business, a period of sustained market correction may be disruptive to our capital raising.

An improving U.S. economy also is likely to be accommodative for our asset management business. 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. Our exposure to energy through a dedicated energy fund, our MLP strategies and energy holdings in our domestic strategies, adversely impacted our asset management revenues in the fourth quarter of 2014. The sharp drop in the price of oil at the end of 2014 may increase the volatility of energy-related equity holdings in 2015.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional discussion and reconciliations.

Financial Summary

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.

	Year Ended December 31,					As a Percentage of Net Revenues for the Year Ended December 31,		
(Dollars in thousands)	**2014**	**2013**	**2012**	**2014 v2013**	**2013 v2012**	**2014**	**2013**	**2012**
Revenues:								
Investment banking	**$ 369,811**	$ 248,563	$ 232,958	48.8%	6.7%	**57.1%**	47.3%	47.6%
Institutional brokerage	**156,809**	146,648	166,642	6.9	(12.0)	**24.2**	27.9	34.1
Asset management	**85,062**	83,045	65,699	2.4	26.4	**13.1**	15.8	13.4
Interest	**48,716**	50,409	37,845	(3.4)	33.2	**7.5**	9.6	7.7
Investment income	**12,813**	21,566	4,903	(40.6)	339.9	**2.0**	4.1	1.0
Total revenues	**673,211**	550,231	508,047	22.4	8.3	**103.9**	104.8	103.9
Interest expense	**25,073**	25,036	19,095	0.1	31.1	**3.9**	4.8	3.9
Net revenues	**648,138**	525,195	488,952	23.4	7.4	**100.0**	100.0	100.0
Non-interest expenses:								
Compensation and benefits	**394,510**	322,464	296,882	22.3	8.6	**60.9**	61.4	60.7
Occupancy and equipment	**28,231**	25,493	26,454	10.7	(3.6)	**4.4**	4.9	5.4
Communications	**22,732**	21,431	20,543	6.1	4.3	**3.5**	4.1	4.2
Floor brokerage and clearance	**7,621**	8,270	8,054	(7.8)	2.7	**1.2**	1.6	1.6
Marketing and business development	**27,260**	21,603	19,908	26.2	8.5	**4.2**	4.1	4.1
Outside services	**37,055**	32,982	27,998	12.3	17.8	**5.7**	6.3	5.7
Restructuring and integration costs	**—**	4,689	3,642	N/M	28.7	**—**	0.9	0.7
Intangible asset amortization expense	**9,272**	7,993	6,944	16.0	15.1	**1.4**	1.5	1.4
Other operating expenses	**11,146**	4,657	9,516	139.3	(51.1)	**1.7**	0.9	1.9
Total non-interest expenses	**537,827**	449,582	419,941	19.6	7.1	**83.0**	85.6	85.9
Income from continuing operations before income tax expense	**110,311**	75,613	69,011	45.9	9.6	**17.0**	14.4	14.1
Income tax expense	**35,986**	20,390	19,470	76.5	4.7	**5.6**	3.9	4.0
Income from continuing operations	**74,325**	55,223	49,541	34.6	11.5	**11.5**	10.5	10.1
Discontinued operations:								
Loss from discontinued operations, net of tax	**—**	(4,739)	(5,807)	N/M	(18.4)	**—**	(0.9)	(1.2)
Net income	**74,325**	50,484	43,734	47.2	15.4	**11.5**	9.6	8.9
Net income applicable to noncontrolling interests	**11,153**	5,394	2,466	106.8	118.7	**1.7**	1.0	0.5
Net income applicable to Piper Jaffray Companies	**$ 63,172**	$ 45,090	$ 41,268	40.1%	9.3%	**9.7%**	8.6%	8.4%

N/M – Not meaningful

For the year ended December 31, 2014, we recorded net income applicable to Piper Jaffray Companies of $63.2 million. Net revenues from continuing operations for the year ended December 31, 2014 were $648.1 million, a 23.4 percent increase compared to $525.2 million in the year-ago period. In 2014, investment banking revenues increased 48.8 percent to $369.8 million, compared with $248.6 million in the prior-year period, driven by robust advisory services revenues as we were able to capitalize on favorable market conditions and the investments we have made to strengthen our mergers and acquisitions resources in the middle market. For the year ended December 31, 2014, institutional brokerage revenues were $156.8 million, compared with $146.6 million in 2013, due to higher fixed income institutional brokerage revenues, partially offset by lower equity institutional brokerage revenues. Asset management fees were $85.1 million in 2014, compared with $83.0 million in 2013. For the year ended December 31, 2014, net interest income decreased to $23.6 million, compared with $25.4 million in 2013. In 2014, investment income was $12.8 million, compared with $21.6 million in the prior-year period as we recorded lower investment gains associated with our merchant banking and firm investments, partially offset by higher gains associated with our investment and the noncontrolling interests in the municipal bond fund that we manage. Non-interest expenses from continuing operations were $537.8 million for the year ended December 31, 2014, an increase of 19.6 percent compared to $449.6 million in the prior year, primarily resulting from higher compensation expenses due to increased revenues and improved operating performance and higher non-compensation expenses due to increased business activity and incremental costs associated with the acquisitions of Seattle-Northwest and Edgeview.

For the year ended December 31, 2013, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $45.1 million. The results of operations for the year ended December 31, 2013 included a $4.0 million tax benefit from reversing the full amount of our U.K. subsidiary's deferred tax asset valuation allowance. Net revenues from continuing operations for the year ended December 31, 2013 were $525.2 million, a 7.4 percent increase compared to $489.0 million in 2012. In 2013, investment banking revenues were $248.6 million, compared with $233.0 million in the prior-year period due to higher equity financing revenues, offset in part by a decline in advisory revenues. For the year ended December 31, 2013, institutional brokerage revenues decreased 12.0 percent to $146.6 million, compared with $166.6 million in 2012. The decline was driven by lower fixed income strategic trading results in 2013. In 2013, asset management fees increased 26.4 percent to $83.0 million, compared with $65.7 million in 2012, due to higher management fees from increased assets under management and higher performance fees earned in the fourth quarter of 2013. In 2013, net interest income increased 35.3 percent to $25.4 million, compared with $18.8 million in 2012. The increase was primarily the result of higher net interest income attributable to noncontrolling interests from our municipal bond fund, as well as higher inventory balances in mortgage-backed and municipal securities. For the year ended December 31, 2013, investment income was $21.6 million, compared with $4.9 million in the prior-year period as we recorded higher investment gains associated with our merchant banking and firm investments. In 2013, non-interest expenses from continuing operations were $449.6 million, an increase of 7.1 percent compared to $419.9 million in 2012, primarily resulting from higher compensation expenses due to an increased revenue base.

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 year ended December 31, 2014, compensation and benefits expenses increased 22.3 percent to $394.5 million from $322.5 million in 2013 due to improved financial results. Compensation and benefits expenses as a percentage of net revenues was 60.9 percent in 2014, compared with 61.4 percent in 2013. The lower compensation expense ratio was due to an increased revenue base.

For the year ended December 31, 2013, compensation and benefits expenses increased 8.6 percent to $322.5 million from $296.9 million in 2012. Compensation and benefits expenses as a percentage of net revenues increased from 60.7 percent in 2012 to 61.4 percent in 2013, primarily attributable to changes in our mix of business, as we recorded significantly higher fixed income strategic trading revenues in 2012, which have a lower compensation payout.

Occupancy and Equipment – For the year ended December 31, 2014, occupancy and equipment expenses increased 10.7 percent to $28.2 million, compared with $25.5 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.

For the year ended December 31, 2013, occupancy and equipment expenses decreased 3.6 percent to $25.5 million, compared with $26.5 million in 2012. The decrease was primarily the result of prior investments in technology and equipment becoming fully depreciated and lower occupancy costs associated with our headquarters office space, offset in part by incremental occupancy expense from our acquisitions of Seattle-Northwest and Edgeview during the third quarter of 2013.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the year ended December 31, 2014, communication expenses increased 6.1 percent to $22.7 million, compared with $21.4 million for the year ended December 31, 2013. The increase resulted from higher market data service expenses.

For the year ended December 31, 2013, communication expenses increased 4.3 percent to $21.4 million, compared with $20.5 million in 2012. The increase resulted from higher market data service expenses.

Floor Brokerage and Clearance – For the year ended December 31, 2014, floor brokerage and clearance expenses were $7.6 million, compared with $8.3 million million in the year ended December 31, 2013, due to lower trading execution expenses.

For the year ended December 31, 2013, floor brokerage and clearance expenses increased slightly to $8.3 million, compared with $8.1 million in 2012.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. In 2014, marketing and business development expenses increased 26.2 percent to $27.3 million, compared with $21.6 million in the year ended December 31, 2013, due to higher third party marketing fees associated with our asset management business, as well as higher travel expenses from increased business activity.

In 2013, marketing and business development expenses increased 8.5 percent to $21.6 million, compared with $19.9 million in the year ended December 31, 2012, due to higher travel expenses resulting from increased investment banking activity.

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 12.3 percent to $37.1 million in 2014, compared with $33.0 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 9.3 percent due primarily to higher legal and other professional fees.

Outside services expenses increased 17.8 percent to $33.0 million in 2013, compared with $28.0 million in the corresponding period of 2012, due to higher computer consulting and fund expenses.

Restructuring and Integration Costs – During the year ended December 31, 2013, we recorded restructuring and integration costs of $4.7 million primarily related to the acquisitions of Seattle-Northwest and Edgeview. For the year ended December 31, 2012, we recorded a restructuring charge of $3.6 million, which included $2.4 million of employee severance costs and $1.2 million for the reduction of leased office space.

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 year ended December 31, 2014, intangible asset amortization expense was $9.3 million, compared with $8.0 million in the corresponding period of 2013. The increase reflects a full year of intangible asset amortization expense related to the 2013 acquisitions of Seattle-Northwest and Edgeview.

In 2013, intangible asset amortization expense increased to $8.0 million, compared with $6.9 million in 2012, due to the acquisitions of Seattle-Northwest and Edgeview.

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 increased 139.3 percent to $11.1 million in 2014, compared with $4.7 million in 2013. In 2013, we received insurance proceeds for the reimbursement of prior legal settlements. Additionally, in 2014, we incurred higher expenses related to our charitable giving program, driven by our increased profitability.

Other operating expenses decreased 51.1 percent to $4.7 million in 2013, compared with $9.5 million in 2012. In 2013, we received insurance proceeds for the reimbursement of prior legal settlements.

Income Taxes – For the year ended December 31, 2014, our provision for income taxes was $36.0 million equating to an effective tax rate, excluding noncontrolling interests, of 36.3 percent.

For the year ended December 31, 2013, our provision for income taxes was $20.4 million, equating to an effective tax rate, excluding noncontrolling interests, of 29.0 percent. In 2013, we recorded a tax benefit for the full reversal of our U.K subsidiary's deferred tax asset valuation allowance of $4.0 million as we achieved three years of profitability and expect future taxable profits.

In 2012, our provision for income taxes was $19.5 million equating to an effective tax rate, excluding noncontrolling interests, of 29.3 percent. In 2012, we recorded a tax benefit for the reversal of previously accrued uncertain state income tax positions of $7.4 million, net of federal tax, partially offset by a $4.6 million write-off of deferred tax assets related to equity grants that either were forfeited or vested at share prices lower than the grant date share price.

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.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin present the segments' results of operations excluding the impact resulting from the consolidation of noncontrolling interests in alternative asset management funds and private equity investment vehicles. Consolidation of these funds results in the inclusion of the proportionate share of the income or loss attributable to the equity interests in consolidated funds that are not attributable, either directly or indirectly, to us (i.e. noncontrolling interests). This proportionate share is reflected in net income/(loss) applicable to noncontrolling interests in the accompanying consolidated statements of operations, and has no effect on the overall financial performance of the segments, as ultimately, this income or loss is not income or loss for the segments themselves. Included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin is the actual proportionate share of the income or loss attributable to us as an investor in such funds. Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin also exclude amortization of intangible assets and compensation from acquisition-related agreements resulting from our Advisory Research, Inc., Seattle-Northwest and Edgeview acquisitions. The restructuring and integration costs excluded from adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin represent charges that resulted from severance benefits, vacating redundant office space and contract termination costs.

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:

	Year Ended December 31,							
	2014				2013			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$ 116,684	$ —	$ —	$ 116,684	$ 100,224	$ —	$ —	$ 100,224
Debt	67,731	—	—	67,731	74,284	—	—	74,284
Advisory services	186,176	—	—	186,176	74,420	—	—	74,420
Total investment banking	370,591	—	—	370,591	248,928	—	—	248,928
Institutional sales and trading								
Equities	82,211	—	—	82,211	91,169	—	—	91,169
Fixed income	92,200	—	—	92,200	76,275	—	—	76,275
Total institutional sales and trading	174,411	—	—	174,411	167,444	—	—	167,444
Total management and performance fees	5,398	—	—	5,398	3,891	—	—	3,891
Investment income	8,347	15,699	—	24,046	21,610	8,794	—	30,404
Long-term financing expenses	(6,655)	—	—	(6,655)	(7,420)	—	—	(7,420)
Net revenues	552,092	15,699	—	567,791	434,453	8,794	—	443,247
Operating expenses	467,198	4,546	6,917	478,661	382,157	3,400	7,674	393,231
Segment pre-tax operating income	$ 84,894	$ 11,153	$ (6,917)	$ 89,130	$ 52,296	$ 5,394	$ (7,674)	$ 50,016
Segment pre-tax operating margin	15 4%			15 7%	12 0%			11 3%

(1) *The following is a summary of the adjustments needed to reconcile our consolidated U.S. GAAP pre-tax operating 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)	*Year Ended December 31, 2014*	*2013*
Compensation from acquisition-related agreements	*$ 3,945*	*$ 1,620*
Restructuring and integration costs	—	*4,705*
Amortization of intangible assets related to acquisitions	*2,972*	*1,349*
	$ 6,917	*$ 7,674*

Capital Markets adjusted net revenues increased 27.1 percent to $552.1 million for the year ended December 31, 2014, compared with $434.5 million in the prior-year period.

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 2014, investment banking revenues increased 48.9 percent to $370.6 million compared with $248.9 million in the corresponding period of the prior year, due to higher equity financing and advisory services revenues. For the year ended December 31, 2014, equity financing revenues were $116.7 million, up 16.4 percent compared with $100.2 million in the prior-year period, as favorable equity markets, particularly in the first half of 2014, led to an increase in capital raising in our focus sectors, especially healthcare, our strongest sector, resulting in more completed transactions and higher revenue per transaction. During 2014, we completed 97 equity financings, raising $20.8 billion for our clients, compared with 92 equity financings, raising $19.9 billion for our clients in the comparable year-ago period. Debt financing revenues for the year ended December 31, 2014 were $67.7 million, down 8.8 percent compared with $74.3 million in the year-ago period, due to lower public finance revenues resulting from fewer completed transactions as our volume of new market issuances declined, and reduced underwriting spreads. During 2014, we completed 351 negotiated public finance issues with a total par value of $7.7 billion, compared with 413 negotiated public finance issues with a total par value of $7.9 billion during the prior-year period. For the year ended December 31, 2014, advisory services revenues increased to $186.2 million, compared with $74.4 million in 2013, due to higher U.S. equity advisory services revenues from more completed transactions and higher revenue per transaction. Low volatility, attractive valuation levels and readily available credit created a robust mergers and acquisitions environment in 2014. Our strategic focus to strengthen our mergers and acquisitions resources in the middle market enabled us to capitalize on this environment. We completed 77 transactions with an aggregate enterprise value of $13.7 billion in 2014, compared with 36 transactions with an aggregate enterprise value of $4.8 billion in 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 year ended December 31, 2014, institutional brokerage revenues increased to $174.4 million, compared with $167.4 million in the prior-year period, due to higher fixed income institutional brokerage revenues, partially offset by lower equity institutional brokerage revenues. Equity institutional brokerage revenues were $82.2 million in 2014, down 9.8 percent compared with $91.2 million in the corresponding period of 2013, due to lower revenues from block trades and losses from our equity strategic trading activities compared to trading gains in the prior-year period. For the year ended December 31, 2014, fixed income institutional brokerage revenues were $92.2 million, up 20.9 percent compared with $76.3 million in the prior-year period. Higher trading gains and investments made in our middle markets team generated incremental revenue to offset the impact of client trading volumes remaining relatively flat. In the second quarter of 2013, we recorded trading losses on inventory positions due to a volatile trading environment caused by a rapid rise in interest rates and widening of credit spreads during that period.

Management and performance fees include the fees generated from our municipal bond and merchant banking funds. For the year ended December 31, 2014, management and performance fees were $5.4 million, compared with $3.9 million in the prior-year period, due to increased performance fees from our municipal bond fund.

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 year ended December 31, 2014, adjusted investment income was $8.3 million, compared to $21.6 million in the corresponding period of 2013. In 2013, we recorded larger gains on our merchant banking activities. Merchant banking investments made before 2010 are accounted for on a cost basis, which can result, and in 2013 did result, in significant realized gains in the period of a liquidity event for these investments.

Long-term financing expenses primarily represent interest paid on our variable rate senior notes. For the year ended December 31, 2014, long-term financing expenses decreased to $6.7 million, compared to $7.4 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for the year ended December 31, 2014 increased to 15.4 percent, compared with 12.0 percent for the corresponding period of 2013, due to operating leverage gained from increased revenues.

	Year Ended December 31,							
	2013				2012			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$ 100,224	$ —	$ —	$ 100,224	$ 73,180	$ —	$ —	$ 73,180
Debt	74,284	—	—	74,284	74,102	—	—	74,102
Advisory services	74,420	—	—	74,420	86,165	—	—	86,165
Total investment banking	248,928	—	—	248,928	233,447	—	—	233,447
Institutional sales and trading								
Equities	91,169	—	—	91,169	75,723	—	—	75,723
Fixed income	76,275	—	—	76,275	111,492	—	—	111,492
Total institutional sales and trading	167,444	—	—	167,444	187,215	—	—	187,215
Total management and performance fees	3,891	—	—	3,891	1,678	—	—	1,678
Investment income	21,610	8,794	—	30,404	5,666	4,174	—	9,840
Long-term financing expenses	(7,420)	—	—	(7,420)	(7,982)	—	—	(7,982)
Net revenues	434,453	8,794	—	443,247	420,024	4,174	—	424,198
Operating expenses	382,157	3,400	7,674	393,231	366,408	1,708	3,512	371,628
Segment pre-tax operating income	$ 52,296	$ 5,394	$ (7,674)	$ 50,016	$ 53,616	$ 2,466	$ (3,512)	$ 52,570
Segment pre-tax operating margin	12 0%			11 3%	12 8%			12 4%

(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*

	Year Ended December 31,	
(Dollars in thousands)	***2013***	***2012***
Compensation from acquisition-related agreements	*$ 1,620*	*$ —*
Restructuring and integration costs	*4,705*	*3,512*
Amortization of intangible assets related to acquisitions	*1,349*	*—*
	$ 7,674	*$ 3,512*

Capital Markets adjusted net revenues increased 3.4 percent to $434.5 million for the year ended December 31, 2013, compared with $420.0 million for the year ended December 31, 2012.

In 2013, investment banking revenues increased 6.6 percent to $248.9 million compared with $233.4 million in the prior year, due to higher equity financing revenues, offset in part by a decline in advisory services revenues. For the year ended December 31, 2013, equity financing revenues were $100.2 million, up 37.0 percent compared with $73.2 million in the prior-year period as strong gains in the equity markets resulted in positive conditions for equity capital raising. During 2013, we completed 92 equity financings, raising $19.9 billion for our clients, compared with 67 equity financings, raising $9.1 billion for our clients (excluding the $16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position) in 2012. Debt financing revenues in 2013 were $74.3 million, essentially flat compared with the prior year. In 2013, we completed 413 negotiated public finance issues with a total par value of $7.9 billion, compared with 444 negotiated public finance issues with a total par value of $7.3 billion in 2012. A decrease in the number of completed negotiated public finance issues from 2012 was offset by increased revenue per transaction in 2013. Additionally, our market share gains and industry sector strengths offset weak refunding activity in the second half of 2013. In 2013, our par value from negotiated debt issuances increased 7.9 percent, compared to a 17.1 percent decline for the industry. For the year ended December 31, 2013, advisory services revenues decreased 13.6 percent to $74.4 million due to lower U.S. advisory services revenue from fewer completed transactions. In 2012, sellers were motivated to complete transactions due to anticipated tax increases in 2013. Although this resulted in reduced activity through mid-year 2013, as we rebuilt our advisory pipeline, we experienced increasing demand through the second half of 2013. We completed 36 transactions with an aggregate enterprise value of $4.8 billion during 2013, compared with 44 transactions with an aggregate enterprise value of $10.6 billion in 2012.

In 2013, institutional brokerage revenues decreased 10.6 percent to $167.4 million, compared with $187.2 million in 2012, as a decline in fixed income institutional brokerage revenues was offset in part by higher equity institutional brokerage revenues. Equity institutional brokerage revenues increased 20.4 percent to $91.2 million in 2013, compared with $75.7 million in 2012, reflecting favorable equity markets and improved trading performance. Additionally, we generated revenues from our equity strategic trading activities, which we began in the second half of 2013 to leverage our intellectual capital and to diversify our strategic trading efforts. For the year ended December 31, 2013, fixed income institutional brokerage revenues were $76.3 million, compared with $111.5 million in 2012. The decrease primarily resulted from lower revenues from our strategic trading activities, primarily related to non-agency mortgage-backed securities. In addition, we experienced trading losses in the second quarter of 2013 on inventory positions due to the volatile trading environment caused by the rapid rise in interest rates and widening of credit spreads.

For the year ended December 31, 2013, management and performance fees were $3.9 million, compared with $1.7 million in the prior-year period, due to increased management fees from our municipal bond fund driven by higher assets under management ("AUM") from net client inflows and a full year of management fees generated from our merchant banking fund.

For the year ended December 31, 2013, adjusted investment income was $21.6 million, compared to $5.7 million in 2012. The significant increase from 2012 was driven by larger gains on our merchant banking investments. Merchant banking investments made before 2010 are accounted for on a cost basis, which can result, and in this case did result, in significant realized gains in the period of a liquidity event for these investments.

For the year ended December 31, 2013, long-term financing expenses decreased 7.0 percent to $7.4 million, compared to $8.0 million in the prior-year period. The decrease was due to additional costs recognized in the fourth quarter of 2012 upon prepayment of the syndicated bank facility.

Capital Markets adjusted segment pre-tax operating margin for 2013 decreased to 12.0 percent, compared with 12.8 percent for 2012.

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:

	Year Ended December 31,							
	2014				2013			
		Adjustments [1]				Adjustments [1]		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$ 47,987	$ —	$ —	$ 47,987	$ 50,066	$ —	$ —	$ 50,066
MLP	30,785	—	—	30,785	21,248	—	—	21,248
Total management fees	78,772	—	—	78,772	71,314	—	—	71,314
Performance fees								
Value equity	684			684	7,620	—	—	7,620
MLP	208			208	220	—	—	220
Total performance fees	892	—	—	892	7,840	—	—	7,840
Total management and performance fees	79,664	—	—	79,664	79,154	—	—	79,154
Investment income	683	—	—	683	2,794	—	—	2,794
Total net revenues	80,347	—	—	80,347	81,948	—	—	81,948
Operating expenses	51,582	—	7,584	59,166	48,439	—	7,912	56,351
Segment pre-tax operating income	$ 28,765	$ —	$ (7,584)	$ 21,181	$ 33,509	$ —	$ (7,912)	$ 25,597
Segment pre-tax operating margin	35 8%			26 4%	40 9%			31 2%

---

(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

	Year Ended December 31,	
(Dollars in thousands)	*2014*	*2013*
Compensation from acquisition-related agreements	*$ 1,284*	*$ 1,284*
Restructuring and integration costs	*—*	*(16)*
Amortization of intangible assets related to acquisitions	*6,300*	*6,644*
	$ 7,584	*$ 7,912*

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 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 December 31, 2014, approximately one percent of our AUM was eligible to earn performance fees.

For the year ended December 31, 2014, management fees were $78.8 million, an increase of 10.5 percent, compared with $71.3 million in the prior-year period, due to increased management fees from our MLP product offerings, partially offset by decreased management fees from our value equity strategies. In 2014, management fees related to our value equity strategies were $48.0 million, down 4.2 percent compared to the corresponding period of 2013, due to lower average AUM. The average effective revenue yield (total management fees as a percentage of our average quarter-end AUM) for our value equity strategies was 78 basis points for the year ended December 31, 2014, compared to 79 basis points for the year ended December 31, 2013.

Management fees from our MLP strategies increased 44.9 percent in 2014 to $30.8 million, compared with $21.2 million in 2013, due to increased average AUM from net client inflows and net market appreciation, as well as higher average effective revenue yield. Our average effective revenue yield for our MLP strategies was 54 basis points for the year ended December 31, 2014, compared to 50 basis points for the corresponding period in the prior year. The increase in the average effective revenue yield was due to more assets from individual investors in open-ended funds, which earned higher fees.

For the year ended December 31, 2014, performance fees were $0.9 million, compared to $7.8 million in the prior-year period. The performance fees recorded in 2014 were the result of certain funds exceeding their performance targets at the time of client asset withdrawals. The performance fees recorded in 2013 resulted from certain funds exceeding their performance targets over a specified measurement period.

Investment income includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. Investment income was $0.7 million for the year ended December 31, 2014, compared with $2.8 million for the year ended December 31, 2013.

Adjusted segment pre-tax operating margin for the year ended December 31, 2014 was 35.8 percent, compared to 40.9 percent for the year ended December 31, 2013. The decrease resulted from higher non-compensation expenses, particularly attributable to third party marketing fees.

	Year Ended December 31,							
	2013				2012			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$ 50,066	$ —	$ —	$ 50,066	$ 48,636	$ —	$ —	$ 48,636
MLP	21,248	—	—	21,248	14,600	—	—	14,600
Total management fees	71,314	—	—	71,314	63,236	—	—	63,236
Performance fees								
Value equity	7,620	—	—	7,620	785	—	—	785
MLP	220	—	—	220	—	—	—	—
Total performance fees	7,840	—	—	7,840	785	—	—	785
Total management and performance fees	79,154	—	—	79,154	64,021	—	—	64,021
Investment income	2,794	—	—	2,794	733	—	—	733
Total net revenues	81,948	—	—	81,948	64,754	—	—	64,754
Operating expenses	48,439	—	7,912	56,351	39,955	—	8,358	48,313
Segment pre-tax operating income	$ 33,509	$ —	$ (7,912)	$ 25,597	$ 24,799	$ —	$ (8,358)	$ 16,441
Segment pre-tax operating margin	40 9%			31 2%	38 3%			25 4%

(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*

	Year Ended December 31,	
(Dollars in thousands)	***2013***	***2012***
Compensation from acquisition-related agreements	*$ 1,284*	*$ 1,284*
Restructuring and integration costs	*(16)*	*130*
Amortization of intangible assets related to acquisitions	*6,644*	*6,944*
	$ 7,912	*$ 8,358*

For the year ended December 31, 2013, management fees were $71.3 million, an increase of 12.8 percent, compared with $63.2 million in the prior year, due primarily to increased AUM and management fees from our MLP product offerings. In 2013, management fees related to our value equity strategies were $50.1 million, up 2.9 percent compared to 2012. The impact of increased AUM in 2013 from market appreciation was offset by a lower average effective revenue yield. The average effective revenue yield for our value equity strategies was 79 basis points in 2013, compared to 81 basis points in the prior year. Management fees from our our MLP strategies increased 45.5 percent in 2013 to $21.2 million, compared with $14.6 million in 2012, due to increased average AUM. The average effective revenue yield for our MLP strategies was 50 basis points in 2013, compared to 49 basis points in 2012.

For the year ended December 31, 2013, performance fees were $7.8 million, compared to $0.8 million in 2012. The performance fees recorded in 2013 resulted from certain funds exceeding their performance targets over a specified measurement period. The performance fees recorded during 2012 were the result of certain funds exceeding their performance targets at the time of client asset withdrawals.

For the year ended December 31, 2013, investment income was $2.8 million compared with $0.7 million for 2012.

Adjusted segment pre-tax operating margin for 2013 was 40.9 percent, compared to 38.3 percent for 2012. The increase resulted from improved operating results driven by higher net revenues.

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

	Twelve Months Ended December 31,		
(Dollars in millions)	**2014**	**2013**	**2012**
Value Equity			
Beginning of period	**$ 6,683**	**$ 5,865**	**$ 5,805**
Net outflows	(979)	(756)	(515)
Net market appreciation	54	1,574	575
End of period	**$ 5,758**	**$ 6,683**	**$ 5,865**
MLP			
Beginning of period	**$ 4,549**	**$ 3,186**	**$ 2,751**
Net inflows	719	498	338
Net market appreciation	443	865	97
End of period	**$ 5,711**	**$ 4,549**	**$ 3,186**
Total			
Beginning of period	**$ 11,232**	**$ 9,051**	**$ 8,556**
Net outflows	(260)	(258)	(177)
Net market appreciation	497	2,439	672
End of period	**$ 11,469**	**$ 11,232**	**$ 9,051**

For the year ended December 31, 2014, total AUM increased to $11.5 billion as market appreciation and net client inflows in our MLP product offerings were partially offset by net client outflows in our value equity strategies. Value equity AUM was $5.8 billion at December 31, 2014, compared to $6.7 billion at December 31, 2013 due to net client outflows during the period. Our performance in our core domestic strategies has lagged their relative benchmarks which has hindered our ability to attract significant net new value equity AUM. MLP AUM increased $1.2 billion to $5.7 billion at December 31, 2014 as we experienced net client inflows of $0.7 billion and net market appreciation of $0.4 billion.

Total AUM increased $2.2 billion to $11.2 billion in 2013 as the strong equity markets drove net market appreciation of $2.4 billion. Value equity AUM was $6.7 billion at December 31, 2013, compared to $5.9 billion at December 31, 2012 as net market appreciation of $1.6 billion was offset by net client outflows of $0.8 billion during the period, due to changes in client investment strategies away from the value equity platform. In 2013, the value equity strategy did not attract significant net new assets as investors were seeking greater upside potential in the strong equity markets. MLP AUM increased $1.4 billion to $4.5 billion in 2013 as we experienced both net market appreciation and net client inflows during this period.

Discontinued Operations

Discontinued operations include the operating results of our Hong Kong capital markets business, which ceased operations in 2012, and FAMCO, an asset management subsidiary we sold in 2013. For the years ended December 31, 2013 and 2012, we recorded a loss from discontinued operations, net of tax, of $4.7 million and $5.8 million, respectively.

The results of discontinued operations for the Hong Kong capital markets business were as follows:

	Year Ended December 31,	
(Dollars in thousands)	**2013**	**2012**
Net revenues	$ —	$ 6,635
Restructuring expenses	—	11,535
Other expenses	1,197	16,550
Total non-interest expenses	1,197	28,085
Loss from discontinued operations before income tax benefit	(1,197)	(21,450)
Income tax benefit	(415)	(21,069)
Loss from discontinued operations, net of tax	$ (782)	$ (381)

The $1.2 million of other expenses recorded in 2013 consisted of costs to dissolve our Hong Kong subsidiaries.

The $11.5 million of restructuring expenses recorded in 2012 consisted primarily of costs incurred for early termination of leased office space and severance benefits. Additionally, we recorded a $21.1 million U.S. tax benefit related to the realized loss on our Piper Jaffray Asia subsidiaries.

The results of discontinued operations for FAMCO were as follows:

	Year Ended December 31,	
(Dollars in thousands)	**2013**	**2012**
Net revenues	$ 1,650	$ 5,718
Goodwill impairment	—	5,508
Operating expenses	5,057	8,362
Total non-interest expenses	5,057	13,870
Loss from discontinued operations before income tax benefit	(3,407)	(8,152)
Income tax benefit	(1,326)	(2,726)
Loss from discontinued operations	(2,081)	(5,426)
Loss on sale, net of tax	(1,876)	—
Loss from discontinued operations, net of tax	$ (3,957)	$ (5,426)

The loss from discontinued operations for the year ended December 31, 2013 primarily related to an indemnification obligation related to the sale of FAMCO.

The $5.5 million non-cash goodwill impairment charge recorded in 2012 represented the residual value of goodwill attributable to the FAMCO reporting unit and pertained to goodwill created from our 2007 acquisition of FAMCO.

See Note 5 to our consolidated financial statements for further discussion of our discontinued operations.

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K, 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.

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K. 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 2 and Note 7 to our consolidated financial statements for additional information on the valuation of our financial instruments and our fair value processes, including specific control processes to determine the reasonableness of the fair value of our financial instruments.

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 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 December 31, 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-Northwest and Edgeview within our capital markets segment and the remaining $196.8 million relates to our asset management segment. At December 31, 2014, we had intangible assets of $30.7 million, of which $2.3 million relates to our capital markets segment and $28.3 million relates to our asset management segment.

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 assessing 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. See Note 14 to our consolidated financial statements for additional information on our goodwill impairment testing.

We elected to perform a qualitative assessment to test the goodwill in our capital markets reporting unit for impairment. The following relevant events and circumstances were evaluated in concluding that it was not more likely than not that this goodwill was impaired: macroeconomic conditions, industry and market considerations, and the overall financial performance of the capital markets reporting unit.

The initial recognition of goodwill and other intangible assets and the subsequent quantitative 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 our market capitalization, 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 annual goodwill impairment analysis as of October 31, 2014, and concluded there was no goodwill impairment.

We also evaluated the intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2014.

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 Plan

The Company maintains various deferred compensation arrangements for employees.

The nonqualified, unfunded deferred compensation plan 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, which is consolidated on our statements of financial condition.

The Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan is 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 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 24 to our 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. In the fourth quarter of 2013, we reversed the full amount of our U.K. subsidiary's deferred tax asset valuation allowance based upon achieving three years of profitability and projected future earnings. This resulted in a $4.0 million tax benefit to our results of operations.

In connection with the closure of our Hong Kong capital markets business in 2012, we realized a $21.1 million U.S. tax benefit within discontinued operations due to a realized loss on the investment in our Hong Kong subsidiaries. The tax benefit was the excess of the tax basis of our investment in the subsidiaries over the financial statement carrying amount.

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 December 31, 2014, we had $1.1 million of excess tax benefits recorded as additional paid-in capital. In the first quarter of 2015, approximately 15,000 options expired and 464,000 shares vested resulting in $3.6 million of excess tax benefits recorded as additional paid-in-capital in the first quarter of 2015.

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. In 2012, we recorded the reversal of a previously accrued uncertain state income tax position of $7.4 million, net of federal income tax.

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, and maintain 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.

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 that expired September 30, 2014, with $39.5 million remaining under this authorization. During the first nine months of 2014, we did not repurchase any shares of our outstanding common stock under this authorization. Effective October 1, 2014, our board of directors authorized the repurchase of up to $100 million in common shares through September 30, 2016. During the fourth quarter of 2014, we did not repurchase any shares of our outstanding common stock under this authorization. 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 2014, we purchased 256,055 shares or $10.9 million of our common shares for this purpose.

Cash Flows

Cash and cash equivalents decreased $107.8 million to $15.9 million at December 31, 2014 from December 31, 2013. Operating activities used $50.1 million of cash primarily due to an increase in operating assets, particularly related to our inventory and reverse repurchase agreements, which are principally used to make delivery on securities sold short. Partially offsetting these increases in operating assets were cash received from earnings and increased compensation related accruals. Investing activities in 2014 used $5.4 million of cash primarily related to the purchase of fixed assets. Cash of $52.0 million was used in financing activities as we reduced amounts due under our short-term financing related to commercial paper and our prime broker arrangement, offset in part by increases in repurchase agreements. Additionally, we experienced a $9.0 million decrease in noncontrolling interests due to net fund capital withdrawals and used $10.9 million of cash to repurchase common stock from employees selling shares to meet their tax obligations related to award vestings.

Cash and cash equivalents increased $18.3 million to $123.7 million at December 31, 2013 from December 31, 2012. Operating activities provided cash of $42.2 million primarily due to cash received from earnings and the increase in compensation related accruals. These increases were offset in part by cash used to fund reverse repurchase agreements as we increased hedging of our inventories, deployment of capital into other firm investments and an increase in fees receivable. Investing activities in 2013 used $30.0 million of cash, the majority of which related to our acquisitions of Seattle-Northwest and Edgeview. Cash of $5.8 million was provided through financing activities as increases in noncontrolling interest were offset in part by a net decrease in repurchase agreements and short-term financing that were used to fund inventory and $71.5 million used to repurchase common stock.

Cash and cash equivalents increased $20.3 million to $105.4 million at December 31, 2012 from December 31, 2011. Operating activities used $211.8 million of cash due to an increase in operating assets, particularly our net financial instruments and other inventory positions owned. Inventory increased related to the expansion of our fixed income sales and trading efforts to support customer flow and increases related to our strategic trading portfolios. The increase was also attributable to the low level of inventory we maintained at the end of 2011 as we managed risk due to more volatile market conditions at that time. Partially offsetting these increases in operating assets were increases in operating liabilities, particularly related to accrued compensation, payables to brokers, dealers and clearing organizations and other liabilities and accrued expenses. Investing activities in 2012 used $2.1 million of cash for the purchase of fixed assets. Cash of $234.3 million was provided through financing activities; primarily an increase in short-term financing, offset in part by decreases in repurchase agreements. A significant portion of our funding needs are driven by the levels of long inventory positions. As we increased our levels of long inventory in 2012, it led to an increase in funding needs, particularly related to short-term financing. Additionally, we entered into a Note Purchase Agreement under which we issued unsecured variable rate senior notes in late 2012, which provided $125.0 million in financing that was used to repay our bank syndicated credit agreement which had $115.0 million outstanding as of December 31, 2011. Offsetting these increases to financing was $47.2 million used to repurchase common stock.

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)	**December 31, 2014**	December 31, 2013
Total assets	**$ 2,623,917**	$ 2,318,157
Deduct: Goodwill and intangible assets	**(242,536)**	(250,564)
Deduct: Assets from noncontrolling interests	**(308,910)**	(317,558)
Adjusted assets	**$ 2,072,471**	$ 1,750,035
Total shareholders' equity	**$ 969,460**	$ 882,072
Deduct: Goodwill and intangible assets	**(242,536)**	(250,564)
Deduct: Noncontrolling interests	**(149,548)**	(147,396)
Tangible common shareholders' equity	**$ 577,376**	$ 484,112
Leverage ratio (1)	**2.7**	2.6
Adjusted leverage ratio (2)	**3.6**	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 shareholders' 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.

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. to maintain excess net capital of $120 million. The following table provides information about our commercial paper programs at December 31, 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	149.5	6.0	82.5
Weighted average maturity, in days	77	26	27
Weighted average maturity at issuance, in days	138	202	38

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. At December 31, 2014, we had $127.8 million of financing outstanding under this prime broker arrangement.

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 minimum net capital of $120 million, and the unpaid principal amount of all advances under the facility will be due on December 18, 2015. This credit facility has been in place since 2008 and we renewed the facility for another one-year term in the fourth quarter of 2014. At December 31, 2014, we had no advances against this line of credit.

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 December 31, 2014, we had $12.0 million in 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			
	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
Funding source:				
Repurchase agreements	**$ 54.2**	$ 10.5	$ 49.8	$ 38.3
Commercial paper	**244.0**	262.5	276.2	280.5
Prime broker arrangement	**46.4**	64.8	159.9	216.1
Short-term bank loans	**19.9**	6.4	18.9	28.9
Total	**$ 364.5**	$ 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 fourth quarter of 2014 increased to $364.5 million, compared with $344.2 million during the third quarter of 2014, due to an increase in average inventory and a reduction in excess cash. The reduction in average funding compared to the fourth quarter of 2013 was due to additional cash generated through earnings, which was used to reduce our borrowings. Additionally, more cash was used in 2013 for share repurchases, which resulted in an increased need for funding in the year-ago period.

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

(Dollars in millions)	For the Three Months Ended			
	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014
Maximum amount of daily funding	**$ 644.1**	$ 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

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 Pacific Investment Management Company LLC ("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 December 31, 2014, we were in compliance with all covenants.

Three-year bank syndicated credit agreement

On December 29, 2010, we entered into a Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. The unpaid principal and interest on the Credit Agreement was paid off on November 30, 2012 from the proceeds of the Notes.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at December 31, 2014, in total and by remaining maturity. Excluded from the table are a number of obligations recorded on the consolidated statements of financial condition that generally are short-term in nature, including secured financing transactions, trading liabilities, short-term borrowings and other payables and accrued liabilities. The amounts presented in the table below may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation.

(Dollars in millions)	2015	2016 - 2017	2018 - 2019	2020 and thereafter	Total
Operating lease obligations	$ 12.3	$ 22.0	$ 18.7	$ 26.5	$ 79.5
Purchase commitments	16.6	15.0	3.0	—	34.6
Investment commitments (a)	—	—	—	—	37.3
Loan commitments (b)	—	—	—	—	—
Variable rate senior notes	75.0	50.0	—	—	125.0
Unrecognized tax benefits	2.3	—	—	—	2.3

(a) *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. Investment commitments of $26.1 million relate to a commitment to an affiliated merchant banking fund.*

(b) *We may commit to merchant banking financing for our clients or make commitments to underwrite debt. We are unable to estimate the timing on the funding of these commitments and have no commitments outstanding at this time.*

Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase commitments with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase commitments contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

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 December 31, 2014, our net capital under the SEC's uniform net capital rule was $165.3 million, and exceeded the minimum net capital required under the SEC rule by $164.3 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 December 31, 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.

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 for the periods presented:

	Expiration Per Period at December 31, 2014						Total Contractual Amount	
(Dollars in thousands)	2015	2016	2017	2018 - 2019	2020 - 2021	Later	December 31, 2014	December 31, 2013
Customer matched-book derivative contracts (1) (2)	$ 65,700	$ 64,077	$ 40,950	$ 81,450	$ 61,187	$ 4,546,938	**$ 4,860,302**	$ 5,310,929
Trading securities derivative contracts (2)	267,500	—	—	—	—	29,750	**297,250**	198,500
Credit default swap index contracts (2)	—	—	—	240,000	—	27,796	**267,796**	299,333
Equity derivative contracts (2)	18,768	612	—	—	—	—	**19,380**	17,090
Private equity investment commitments (3)	—	—	—	—	—	—	**37,264**	47,576

(1) *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 $197.8 million at December 31, 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 December 31, 2014, we had $28.3 million of credit exposure with these counterparties, including $16.5 million of credit exposure with one counterparty.*

(2) *We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At December 31, 2014 and December 31, 2013, the net fair value of these derivative contracts approximated $37.0 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 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 December 31, 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 consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had $37.3 million of commitments outstanding at December 31, 2014, of which $26.1 million related to a commitment to an affiliated merchant banking fund.

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 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.

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.

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.

(Dollars in thousands)	**December 31, 2014**	December 31, 2013
Interest Rate Risk	**$ 740**	$ 1,793
Equity Price Risk	**235**	788
Diversification Effect (1)	**(129)**	(765)
Total Value-at-Risk	**$ 846**	$ 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.*

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 years ended December 31, 2014 and 2013, respectively.

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2014			
Interest Rate Risk	$ 1,344	$ 291	$ 797
Equity Price Risk	920	17	265
Diversification Effect (1)			(232)
Total Value-at-Risk	$ 1,332	$ 302	$ 830

(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

(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. 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 eight occasions during 2014.

The aggregate VaR as of December 31, 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 Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-K 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.

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 activites. 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 $28.3 million at December 31, 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 58.3 percent, or $16.5 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.

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 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 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

The information under the caption "Risk Management" in Part II, Item 7 entitled, "Management's Discussion and Analysis of Financial Condition and Results of Operations," is incorporated herein by reference.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.*

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on its assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2014.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of Piper Jaffray Companies included in this Annual Report on Form 10-K, has issued an attestation report on internal control over financial reporting as of December 31, 2014. Their report, which expresses an unqualified opinion on the effectiveness of Piper Jaffray Companies' internal control over financial reporting as of December 31, 2014, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited Piper Jaffray Companies' (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Piper Jaffray Companies' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Piper Jaffray Companies maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2014 consolidated financial statements of Piper Jaffray Companies and our report dated February 26, 2015, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 26, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited the accompanying consolidated statements of financial condition of Piper Jaffray Companies (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Piper Jaffray Companies at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Piper Jaffray Companies' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 26, 2015

Piper Jaffray Companies

Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	**$ 15,867**	$ 123,683
Cash and cash equivalents segregated for regulatory purposes	**25,011**	43,012
Receivables:		
Customers	**9,658**	11,633
Brokers, dealers and clearing organizations	**161,009**	127,113
Securities purchased under agreements to resell	**308,165**	167,875
Financial instruments and other inventory positions owned	**507,794**	406,513
Financial instruments and other inventory positions owned and pledged as collateral	**1,108,567**	957,515
Total financial instruments and other inventory positions owned	**1,616,361**	1,364,028
Fixed assets (net of accumulated depreciation and amortization of $47,327 and $62,311, respectively)	**18,171**	16,114
Goodwill	**211,878**	210,634
Intangible assets (net of accumulated amortization of $41,141 and $31,869, respectively)	**30,658**	39,930
Investments	**126,840**	112,043
Other assets	**100,299**	102,092
Total assets	**$ 2,623,917**	$ 2,318,157
Liabilities and Shareholders' Equity		
Short-term financing	**$ 377,767**	$ 514,711
Variable rate senior notes	**125,000**	125,000
Payables:		
Customers	**13,328**	33,109
Brokers, dealers and clearing organizations	**25,564**	27,722
Securities sold under agreements to repurchase	**102,646**	4,397
Financial instruments and other inventory positions sold, but not yet purchased	**738,124**	512,833
Accrued compensation	**228,877**	159,928
Other liabilities and accrued expenses	**43,151**	58,385
Total liabilities	**1,654,457**	1,436,085
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at December 31, 2014 and December 31, 2013;		
Shares issued: 19,523,371 at December 31, 2014 and 19,537,127 at December 31, 2013;		
Shares outstanding: 15,265,420 at December 31, 2014 and 14,383,418 at December 31, 2013	**195**	195
Additional paid-in capital	**735,415**	740,321
Retained earnings	**227,065**	163,893
Less common stock held in treasury, at cost: 4,257,951 shares at December 31, 2014 and 5,153,709 shares at December 31, 2013	**(143,140)**	(170,629)
Accumulated other comprehensive income	**377**	896
Total common shareholders' equity	**819,912**	734,676
Noncontrolling interests	**149,548**	147,396
Total shareholders' equity	**969,460**	882,072
Total liabilities and shareholders' equity	**$ 2,623,917**	$ 2,318,157

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Operations

(Amounts in thousands, except per share data)	Year Ended December 31, 2014	2013	2012
Revenues:			
Investment banking	**$ 369,811**	$ 248,563	$ 232,958
Institutional brokerage	**156,809**	146,648	166,642
Asset management	**85,062**	83,045	65,699
Interest	**48,716**	50,409	37,845
Investment income	**12,813**	21,566	4,903
Total revenues	**673,211**	550,231	508,047
Interest expense	**25,073**	25,036	19,095
Net revenues	**648,138**	525,195	488,952
Non-interest expenses:			
Compensation and benefits	**394,510**	322,464	296,882
Occupancy and equipment	**28,231**	25,493	26,454
Communications	**22,732**	21,431	20,543
Floor brokerage and clearance	**7,621**	8,270	8,054
Marketing and business development	**27,260**	21,603	19,908
Outside services	**37,055**	32,982	27,998
Restructuring and integration costs	**—**	4,689	3,642
Intangible asset amortization expense	**9,272**	7,993	6,944
Other operating expenses	**11,146**	4,657	9,516
Total non-interest expenses	**537,827**	449,582	419,941
Income from continuing operations before income tax expense	**110,311**	75,613	69,011
Income tax expense	**35,986**	20,390	19,470
Income from continuing operations	**74,325**	55,223	49,541
Discontinued operations:			
Loss from discontinued operations, net of tax	**—**	(4,739)	(5,807)
Net income	**74,325**	50,484	43,734
Net income applicable to noncontrolling interests	**11,153**	5,394	2,466
Net income applicable to Piper Jaffray Companies	**$ 63,172**	$ 45,090	$ 41,268
Net income applicable to Piper Jaffray Companies' common shareholders	**$ 58,141**	$ 40,596	$ 35,335
Amounts applicable to Piper Jaffray Companies			
Net income from continuing operations	**$ 63,172**	$ 49,829	$ 47,075
Net loss from discontinued operations	**—**	(4,739)	(5,807)
Net income applicable to Piper Jaffray Companies	**$ 63,172**	$ 45,090	$ 41,268
Earnings/(loss) per basic common share			
Income from continuing operations	**$ 3.88**	$ 2.98	$ 2.58
Loss from discontinued operations	**—**	(0.28)	(0.32)
Earnings per basic common share	**$ 3.88**	$ 2.70	$ 2.26
Earnings/(loss) per diluted common share			
Income from continuing operations	**$ 3.87**	$ 2.98	$ 2.58
Loss from discontinued operations	**—**	(0.28)	(0.32)
Earnings per diluted common share	**$ 3.87**	$ 2.70	$ 2.26
Weighted average number of common shares outstanding			
Basic	**14,971**	15,046	15,615
Diluted	**15,025**	15,061	15,616

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Amounts in thousands)	Year Ended December 31,		
	2014	**2013**	**2012**
Net income	**$ 74,325**	$ 50,484	$ 43,734
Other comprehensive income/(loss), net of tax:			
Adjustment to unrecognized pension cost	**—**	(38)	—
Foreign currency translation adjustment	**(519)**	267	62
Total other comprehensive income/(loss), net of tax	**(519)**	229	62
Comprehensive income	**73,806**	50,713	43,796
Comprehensive income applicable to noncontrolling interests	**11,153**	5,394	2,466
Comprehensive income applicable to Piper Jaffray Companies	**$ 62,653**	$ 45,319	$ 41,330

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Changes in Shareholders' Equity

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2011	**15,750,188**	**$ 195**	**$ 791,166**	**$ 77,535**	**$ (151,110)**	**$ 605**	**$ 718,391**	**$ 32,209**	**$ 750,600**
Net income	—	—	—	41,268	—	—	41,268	2,466	43,734
Amortization/issuance of restricted stock	—	—	16,681	—	—	—	16,681	—	16,681
Repurchase of common stock through share repurchase program	(1,645,458)	—	—	—	(38,068)	—	(38,068)	—	(38,068)
Issuance of treasury shares for restricted stock vestings	1,323,427	—	(50,776)	—	50,776	—	—	—	—
Repurchase of common stock for employee tax withholding	(385,449)	—	—	—	(9,096)	—	(9,096)	—	(9,096)
Issuance of treasury shares for 401k match	165,241	—	(2,745)	—	6,559	—	3,814	—	3,814
Shares reserved to meet deferred compensation obligations	5,847	—	240	—	—	—	240	—	240
Other comprehensive income	—	—	—	—	—	62	62	—	62
Fund capital contributions, net	—	—	—	—	—	—	—	22,208	22,208
Balance at December 31, 2012	**15,213,796**	**$ 195**	**$ 754,566**	**$ 118,803**	**$ (140,939)**	**$ 667**	**$ 733,292**	**$ 56,883**	**$ 790,175**
Net income	—	—	—	45,090	—	—	45,090	5,394	50,484
Amortization/issuance of restricted stock	—	—	23,528	—	—	—	23,528	—	23,528
Repurchase of common stock through share repurchase program	(1,719,662)	—	—	—	(55,929)	—	(55,929)	—	(55,929)
Issuance of treasury shares for restricted stock vestings	1,173,180	—	(38,636)	—	38,636	—	—	—	—
Repurchase of common stock for employee tax withholding	(386,713)	—	—	—	(15,533)	—	(15,533)	—	(15,533)
Issuance of treasury shares for 401k match	96,049	—	803	—	3,136	—	3,939	—	3,939
Shares reserved to meet deferred compensation obligations	6,768	—	60	—	—	—	60	—	60
Other comprehensive income	—	—	—	—	—	229	229	—	229
Fund capital contributions, net	—	—	—	—	—	—	—	85,119	85,119
Balance at December 31, 2013	**14,383,418**	**$ 195**	**$ 740,321**	**$ 163,893**	**$ (170,629)**	**$ 896**	**$ 734,676**	**$ 147,396**	**$ 882,072**

Continued on next page

Piper Jaffray Companies

Consolidated Statements of Changes in Shareholders' Equity – Continued

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Net income	—	$ —	$ —	$ 63,172	$ —	$ —	$ 63,172	$ 11,153	$ 74,325
Amortization/issuance of restricted stock	—	—	23,649	—	—	—	23,649	—	23,649
Issuance of treasury shares for options exercised	137,864	—	834	—	4,618	—	5,452	—	5,452
Issuance of treasury shares for restricted stock vestings	892,385	—	(30,295)	—	30,295	—	—	—	—
Repurchase of common stock for employee tax withholding	(256,055)	—	—	—	(10,854)	—	(10,854)	—	(10,854)
Issuance of treasury shares for 401k match	103,598	—	726	—	3,430	—	4,156	—	4,156
Shares reserved to meet deferred compensation obligations	4,210	—	180	—	—	—	180	—	180
Other comprehensive loss	—	—	—	—	—	(519)	(519)	—	(519)
Fund capital withdrawals, net	—	—	—	—	—	—	—	(9,001)	(9,001)
Balance at December 31, 2014	**15,265,420**	**$ 195**	**$ 735,415**	**$ 227,065**	**$ (143,140)**	**$ 377**	**$ 819,912**	**$ 149,548**	**$ 969,460**

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 2014	2013	2012
Operating Activities:			
Net income	**$ 74,325**	$ 50,484	$ 43,734
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation and amortization of fixed assets	**5,269**	5,714	7,005
Deferred income taxes	**(10,843)**	(2,630)	11,458
Loss on sale of FAMCO	**—**	1,876	—
Loss on disposal of fixed assets	**—**	—	1,624
Share-based and deferred compensation	**28,764**	21,598	20,641
Goodwill impairment	**—**	—	5,508
Amortization of intangible assets	**9,272**	7,993	7,669
Amortization of forgivable loans	**5,316**	6,300	8,057
Decrease/(increase) in operating assets:			
Cash and cash equivalents segregated for regulatory purposes	**18,001**	(12,005)	(5,999)
Receivables:			
Customers	**1,975**	2,162	10,395
Brokers, dealers and clearing organizations	**(33,896)**	21,004	(23,452)
Securities purchased under agreements to resell	**(140,290)**	(22,442)	14,713
Net financial instruments and other inventory positions owned	**(27,042)**	4,685	(360,317)
Investments	**(14,797)**	(26,271)	(17,444)
Other assets	**3,785**	(3,867)	(15,362)
Increase/(decrease) in operating liabilities:			
Payables:			
Customers	**(19,781)**	(8,898)	12,592
Brokers, dealers and clearing organizations	**(2,158)**	(33,559)	24,720
Accrued compensation	**67,247**	32,233	23,424
Other liabilities and accrued expenses	**(15,216)**	(2,354)	18,945
Decrease in assets held for sale	**—**	605	435
Decrease in liabilities held for sale	**—**	(465)	(128)
Net cash provided by/(used in) operating activities	**(50,069)**	42,163	(211,782)
Investing Activities:			
Business acquisitions, net of cash acquired	**—**	(24,726)	—
Repayment of FAMCO note	**2,000**	250	—
Purchases of fixed assets, net	**(7,387)**	(5,476)	(2,131)
Net cash used in investing activities	**(5,387)**	(29,952)	(2,131)
Financing Activities:			
Increase/(decrease) in short-term financing	**$ (136,944)**	$ 37,697	$ 308,313
Issuance of variable rate senior notes	**50,000**	—	125,000
Repayment of variable rate senior notes	**(50,000)**	—	—
Decrease in bank syndicated financing	**—**	—	(115,000)
Increase/(decrease) in securities sold under agreements to repurchase	**98,249**	(45,603)	(59,080)
Increase/(decrease) in noncontrolling interests	**(9,001)**	85,119	22,208
Repurchase of common stock	**(10,854)**	(71,462)	(47,164)
Excess tax benefit from share-based compensation	**1,081**	47	—
Proceeds from stock option exercises	**5,452**	—	—
Net cash provided by/(used in) financing activities	**(52,017)**	5,798	234,277
Currency adjustment:			
Effect of exchange rate changes on cash	**(343)**	303	(17)
Net increase/(decrease) in cash and cash equivalents	**(107,816)**	18,312	20,347
Cash and cash equivalents at beginning of year	**123,683**	105,371	85,024
Cash and cash equivalents at end of year	**$ 15,867**	$ 123,683	$ 105,371
Supplemental disclosure of cash flow information –			
Cash paid/(received) during the year for:			
Interest	**$ 25,345**	$ 23,487	$ 19,357
Income taxes	**$ 58,599**	$ 745	$ (4,961)
Non-cash financing activities –			
Issuance of common stock for retirement plan obligations:			
103,598 shares, 96,049 shares and 165,241 shares for the years ended December 31, 2014, 2013 and 2012, respectively	**$ 4,156**	$ 3,939	$ 3,814
Issuance of restricted common stock for annual equity award:			
402,074 shares, 431,582 shares and 487,181 shares for the years ended December 31, 2014, 2013 and 2012, respectively	**$ 16,131**	$ 17,699	$ 11,244

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

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.

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 $11.0 million of interest revenue and $10.2 million of interest expense for the year ended December 31, 2012. This change had no effect on net revenues, net income, shareholders' equity or cash flows for any of the periods presented.

Note 2 *Summary of Significant Accounting Policies*

Principles of Consolidation

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

Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable each entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right or power to make decisions about or direct the entity's activities that most significantly impact the entity's economic performance. Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations," ("ASC 810") states that the usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interests.

VIEs are entities that lack one or more of the characteristics of a voting interest entity. With the exception of entities eligible for the deferral codified in FASB Accounting Standards Update ("ASU") No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in a VIE is present when an enterprise has one or more variable interests that have both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the entity or the rights to receive benefits from the VIE that could potentially be significant to the VIE. Accordingly, the Company consolidates VIEs in which the Company has a controlling financial interest.

Entities meeting the deferral provision defined by ASU 2010-10 are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has one or more variable interests that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest is the primary beneficiary and consolidates the VIE. Accordingly, the Company consolidates VIEs subject to the deferral provisions defined by ASU 2010-10 in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company's investment is accounted for under the equity method of accounting. The Company accounts for its investments in partnerships under the equity method of accounting. If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at fair value, if the fair value option was elected, or at cost.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of 90 days or less at the date of origination.

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Piper Jaffray, as a registered broker dealer carrying customer accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers.

Customer Transactions

Customer securities transactions are recorded on a settlement date basis, while the related revenues and expenses are recorded on a trade-date basis. Customer receivables and payables include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated statements of financial condition.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include receivables arising from unsettled securities transactions, deposits paid for securities borrowed, receivables from clearing organizations, deposits with clearing organizations and amounts receivable for securities not delivered to the purchaser by the settlement date (“securities failed to deliver”). Payables to brokers, dealers and clearing organizations include payables arising from unsettled securities transactions, payables to clearing organizations and amounts payable for securities not received from a seller by the settlement date (“securities failed to receive”). Unsettled securities transactions related to the Company's broker dealer operations are recorded at contract value on a net basis. Unsettled securities transactions related to the Company's consolidated investment company operations are recorded on a gross basis.

Collateralized Securities Transactions

Securities purchased under agreements to resell and securities sold under agreements to repurchase are carried at the contractual amounts at which the securities will be subsequently resold or repurchased, including accrued interest. It is the Company’s policy to take possession or control of securities purchased under agreements to resell at the time these agreements are entered into. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial institutions. Collateral is valued daily, and additional collateral is obtained from or refunded to counterparties when appropriate.

Securities borrowed and loaned result from transactions with other broker dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. These amounts are included in receivables from and payables to brokers, dealers and clearing organizations on the consolidated statements of financial condition. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash with the Company. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Interest is accrued on securities borrowed and loaned transactions and is included in (i) other assets or other liabilities and accrued expenses on the consolidated statements of financial condition and (ii) the respective interest income or interest expense amounts on the consolidated statements of operations.

Fair Value of Financial Instruments

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition consist of financial instruments (including securities with extended settlements and derivative contracts) recorded at fair value. Unrealized gains and losses related to these financial instruments are reflected on the consolidated statements of operations. Securities (both long and short), including securities with extended settlements, are recognized on a trade-date basis. Additionally, certain of the Company’s investments on the consolidated statements of financial condition are recorded at fair value, either as required by accounting guidance or through the fair value election.

Fair Value Measurement – Definition and Hierarchy – FASB Accounting Standards Codification Topic 820, “Fair Value Measurement,” (“ASC 820”) defines fair value as the amount at which an instrument could be exchanged in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management’s assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level I – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III – Instruments that have little to no pricing observability as of the report date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Valuation of Financial Instruments – Based on the nature of the Company's business and its role as a "dealer" in the securities industry or its role as a manager of alternative asset management funds, the fair values of its financial instruments are determined internally. When available, the Company values financial instruments at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of the Company's 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 involve some degree of judgment. Results from valuation models and other techniques in one period may not be indicative of 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 the Company to estimate the value of the securities using the best information available. Among the factors considered by the Company 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 the Company derives 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 instance, the Company assumes that the size of positions in securities that the Company holds would not be large enough to affect the quoted price of the securities if the firm sells them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the currently estimated fair value.

Fixed Assets

Fixed assets include furniture and equipment, software and leasehold improvements. Furniture and equipment and software are depreciated using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over their estimated useful life or the life of the lease, whichever is shorter. The Company capitalizes certain costs incurred in connection with internal use software projects and amortizes the amount over the expected useful life of the asset, generally three to seven years.

Leases

The Company leases its corporate headquarters and other offices under various non-cancelable leases. The leases require payment of real estate taxes, insurance and common area maintenance, in addition to rent. The terms of the Company's lease agreements generally range up to twelve years. Some of the leases contain renewal options, escalation clauses, rent-free holidays and operating cost adjustments.

For leases that contain escalation clauses or rent-free holidays, the Company recognizes the related rent expense on a straight-line basis from the date the Company takes possession of the property to the end of the initial lease term. The Company records any difference between the straight-line rent amounts and amounts payable under the leases as part of other liabilities and accrued expenses.

Cash or lease incentives received upon entering into certain leases are recognized on a straight-line basis as a reduction of rent expense from the date the Company takes possession of the property or receives the cash to the end of the initial lease term. The Company records the unamortized portion of lease incentives as part of other liabilities and accrued expenses.

Goodwill and Intangible Assets

Goodwill represents the fair value of the consideration transferred in excess of the fair value of identifiable net assets at the acquisition date. The recoverability of goodwill is evaluated annually, at a minimum, or on an interim basis if circumstances indicate a possible inability to realize the carrying amount. See Note 14 for additional information on the Company's goodwill impairment testing.

Intangible assets with determinable lives consist of asset management customer relationships and capital markets customer relationships and non-competition agreements that are amortized over their original estimated useful lives ranging from two to ten years. Indefinite-life intangible assets consist of the ARI trade name. It is not amortized and is evaluated annually, at a minimum, or on an interim basis if events or circumstances indicate a possible inability to realize the carrying amount.

Investments

The Company's proprietary investments include equity investments in private companies and partnerships, investments in public companies, investments in registered mutual funds, warrants of public and private companies and private company debt. Equity investments in private companies are accounted for at fair value, as required by accounting guidance or if the fair value option was elected, or at cost. Investments in partnerships are accounted for under the equity method, which is generally the net asset value. Exchange traded direct equity investments in public companies and registered mutual funds are accounted for at fair value. Company-owned warrants with a cashless exercise option are valued at fair value, while warrants without a cashless exercise option are valued at cost. Private company debt investments are recorded at fair value, as required by accounting guidance, or at amortized cost, net of any unamortized premium or discount.

Other Assets

Other assets include net deferred income tax assets, receivables and prepaid expenses. Receivables include fee receivables, accrued interest and loans made to employees, typically in connection with their recruitment. Employee loans are forgiven based on continued employment and are amortized to compensation and benefits expense using the straight-line method over the respective terms of the loans, which generally range from two to five years.

Revenue Recognition

Investment Banking – Investment banking revenues, which include underwriting and advisory fees, are recorded when services for the transactions are completed under the terms of each engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Investment banking revenues are presented net of related unreimbursed expenses for completed deals. Expenses related to investment banking deals not completed are recognized as non-interest expenses on the consolidated statements of operations.

Institutional Brokerage – Institutional brokerage revenues include (i) commissions received from customers for the execution of brokerage transactions in listed and over-the-counter (OTC) equity, fixed income and convertible debt securities, which are recorded on a trade-date basis, (ii) trading gains and losses and (iii) fees received by the Company for equity research.

The Company permits institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. As the Company is not the primary obligor for these arrangements, expenses relating to soft dollars are netted against commission revenues and included in other liabilities and accrued expenses on the consolidated statements of financial condition.

Asset Management – Asset management fees include revenues the Company receives in connection with management and investment advisory services performed for separately managed accounts and various funds and partnerships. These fees are recognized in the period in which services are provided. Fees are defined in client contracts as either fixed or based on a percentage of portfolio assets under management and may include performance fees. 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 (monthly, quarterly or annually). Performance fees, if earned, are generally recognized at the end of the specified measurement period, typically the fourth quarter of the applicable year, or upon client liquidation. Performance fees are recognized as of each reporting date for certain consolidated entities.

Interest Revenue and Expense – The Company nets interest expense within net revenues to mitigate the effects of fluctuations in interest rates on the Company's consolidated statements of operations. The Company recognizes contractual interest on financial instruments owned and financial instruments sold, but not yet purchased (excluding derivative instruments), on an accrual basis as a component of interest revenue and expense. The Company accounts for interest related to its short-term and bank syndicated financings and its variable rate senior notes on an accrual basis with related interest recorded as interest expense. In addition, the Company recognizes interest revenue related to its securities borrowed and securities purchased under agreements to resell activities and interest expense related to its securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Investment Income – Investment income includes realized and unrealized gains and losses from the Company's merchant banking and other firm investments.

Stock-based Compensation

FASB Accounting Standards Codification Topic 718, "Compensation — Stock Compensation," ("ASC 718") requires all stock-based compensation to be expensed on the consolidated statements of operations based on the grant date fair value of the award. Compensation expense related to share-based awards that do not require future service are recognized in the year in which the awards were deemed to be earned. Share-based awards that require future service are amortized over the relevant service period net of estimated forfeitures. See Note 24 for additional information on the Company's accounting for stock-based compensation.

Income Taxes

The Company files a consolidated U.S. federal income tax return, which includes all of its qualifying subsidiaries. The Company is also subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, 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 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 a deferred tax asset will not be realized. Tax reserves for uncertain tax positions are recorded in accordance with FASB Accounting Standards Codification Topic 740, "Income Taxes" ("ASC 740").

Earnings Per Share

Basic earnings per common share is computed by dividing net income/(loss) applicable to common shareholders by the weighted average number of common shares outstanding for the period. Net income/(loss) applicable to common shareholders represents net income/(loss) reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the earnings allocation in the earnings per share calculation under the two-class method. The Company grants restricted stock and restricted stock units as part of its share-based compensation program. Recipients of restricted stock are entitled to receive nonforfeitable dividends during the vesting period, and therefore meet the definition of a participating security. The Company's unvested restricted stock units are not participating securities as recipients are not eligible to receive nonforfeitable dividends.

Foreign Currency Translation

The Company consolidates foreign subsidiaries which have designated their local currency as their functional currency. Assets and liabilities of these foreign subsidiaries are translated at year-end rates of exchange. The gains or losses resulting from translating foreign currency financial statements are included in other comprehensive income. Gains or losses resulting from foreign currency transactions are included in net income.

Contingencies

The Company is involved in various pending and potential legal proceedings related to its business, including litigation, arbitration and regulatory proceedings. The Company establishes reserves for potential losses to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of the outcome and reserve amounts requires significant judgment on the part of management.

Note 3 *Recent Accounting Pronouncements*

Future Adoption of New Applicable Accounting Standards

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.

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.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 amends ASC 810 through targeted changes to the consolidation guidance for legal entities such as limited partnerships, limited liability corporations and securitization structures. It is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact of the amended guidance on its consolidated financial statements.

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 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 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 is amortized on a straight-line basis over the original requisite service period of two to five years (a weighted average remaining service period of 2.9 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 business.

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 $1.1 million were incurred for the year ended December 31, 2013, and are included in restructuring and integration costs within continuing operations on the consolidated statements of operations.

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, 2011. 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.

	Year Ended December 31,	
(Dollars in thousands)	2013	2012
Net revenues	$ 541,304	$ 535,694
Net income from continuing operations applicable to Piper Jaffray Companies	$ 48,568	$ 50,413

Note 5 *Discontinued Operations*

The Company's Hong Kong capital markets business ceased operations in 2012. In accordance with the provisions of FASB Accounting Standards Codification Topic 205-20, “Discontinued Operations,” the results from this business, previously reported in the Capital Markets segment, have been classified as discontinued operations for all periods presented.

The components of discontinued operations for the Hong Kong capital markets business are as follows:

(Dollars in thousands)	Year Ended December 31, 2013	Year Ended December 31, 2012
Net revenues	$ —	$ 6,635
Restructuring expenses	—	11,535
Other expenses	1,197	16,550
Total non-interest expenses	1,197	28,085
Loss from discontinued operations before income tax benefit	(1,197)	(21,450)
Income tax benefit	(415)	(21,069)
Loss from discontinued operations, net of tax	$ (782)	$ (381)

In 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. FAMCO's results, previously reported in the Asset Management segment, have been presented as discontinued operations for all periods presented and the related assets and liabilities were classified as held for sale as of December 31, 2012.

The components of discontinued operations for FAMCO are as follows:

(Dollars in thousands)	Year Ended December 31, 2013	Year Ended December 31, 2012
Net revenues	$ 1,650	$ 5,718
Goodwill impairment	—	5,508
Operating expenses	5,057	8,362
Total non-interest expenses	5,057	13,870
Loss from discontinued operations before income tax benefit	(3,407)	(8,152)
Income tax benefit	(1,326)	(2,726)
Loss from discontinued operations	(2,081)	(5,426)
Loss on sale, net of tax	(1,876)	—
Loss from discontinued operations, net of tax	$ (3,957)	$ (5,426)

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)	**December 31, 2014**	December 31, 2013
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ 50,365**	$ 54,097
Convertible securities	**156,685**	80,784
Fixed income securities	**48,651**	10,102
Municipal securities:		
Taxable securities	**312,753**	232,379
Tax-exempt securities	**559,704**	460,865
Short-term securities	**68,717**	62,620
Asset-backed securities	**125,065**	119,811
U.S. government agency securities	**244,046**	304,737
U.S. government securities	**2,549**	—
Derivative contracts	**47,826**	38,633
Total financial instruments and other inventory positions owned	**1,616,361**	1,364,028
Less noncontrolling interests (1)	**(267,742)**	(291,513)
	$ 1,348,619	$ 1,072,515
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 154,589**	$ 69,205
Fixed income securities	**21,460**	24,021
U.S. government agency securities	**27,735**	120,084
U.S. government securities	**523,527**	291,320
Derivative contracts	**10,813**	8,203
Total financial instruments and other inventory positions sold, but not yet purchased	**738,124**	512,833
Less noncontrolling interests (2)	**(98,669)**	(68,356)
	$ 639,455	$ 444,477

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $123.3 million and $101.8 million of taxable municipal securities, $139.5 million and $183.9 million of tax-exempt municipal securities, and $4.9 million and $5.8 million of derivative contracts as of December 31, 2014 and 2013, respectively.

(2) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $97.6 million and $67.4 million of U.S. government securities, and $1.1 million and $1.0 million of derivative contracts as of December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, financial instruments and other inventory positions owned in the amount of $1.1 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.

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) **Transaction Type or Hedged Security**	**Derivative Category**	**December 31, 2014**	**December 31, 2013**
Customer matched-book	Interest rate derivative contract	**$ 4,860,302**	$ 5,310,929
Trading securities	Interest rate derivative contract	**297,250**	198,500
Trading securities	Credit default swap index contract	**267,796**	299,333
Trading securities	Equity option derivative contract	**19,380**	17,090
		$ 5,444,728	$ 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)		**Year Ended December 31,**		
Derivative Category	**Operations Category**	**2014**	**2013**	**2012**
Interest rate derivative contract	Investment banking	**$ (2,790)**	$ (1,529)	$ (2,583)
Interest rate derivative contract	Institutional brokerage	**(1,678)**	(2,511)	(798)
Credit default swap index contract	Institutional brokerage	**(1,080)**	(1,522)	(1,603)
Equity option derivative contract	Institutional brokerage	**1,037**	(646)	—
		$ (4,511)	$ (6,208)	$ (4,984)

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) **Derivative Category**	**Financial Condition Location**		**Asset Value at December 31, 2014**	**Financial Condition Location**		**Liability Value at December 31, 2014**
Interest rate derivative contract	Financial instruments and other inventory positions owned	$	448,127	Financial instruments and other inventory positions sold, but not yet purchased	$	433,469
Credit default swap index contract	Financial instruments and other inventory positions owned		5,808	Financial instruments and other inventory positions sold, but not yet purchased		5,188
Equity option derivative contract	Financial instruments and other inventory positions owned		76	Financial instruments and other inventory positions sold, but not yet purchased		189
		$	454,011		$	438,846

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 December 31, 2014, the Company had $28.3 million of uncollateralized credit exposure with these counterparties (notional contract amount of $197.8 million), including $16.5 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 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.

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.

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 49-947 basis points ("bps") on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 37-460 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, 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 and partnerships, investments in public companies, investments in registered mutual funds, warrants of public and private companies and private company debt. 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. Investments 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 $18.4 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 December 31, 2014 and 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 $2.7 million, $10.6 million and $2.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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 December 31, 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 - 60%	19.4%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	66 - 94%	91.0%
Asset-backed securities:				
Collateralized by residential mortgages	Discounted cash flow	Credit default rates (3)	1 - 8%	4.2%
		Prepayment rates (4)	2 - 21%	4.1%
		Loss severity (3)	31 - 95%	70.9%
		Valuation yields (3)	5 - 6%	5.3%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	0 - 14 bps	13.2 bps
Investments at fair value:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	30.7%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	21 - 54%	28.0%
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 6 times	4.0 times
		EBITDA multiple (2)	9 - 12 times	9.5 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)	1 - 28 bps	13.6 bps

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.*

(3) *Significant changes in any of these inputs in isolation could result in a significantly different fair value. Generally, 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.*

The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2014:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 39,191	$ 11,174	$ —	$ —	$ 50,365
Convertible securities	—	156,685	—	—	156,685
Fixed income securities	—	48,651	—	—	48,651
Municipal securities:					
Taxable securities	—	312,753	—	—	312,753
Tax-exempt securities	—	558,518	1,186	—	559,704
Short-term securities	—	67,997	720	—	68,717
Asset-backed securities	—	316	124,749	—	125,065
U.S. government agency securities	—	244,046	—	—	244,046
U.S. government securities	2,549	—	—	—	2,549
Derivative contracts	76	453,795	140	(406,185)	47,826
Total financial instruments and other inventory positions owned:	41,816	1,853,935	126,795	(406,185)	1,616,361
Cash equivalents	1,562	—	—	—	1,562
Investments at fair value	20,704	—	74,165	—	94,869
Total assets	$ 64,082	$ 1,853,935	$ 200,960	$ (406,185)	$ 1,712,792
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 153,254	$ 1,335	$ —	$ —	$ 154,589
Fixed income securities	—	21,460	—	—	21,460
U.S. government agency securities	—	27,735	—	—	27,735
U.S. government securities	523,527	—	—	—	523,527
Derivative contracts	189	430,835	7,822	(428,033)	10,813
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 676,970	$ 481,365	$ 7,822	$ (428,033)	$ 738,124

(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 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
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 39,711	$ 14,386	$ —	$ —	$ 54,097
Convertible securities	—	80,784	—	—	80,784
Fixed income securities	—	10,002	100	—	10,102
Municipal securities:					
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
Total financial instruments and other inventory positions owned:	39,730	1,515,285	122,679	(313,666)	1,364,028
Cash equivalents	101,629	—	—	—	101,629
Investments at fair value	20,690	—	49,240	—	69,930
Total assets	$ 162,049	$ 1,515,285	$ 171,919	$ (313,666)	$ 1,535,587
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
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
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 362,414	$ 468,170	$ 6,643	$ (324,394)	$ 512,833

(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 $201.0 million and $171.9 million, or 11.7 percent and 11.2 percent of financial instruments measured at fair value at December 31, 2014 and 2013, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were $3.6 million of transfers of financial assets from Level II to Level III during the year ended December 31, 2014, related to investments for which no recent trade activity was observed and valuation inputs became unobservable. There were no other significant transfers between Level I, Level II or Level III for the year ended December 31, 2014.

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 December 31, 2013**	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at December 31, 2014**	**Unrealized gains/ (losses) for assets/ liabilities held at December 31, 2014 (1)**
Assets:									
Financial instruments and other inventory positions owned:									
Corporate securities:									
Fixed income securities	**$ 100**	$ —	$ (100)	$ —	$ —	$ —	$ —	**$ —**	**$ —**
Municipal securities:									
Tax-exempt securities	**1,433**	—	—	—	—	—	(247)	**1,186**	**(247)**
Short-term securities	**656**	—	(25)	—	—	6	83	**720**	**83**
Asset-backed securities	**119,799**	154,338	(161,962)	3,552	—	9,189	(167)	**124,749**	**1,745**
Derivative contracts	**691**	3,602	—	—	—	(3,602)	(551)	**140**	**140**
Total financial instruments and other inventory positions owned:	**122,679**	157,940	(162,087)	3,552	—	5,593	(882)	**126,795**	**1,721**
Investments at fair value	**49,240**	21,730	(2,368)	—	—	2,368	3,195	**74,165**	**3,195**
Total assets	**$ 171,919**	$ 179,670	$ (164,455)	$ 3,552	$ —	$ 7,961	$ 2,313	**$ 200,960**	**$ 4,916**
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	**$ 6,643**	$ (16,751)	$ —	$ —	$ —	$ 16,751	$ 1,179	**$ 7,822**	**$ 7,822**
Total financial instruments and other inventory positions sold, but not yet purchased:	**$ 6,643**	$ (16,751)	$ —	$ —	$ —	$ 16,751	$ 1,179	**$ 7,822**	**$ 7,822**

(1) 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. 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 on the consolidated statements of operations.

(Dollars in thousands)	**Balance at December 31, 2012**	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at December 31, 2013**	**Unrealized gains/ (losses) for assets/ liabilities held at December 31, 2013 (1)**
Assets:									
Financial instruments and other inventory positions owned:									
Corporate securities:									
Fixed income securities	**$ —**	$ 100	$ —	$ —	$ —	$ —	$ —	**$ 100**	**$ —**
Municipal securities:									
Tax-exempt securities	**1,429**	1	—	—	—	—	3	**1,433**	**3**
Short-term securities	**656**	—	—	—	—	—	—	**656**	**—**
Asset-backed securities	**116,171**	227,634	(238,860)	—	—	17,105	(2,251)	**119,799**	**1,548**
Derivative contracts	**827**	5	(2,382)	—	—	2,377	(136)	**691**	**691**
Total financial instruments and other inventory positions owned:	**119,083**	227,740	(241,242)	—	—	19,482	(2,384)	**122,679**	**2,242**
Investments at fair value	**33,245**	16,825	(10,358)	—	(619)	5,949	4,198	**49,240**	**4,198**
Total assets	**$ 152,328**	$ 244,565	$ (251,600)	$ —	$ (619)	$ 25,431	$ 1,814	**$ 171,919**	**$ 6,440**
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	**$ 5,218**	$ (5,702)	$ 457	$ —	$ —	$ 5,232	$ 1,438	**$ 6,643**	**$ 6,643**
Total financial instruments and other inventory positions sold, but not yet purchased:	**$ 5,218**	$ (5,702)	$ 457	$ —	$ —	$ 5,232	$ 1,438	**$ 6,643**	**$ 6,643**

(1) 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. 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 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.

Non-Recurring Fair Value Measurement

In 2012, the Company recorded a goodwill impairment charge of $5.5 million within discontinued operations representing the residual value of goodwill attributable to FAMCO. The fair value measurement used in the analysis was based on a discounted cash flow model and the anticipated pricing for the sale of FAMCO. The discounted cash flow model was calculated using unobservable inputs, such as operational budgets, strategic plans and other estimates, which are classified as Level III within the fair value hierarchy.

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.

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 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 $0.6 billion and $0.8 billion at December 31, 2014 and 2013, respectively. The Company's exposure to loss from these VIEs is $9.0 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at December 31, 2014. The Company had no liabilities related to these VIEs at December 31, 2014 and 2013.

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 December 31, 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 24 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)	**December 31, 2014**	December 31, 2013
Receivable arising from unsettled securities transactions	**$ 52,571**	$ 59,657
Deposits paid for securities borrowed	**57,572**	36,278
Receivable from clearing organizations	**4,933**	966
Deposits with clearing organizations	**33,799**	20,995
Securities failed to deliver	**1,753**	593
Other	**10,381**	8,624
	$ 161,009	$ 127,113

Amounts payable to brokers, dealers and clearing organizations included:

(Dollars in thousands)	December 31, 2014	December 31, 2013
Payable arising from unsettled securities transactions	**$ 11,048**	$ 5,643
Payable to clearing organizations	**5,185**	9,462
Securities failed to receive	**2,430**	744
Other	**6,901**	11,873
	$ 25,564	$ 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 *Receivables from and Payables to Customers*

Amounts receivable from customers included:

(Dollars in thousands)	December 31, 2014	December 31, 2013
Cash accounts	**$ 6,135**	$ 5,013
Margin accounts	**3,523**	6,620
Total receivables	**$ 9,658**	$ 11,633

Securities owned by customers are held as collateral for margin loan receivables. This collateral is not reflected on the consolidated financial statements. Margin loan receivables earn interest at floating interest rates based on prime rates.

Amounts payable to customers included:

(Dollars in thousands)	December 31, 2014	December 31, 2013
Cash accounts	**$ 13,172**	$ 30,499
Margin accounts	**156**	2,610
Total payables	**$ 13,328**	$ 33,109

Payables to customers primarily comprise certain cash balances in customer accounts consisting of customer funds pending settlement of securities transactions and customer funds on deposit. Except for amounts arising from customer short sales, all amounts payable to customers are subject to withdrawal by customers upon their request.

Note 11 *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 the majority of its short-term financing to mitigate risk.

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 $369.7 million and $212.4 million at December 31, 2014 and 2013, respectively, of which $338.8 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 December 31, 2014:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Asset-backed securities	$ 18,586	$ 25,632	1.66 - 2.01%
Term of 30 to 90 day maturities:			
Asset-backed securities	9,097	12,823	1.83 - 1.96%
On demand maturities:			
U.S. government agency securities	54,293	57,705	0.50 - 0.75%
U.S. government securities	20,670	21,323	0.35%
	$ 102,646	$ 117,483	

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 December 31, 2014 and 2013, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of December 31, 2014 or 2013. See Note 6 for information related to the Company's offsetting of derivative contracts.

Note 12 *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)	**December 31, 2014**	December 31, 2013
Investments at fair value	**$ 94,869**	$ 69,930
Investments at cost	**8,214**	20,709
Investments accounted for under the equity method	**23,757**	21,404
Total investments	**126,840**	112,043
Less investments attributable to noncontrolling interests (1)	**(32,563)**	(21,137)
	$ 94,277	$ 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 December 31, 2014, investments carried on a cost basis had an estimated fair market value of $13.7 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 13 *Other Assets*

Other assets included:

(Dollars in thousands)	**December 31, 2014**	**December 31, 2013**
Net deferred income tax assets	**$ 45,851**	$ 36,252
Fee receivables	**23,959**	34,415
Accrued interest receivables	**10,061**	9,793
Forgivable loans, net	**8,366**	7,879
Prepaid expenses	**6,067**	5,237
Other	**5,995**	8,516
Total other assets	**$ 100,299**	$ 102,092

See Note 28 for additional details concerning the Company's net deferred income tax assets.

Note 14 *Goodwill and Intangible Assets*

The following table presents the changes in the carrying value of goodwill and intangible assets from continuing operations:

(Dollars in thousands)	Capital Markets	Asset Management	Total
Goodwill			
Balance at December 31, 2012	**$ —**	**$ 196,844**	**$ 196,844**
Goodwill acquired	13,790	—	13,790
Balance at December 31, 2013	**$ 13,790**	**$ 196,844**	**$ 210,634**
Goodwill acquired	—	—	—
Measurement period adjustment	1,244	—	1,244
Balance at December 31, 2014	**$ 15,034**	**$ 196,844**	**$ 211,878**
Intangible assets			
Balance at December 31, 2012	**$ —**	**$ 41,258**	**$ 41,258**
Intangible assets acquired	6,665	—	6,665
Amortization of intangible assets	(1,349)	(6,644)	(7,993)
Balance at December 31, 2013	**$ 5,316**	**$ 34,614**	**$ 39,930**
Intangible assets acquired	—	—	—
Amortization of intangible assets	(2,972)	(6,300)	(9,272)
Balance at December 31, 2014	**$ 2,344**	**$ 28,314**	**$ 30,658**

The Company tests goodwill and indefinite-life intangible assets for impairment on an annual basis and on an interim basis when circumstances exist that could indicate possible impairment. The Company tests for impairment at the reporting unit level, which is generally one level below its operating segments. The Company has identified two reporting units: capital markets and asset management. When testing for impairment, the Company has 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, the Company determines 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 the Company concludes otherwise, then the Company is 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 the reporting units based on the following factors: a discounted cash flow model using revenue and profit forecasts, the Company's market capitalization, public company comparables and multiples of recent mergers and acquisitions of similar businesses, if available. The estimated fair values of the 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 Company completed its annual goodwill impairment analysis as of October 31, 2014 and 2013, and concluded there was no goodwill impairment. In 2012, the Company recorded a non-cash goodwill impairment charge of $5.5 million within discontinued operations. This amount represented the residual value of goodwill attributable to FAMCO.

The Company also evaluated its intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2014, 2013 and 2012, respectively.

The addition of goodwill and intangible assets during the year ended December 31, 2013 related to the acquisitions of Seattle-Northwest and Edgeview, as discussed in Note 4. In 2014, the Company recorded a $1.2 million measurement period adjustment to increase goodwill and acquisition-related deferred tax liabilities. Management identified $6.7 million of intangible assets, consisting of customer relationships ($6.0 million) and non-competition agreements ($0.7 million), which will be amortized over a weighted average life of 1.9 years and 3.0 years, respectively.

Intangible assets with determinable lives consist of asset management customer relationships and capital markets customer relationships and non-competition agreements. The intangible assets are amortized over their original estimated useful lives ranging from two to ten years. The following table summarizes the future aggregate amortization expense of the Company's intangible assets with determinable lives for the years ended:

(Dollars in thousands)	
2015	$ 7,093
2016	6,219
2017	5,230
2018	4,804
2019	4,452
Total	$ 27,798

Note 15 *Fixed Assets*

The following is a summary of fixed assets:

(Dollars in thousands)	**December 31, 2014**	December 31, 2013
Furniture and equipment	**$ 28,669**	$ 34,980
Leasehold improvements	**23,697**	23,478
Software	**13,132**	19,967
Total	**65,498**	78,425
Accumulated depreciation and amortization	**(47,327)**	(62,311)
	$ 18,171	$ 16,114

For the years ended December 31, 2014, 2013 and 2012, depreciation and amortization of furniture and equipment, leasehold improvements and software from continuing operations totaled $5.3 million, $5.6 million and $6.5 million, respectively, and are included in occupancy and equipment expense on the consolidated statements of operations.

Note 16 *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**	
(Dollars in thousands)	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Commercial paper (secured)	**$ 238,013**	$ 280,294	**1.48%**	1.59%
Prime broker arrangement	**127,754**	234,417	**0.91%**	0.90%
Bank lines (secured)	**12,000**	—	**1.50%**	N/A
Total short-term financing	**$ 377,767**	$ 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 December 31, 2014, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 77 days, 26 days and 27 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 December 31, 2014 consisted of a one-year $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2014. 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 18, 2015. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At December 31, 2014, the Company had no advances against this line of credit.

The Company's uncommitted secured lines at December 31, 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 December 31, 2014, the Company had $12.0 million in advances against these lines of credit.

Note 17 *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.

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 December 31, 2014, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of December 31, 2014, the carrying value of the Notes approximated fair value.

Note 18 *Bank Syndicated Financing*

On December 29, 2010, the Company entered into a three-year Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. SunTrust Bank was the administrative agent ("Agent") for the lenders. The outstanding balance and unpaid interest on the Credit Agreement was repaid on November 30, 2012 from the proceeds of the Notes discussed in Note 17.

Note 19 *Contingencies, Commitments and Guarantees*

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.

Litigation-related reserve activity from continuing operations included within other operating expenses resulted in expense of $0.8 million, a benefit of $4.1 million primarily attributable to the receipt of insurance proceeds for the reimbursement of prior legal settlements, and expense of $0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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 December 31, 2014 are as follows:

(Dollars in thousands)	
2015	$ 12,313
2016	12,052
2017	9,958
2018	9,646
2019	9,099
Thereafter	26,463
	$ 79,531

Total minimum rentals to be received from 2015 through 2019 under noncancelable subleases were $7.2 million at December 31, 2014.

Rental expense, including operating costs and real estate taxes, from continuing operations was $13.8 million, $12.9 million and $13.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Fund Commitments

As of December 31, 2014, the Company had commitments to invest approximately $37.3 million in limited partnerships that provide financing or make investments in private equity funds. The commitments are estimated to be funded, if called, through the end of the respective investment periods ranging from 2015 to 2018.

Other Guarantees

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements with these entities, members generally are required to guarantee the performance of other members, and if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. In addition, the Company identifies and guarantees certain clearing agents against specified potential losses in connection with providing services to the Company or its affiliates. The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes the likelihood that the Company would be required to make payments under these arrangements is remote. Accordingly, no liability is recorded in the consolidated financial statements for these arrangements.

As general partner, Piper Jaffray Investment Management LLC, a wholly-owned subsidiary of the Company, has guaranteed the debts, liabilities and obligations of a municipal bond fund to the extent of the general partner's assets. Management believes the likelihood that the Company would be required to make payments under this arrangement is remote. Accordingly, no liability is recorded in the consolidated financial statements for this arrangement.

Concentration of Credit Risk

The Company provides investment, capital-raising and related services to a diverse group of domestic and foreign customers, including governments, corporations, and institutional and individual investors. The Company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To alleviate the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions.

Note 20 *Restructuring*

For the year ended December 31, 2013, the Company incurred pre-tax restructuring charges of $3.6 million from continuing operations. The charge included severance benefits of $2.4 million, $0.5 million for vacating redundant leased office space and $0.7 million for contract termination costs. For the year ended December 31, 2012, the Company incurred pre-tax restructuring-related charges of $3.6 million from continuing operations. The charge included severance benefits of $2.4 million and $1.2 million for the reduction of leased office space.

Note 21 *Shareholders' Equity*

The certificate of incorporation of Piper Jaffray Companies provides for the issuance of up to 100,000,000 shares of common stock with a par value of $0.01 per share and up to 5,000,000 shares of undesignated preferred stock with a par value of $0.01 per share.

Common Stock

The holders of Piper Jaffray Companies common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Subject to preferences that may be applicable to any outstanding preferred stock of Piper Jaffray Companies, the holders of its common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Piper Jaffray Companies board of directors out of funds legally available for that purpose. Piper Jaffray Companies does not currently pay cash dividends on its common stock. Additionally, there are dividend restrictions as set forth in Note 27.

In the event that Piper Jaffray Companies is liquidated or dissolved, the holders of its common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to any prior distribution rights of Piper Jaffray Companies preferred stock, if any, then outstanding. Currently, there is no outstanding preferred stock. The holders of the common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Piper Jaffray Companies common stock.

During the year ended December 31, 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 774,194 common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 24. During the year ended December 31, 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 786,467 common shares out of treasury stock as a result of employee restricted share vesting.

In the third quarter of 2010, the Company's board of directors authorized the repurchase of up to $75.0 million in common shares through September 30, 2012. During the nine months ended September 30, 2012, the Company repurchased 1,488,881 shares of the Company's common stock at an average price of $22.48 per share for an aggregate purchase price of $33.5 million related to this authorization. This share repurchase authorization expired as of September 30, 2012.

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 fourth quarter of 2012, the Company repurchased 156,577 shares of the Company's common stock at an average price of $29.38 per share for an aggregate purchase price of $4.6 million related to this authorization. During the year ended December 31, 2013, the Company repurchased 1,719,662 shares at an average price of $32.52 per share for an aggregate purchase price of $55.9 million related to this authorization. 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. This share repurchase authorization expired as of September 30, 2014.

Effective October 1, 2014, the Company's board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2016. During the fourth quarter of 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 256,055 shares or $10.9 million, 386,713 shares or $15.5 million and 385,449 shares or $9.1 million of the Company's common stock for this purpose during the years ended December 31, 2014, 2013 and 2012, respectively.

Preferred Stock

The Piper Jaffray Companies board of directors has the authority, without action by its shareholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights associated with the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of common stock until the Piper Jaffray Companies board of directors determines the specific rights of the holders of preferred stock. However, the effects might include, among other things, the following: restricting dividends on its common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock and delaying or preventing a change in control of Piper Jaffray Companies without further action by its shareholders.

Note 22 *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 $117.0 million, a merchant banking fund of $24.7 million and private equity investment vehicles aggregating $7.8 million as of December 31, 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 years ended December 31, 2014, 2013 and 2012.

Note 23 *Employee Benefit Plans*

The Company has various employee benefit plans, and substantially all employees are covered by at least one plan. The plans include health and welfare plans and a tax-qualified retirement plan (the "Retirement Plan"). During the years ended December 31, 2014, 2013 and 2012, the Company incurred employee benefits expenses from continuing operations of $13.2 million, $12.1 million and $13.0 million, respectively.

Health and Welfare Plans

Company employees who meet certain work schedule and service requirements are eligible to participate in the Company's health and welfare plans. The Company subsidizes the cost of coverage for employees. The health plans contain cost-sharing features such as deductibles and coinsurance.

The Company is self-insured for losses related to health claims, although it obtains third-party stop loss insurance coverage on both an individual and a group plan basis. Self-insured liabilities are based on a number of factors, including historical claims experience, an estimate of claims incurred but not reported and valuations provided by third-party actuaries. For the years ended December 31, 2014, 2013 and 2012, the Company recognized expense of $7.7 million, $7.2 million and $8.0 million, respectively, in compensation and benefits expense from continuing operations on the consolidated statements of operations related to its health plans.

Retirement Plan

The Retirement Plan consists of a defined contribution retirement savings plan. The defined contribution retirement savings plan allows qualified employees, at their option, to make contributions through salary deductions under Section 401(k) of the Internal Revenue Code. Employee contributions are 100 percent matched by the Company to a maximum of six percent of recognized compensation up to the social security taxable wage base. Although the Company's matching contribution vests immediately, a participant must be employed on December 31 to receive that year's matching contribution.

Note 24 *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 December 31, 2014:

Incentive Plan	
Restricted Stock	
Annual grants	806,162
Sign-on grants	259,984
	1,066,146
Inducement Plan	
Restricted Stock	29,159
Total restricted stock outstanding	1,095,305
Incentive Plan	
Restricted Stock Units	
Leadership grants	405,826
Incentive Plan	
Stock options outstanding	217,873

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 December 31, 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.

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 also 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 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 2014 for its February 2015 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.

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 $28.2 million, $21.0 million and $20.2 million for the years ended December 31, 2014, 2013 and 2012, 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 and Leadership Grants, less forfeitures of $0.7 million, $1.0 million and $1.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. The tax benefit related to stock-based compensation costs totaled $11.0 million, $8.2 million and $7.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table summarizes the changes in the Company's unvested restricted stock under the Incentive Plan and Inducement Plan:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2011	**3,152,001**	**$ 38.79**
Granted	635,136	22.89
Vested	(1,309,881)	34.21
Canceled	(154,818)	39.37
December 31, 2012	**2,322,438**	**$ 37.01**
Granted	682,760	38.35
Vested	(1,165,989)	39.83
Canceled	(257,147)	38.30
December 31, 2013	**1,582,062**	**$ 35.25**
Granted	421,728	40.57
Vested	(883,761)	36.22
Canceled	(24,724)	36.02
December 31, 2014	**1,095,305**	**$ 36.51**

The fair value of restricted stock that vested during the years ended December 31, 2014, 2013 and 2012 was $32.0 million, $46.4 million and $44.8 million, respectively.

The following table summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2011	**—**	**$ —**
Granted	214,526	12.12
Vested	—	—
Canceled	(41,255)	12.12
December 31, 2012	**173,271**	**$ 12.12**
Granted	117,265	21.32
Vested	—	—
Canceled	—	—
December 31, 2013	**290,536**	**$ 15.83**
Granted	115,290	23.42
Vested	—	—
Canceled	—	—
December 31, 2014	**405,826**	**$ 17.99**

As of December 31, 2014, there was $10.2 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.4 years.

The following table summarizes the changes in the Company's outstanding stock options:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2011	**502,623**	**$ 44.71**	**3.9**	**$ —**
Granted	—	—		
Exercised	—	—		
Canceled	(16,060)	43.17		
December 31, 2012	**486,563**	**$ 44.76**	**2.9**	**$ 94,150**
Granted	—	—		
Exercised	—	—		
Canceled	(17,274)	42.85		
December 31, 2013	**469,289**	**$ 44.83**	**2.0**	**$ 288,318**
Granted	—	—		
Exercised	(137,864)	39.55		
Canceled	(55)	39.62		
Expired	(113,497)	47.72		
December 31, 2014	**217,873**	**$ 46.66**	**2.0**	**$ 3,066,839**
Options exercisable at December 31, 2012	**486,563**	**$ 44.76**	**2.9**	**$ 94,150**
Options exercisable at December 31, 2013	**469,289**	**$ 44.83**	**2.0**	**$ 288,318**
Options exercisable at December 31, 2014	**217,873**	**$ 46.66**	**2.0**	**$ 3,066,839**

Additional information regarding Piper Jaffray Companies options outstanding as of December 31, 2014 is as follows:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$28.01	11,426	0.3	$ 28.01	11,426	$ 28.01
$33.40	4,001	0.6	$ 33.40	4,001	$ 33.40
$39.62	44,543	0.1	$ 39.62	44,543	$ 39.62
$41.09	99,147	3.1	$ 41.09	99,147	$ 41.09
$47.30 - $51.05	11,343	1.1	$ 47.85	11,343	$ 47.85
$70.13 - $70.65	47,413	1.9	$ 70.26	47,413	$ 70.26

As of December 31, 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 $1.7 million and $0.7 million, respectively, for the year ended December 31, 2014. There were no options exercised for the years ended December 31, 2013 and 2012.

The Company has a policy of issuing shares out of treasury (to the extent available) to satisfy share option exercises and restricted stock vesting. The Company expects to withhold approximately 0.2 million shares from employee equity awards vesting in 2015, related to employee individual income tax withholding obligations on restricted stock vesting. For accounting purposes, withholding shares to cover employees' tax obligations is deemed to be a repurchase of shares by the Company.

Deferred Compensation Plans

The Company maintains various deferred compensation arrangements for employees.

The nonqualified deferred compensation plan is 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 $6.6 million as of December 31, 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 $6.6 million as of December 31, 2014. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

The Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan is 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.

Note 25 *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:

	Year Ended December 31,		
(Amounts in thousands, except per share data)	**2014**	**2013**	**2012**
Net income from continuing operations applicable to Piper Jaffray Companies	**$ 63,172**	$ 49,829	$ 47,075
Net loss from discontinued operations	**—**	(4,739)	(5,807)
Net income applicable to Piper Jaffray Companies	**63,172**	45,090	41,268
Earnings allocated to participating securities (1)	**(5,031)**	(4,494)	(5,933)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	**$ 58,141**	$ 40,596	$ 35,335
Shares for basic and diluted calculations:			
Average shares used in basic computation	**14,971**	15,046	15,615
Stock options	**54**	15	1
Average shares used in diluted computation	**15,025**	15,061	15,616
Earnings/(loss) per basic common share:			
Income from continuing operations	**$ 3.88**	$ 2.98	$ 2.58
Loss from discontinued operations	**—**	(0.28)	(0.32)
Earnings per basic common share	**$ 3.88**	$ 2.70	$ 2.26
Earnings/(loss) per diluted common share:			
Income from continuing operations	**$ 3.87**	$ 2.98	$ 2.58
Loss from discontinued operations	**—**	(0.28)	(0.32)
Earnings per diluted common share	**$ 3.87**	$ 2.70	$ 2.26

(1) *Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 1,299,827; 1,667,067 and 2,622,438 for the years ended December 31, 2014, 2013 and 2012, 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 years ended December 31, 2014, 2013 and 2012.

Note 26 *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:

	Year Ended December 31,		
(Dollars in thousands)	**2014**	**2013**	**2012**
Capital Markets			
Investment banking			
Financing			
Equities	**$ 116,684**	$ 100,224	$ 73,180
Debt	**67,731**	74,284	74,102
Advisory services	**186,176**	74,420	86,165
Total investment banking	**370,591**	248,928	233,447
Institutional sales and trading			
Equities	**82,211**	91,169	75,723
Fixed income	**92,200**	76,275	111,492
Total institutional sales and trading	**174,411**	167,444	187,215
Management and performance fees	**5,398**	3,891	1,678
Investment income	**24,046**	30,404	9,840
Long-term financing expenses	**(6,655)**	(7,420)	(7,982)
Net revenues	**567,791**	443,247	424,198
Operating expenses (1)	**478,661**	393,231	371,628
Segment pre-tax operating income	**$ 89,130**	$ 50,016	$ 52,570
Segment pre-tax operating margin	**15.7%**	11.3%	12.4%

Continued on next page

(Dollars in thousands)	Year Ended December 31, 2014	2013	2012
Asset Management			
Management and performance fees			
Management fees	**$ 78,772**	$ 71,314	$ 63,236
Performance fees	**892**	7,840	785
Total management and performance fees	**79,664**	79,154	64,021
Investment income	**683**	2,794	733
Net revenues	**80,347**	81,948	64,754
Operating expenses (1)	**59,166**	56,351	48,313
Segment pre-tax operating income	**$ 21,181**	$ 25,597	$ 16,441
Segment pre-tax operating margin	**26.4%**	31.2%	25.4%
Total			
Net revenues	**$ 648,138**	$ 525,195	$ 488,952
Operating expenses (1)	**537,827**	449,582	419,941
Pre-tax operating income	**$ 110,311**	$ 75,613	$ 69,011
Pre-tax operating margin	**17.0%**	14.4%	14.1%

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

(Dollars in thousands)	Year Ended December 31, 2014	2013	2012
Capital Markets	**$ 2,972**	$ 1,349	$ —
Asset Management	**6,300**	6,644	6,944
Total intangible asset amortization expense	**$ 9,272**	$ 7,993	$ 6,944

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.

	Year Ended December 31,		
(Dollars in thousands)	**2014**	2013	2012
Net revenues:			
United States	**$ 632,625**	$ 513,433	$ 476,718
Europe	**15,513**	11,762	12,234
Consolidated	**$ 648,138**	$ 525,195	$ 488,952

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)	**December 31, 2014**	**December 31, 2013**
Long-lived assets:		
United States	**$ 300,421**	$ 296,516
Europe	**5,516**	6,414
Consolidated	**$ 305,937**	$ 302,930

Note 27 *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 December 31, 2014, net capital calculated under the SEC rule was $165.3 million, and exceeded the minimum net capital required under the SEC rule by $164.3 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 December 31, 2014, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Note 28 *Income Taxes*

Income tax expense is provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, 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 components of income tax expense from continuing operations are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2014**	**2013**	**2012**
Current:			
Federal	**$ 37,331**	$ 20,468	$ 16,939
State	**8,117**	3,795	(9,563)
Foreign	**161**	183	—
	45,609	24,446	7,376
Deferred:			
Federal	**(8,641)**	(1,582)	7,735
State	**(1,317)**	(4,041)	4,413
Foreign	**335**	1,567	(54)
	(9,623)	(4,056)	12,094
Total income tax expense from continuing operations	**$ 35,986**	$ 20,390	$ 19,470
Total income tax benefit from discontinued operations	**$ —**	$ (2,935)	$ (23,795)

A reconciliation of federal income taxes at statutory rates to the Company's effective tax rates from continuing operations is as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2014**	**2013**	**2012**
Federal income tax expense at statutory rates	**$ 38,609**	$ 26,464	$ 24,153
Increase/(reduction) in taxes resulting from:			
State income taxes, net of federal tax benefit	**3,857**	2,785	2,540
Net tax-exempt interest income	**(3,693)**	(3,917)	(3,353)
Foreign jurisdictions tax rate differential	**(63)**	(185)	(164)
Change in valuation allowance	**—**	(4,182)	(1,110)
Restricted stock deferred tax asset write-off	**—**	—	4,577
Income attributable to noncontrolling interests	**(3,903)**	(1,888)	(863)
Other, net	**1,179**	1,313	(6,310)
Total income tax expense from continuing operations	**$ 35,986**	$ 20,390	$ 19,470

In accordance with ASC 740, U.S. income taxes are not provided on undistributed earnings of international subsidiaries that are permanently reinvested. As of December 31, 2014, undistributed earnings permanently reinvested in the Company's foreign subsidiaries were not material.

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes. The net deferred income tax assets included in other assets on the consolidated statements of financial condition consisted of the following items:

(Dollars in thousands)	**December 31, 2014**	December 31, 2013
Deferred tax assets:		
Deferred compensation	**$ 56,893**	$ 43,608
Net operating loss carry forwards	**4,854**	5,569
Liabilities/accruals not currently deductible	**1,601**	1,903
Other	**2,930**	1,459
Total deferred tax assets	**66,278**	52,539
Valuation allowance	**(159)**	(159)
Deferred tax assets after valuation allowance	**66,119**	52,380
Deferred tax liabilities:		
Goodwill amortization	**15,028**	9,957
Unrealized gains on firm investments	**3,221**	3,577
Fixed assets	**945**	1,017
Other	**1,074**	1,577
Total deferred tax liabilities	**20,268**	16,128
Net deferred tax assets	**$ 45,851**	$ 36,252

The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The Company believes that its future tax profits will be sufficient to recognize its deferred tax assets, with the exception of $0.2 million in state net operating loss carryforwards.

The Company accounts for unrecognized tax benefits in accordance with the provisions of ASC 740, which requires tax reserves to be recorded for uncertain tax positions on the consolidated statements of financial condition. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollars in thousands)	
Balance at December 31, 2011	**$ 8,915**
Additions based on tax positions related to the current year	—
Additions for tax positions of prior years	200
Reductions for tax positions of prior years	(8,825)
Settlements	—
Balance at December 31, 2012	**$ 290**
Additions based on tax positions related to the current year	—
Additions for tax positions of prior years	2,000
Reductions for tax positions of prior years	(90)
Settlements	—
Balance at December 31, 2013	**$ 2,200**
Additions based on tax positions related to the current year	—
Additions for tax positions of prior years	123
Reductions for tax positions of prior years	—
Settlements	—
Balance at December 31, 2014	**$ 2,323**

As of December 31, 2014, approximately $0.3 million of the Company's unrecognized tax benefits would impact the annual effective rate, if recognized.

In 2012, the Company reversed $8.8 million for unrecognized tax benefits. In addition, the Company reversed $2.6 million of accrued interest related to these positions. In aggregate, the Company recorded a $7.4 million credit to income tax expense in 2012, net of federal income tax.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. The Company had approximately $0.2 million for the payment of interest and penalties accrued at December 31, 2014 and 2013, respectively, which was recognized during the year ended December 31, 2013. During the year ended December 31, 2012, the Company recognized no interest and penalties. The Company or one of its subsidiaries files income tax returns with the various states and foreign jurisdictions in which the Company operates. The Company is not subject to U.S. federal tax authorities for years before 2011 and is not subject to state and local or non-U.S. tax authorities for taxable years before 2009. The Company anticipates all of its uncertain income tax provisions will be resolved within the next twelve months.

Note 29 *Piper Jaffray Companies (Parent Company only)*

Condensed Statements of Financial Condition

(Amounts in thousands)	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	**$ 200**	$ 336
Investment in and advances to subsidiaries	**956,609**	870,104
Other assets	**13,819**	9,119
Total assets	**$ 970,628**	$ 879,559
Liabilities and Shareholders' Equity		
Variable rate senior notes	**$ 125,000**	$ 125,000
Accrued compensation	**24,618**	18,454
Other liabilities and accrued expenses	**1,098**	1,429
Total liabilities	**150,716**	144,883
Shareholders' equity	**819,912**	734,676
Total liabilities and shareholders' equity	**$ 970,628**	$ 879,559

Condensed Statements of Operations

	Year Ended December 31,		
(Amounts in thousands)	2014	2013	2012
Revenues:			
Dividends from subsidiaries	**$ 50,333**	$ 46,000	$ 119,000
Interest	**662**	254	82
Other revenues	**275**	198	—
Total revenues	**51,270**	46,452	119,082
Interest expense	**5,463**	5,850	5,823
Net revenues	**45,807**	40,602	113,259
Non-interest expenses:			
Total non-interest expenses	**5,318**	3,096	4,222
Income from continuing operations before income tax expense and equity in undistributed/(distributed in excess of) income of subsidiaries	**40,489**	37,506	109,037
Income tax expense	**14,795**	13,263	39,175
Income from continuing operations of parent company	**25,694**	24,243	69,862
Equity in undistributed/(distributed in excess of) income of subsidiaries	**37,478**	25,200	(49,617)
Net income from continuing operations	**63,172**	49,443	20,245
Discontinued operations:			
Income/(loss) from discontinued operations, net of tax	**—**	(4,353)	21,023
Net income	**$ 63,172**	$ 45,090	$ 41,268

Piper Jaffray Companies

Notes to the Consolidated Financial Statements – Continued

Condensed Statements of Cash Flows

(Amounts in thousands)	Year Ended December 31, 2014	2013	2012
Operating Activities:			
Net income	**$ 63,172**	$ 45,090	$ 41,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based and deferred compensation	**180**	60	240
Equity distributed in excess of/(in undistributed) income of subsidiaries	**(37,478)**	(25,200)	49,617
Net cash provided by operating activities	**25,874**	19,950	91,125
Investing Activities:			
Repayment of FAMCO note	**2,000**	250	—
Net cash provided by investing activities	**2,000**	250	—
Financing Activities:			
Issuance of variable rate senior notes	**50,000**	—	125,000
Repayment of variable rate senior notes	**(50,000)**	—	—
Decrease in bank syndicated financing	**—**	—	(115,000)
Advances from/(to) subsidiaries	**(28,010)**	34,996	(76,481)
Repurchase of common stock	**—**	(55,929)	(38,068)
Net cash used in financing activities	**(28,010)**	(20,933)	(104,549)
Net decrease in cash and cash equivalents	**(136)**	(733)	(13,424)
Cash and cash equivalents at beginning of year	**336**	1,069	14,493
Cash and cash equivalents at end of year	**$ 200**	$ 336	$ 1,069
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ (4,801)**	$ (5,596)	$ (5,741)
Income taxes	**$ (14,795)**	$ (13,263)	$ (39,175)

Piper Jaffray Companies

Supplementary Data

Quarterly Information (unaudited)

(Amounts in thousands, except per share data)	2014 Fiscal Quarter			
	First	**Second**	**Third**	**Fourth**
Total revenues	$ 173,894	$ 175,976	$ 165,947	$ 157,394
Interest expense	5,761	5,945	6,521	6,846
Net revenues	168,133	170,031	159,426	150,548
Non-interest expenses	135,420	139,614	133,734	129,059
Income from continuing operations before income tax expense	32,713	30,417	25,692	21,489
Income tax expense	9,827	10,049	8,596	7,514
Net income from continuing operations	22,886	20,368	17,096	13,975
Loss from discontinued operations, net of tax	—	—	—	—
Net income	22,886	20,368	17,096	13,975
Net income applicable to noncontrolling interests	5,138	2,155	2,428	1,432
Net income applicable to Piper Jaffray Companies	$ 17,748	$ 18,213	$ 14,668	12,543
Net income applicable to Piper Jaffray Companies' common shareholders	$ 16,089	$ 16,717	$ 13,552	$ 11,700
Amounts applicable to Piper Jaffray Companies				
Net income from continuing operations	$ 17,748	$ 18,213	$ 14,668	$ 12,543
Net loss from discontinued operations	—	—	—	—
Net income applicable to Piper Jaffray Companies	$ 17,748	$ 18,213	$ 14,668	$ 12,543
Earnings per basic common share				
Income from continuing operations	$ 1.10	$ 1.12	$ 0.90	$ 0.77
Loss from discontinued operations	—	—	—	—
Earnings per basic common share	$ 1.10	$ 1.12	$ 0.90	$ 0.77
Earnings per diluted common share				
Income from continuing operations	$ 1.10	$ 1.11	$ 0.90	$ 0.77
Loss from discontinued operations	—	—	—	—
Earnings per diluted common share	$ 1.10	$ 1.11	$ 0.90	$ 0.77
Weighted average number of common shares				
Basic	14,612	14,958	15,066	15,241
Diluted	14,657	15,013	15,129	15,293

Piper Jaffray Companies

Supplementary Data – Continued

(Amounts in thousands, except per share data)	**2013 Fiscal Quarter** First	Second	Third	Fourth
Total revenues	$ 115,312	$ 106,520	$ 134,506	$ 193,893
Interest expense	5,779	6,748	6,192	6,317
Net revenues	109,533	99,772	128,314	187,576
Non-interest expenses	91,365	96,439	116,254	145,524
Income from continuing operations before income tax expense	18,168	3,333	12,060	42,052
Income tax expense	5,600	1,644	2,886	10,260
Net income from continuing operations	12,568	1,689	9,174	31,792
Loss from discontinued operations, net of tax	(521)	(1,871)	(1,529)	(818)
Net income/(loss)	12,047	(182)	7,645	30,974
Net income/(loss) applicable to noncontrolling interests	1,901	(2,670)	2,323	3,840
Net income applicable to Piper Jaffray Companies	$ 10,146	$ 2,488	$ 5,322	$ 27,134
Net income applicable to Piper Jaffray Companies' common shareholders	$ 8,966	$ 2,266	$ 4,826	$ 24,445
Amounts applicable to Piper Jaffray Companies				
Net income from continuing operations	$ 10,667	$ 4,359	$ 6,851	$ 27,952
Loss from discontinued operations	(521)	(1,871)	(1,529)	(818)
Net income applicable to Piper Jaffray Companies	$ 10,146	$ 2,488	$ 5,322	$ 27,134
Earnings per basic common share				
Income from continuing operations	$ 0.60	$ 0.25	$ 0.42	$ 1.75
Loss from discontinued operations	(0.03)	(0.11)	(0.09)	(0.05)
Earnings per basic common share	$ 0.58	$ 0.15	$ 0.33	$ 1.70
Earnings per diluted common share				
Income from continuing operations	$ 0.60	$ 0.25	$ 0.42	$ 1.75
Loss from discontinued operations	(0.03)	(0.11)	(0.09)	(0.05)
Earnings per diluted common share	$ 0.57	$ 0.15	$ 0.33	$ 1.70
Weighted average number of common shares				
Basic	15,582	15,621	14,641	14,378
Diluted	15,610	15,626	14,626	14,397

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.*

None.

ITEM 9A. *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 fourth 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.

Management's Report on Internal Control Over Financial Reporting and the attestation report of our independent registered public accounting firm on management's assessment of internal control over financial reporting are included in Part II, Item 8 entitled "Financial Statements and Supplementary Data" and are incorporated herein by reference.

ITEM 9B. *OTHER INFORMATION.*

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

The information regarding our executive officers included in Part I of this Form 10-K under the caption "Executive Officers" is incorporated herein by reference. The information in the definitive proxy statement for our 2015 annual meeting of shareholders to be held on May 13, 2015, under the captions "Item I — Election of Directors," "Information Regarding the Board of Directors and Corporate Governance — Committees of the Board — Audit Committee," "Information Regarding the Board of Directors and Corporate Governance — Codes of Ethics and Business Conduct" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. *EXECUTIVE COMPENSATION.*

The information in the definitive proxy statement for our 2015 annual meeting of shareholders to be held on May 13, 2015, under the captions "Executive Compensation," "Certain Relationships and Related Transactions — Compensation Committee Interlocks and Insider Participation," "Information Regarding the Board of Directors and Corporate Governance — Compensation Program for Non-Employee Directors" and "Information Regarding the Board of Directors and Corporate Governance — Non-Employee Director Compensation for 2014" is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.*

The information in the definitive proxy statement for our 2015 annual meeting of shareholders to be held on May 13, 2015, under the captions "Security Ownership — Beneficial Ownership of Directors, Nominees and Executive Officers," "Security Ownership — Beneficial Owners of More than Five Percent of Our Common Stock" and "Executive Compensation — Outstanding Equity Awards" are incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.*

The information in the definitive proxy statement for our 2015 annual meeting of shareholders to be held on May 13, 2015, under the captions "Information Regarding the Board of Directors and Corporate Governance — Director Independence," "Certain Relationships and Related Transactions — Transactions with Related Persons" and "Certain Relationships and Related Transactions — Review and Approval of Transactions with Related Persons" is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES.*

The information in the definitive proxy statement for our 2015 annual meeting of shareholders to be held on May 13, 2015, under the captions "Audit Committee Report and Payment of Fees to Our Independent Auditor — Auditor Fees" and "Audit Committee Report and Payment of Fees to Our Independent Auditor — Auditor Services Pre-Approval Policy" is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.*

(a)(1) FINANCIAL STATEMENTS OF THE COMPANY.

The Consolidated Financial Statements are incorporated herein by reference and included in Part II, Item 8 to this Form 10-K.

(a)(2) FINANCIAL STATEMENT SCHEDULES.

All financial statement schedules for the Company have been included in the consolidated financial statements or the related footnotes, or are either inapplicable or not required.

(a)(3) EXHIBITS.

Exhibit Number	Description
2.1	Separation and Distribution Agreement dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies (incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). #
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed August 3, 2007).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed August 3, 2007).
4.1	Form of Specimen Certificate for Piper Jaffray Companies Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Form 10, filed June 25, 2003).

Exhibit Number	Description
4.2	Second Amended and Restated Indenture dated as of June 11, 2012 (Secured Commercial Paper Notes), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, filed August 2, 2012).
4.3	Indenture dated as of April 2, 2012 (Secured Commercial Paper Notes -- Series II), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 5, 2012).
4.4	Second Amended and Restated Indenture dated April 21, 2014 (Secured Commercial Paper Notes -- Series III), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 21, 2014).
10.1	Form of director indemnification agreement between Piper Jaffray Companies and its directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 17, 2014). †
10.2	Office Lease Agreement, dated May 30, 2012, by and among Piper Jaffray & Co. and Wells REIT – 800 Nicollett Avenue Owner, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 1, 2012).
10.3	U.S. Bancorp Piper Jaffray Inc. Second Century 2000 Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). †
10.4	U.S. Bancorp Piper Jaffray Inc. Second Century Growth Deferred Compensation Plan, as amended and restated effective September 30, 1998 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). †
10.5	Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement for its 2013 Annual Meeting of Shareholders, filed March 22, 2013). †
10.6	Piper Jaffray Companies Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed July 31, 2013). †
10.7	Form of Restricted Stock Agreement for Employee Grants in 2011, 2012, and 2013 (related to 2010, 2011, and 2012 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011). †
10.8	Form of Restricted Stock Agreement for Employee Grants in 2014 (related to 2013 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014). †
10.9	Form of Restricted Stock Agreement for Employee Grants in 2015 (related to 2014 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan. † *
10.10	Form of Restricted Stock Agreement for California-based Employee Grants in 2015 (related to 2014 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan. † *
10.11	Form of Stock Option Agreement for Employee Grants in 2004 and 2005 (related to 2003 and 2004 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 4, 2004). †
10.12	Form of Stock Option Agreement for Employee Grants in 2006 (related to 2005 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 1, 2006). †

Exhibit Number	Description
10.13	Form of Stock Option Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed March 1, 2007). †
10.14	Form of Stock Option Agreement for Non-Employee Director Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 4, 2004). †
10.15	Form of Performance Share Unit Agreement for 2012 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, filed August 2, 2012). †
10.16	Form of Performance Share Unit Agreement for 2013 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed July 31, 2013). †
10.17	Form of Performance Share Unit Agreement for 2014 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, filed July 30, 2014). †
10.18	Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011). †
10.19	Summary of Non-Employee Director Compensation Program. † *
10.20	Form of Notice Period Agreement (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed March 1, 2007). †
10.21	Amended and Restated Loan Agreement dated December 28, 2012, between Piper Jaffray & Co. and U.S. Bank National Association (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 27, 2013).
10.22	First Amendment to Amended and Restated Loan Agreement, dated December 28, 2013, between Piper Jaffray & Co. and U.S. Bank National Association (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014).
10.23	Second Amendment to Amended and Restated Loan Agreement, dated December 19, 2014, between Piper Jaffray & Co. and U.S. Bank National Association. *
10.24	Amended and Restated Note Purchase Agreement dated June 2, 2014 among Piper Jaffray Companies, Piper Jaffray & Co. and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 5, 2014).
10.25	Consulting Agreement dated March 19, 2014, by and between Advisory Research, Inc. and Brien M. O'Brien (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 19, 2014).
10.26	Compensation Arrangement with M. Brad Winges (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 27, 2013). †
10.27	Restricted Limited Partnership Interest Agreement dated February 23, 2015, by and between Piper Jaffray Investment Management LLC and M. Brad Winges. † *

Exhibit Number	Description
10.28	Advisory Research, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014). †
10.29	Amended and Restated Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.30	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2012 and 2013 (related to performance in 2011 and 2012, respectively) (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.31	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2014 (related to performance in 2013) (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed February 28, 2014). †
10.32	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2015 (related to performance in 2014). † *
10.33	Form of Mutual Fund Restricted Share Agreement for California-based Employee Grants in 2015 (related to performance in 2014). † *
21.1	Subsidiaries of Piper Jaffray Companies *
23.1	Consent of Ernst & Young LLP *
24.1	Power of Attorney *
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer. *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. *
32.1	Section 1350 Certifications. **
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of December 31, 2014 and December 31, 2013, (ii) the Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 and (v) the notes to the Consolidated Financial Statements.

\# *The Company hereby agrees to furnish supplementally to the Commission upon request any omitted exhibit or schedule.*

† *This exhibit is a management contract or compensatory plan or agreement.*

* *Filed herewith*

** *This information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.*

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 February 26, 2015.

PIPER JAFFRAY COMPANIES

By /s/ Andrew S. Duff

Its Chairman and Chief Executive Officer

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 February 26, 2015.

SIGNATURE	TITLE
[redacted] Andrew S. Duff	Chairman and Chief Executive Officer (Principal Executive Officer)
[redacted] Debbra L. Schoneman	Chief Financial Officer (Principal Financial and Accounting Officer)
[redacted] William R. Fitzgerald	Director
[redacted] B. Kristine Johnson	Director
[redacted] Addison L. Piper	Director
[redacted] Lisa K. Polsky	Director
[redacted] Philip E. Soran	Director
[redacted] Scott C. Taylor	Director
[redacted] Michele Volpi	Director

Corporate Headquarters
Piper Jaffray Companies
Mail Stop J09SSH
800 Nicollet Mall, Suite 1000
Minneapolis, MN 55402
612 303-6000

Company Web Site
www.piperjaffray.com

Stock Transfer Agent and Registrar
Computershare acts as transfer agent and registrar for Piper Jaffray Companies and maintains all shareholder records for the company. For questions regarding owned Piper Jaffray Companies stock, stock transfers, address corrections or changes, lost stock certificates or duplicate mailings, please contact Computershare by writing or calling:

Computershare
P.O. Box 30170
College Station, TX 77842-3170
800 872-4409

Street Address for Overnight Deliveries
211 Quality Circle, Suite 210
College Station, TX 77845

Web Site Access to Registrar
Shareholders may access their investor statements online 24 hours a day, seven days a week at www.computershare.com/investor.

Independent Accountants
Ernst & Young LLP

Common Stock Listing
New York Stock Exchange (symbol: PJC)

Investor Inquiries
Shareholders, securities analysts and investors seeking more information about the company should contact Tom Smith, director of investor relations, at thomas.g.smith@pjc.com, 612 303-6336, or the corporate headquarters address.

Web Site Access to SEC Reports and Corporate Governance Information
Piper Jaffray Companies makes available free of charge on its Web site, www.piperjaffray.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as all other reports filed by Piper Jaffray Companies with the SEC, as soon as reasonably practicable after it electronically files them with, or furnishes them to, the SEC. Piper Jaffray Companies also makes available free of charge on its Web site the company's codes of ethics and business conduct, its corporate governance principles and the charters of the audit, compensation, and nominating and governance committees of the board of directors. Printed copies of these materials will be mailed upon request.

Dividends
Piper Jaffray Companies does not currently pay cash dividends on its common stock.

Forward-Looking Statements
This annual report and the preceding letter to shareholders contain forward-looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are subject to significant risks and uncertainties that are difficult to predict. A number of these risks and uncertainties are described in our SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2014.

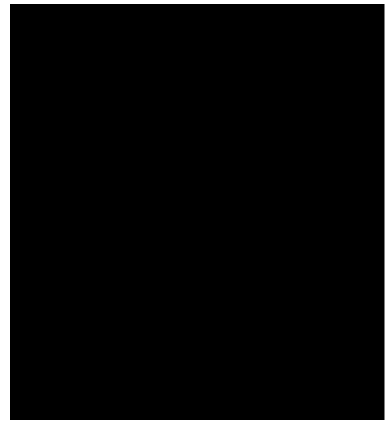
2013
ANNUAL REPORT

PIPER JAFFRAY COMPANIES

PiperJaffray®

CHAIRMAN'S LETTER

Fellow Shareholders,



In 2013, we built upon our strong performance in the preceding year and achieved meaningful improvements to net revenues, net income and return on equity. The most important of these, return on equity, improved to 6.2% in 2013, which was up from 5.7% in 2012, and represents a significant improvement from our 2.3% return on equity in 2011. The diversity in our business mix served us well as strong performance in our equities businesses more than offset challenging markets faced by our fixed income businesses. Overall, our results in 2013 showed that the strategic direction we undertook in 2011 to improve our return on equity and generate profits—even in challenging markets—is demonstrating success.

The comparison to two years ago is important, as 2011 marked a key inflection point for us. In the midst of serious market dislocations in 2011, which were the second phase of the financial crisis of 2008, we embarked on a strategy designed to produce a meaningful improvement in our return on equity and to generate solid profits in any market environment. In addition, we believed that as we executed successfully on this strategy, we would become an even more attractive platform to other top-performing professionals and firms seeking strong results and stability. Here is how we executed on this strategy.

First, we focused our resources in our strongest and highest margin businesses. Our focus areas were public finance, asset management and advisory services. In 2013, we acquired Seattle-Northwest Securities Corporation, which was an important step in building out our national footprint in public finance, and Edgeview Partners, L.P., which expanded our advisory services capabilities.

Second, we positioned ourselves to realize the benefits from our diversified business model. As our fixed income businesses faced headwinds during 2013, our equities businesses, particularly equity capital raising, contributed meaningfully to our strong results. Our asset management business, which is correlated to the equities markets, also performed well during the year.

Third, we deployed capital into areas of market opportunity where we have differentiated expertise. We rebalanced our investment profile by reducing our exposure to fixed income while increasing our exposure to equities as performance in these markets shifted during the year.

Capital Markets

Our capital markets segment includes investment banking and institutional sales, trading and research, encompassing public finance, fixed income and equities. Starting with public finance, we continued to gain market share. While industry volumes were down more than 15% for the year, our business was nearly even with 2012. Our product diversity and industry sector strength helped overcome weak refunding activity in the second half of the year. These advantages will help us to weather market headwinds that we expect to encounter in 2014, and they will position us as an attractive home for professionals or firms seeking strong results and stability. This was clearly the case with our acquisition of Seattle-Northwest, which represented a significant step in the development of our national franchise as we solidified our position in the Northwest.

Our performance in fixed income institutional brokerage was impacted by the serious market dislocations in the second quarter of 2013, as interest rates spiked in early June. While increasing our hedging activity and taking other steps to mitigate market risks, our overall strategy and focus remained consistent as we expanded our middle-market sales force by about 30% and added new product capabilities. In 2014, we expect to benefit from this expansion despite a gradually rising rate environment.

Turning to our equities businesses, our revenue from equity capital raising in 2013 exceeded $100 million for the first time since 2007. Our healthcare team, bolstered by resources we added in biotech, led the way. The consumer and TMT (technology, media and telecommunications) teams also made solid contributions. Notably, we served as a bookrunner on nearly half of our transactions for the year, which has been a focus for us within our capital raising business. Even against the backdrop of the robust equities market in 2013, our results stand out within our areas of expertise. We are pleased that we were exceptionally positioned to take advantage of the market environment.

Our results in 2013 showed that the strategic direction we undertook in 2011 to improve our return on equity and generate profits—even in challenging markets—is demonstrating success.

Our advisory services, or M&A, business finished the year on a high note as we experienced increasing demand through the second half of the year. The addition of the Edgeview team in 2013 complemented our existing practices and should contribute to growth in our business in 2014.

In our equities institutional brokerage business, we continue to make steady, consistent progress. The business improved sequentially each quarter this year, a great accomplishment given that market-wide trading volumes were slightly down for the year. Our momentum in this business has come from a set of client-focused product strategies begun in 2012 and from more effective deployment of capital. Our trading desks used capital more efficiently, and we also allocated capital to equity-based strategic trading activities as the opportunity to generate investment returns emerged earlier in the year.

Asset Management

Our asset management business is conducted through Advisory Research, Inc. This business benefited from robust equity markets during the year, with significant appreciation of assets under management, while net new assets were largely flat. We finished the year with $11.2 billion in assets under management, up from $9.1 billion in 2012. Our MLP (master limited partnership) product in the energy sector continued its impressive growth trajectory, with its assets under management growing from $700 million in 2007, when we acquired the product, to $4.5 billion today. Our international products, particularly a Japan-focused equity strategy, are beginning to realize meaningful inflows, and these products are expected to be important contributors to the segment in the coming years. We also completed the transition of our leadership of this business from Brien O'Brien, one of the founders of the Advisory Research, to Chris Crawshaw. I'd like to thank Brien for his many contributions to Advisory Research and Piper Jaffray.

Outlook and Strategy

Looking ahead to 2014, we expect modest improvement in growth in the U.S economy, with additional appreciation in the equity markets, but at more modest levels than in 2013. Gradually increasing interest rates are also expected to continue to affect our public finance and fixed income businesses. Overall this environment should be favorable for our businesses, and we intend to continue our focus on execution, which has proven so successful for us the past two years.

In 2013, we held down costs, exited unprofitable businesses, invested our capital wisely and added to our higher margin businesses. Our improving results attracted growth opportunities as we added Seattle-Northwest and Edgeview, as well as several new groups across our businesses. We believe that we will have additional growth opportunities and the resources to pursue them as we continue to execute in our core businesses. We thank all of our clients for their trust in us and our employee partners for remaining focused on meeting our clients' needs and delivering returns to our shareholders.

Sincerely,

[redacted]

Andrew S. Duff
Chairman and Chief Executive Officer
Piper Jaffray Companies

BOARD OF DIRECTORS

Andrew S. Duff
Chairman and Chief Executive Officer
Piper Jaffray Companies

Addison (Tad) L. Piper
Retired
Former Chairman and Chief Executive Officer
Piper Jaffray Companies Inc.

William R. Fitzgerald
Chairman and Chief Executive Officer
Ascent Capital Group, Inc.

Michael R. Francis
Chief Global Brand Officer
DreamWorks Animation SKG, Inc.

B. Kristine Johnson
President
Affinity Capital Management

Lisa K. Polsky
Executive Vice President, Chief Risk Officer
CIT Group Inc.

Philip E. Soran
Retired
Former President
Dell Compellent Inc.

Scott C. Taylor
Executive Vice President,
General Counsel and Secretary
Symantec Corp.

Michele Volpi
Chief Executive Officer
Betafence Holdings NV

Hope B. Woodhouse
Former Chief Operating Officer
Bridgewater Associates, LP

EXECUTIVE LEADERSHIP

Andrew S. Duff
Chairman and Chief Executive Officer

Chad R. Abraham
Co-Head of Global Investment Banking
and Capital Markets

Chris D. Crawshaw
Head of Asset Management

Frank E. Fairman
Head of Public Finance Services

John W. Geelan
General Counsel and Secretary

Jeffrey P. Klinefelter
Global Head of Equities

R. Scott LaRue
Co-Head of Global Investment Banking
and Capital Markets

Debbra L. Schoneman
Chief Financial Officer

M. Brad Winges
Head of Fixed Income Services

We create and implement superior financial solutions
for our clients. Serving clients is our fundamental purpose.

We earn our clients' trust by delivering
the best guidance and service.

Great people working together as a team
are our competitive advantage.

As we serve, we are committed to these core values:

Always place our clients' interests first

Conduct ourselves with integrity and treat others with respect

Work in partnership with our clients and each other

*Maintain a high-quality environment that attracts,
retains and develops the best people*

*Contribute our talents and resources to
serve the communities in which we live and work*

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2013
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 Minneapolis, Minnesota	**55402**
(Address of Principal Executive Offices)	*(Zip Code)*

(612) 303-6000
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☑

The aggregate market value of the 16,068,113 shares of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates based upon the last sale price, as reported on the New York Stock Exchange, of the Common Stock on June 30, 2013 was approximately $508 million.

As of February 19, 2014, the registrant had 16,171,560 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2014 Annual Meeting of Shareholders to be held on May 7, 2014.

TABLE OF CONTENTS

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements. 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 this Form 10-K. 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 "Risk Factors" in Item 1A, as well as those factors discussed under "External Factors Impacting Our Business" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K and in our subsequent reports filed with the Securities and Exchange Commission ("SEC"). Our SEC reports are available at our Web site at www.piperjaffray.com and at the SEC's Web site at 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.

ITEM 1. *BUSINESS.*

Overview

Piper Jaffray Companies is an investment bank and asset management firm, serving the needs of corporations, private equity groups, public entities, non-profit entities and institutional investors in the U.S. and internationally. Founded in 1895, Piper Jaffray provides a broad set of products and services, including equity and debt capital markets products; public finance services; financial advisory services; equity and fixed income institutional brokerage; equity and fixed income research; and asset management services. Our headquarters are located in Minneapolis, Minnesota and we have offices across the United States and international locations in London, Hong Kong and Zurich. We market our investment banking and institutional securities business under a single name – Piper Jaffray – which gives us a consistent brand across this business. Our traditional asset management business is marketed under Advisory Research, Inc.

Prior to 1998, Piper Jaffray was an independent public company. U.S. Bancorp acquired the Piper Jaffray business in 1998 and operated it through various subsidiaries and divisions. At the end of 2003, U.S. Bancorp facilitated a tax-free distribution of our common stock to all U.S. Bancorp shareholders, causing Piper Jaffray to become an independent public company again.

Our Businesses

We operate through two reportable business segments, Capital Markets and Asset Management. We believe that the mix of activities across our business segments helps to provide diversification in our business model.

Capital Markets

The Capital Markets segment provides investment banking and institutional sales, trading and research services for various equity and fixed income products. This segment also includes the results from our two alternative asset management funds and our principal investments.

- *Investment Banking* – We raise capital through equity financings and provide advisory services, primarily relating to mergers and acquisitions, for our corporate clients. We operate in the following focus industries: business services, clean technologies, consumer and retail, healthcare, industrials, and technology, media and telecommunications, primarily focusing on middle-market clients. For our government and non-profit clients, we underwrite debt issuances and provide financial advisory and interest rate risk management services. Our public finance investment banking capabilities focus on state and local governments, cultural and social service non-profit entities, and the healthcare, education, senior living and hospitality sectors.
- *Equity and Fixed Income Institutional Brokerage* – We offer both equity and fixed income advisory and trade execution services for institutional investors and government and non-profit entities. Integral to our capital markets efforts, we have equity sales and trading relationships with institutional investors in the United States and Europe that invest in our core sectors. Our research analysts provide investment ideas and support to our trading clients on approximately

600 companies. Our fixed income sales and trading professionals have expertise in municipal, corporate, mortgage, agency, treasury and structured product securities and cover a range of institutional investors. We engage in trading activities for both customer facilitation and strategic trading purposes. Our strategic trading activities (i.e. proprietary trading) are dedicated solely to investing firm capital, and principally focus on investments in municipal bonds, mortgage-backed securities and equity securities.

- *Principal Investments* – We engage in merchant banking activities, which involve equity or debt investments in late stage private companies. Additionally, we have investments in private equity and venture capital funds and other firm investments.
- *Alternative Asset Management Funds* – As certain of our strategic trading and merchant banking efforts have matured and an investment process has been developed, we have created alternative asset management funds in municipal securities and merchant banking in order to invest firm capital as well as to seek capital from outside investors.

In 2013, we completed the acquisitions 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., and Edgeview Partners, L.P. ("Edgeview"), a middle-market advisory firm specializing in mergers and acquisitions. For more information on our acquisitions of Seattle-Northwest and Edgeview, see Note 4 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Asset Management

The Asset Management segment includes our traditional asset management business and our seed investments in registered funds and private funds or partnerships that we manage. Our traditional asset management business offers specialized investment management solutions for institutions, private clients and investment advisors. We manage value-oriented domestic and international equity securities and energy infrastructure assets through open-end and closed-end funds. We also provide customized solutions to our clients. In many cases, we offer both diversified and more concentrated versions of our products, generally through separately managed accounts.

- *Value Equity* – We take a value-driven approach to managing assets in the domestic and international equity markets. These investment strategies have an investment philosophy that centers on fundamental security selection across industries and regions with a focus on analyzing, among other things, a company's financial position, liquidity and profitability in light of its valuation. By focusing on securities with attractive net asset values, we seek to generate competitive long-term returns while minimizing investment risk.
- *Master Limited Partnerships ("MLPs")* – We also manage MLPs focused on the energy sector. These strategies focus on growth, yet seek to limit exposure to riskier securities by placing greater importance on characteristics which support stable distributions and are representative of higher quality MLPs, including less volatile businesses, strategic assets, cleaner balance sheets and proven management teams. Prior to 2012, the MLP business was part of Fiduciary Asset Management, LLC ("FAMCO"), previously a division of our asset management segment that primarily managed fixed income strategies. In the first quarter of 2012, we reorganized our FAMCO and Advisory Research, Inc. ("ARI") reporting units, which resulted in the MLP business becoming part of ARI.

As of December 31, 2013, total assets under management ("AUM") were $11.2 billion, of which approximately 59 percent was invested in equities and 41 percent in MLPs. As of the same date, approximately 7 percent of our AUM was invested in international investment strategies and 93 percent was invested in domestic investment strategies. Approximately 83 percent of our AUM as of December 31, 2013 was managed on behalf of institutional clients, including foundations, endowments, pension funds and corporations, and through sub-advisory relationships, mutual fund sponsors and registered advisors, and approximately 17 percent of our AUM was managed on behalf of individual client relationships, which are principally high net worth individuals.

Discontinued Operations

In 2012, we shut down our Hong Kong capital markets business and ceased operations as of September 30, 2012. Additionally, we sold FAMCO, an asset management subsidiary, in the second quarter of 2013. For further information on our discontinued operations, see Note 5 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Financial Information about Geographic Areas

For financial information concerning our geographic regions for each of the years ended December 31, 2013, 2012, and 2011, respectively, see Note 26 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Competition

Our business is subject to intense competition driven by large Wall Street and international firms operating independently or as part of a large commercial banking institution. We also compete with regional broker dealers, boutique and niche-specialty firms, asset management firms and alternative trading systems that effect securities transactions through various electronic media. Competition is based on a variety of factors, including price, quality of advice and service, reputation, product selection, transaction execution, financial resources and investment performance. Many of our large competitors have greater financial resources than we have and may have more flexibility to offer a broader set of products and services than we can.

In addition, there is significant competition within the securities industry for obtaining and retaining the services of qualified employees. Our business is a human capital business and the performance of our business is dependent upon the skills, expertise and performance of our employees. Therefore, our ability to compete effectively is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation.

Employees

As of February 19, 2014, we had approximately 1,053 employees, of whom approximately 654 were registered with the Financial Industry Regulatory Authority ("FINRA").

Regulation

As a participant in the financial services industry, our business is regulated by U.S. federal and state regulatory agencies, self-regulatory organizations ("SROs") and securities exchanges, and by foreign governmental agencies, financial regulatory bodies and securities exchanges. We are subject to complex and extensive regulation of most aspects of our business, including the manner in which securities transactions are effected, net capital requirements, recordkeeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, conduct, experience and training requirements for certain employees, and the manner in which we prevent and detect money-laundering and bribery activities. The regulatory framework of the financial services industry is designed primarily to safeguard the integrity of the capital markets and to protect customers, not creditors or shareholders.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Recent conditions in the global financial markets and economy, including the 2008 financial crisis, caused legislators and regulators to increase the examination, enforcement and rule-making activity directed toward the financial services industry, which we expect to continue in the coming years. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, the creation of a new systemic risk oversight body, expansion of the authority of existing regulators, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, expansion of the standards for market participants in dealing with clients and customers, and regulation of fiduciary duties owed by municipal advisors or conduit borrowers of municipal securities. In addition, a section of Dodd-Frank referred to as the "Volcker Rule" provides for a limitation on proprietary trading and investments by certain bank holding companies. We are not a bank holding company and, as a result, the Volcker Rule does not apply to us. Even though portions of Dodd-Frank do not apply to us (e.g. the Volcker Rule), Dodd-Frank as a whole and the intensified regulatory environment, will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our U.S. broker dealer subsidiary (Piper Jaffray & Co.) is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. In July of 2007, the National Association of Securities Dealers and the member regulation, enforcement and arbitration functions of the New York Stock Exchange ("NYSE") consolidated to form FINRA, which now serves as the primary SRO of Piper Jaffray & Co., although the NYSE continues to have oversight over NYSE-related market activities. FINRA regulates many aspects of our U.S. broker dealer business, including registration, education and conduct of our employees, examinations, rulemaking, enforcement of these rules and the federal securities laws, trade reporting and the administration of dispute resolution between investors and registered firms. We have agreed to abide by the rules of FINRA (as well as those of the NYSE and other SROs), and FINRA has the power to expel, fine and otherwise discipline Piper Jaffray & Co. and its officers, directors and employees. Among the rules that apply to Piper Jaffray & Co. are the uniform net capital rule of the SEC (Rule 15c3-1) and the net capital rule of FINRA. Both rules set a minimum level of net capital a broker dealer must maintain and also require that a portion of the broker dealer's assets be relatively liquid. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below FINRA requirements. In addition, Piper Jaffray & Co. is subject to certain notification requirements related to withdrawals of excess net capital. As a result of these rules, our ability to make withdrawals of capital from Piper Jaffray & Co. may be limited. In addition, Piper Jaffray & Co. is licensed as a broker dealer in each of the 50 states, requiring us to comply with applicable laws, rules and regulations of each state. Any state may revoke a license to conduct a securities business and fine or otherwise discipline broker dealers and their officers, directors and employees.

We also operate an entity that is licensed and regulated by the U.K. Financial Conduct Authority. This entity is registered under the laws of England and Wales is authorized and regulated by the U.K. Financial Conduct Authority. While we ceased operations related to our Hong Kong capital markets business as of September 30, 2012, we expect to maintain a more limited presence in the Hong Kong region to facilitate our U.S. advisory business. Accordingly, we have applied for a regulatory license to be registered with and subject to the Hong Kong Securities and Futures Commission. The U.K. Financial Conduct Authority and the Hong Kong Securities and Futures Commission regulate these entities (in their respective jurisdictions) in areas of capital adequacy, customer protection and business conduct, among others.

Entities in the jurisdictions identified above are also subject to anti-money laundering regulations. Piper Jaffray & Co., our U.S. broker-dealer subsidiary, is subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations requiring us to implement standards for verifying client identification at account opening, monitoring client transactions and reporting suspicious activity. Our entities in Hong Kong and the United Kingdom are subject to similar anti-money laundering laws and regulations. We are also subject to the U.S. Foreign Corrupt Practices Act as well as other anti-bribery laws in the jurisdictions in which we operate. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage.

We maintain asset management subsidiaries that are registered as investment advisers with the SEC and subject to regulation and oversight by the SEC. These entities are ARI, Piper Jaffray Investment Management LLC ("PJIM"), and PJC Capital Partners LLC. As registered investment advisors, these entities are subject to requirements that relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between advisor and advisory clients, as well as general anti-fraud prohibitions. Certain investment funds that we manage are registered investment companies under the Investment Company Act, as amended. Those funds and entities that serve as the funds' investment advisors are subject to the Investment Company Act and the rules and regulations of the SEC, which regulate the relationship between a registered investment company and its investment advisor and prohibit or severely restrict principal transactions or joint transactions, among other requirements. ARI is also authorized by the Irish Financial Services Regulatory Authority as an investment advisor in Ireland and cleared by the Luxembourg Commission de Surviellance du Secteur Financier as a manager to Luxembourg funds. ARI has established a Tokyo office which is a Representative Office of a Foreign Investment Advisor subject to Japanese laws and regulations. PJIM is registered with the Commodity Futures Trading Commission ("CFTC") and the National Futures Association ("NFA") as a commodities pool operator. The registrations with the CFTC and NFA allow PJIM to enter into derivative instruments (e.g, interest rate swaps and credit default swap index contracts) to hedge risks associated with certain security positions of funds managed by PJIM.

Certain of our businesses also are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges governing the privacy of client information. Any failure with respect to our practices, procedures and controls in any of these areas could subject us to regulatory consequences, including fines, and potentially other significant liabilities.

Executive Officers

Information regarding our executive officers and their ages as of February 19, 2014, are as follows:

Name	Age	Position(s)
Andrew S. Duff	56	Chairman and Chief Executive Officer
Chad R. Abraham	45	Co-Head of Global Investment Banking and Capital Markets
Christopher D. Crawshaw	47	Head of Asset Management
Frank E. Fairman	56	Head of Public Finance
John W. Geelan	38	General Counsel and Secretary
Jeff P. Klinefelter	46	Global Head of Equities
R. Scott LaRue	53	Co-Head of Global Investment Banking and Capital Markets
Debbra L. Schoneman	45	Chief Financial Officer
M. Brad Winges	45	Head of Fixed Income Services

Andrew S. Duff [redacted]

Chad R. Abraham [redacted]

Christopher D. Crawshaw [redacted]

Frank E. Fairman [redacted]

John W. Geelan [redacted]

Jeff P. Klinefelter [redacted]

R. Scott LaRue [redacted]

Debbra L. Schoneman [redacted]

M. Brad Winges [redacted]

Additional Information

Our principal executive offices are located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota 55402, and our general telephone number is (612) 303-6000. We maintain an Internet Web site at http://www.piperjaffray.com. The information contained on and connected to our Web site is not incorporated into this report. We make available free of charge on or through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the SEC, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the SEC. "Piper Jaffray," the "Company," "registrant," "we," "us" and "our" refer to Piper Jaffray Companies and our subsidiaries. The Piper Jaffray logo and the other trademarks, tradenames and service marks of Piper Jaffray mentioned in this report, including Piper Jaffray®, are the property of Piper Jaffray.

ITEM 1A. *RISK FACTORS.*

Developments in market and economic conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability and cause volatility in our results of operations.

Economic and market conditions have had, and will continue to have, a direct and material impact on our results of operations and financial condition because performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity. For example:

- Interest rates, which had been at or near historical lows in 2012, rose significantly in 2013 as investors anticipated that the Federal Reserve would taper its quantitative easing program based on a stronger U.S. economy. At times in 2013, the rise in interest rates was rapid and severe, which led to widening credit spreads and a volatile trading environment. This environment negatively impacted our fixed income institutional business in 2013 as it reduced client activity and the value of our fixed income inventory positions, both those held for facilitating client activity and our own proprietary trading. Our interest rate hedging strategies were not able to fully mitigate these inventory losses. Also, our public finance investment banking business underwrote significantly fewer debt refinancing issuances as interest rates increased. We expect interest rates to continue to rise in 2014 and a rapid or severe increase may negatively impact our fixed income institutional business similar to 2013. The impact from a rapid or severe rise in interest rates and any attendant volatility on the value of our fixed income inventory positions may not be fully mitigated by our interest rate hedging strategies, as we generally do not hedge all of our interest rate risk and volatility may reduce the correlation (i.e., effectiveness) between certain hedging vehicles and the securities inventory we are attempting to hedge. Interest rate increases in 2014, both gradual and more severe, would continue to negatively impact the volume of debt refinancing issuances in our public finance business.
- Our equities investment banking revenue, in the form of underwriting, placement and financial advisory fees is directly related to global macroeconomic conditions and corresponding financial market activity. As an example, a significant component of our investment banking revenues are derived from initial public offerings of middle-market companies in growth sectors, and activity in this area is highly correlated to the macroeconomic environment. Even though equity markets were strong, volatility generally remained low, and the U.S. economy continued to show signs of improvement in 2013, growth has been uneven across various sectors. In addition, the U.S. and global economic recovery as a whole remains vulnerable to the possible risks posed by certain economic conditions or exogenous shocks, which could include, among other things, tepid job and consumer spending growth, the impact from the Federal Reserve's tapering of its quantitative easing program, a decline in the U.S. labor force participation rate, significant cuts to federal spending, concerns about deficit levels, taxes and U.S. debt ratings, a resurgence of the European sovereign debt crisis, and the continued potential for a deterioration in global economic conditions as a result of a significant downturn in one or more major economic regions. If these factors were to worsen or if an exogenous shock were to materialize, it could lead to equity market declines and volatility, which would likely have a significant negative impact on our results of operations.
- An unsustainable economic recovery would likely result in a decline in the financial markets, reducing asset valuations and adversely impacting our asset management business. A reduction in asset values would negatively impact this business by reducing the value of assets under management, and as a result, the revenues generated from this business.

It is difficult to predict the market conditions for 2014, which are dependent in large part upon the pace and sustainability of the global economic recovery. Our smaller scale compared to many of our competitors and the cyclical nature of the economy and this industry leads to volatility in our financial results, including our operating margins, compensation ratios and revenue and expense levels. Our financial performance may be limited by the fixed nature of certain expenses, the impact from unanticipated losses or expenses during the year, and the inability to scale back costs in a timeframe to match decreases in revenue-related changes in market and economic conditions. As a result, our financial results may vary significantly from quarter-to-quarter and year-to-year.

Our proprietary trading and principal investments expose us to risk of loss.

We engage in a variety of activities in which we commit or invest our own capital, including proprietary trading and principal investing. During 2013, our proprietary trading activities (which we also refer to as "strategic trading" in this report) related to municipal bonds, non-agency mortgage bonds, and equities constituted a considerable portion of our institutional brokerage revenues, and were a meaningful contributor to our overall financial results. Fixed-income proprietary trading activities — particularly with respect to non-agency mortgage bonds — comprise a meaningful percentage of our Level III assets within our securities inventory. Level III assets have little or no pricing observability, and may be less liquid than other securities that we hold in our securities inventory. In addition to proprietary trading, we engage in principal investing, having established alternative asset management funds for municipal securities and merchant banking. We have invested firm capital in these funds alongside capital raised from outside investors, and intend to continue to develop these alternative asset management strategies. Additionally, we have principal investments in equity and debt instruments of private companies, and in private equity and venture capital funds, among other firm investments.

Our results from these activities may vary significantly from quarter to quarter, especially as it relates to proprietary trading activity. We may incur significant losses from our proprietary activities due to fixed income or equity market fluctuations and volatility from quarter to quarter. In addition, we may engage in hedging transactions that if not successful, could result in losses. With respect to principal investing, our ability to withdraw our capital from these funds may be limited, increasing the risk of loss for these investments. Also, our merchant banking activity involves investments in late stage private companies, and we may be unable to realize our investment objectives by sale or other disposition at attractive prices.

Developments in specific sectors of the global economy have in the past adversely affected, and may in the future adversely affect, our business and profitability.

Our results for a particular period may be disproportionately impacted by declines in specific sectors of the global economy, or for certain products within the financial services industry, due to our business mix and focus areas. For example:

- Our equity investment banking business focuses on specific sectors, specifically business and financial services, clean technology and renewables, consumer, healthcare, industrial growth, and technology, media and telecommunications. Volatility or uncertainty in the business environment for these sectors, including but not limited to challenging market conditions for these sectors that are disproportionately worse than those impacting the economy and markets generally or downturns in these sectors that are independent of general economic and market conditions, may adversely affect our business. Further, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, such as depository financial institutions, energy and mining, and industrials, and our operating results may not correlate with the results of other firms which participate in these sectors.
- Our fixed income institutional business derives its revenue from sales and trading activity in the municipal market and from products within the taxable market, including structured mortgages, hybrid preferreds and government agency products. Our operating results for our fixed income institutional business may not correlate with the results of other firms or the fixed income market generally because we do not participate in significant segments of the fixed income markets such as credit default swaps, and currencies and commodities.
- Similar to our fixed income institutional business, our public finance investment banking business depends heavily upon conditions in the municipal market. Our ability to effect investment banking transactions in the state and local government sectors has been, and may continue to be, challenged by concerns over debt levels for municipal issuers and fiscal budgets. Our public finance business focuses on investment banking activity in sectors that include state and local government, higher education, housing, healthcare, and hospitality sectors, with an emphasis on transactions with a par value of $500 million or less. Challenging market conditions for these sectors that are disproportionately worse than those impacting the broader economy or municipal markets generally may adversely impact our business. Lastly,

our fixed income institutional business and our public finance business could be materially adversely affected by the enactment, or the threat of enactment, of any legislation that would alter the financing alternatives available to municipalities through the elimination or reduction of tax-exempt bonds.

- Our equities institutional brokerage business depends upon trading activity to generate revenue in the form of client commissions, and the level of this activity may vary based on economic and market conditions. In times of increased market uncertainty, we may experience reduced customer activity as investors remain cautious.
- A significant portion of our asset management revenues are derived from actively-managed equity products, and this type of investment product has experienced asset outflows in recent years. Although equity markets performed well in 2013 and most equity products experienced asset inflows during the year, equity market uncertainty, the increased prevalence of lower-cost passively-managed funds, and other negative events impacting investor confidence could cause the negative trend for actively-managed equity products to continue. Outflows for this investment product negatively affect results of operations for this business, as revenues are closely tied to assets under management.

Our stock price may fluctuate as a result of several factors, including but not limited to, changes in our revenues, operating results, tangible book value and return on equity.

We have experienced, and expect to experience in the future, fluctuations in the market price of our common stock due to factors that relate to the nature of our business, including but not limited to changes in our revenues, operating results, tangible book value, and return on equity. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which causes fluctuations in our stock price that may be significant. Other factors that have affected, and may further affect, our stock price include changes in or news related to economic or market events or conditions, changes in market conditions in the financial services industry, including developments in regulation affecting our business, failure to meet the expectations of market analysts, changes in recommendations or outlooks by market analysts, and aggressive short selling similar to that experienced in the financial industry in 2008.

The volume of anticipated investment banking transactions may differ from actual results.

The completion of anticipated investment banking transactions in our pipeline is uncertain and partially beyond our control, and our investment banking revenue is typically earned only upon the successful completion of a transaction. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If parties fail to complete a transaction on which we are advising or an offering in which we are participating, we earn little or no revenue from the transaction and may have incurred significant expenses (for example, travel and legal expenses) associated with the transaction. Accordingly, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties, and the number of engagements we have at any given time (and any characterization or description of our deal pipelines) is subject to change and may not necessarily result in future revenues.

Financing and advisory services engagements are singular in nature and do not generally provide for subsequent engagements.

Even though we work to represent our clients at every stage of their lifecycle, we are typically retained on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions. In particular, our revenues related to acquisition and disposition transactions tend to be highly volatile and unpredictable (or “lumpy”) from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from the successful completion of those transactions, our business and results of operations will likely be adversely affected.

Asset management revenue may vary based on investment performance and market and economic factors.

We have grown our asset management business in recent years, including with the acquisition of ARI in 2010, which has increased the risks associated with this business relative to our overall operations. Assets under management are a significant driver of this business, as revenues are primarily derived from management fees paid on the assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with major investors.

Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. Poor investment performance and other competitive factors could reduce our revenues and impair our growth in many ways: existing clients may withdraw funds from our asset management business in favor of better performing products or a different investment style or focus; our capital investments in our investment funds or the seed capital we have committed to new asset management products may diminish in value or may be lost; and our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our investment performance is perceived to be poor in either relative or absolute terms, our asset management revenues will likely be reduced and our ability to attract new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make. Further, as the size and number of investment funds, including exchange-traded funds, hedge funds and private equity funds increases, it is possible that it will become increasingly difficult for us to attract new assets under management or price competition may mean that we are unable to maintain our current fee structures.

An inability to readily divest trading positions may result in financial losses to our business.

Timely divestiture of our trading positions, including equity, fixed income and other securities positions, can be impaired by decreased trading volume, increased price volatility, rapid changes in interest rates, concentrated trading positions, limitations on the ability to divest positions in highly specialized or structured transactions and changes in industry and government regulations. This is true both for customer transactions that we facilitate as well as proprietary trading positions that we maintain. While we hold a security, we are vulnerable to valuation fluctuations and may experience financial losses to the extent the value of the security decreases and we are unable to timely divest or hedge our trading position in that security. The value may decline as a result of many factors, including issuer-specific, market or geopolitical events. In addition, in times of market uncertainty, the inability to transfer inventory positions may have an impact on our liquidity as funding sources generally decline and we are unable to pledge the underlying security as collateral. Our liquidity may also be impacted if we choose to facilitate liquidity for specific products and voluntarily increase our inventory positions in order to do so, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions.

In addition, reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and advisor clients, may expose us to greater risk of financial loss from unsettled trades than is the case with other types of institutional investors. Concentration of risk may result in losses to us even when economic and market conditions are generally favorable for others in our industry.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets.

The amount and duration of our credit exposures has been volatile over the past several years. This exposes us to the increased risk that third parties who owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of securities or obligations we hold could result in losses and adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Although we review credit exposures to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. Also, concerns about, or a default by, one institution generally leads to losses, significant liquidity problems, or defaults by other institutions, which in turn adversely affects our business.

Particular activities or products within our business have exposed us to increasing credit risk, including inventory positions, interest rate swap contracts with customer credit exposure, merchant banking debt investments, counterparty risk with two major financial institutions related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, customer margin accounts, and trading counterparty activities related to settlement and similar activities. With respect to interest rate swap contracts with customer credit exposure, we have credit exposure with six counterparties totaling $22.0 million at December 31, 2013 as part of our matched-book interest rate swap program. In the event of a termination of the contract, the counterparty would owe us the applicable amount of the credit exposure, and we would owe that amount to our hedging counterparty. If our counterparty is unable to make its payment to us, we would still be obligated to pay our hedging counterparty, resulting in credit losses. With respect to merchant banking investments, we have one debt investment totaling $11.6 million as of December 31, 2013. Non-performance by our counterparties, clients and others, including with respect to our inventory positions, interest rate swap contracts with customer credit exposures and our merchant banking debt investments could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition and results of operations.

Liquidity, or ready access to funds, is essential to our business. Several large financial institutions failed or merged with others during the credit crisis following significant declines in asset values in securities held by these institutions, and, during 2011, a financial institution failed due to liquidity issues related to the European sovereign debt crisis. To fund our business, we rely on commercial paper and bank financing as well as other funding sources such as the repurchase markets. Our bank financing includes uncommitted credit lines, which could become unavailable to us on relatively short notice. In an effort to mitigate this funding risk, we renewed a $250 million credit facility for the fifth consecutive year in 2013, and also issued $125 million of unsecured variable rate notes at the end of 2012, refinancing a three-year secured credit facility. The notes consist of two classes, with $50 million maturing in May 2014 and $75 million maturing in November 2015. In order to further diversify our short-term funding needs, we also continue to maintain our $300 million and $150 million commercial paper programs, and initiated a third commercial program in the amount of $100 million during 2013.

Our access to funding sources, particularly uncommitted funding sources, could be hindered by many factors, and many of these factors we cannot control, such as economic downturns, the disruption of financial markets, the failure or consolidation of other financial institutions, negative news about the financial industry generally or us specifically. We could experience disruptions with our credit facilities in the future, including the loss of liquidity sources and/or increased borrowing costs, if lenders or investors develop a negative perception of our short- or long-term financial prospects, which could result from decreased business activity. Our liquidity also could be impacted by the activities resulting in concentration of risk, including proprietary activities from long-term investments and/or investments in specific markets or products without liquidity. Our access to funds may be impaired if regulatory authorities take significant action against us, or if we discover that one of our employees has engaged in serious unauthorized or illegal activity.

In the future, we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to execute our growth initiatives that may include acquisitions and other investments. Similarly, our access to funding sources may be contingent upon terms and conditions that may limit or restrict our business activities and growth initiatives. For example, the institutional notes noted above include covenants that, among other things, limit our leverage ratio and require maintenance of certain levels tangible net worth, regulatory net capital, and operating cash flow to fixed charges.

Lastly, we currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our sales and trading, proprietary trading, merchant banking and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. This concentration of risk may cause us to suffer losses even when economic and market conditions are generally favorable for our competitors. Further, disruptions in the credit markets can make it difficult to hedge exposures effectively and economically. We also experience concentration of risk in our role as remarketing agent and broker dealer for certain types of municipal securities, including in our role as remarketing agent for approximately $3.3 billion of variable rate demand notes. In an effort to facilitate liquidity, we may (but are not required to) increase our inventory positions in securities, exposing ourselves to greater concentration of risk and potential financial losses from the reduction in value of illiquid positions. Further, inventory positions that benefit from a liquidity provider, such as certain types of variable rate demand notes, may be adversely affected by an event that results in termination of the liquidity provider's obligation, such as an insolvency or ratings downgrade of the monoline insurer.

Our underwriting and market-making activities may place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. Further, even though underwriting agreements with issuing companies typically include a right to indemnification in favor of the underwriter for these offerings to cover potential liability from any material misstatements or omissions, indemnification may be unavailable or insufficient in certain circumstances, for example if the issuing company has become insolvent. These underwriting-related risks may be greater with respect to our now-discontinued business in Asia because the Asian capital markets are generally less developed than those of the U.S. and many Asia-based issuer companies are less mature than may be the case in the U.S. and may have a higher risk profile. Additionally, indemnification and other contractual obligations of Asia-based companies may offer less protection to underwriters than they do for U.S. companies; Asia-based companies may have no assets in the U.S. upon which collection could be made, and a legal judgment obtained in the U.S. (for example related to an indemnification obligation) may be unenforceable in Asia.

As a market maker, we may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified.

Our technology systems, including outsourced systems, are critical components of our operations, and failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss and constrain our growth.

We typically transact thousands of securities trades on a daily basis across multiple markets. Our data and transaction processing, custody, financial, accounting and other technology and operating systems are essential to this task. A system malfunction (due to hardware failure, capacity overload, security incident, data corruption, etc.) or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. For example, we have entered into contracts with Broadridge Financial Solutions, Inc. pursuant to which Broadridge handles our trade and back office processing, and Unisys Corporation, pursuant to which Unisys supports our data center and helpdesk needs. We also contract with third parties for market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees. We contract with other vendors to produce and mail our customer statements and to provide other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs, geographic expansion and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting, risk management and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks also is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. If one or more of such events occur, this potentially 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 may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

Legislative and regulatory proposals could significantly curtail the revenue from certain products that we currently provide.

Currently, federal law allows investors in debt issuances by government and non-profit entities to exclude the bond interest for federal income tax purposes, resulting in lower interest expense for the issuer as compared to a taxable financing. In recent years, federal lawmakers have presented various proposals to limit or eliminate the tax-exempt status of this bond interest, and further negotiations in 2014 regarding the budget deficit and federal spending cuts may also include similar proposals. Our public finance investment banking business receives significant revenues as a result of underwriting activity in connection with debt issuances by government and non-profit clients, primarily on a tax-exempt basis. Also, a significant percentage of our securities inventory — both positions held for client activity and our own proprietary trading positions — consist of municipal securities. Any reduction or elimination of tax-exempt bond interest could negatively impact the value of the municipal securities we hold in our securities inventory as well as our public finance investment banking business more generally, which would negatively impact the results of operations for these businesses.

Another proposal to address current debt and deficit levels is the levying of a sales tax on financial transactions, similar to that currently in place in certain European countries and proposed in region more broadly. Referred to as a “transactions tax” or “financial transactions tax,” this proposal would tax trading and other financial services activity in an effort to increase tax receipts. These proposals, which have been introduced both at the federal and state level, propose various tax rates for different types of transactions, encompassing activities within investment banking, institutional brokerage, and asset management. One such proposal, introduced in the U.S. House of Representatives in 2011, proposed various tax rates for different types of transactions, including a 0.25% tax on equity transactions. A similar tax was proposed in the state of Minnesota in early 2013 that would expand the sales tax base to include brokerage and investment consulting, which may include the activities noted above. This type of transaction tax would erode commission revenue, and also have a negative impact on our investment banking and asset management activities by increasing the costs associated with these businesses.

We have experienced volume declines and pricing pressures in our institutional sales and trading business, which may impair our revenues and profitability.

In recent years, we have experienced volume declines and pricing pressures within our institutional sales and trading business. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins in certain instances. In the equity market, volumes have declined and institutional clients increasingly limit the number of trading partners with whom they conduct business. The increased use of electronic and direct market access trading has caused additional downward competitive pressure on trading margins, and the trend toward using alternative trading systems continues to grow. These market dynamics may result in decreased trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter “soft dollar” practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or “unbundle”) payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Historically, the market for qualified employees within the financial services industry has been marked by intense competition, and the performance of our business may suffer to the extent we are unable to attract and retain employees effectively, particularly given the relatively small size of our company and our employee base compared to some of our competitors and the geographic locations in which we operate. The primary sources of revenue in each of our business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by our employees, who have historically been recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Some specialized areas of our business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Further, recruiting and retention success often depends on the ability to deliver competitive compensation, and we may be at a disadvantage to some competitors given our size and financial resources. Our inability or unwillingness to meet compensation needs or demands may result in the loss of some of our professionals or the inability to recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. Our ability to retain and recruit also may be hindered if we limit our aggregate annual compensation and benefits expense as a percentage of annual net revenues.

Our exposure to legal liability is significant, and could lead to substantial damages.

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our capital markets, asset management and other businesses. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. Our experience has been that adversarial proceedings against financial services firms typically increase during and following a market downturn. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

Our business is subject to extensive regulation in the jurisdictions in which we operate, and a significant regulatory action against our company may have a material adverse financial effect or cause significant reputational harm to our company.

As a participant in the financial services industry, we are subject to complex and extensive regulation of many aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations (including securities exchanges) and by foreign governmental agencies, regulatory bodies and securities exchanges. Specifically, our operating subsidiaries include broker dealer and related securities entities organized in the United States and the United Kingdom, and we have applied for a regulatory license in Hong Kong Special Administrative Region of the People's Republic of China ("PRC") as we expect to maintain a more limited presence in the region to facilitate our U.S. advisory business following the cessation of operations in 2012. Each of these entities is registered or licensed (or has applied to be licensed) with the applicable local securities regulator and is subject to all of the applicable rules and regulations promulgated by those authorities. In addition, our asset management subsidiaries, ARI, PJIM, and PJC Capital Partners LLC are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC.

Generally, the requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These requirements are not designed to protect our shareholders. Consequently, broker dealer regulations often serve to limit our activities, through net capital, customer protection and market conduct requirements and restrictions on the businesses in which we may operate or invest. We also must comply with asset management regulations, including requirements related to fiduciary duties to clients, recordkeeping and reporting and customer disclosures. Compliance with many of these regulations entails a number of risks, particularly in areas where applicable regulations may be newer or unclear. In addition, regulatory authorities in all jurisdictions in which we conduct business may intervene in our business and we and our employees could be fined or otherwise disciplined for violations or prohibited from engaging in some of our business activities.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Recent conditions in the global financial markets and economy, including the 2008 financial crisis, caused legislators and regulators to increase the examination, enforcement and rule-making activity directed toward the financial services industry, which we expect to continue in the coming years. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, the creation of a new systemic risk oversight body, expansion of the authority of existing regulators, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, expansion of the standards for market participants in dealing with clients and customers, and regulation of fiduciary duties owed by municipal advisors or conduit borrowers of municipal securities. The intensified regulatory environment will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our business also subjects us to the complex income tax laws of the jurisdictions in which we have business operations, and these tax laws may be subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. We must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes. We are subject to contingent tax risk that could adversely affect our results of operations, to the extent that our interpretations of tax laws are disputed upon examination or audit, and are settled in amounts in excess of established reserves for such contingencies.

The effort to combat money laundering also has become a high priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities. In addition, our international operations require compliance with anti-bribery laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act 2010. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. While our employees and agents are required to comply with these laws, we cannot ensure that our internal control policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents, which acts could subject our company to fines or other regulatory consequences.

Risk management processes may not fully mitigate exposure to the various risks that we face, including market risk, liquidity risk and credit risk.

We refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we might fail to identify or anticipate particular risks that our systems are capable of identifying, or the systems that we use, and that are used within the industry generally, may not be capable of identifying certain risks. Some of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

Use of derivative instruments as part of our risk management techniques may not effectively hedge the risks associated with activities in certain of our businesses.

We use interest rate swaps, interest rate locks, credit default swap index contracts and option contracts as a means to manage risk in certain inventory positions and to facilitate customer transactions. With respect to risk management, we enter into derivative contracts to hedge interest rate and market value risks associated with our security positions, including fixed income inventory positions we hold both for facilitating client activity as well as for our own proprietary trading operations. The instruments use interest rates based upon either the Municipal Market Data ("MMD") index, LIBOR or SIFMA index. We also enter into credit default swap index contracts to hedge risks associated with our taxable fixed income securities, and option contracts to hedge market value risk associated with convertible securities and asset-backed securities. Generally, we do not hedge all of our interest rate risk. In addition, these hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate and market value credit risk, especially when market volatility reduces the correlation between a hedging vehicle and the securities inventory being hedged.

With respect to customer transactions, our fixed income business provides swaps and other interest rate hedging products to public finance clients, which we in turn hedge through a counterparty. There are risks inherent in our use of these products, including counterparty exposure and basis risk. Counterparty exposure refers to the risk that the amount of collateral in our possession on any given day may not be sufficient to fully cover the current value of the swaps if a counterparty were to suddenly default. Basis risk refers to risks associated with swaps where changes in the value of the swaps may not exactly mirror changes in the value of the cash flows they are hedging. It is possible that we may incur losses from our exposure to derivative and interest rate hedging products and the increased use of these products in the future. For example, if the derivative instruments that we use to hedge the risks associated with interest rate swap contracts with public finance clients where we have retained the credit risk are terminated as a result of a client credit event, we may incur losses if we make a payment to our hedging counterparty without recovering any amounts from our client.

The use of estimates and valuations in measuring fair value involve significant estimation and judgment by management.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, accounting for goodwill and intangible assets, establishing provisions for potential losses that may arise from litigation, and regulatory proceedings and tax examinations. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements.

Certain financial instruments, including financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold but not yet purchased, are recorded at fair value, and 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 a current transaction between willing parties, other than in a forced or liquidation sale. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Difficult market environments, such as those experienced in 2008, may cause financial instruments to become substantially more illiquid and difficult to value, increasing the use of valuation models. Our future results of operations and financial condition may be adversely affected by the valuation adjustments that we apply to these financial instruments.

We may make strategic acquisitions and minority investments, engage in joint ventures or divest or exit existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business but may not yield the benefits we expect.

We may grow in part through corporate development activities that may include acquisitions, joint ventures and minority investment stakes. For example, we expanded our existing asset management business in March 2010 with the acquisition of ARI, a Chicago-based asset management firm, and we added to our public finance and fixed income sales and trading and corporate advisory businesses with our acquisitions of Seattle-Northwest Securities Corporation and Edgeview Partners, L.P. in July 2013. There are a number of risks associated with corporate development activities. Costs or difficulties relating to a transaction, including integration of products, employees, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing our estimates to differ from actual results. We may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. We may incur unforeseen liabilities of an acquired company that could impose significant and unanticipated legal costs on us. Also, our share price could decline after we announce or complete a transaction if investors view the transaction as too costly or unlikely to improve our competitive position. Longer-term, these activities require increased investment in management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline. More generally, any difficulties that we experience could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. We also may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects. For example, we shut down our Hong Kong capital markets business in 2012, and realized a pre-tax loss on the investment in our Hong Kong subsidiaries.

We enter into off-balance sheet arrangements that may be required to be consolidated on our financial statements based on future events outside of our control, including changes in complex accounting standards.

In the normal course of our business, we periodically create or transact with entities that are investment vehicles organized as limited partnerships or limited liability companies, established for the purpose of investing in equity or debt securities of public and private companies or various partnership entities. Certain of these entities have been identified as variable interest entities ("VIEs"). We are required to consolidate onto our consolidated statement of financial condition all VIEs for which we are considered to be the primary beneficiary as defined under applicable accounting standards. The assessment of whether the accounting criteria for consolidation are met requires management to exercise significant judgment. If certain events occur that require us to re-assess our initial determination of non-consolidation or if our judgment of non-consolidation is in error, we could be required to consolidate the assets and liabilities of a VIE onto our consolidated statement of financial condition and recognize its future gains or losses in our consolidated statement of operations. For reasons outside of our control, including changes in existing accounting standards, or interpretations of those standards, the risk of consolidation of these VIEs could increase. Further consolidation would affect the size of our consolidated statement of financial condition.

The financial services industry and the markets in which we operate are subject to systemic risk that could adversely affect our business and results.

Participants in the financial services industry and markets increasingly are closely interrelated as a result of credit, trading, clearing, technology and other relationships between them. A significant adverse development with one participant (such as a bankruptcy or default) may spread to others and lead to significant concentrated or market-wide problems (such as defaults, liquidity problems or losses) for other participants, including us. This systemic risk was evident during 2008 following the demise of Bear Stearns and Lehman Brothers, and the resulting events (sometimes described as "contagion") had a negative impact on the remaining industry participants, including us. Further, the control and risk management infrastructure of the markets in which we operate often is outpaced by financial innovation and growth in new types of securities, transactions and markets. Systemic risk is inherently difficult to assess and quantify, and its form and magnitude can remain unknown for significant periods of time.

We may suffer losses if our reputation is harmed.

Our ability to attract and retain customers and employees may be diminished to the extent our reputation is damaged. If we fail, or are perceived to fail, to address various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with market dynamics, potential conflicts of interest, legal and regulatory requirements, ethical issues, customer privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products and services. Failure to appropriately address these issues could give rise to loss of existing or future business, financial loss, and legal or regulatory liability, including complaints, claims and enforcement proceedings against us, which could, in turn, subject us to fines, judgments and other penalties.

Regulatory capital requirements may limit our ability to expand or maintain our present levels of business or impair our ability to meet our financial obligations.

We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from Piper Jaffray & Co., our U.S. broker dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Underwriting commitments require a charge against net capital and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations.

As Piper Jaffray Companies is a holding company, it depends on dividends, distributions and other payments from our subsidiaries to fund its obligations, including any share repurchases that we may make. The regulatory restrictions described above may impede access to funds our holding company needs to make payments on any such obligations.

We may not be able to compete successfully with other companies in the financial services industry who often have significantly greater resources than we do.

The financial services industry remains extremely competitive, and our revenues and profitability will suffer if we are unable to compete effectively. An inability to effectively compete will also have a negative impact on our ability to achieve our strategic priorities, which include growth for our public finance, fixed income sales, asset management, and corporate advisory businesses. We compete generally on the basis of such factors as quality of advice and service, reputation, price, product selection, transaction execution and financial resources. Pricing and other competitive pressures in investment banking, including trends toward multiple book runners, co-managers, and multiple financial advisors handling transactions, have continued and could adversely affect our revenues. The trend toward multiple book runners has also been accompanied by an increasing disparity in the relative economics between or among book runners, with the senior book runner(s) receiving a large percentage of the economics.

We remain at a competitive disadvantage given our relatively small size compared to some of our competitors. Large financial services firms have a larger capital base, greater access to capital and greater resources than we have, affording them greater capacity for risk and potential for innovation, an extended geographic reach and flexibility to offer a broader set of products. For example, these firms have used their resources and larger capital base to take advantage of growth in international markets and to support their investment banking business by offering credit products to corporate clients, which is a significant competitive advantage. With respect to our fixed income institutional and public finance investment banking businesses, it is more difficult for us to diversify and differentiate our product set, and our fixed income business mix currently is concentrated in the municipal market and to a lesser extent corporate credits and structured mortgage products, potentially with less opportunity for growth than other firms which have grown their fixed income businesses by investing in, developing and offering non-traditional products (e.g., credit default swaps, interest rate products and currencies and commodities).

The business operations that we conduct outside of the United States subject us to unique risks.

To the extent we conduct business outside the United States, for example in Asia and Europe, we are subject to risks including, without limitation, the risk that we will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, and the general economic and political conditions in countries where we conduct business, which may differ significantly from those in the United States. In 2012, we shut down our Hong Kong capital markets business following a sustained period of operating losses, though we have applied for a regulatory license in Hong Kong to maintain a presence in the region to facilitate advisory engagements. With respect to our Asia-based capital markets activity, we facilitated underwritten capital-raising transactions for Asia-based issuers, which may have exposed us to greater underwriting risk in our capital markets business as compared to the U.S., as noted above.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include limitations on our shareholders' ability to act by written consent and to call special meetings. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

ITEM 2. *PROPERTIES.*

As of February 19, 2014, we conducted our operations through 45 principal offices in 28 states and in London, Hong Kong and Zurich. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota and, as of February 19, 2014, comprises approximately 240,000 square feet of leased space (approximately 90,000 square feet of this space is sublet to others). Our existing sublease arrangement with U.S. Bancorp for our headquarters at 800 Nicollet Mall expires in May 2014, and our new lease agreement for approximately 124,000 square feet of office space at the same location commences on June 1, 2014. This new lease at 800 Nicollet Mall expires on November 30, 2025, and includes an option to terminate the lease early effective January 31, 2022.

ITEM 3. *LEGAL PROCEEDINGS.*

Due to the nature of our business, we are involved in a variety of legal proceedings (including, but not limited to, those described below). These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, underwriting or other transactional activity, client account activity, employment matters, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory scrutiny applied to securities firms is intense, resulting in a significant number of regulatory investigations and enforcement actions and uncertainty regarding the likely outcome of these matters.

Litigation-related expenses include amounts we reserve and/or pay out as legal and regulatory settlements, awards or judgments, and fines. Parties who initiate litigation and arbitration proceedings against us may seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines being imposed on us. We reserve for contingencies related to legal proceedings at the time and to the extent we determine the amount to be probable and reasonably estimable. However, it is inherently difficult to predict accurately the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines. We assess each proceeding based on its particular facts, our outside advisors' and our past experience with similar matters, and expectations regarding the current legal and regulatory environment and other external developments that might affect the outcome of a particular proceeding or type of proceeding. Subject to the foregoing and except for the legal proceeding described below, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and taking into account our established reserves, that pending legal actions, investigations and regulatory proceedings, will be resolved with no material adverse effect on our consolidated financial condition, results of operations or cash flows. However, there can be no assurance that our assessments will reflect the ultimate outcome of pending proceedings, and the outcome of any particular matter may be material to our operating results for any particular period, depending, in part, on the operating results for that period and the amount of established reserves. We generally have denied, or believe that we have meritorious defenses and will deny, liability in all significant cases currently pending against us, and we intend to vigorously defend such actions.

ITEM 4. *MINE SAFETY DISCLOSURES.*

Not applicable.

PART II

ITEM 5. *MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

Our common stock is listed on the New York Stock Exchange under the symbol "PJC." The following table contains historical quarterly price information for the years ended December 31, 2013 and 2012. On February 19, 2014, the last reported sale price of our common stock was $39.77.

	2013 Fiscal Year		2012 Fiscal Year	
	High	Low	High	Low
First Quarter	**$ 41.97**	**$ 32.95**	$ 27.20	$ 21.03
Second Quarter	**36.26**	**30.50**	27.46	20.53
Third Quarter	**36.14**	**30.99**	27.81	19.56
Fourth Quarter	**39.55**	**32.33**	32.13	25.33

Shareholders

We had 16,870 shareholders of record and approximately 30,259 beneficial owners of our common stock as of February 19, 2014.

Dividends

We do not currently pay cash dividends on our common stock. Our board of directors is free to change our dividend policy at any time. Restrictions on our U.S. broker dealer subsidiary's ability to pay dividends are described in Note 27 to the consolidated financial statements.

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 December 31, 2013.

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 (October 1, 2013 to October 31, 2013)	36,568	$ 32.43	36,568	$ 39 million
Month #2 (November 1, 2013 to November 30, 2013)	8,991	$ 35.62	—	$ 39 million
Month #3 (December 1, 2013 to December 31, 2013)	243	$ 37.44	—	$ 39 million
Total	45,802	$ 33.08	36,568	$ 39 million

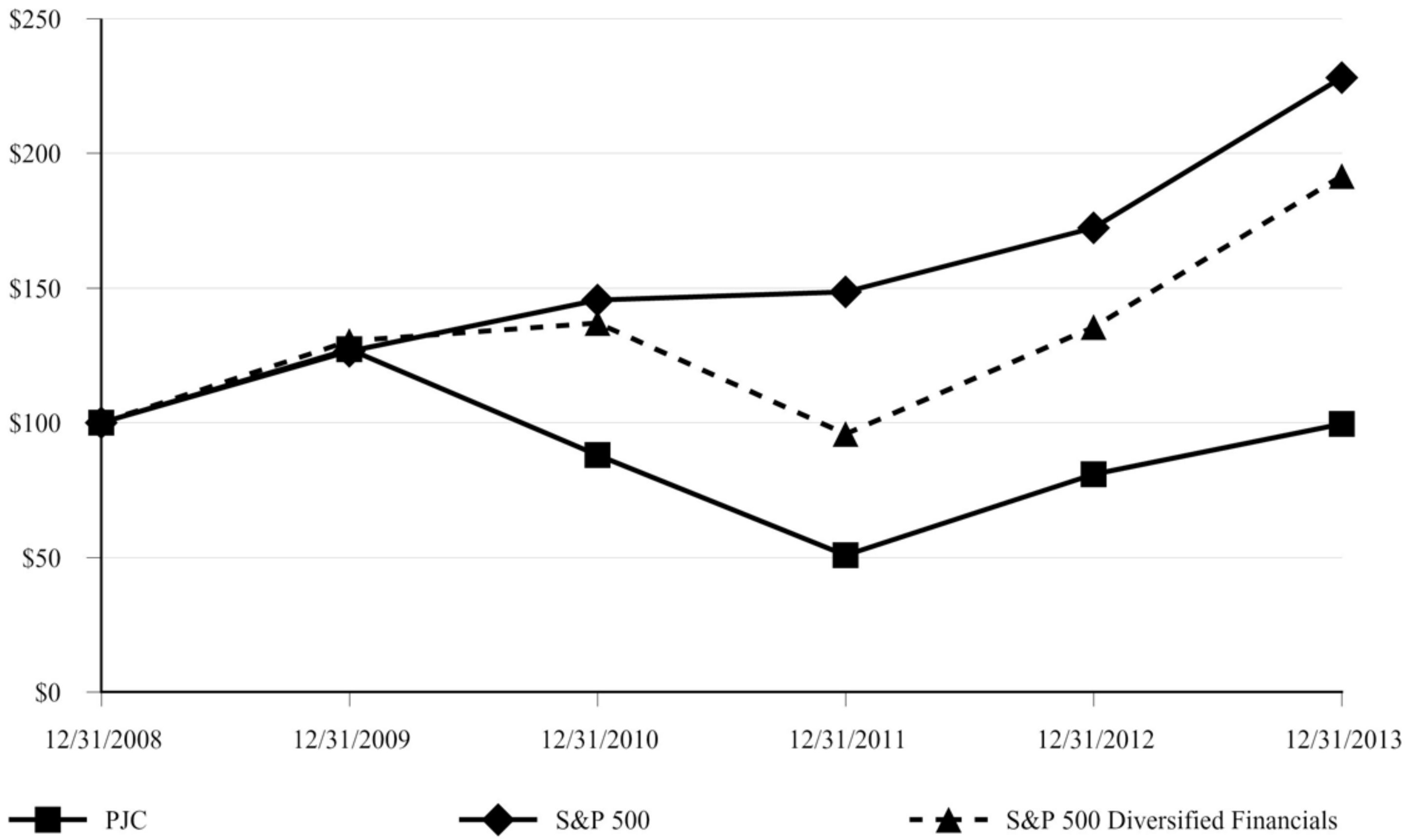
(1) On August 24, 2012, we announced that our board of directors had authorized the repurchase of up to $100.0 million of common stock through September 30, 2014. This share repurchase authorization became effective on October 1, 2012.

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.

Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2008 through December 31, 2013, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on December 31, 2008, in each of our common stock, the S&P 500 Index and the S&P 500 Diversified Financials Index and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

FIVE YEAR TOTAL RETURN FOR PIPER JAFFRAY COMPANIES COMMON STOCK, THE S&P 500 INDEX AND THE S&P DIVERSIFIED FINANCIALS INDEX



Company/Index	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Piper Jaffray Companies	**100**	127.29	88.05	50.80	80.81	99.47
S&P 500 Index	**100**	126.46	145.51	148.59	172.37	228.19
S&P 500 Diversified Financials	**100**	130.39	137.01	95.86	135.49	191.57

ITEM 6. *SELECTED FINANCIAL DATA.*

The following table presents our selected consolidated financial data in accordance with U.S. generally accepted accounting principles for the periods and dates indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto.

(Dollars and shares in thousands, except per share data)	For the year ended December 31, 2013	2012	2011	2010	2009
Revenues:					
Investment banking	**$ 248,563**	$ 232,958	$ 202,513	$ 239,630	$ 197,951
Institutional brokerage	**146,648**	166,642	135,358	161,698	218,058
Asset management	**83,045**	65,699	63,307	55,948	5,122
Interest	**50,409**	37,845	43,447	40,474	30,528
Investment income	**21,566**	4,903	8,178	5,371	(1,027)
Total revenues	**550,231**	508,047	452,803	503,121	450,632
Interest expense	**25,036**	19,095	20,720	23,187	9,716
Net revenues	**525,195**	488,952	432,083	479,934	440,916
Non-interest expenses:					
Compensation and benefits	**322,464**	296,882	265,015	280,047	257,842
Restructuring and integration costs	**4,689**	3,642	—	10,699	3,541
Goodwill impairment	—	—	120,298	—	—
Other	**122,429**	119,417	126,959	135,371	119,444
Total non-interest expenses	**449,582**	419,941	512,272	426,117	380,827
Income/(loss) from continuing operations before income tax expense/(benefit)	**75,613**	69,011	(80,189)	53,817	60,089
Income tax expense	**20,390**	19,470	9,120	32,163	26,706
Net income/(loss) from continuing operations	**55,223**	49,541	(89,309)	21,654	33,383
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	**(4,739)**	(5,807)	(11,248)	2,276	(3,187)
Net income/(loss)	**50,484**	43,734	(100,557)	23,930	30,196
Net income/(loss) applicable to noncontrolling interests	**5,394**	2,466	1,463	(432)	(173)
Net income/(loss) applicable to Piper Jaffray Companies	**$ 45,090**	$ 41,268	$ (102,020)	$ 24,362	$ 30,369
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	**$ 40,596**	$ 35,335	$ (102,020) (1)	$ 18,929	$ 24,888
Amounts applicable to Piper Jaffray Companies					
Net income/(loss) from continuing operations	**$ 49,829**	$ 47,075	$ (90,772)	$ 22,086	$ 33,556
Net income/(loss) from discontinued operations	**(4,739)**	(5,807)	(11,248)	2,276	(3,187)
Net income/(loss) applicable to Piper Jaffray Companies	**$ 45,090**	$ 41,268	$ (102,020)	$ 24,362	$ 30,369
Earnings/(loss) per basic common share					
Income/(loss) from continuing operations	**$ 2.98**	$ 2.58	$ (5.79)	$ 1.12	$ 1.72
Income/(loss) from discontinued operations	**(0.28)**	(0.32)	(0.72)	0.12	(0.16)
Earnings/(loss) per basic common share	**$ 2.70**	$ 2.26	$ (6.51)	$ 1.23	$ 1.56
Earnings/(loss) per diluted common share					
Income/(loss) from continuing operations	**$ 2.98**	$ 2.58	$ (5.79)	$ 1.12	$ 1.72
Income/(loss) from discontinued operations	**(0.28)**	(0.32)	(0.72)	0.11	(0.16)
Earnings/(loss) per diluted common share	**$ 2.70**	$ 2.26	$ (6.51) (2)	$ 1.23	$ 1.55
Weighted average number of common shares					
Basic	**15,046**	15,615	15,672	15,348	15,952
Diluted	**15,061**	15,616	15,672 (2)	15,378	16,007
Other data					
Total assets	**$ 2,318,157**	$ 2,087,733	$ 1,655,721	$ 2,033,787	$ 1,703,330
Long-term debt	**$ 125,000**	$ 125,000	$ 115,000	$ 125,000	$ —
Total common shareholders' equity	**$ 734,676**	$ 733,292	$ 718,391	$ 813,312	$ 778,616
Total shareholders' equity	**$ 882,072**	$ 790,175	$ 750,600	$ 818,101	$ 782,319
Total employees (3)	**1,026**	907	919	922	934

(1) No allocation of income was made due to loss position.

(2) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.

(3) Number of employees reflect continuing operations.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

The following information should be read in conjunction with the accompanying audited 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 and at the SEC Web site at 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, (4) restructuring and acquisition integration costs and (5) a goodwill impairment charge recognized in 2011. These adjustments affect the following financial measures: net revenues, 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 its 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 activities, which focus on proprietary investments in municipal bonds, mortgage-backed securities, equity securities and merchant banking activities, which 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 strengthens our mergers and acquisitions position in the middle market and adds resources dedicated to the private equity community.

For more information on our acquisitions of Seattle-Northwest and Edgeview, see Note 4 of our consolidated financial statements. We incurred $4.3 million of restructuring, integration and transaction costs in the year ended December 31, 2013 related to these acquisitions.

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 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 for all periods presented include the operating results of our Hong Kong capital markets business and Fiduciary Asset Management, LLC ("FAMCO"), an asset management subsidiary. As of September 30, 2012, we ceased operations related to our Hong Kong capital markets business. As a result of discontinuing this business, we realized net cash proceeds of approximately $19.1 million, due principally to a U.S. tax benefit for the realized loss on the investment in our Hong Kong subsidiaries. We sold FAMCO in the second quarter of 2013. FAMCO was classified as held for sale as of December 31, 2012. See Note 5 to our consolidated financial statements for further discussion of our discontinued operations.

Results for the year ended December 31, 2013

For the year ended December 31, 2013, net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, was $45.1 million, or $2.70 per diluted common share. Net income applicable to Piper Jaffray Companies from continuing operations in 2013 was $49.8 million, or $2.98 per diluted common share, compared with $47.1 million, or $2.58 per diluted common share, for the prior-year period. The current period results of operations include a $4.0 million, or $0.24 per diluted common share, tax benefit from reversing the full amount of our U.K. subsidiary's deferred tax asset valuation allowance. In 2013, we generated a return on average common shareholders' equity of 6.2 percent, compared with 5.7 percent for 2012. Net revenues from continuing operations for the year ended December 31, 2013 were $525.2 million, up 7.4 percent from $489.0 million in the year-ago period. In 2013, we recorded increased revenues from our equity-related businesses, asset management services and merchant banking activities, offset in part by lower advisory services and fixed income institutional brokerage revenues. For the year ended December 31, 2013, non-compensation expenses from continuing operations were $127.1 million, up from $123.1 million in 2012.

For the year ended December 31, 2013, adjusted net income applicable to Piper Jaffray Companies from continuing operations was $59.5 million(1), or $3.56(1) per diluted common share, compared with $54.3 million(1), or $2.98(1) per diluted common share, for the prior-year period. Adjusted net revenues for the year ended December 31, 2013 were $516.4 million(1), an increase of 6.5 percent from $484.8 million(1) reported in the year-ago period. For the year ended December 31, 2013, adjusted non-compensation expenses were $111.0 million(1), essentially flat compared to $110.8 million(1) for the year ended December 31, 2012.

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

(Dollars in thousands)	*Year Ended December 31,*	
	2013	*2012*
Net revenues:		
Net revenues – U.S. GAAP basis	***$ 525,195***	*$ 488,952*
Adjustments		
Revenue related to noncontrolling interests	***(8,794)***	*(4,174)*
Adjusted net revenues	***$ 516,401***	*$ 484,778*
Non-compensation expenses:		
Non-compensation expenses – U.S. GAAP basis	***$ 127,118***	*$ 123,059*
Adjustments		
Non-compensation expenses related to noncontrolling interests	***(3,400)***	*(1,708)*
Restructuring and integration costs	***(4,689)***	*(3,642)*
Amortization of intangible assets related to acquisitions	***(7,993)***	*(6,944)*
Adjusted non-compensation expenses	***$ 111,036***	*$ 110,765*
Net income from continuing operations applicable to Piper Jaffray Companies:		
Net income from continuing operations applicable to Piper Jaffray Companies – U.S. GAAP basis	***$ 49,829***	*$ 47,075*
Adjustments		
Compensation from acquisition-related agreements	***1,774***	*785*
Restructuring and integration costs	***2,865***	*2,225*
Amortization of intangible assets related to acquisitions	***5,079***	*4,243*
Adjusted net income from continuing operations applicable to Piper Jaffray Companies	***$ 59,547***	*$ 54,328*
Earnings per diluted common share from continuing operations:		
U.S. GAAP basis	***$ 2.98***	*$ 2.58*
Adjustments		
Compensation from acquisition-related agreements	***0.11***	*0.04*
Restructuring and integration costs	***0.17***	*0.12*
Amortization of intangible assets related to acquisitions	***0.30***	*0.23*
Non-U.S. GAAP basis, as adjusted	***$ 3.56***	*$ 2.98*

Market Data

The following table provides a summary of relevant market data over the past three years.

Year Ended December 31,	2013	2012	2011	2013 v2012	2012 v2011
Dow Jones Industrials Average *(a)*	**16,577**	13,104	12,218	26.5 %	7.3 %
NASDAQ *(a)*	**4,177**	3,020	2,605	38.3 %	15.9 %
NYSE Average Daily Number of Shares Traded (millions of shares)	**1,034**	1,146	1,552	(9.8)%	(26.2)%
NASDAQ Average Daily Number of Shares Traded (millions of shares)	**1,762**	1,741	2,042	1.2 %	(14.7)%
Mergers and Acquisitions (number of transactions in U.S.) *(b)*	**9,146**	8,400	8,539	8.9 %	(1.6)%
Public Equity Offerings (number of transactions in U.S.) *(c) (e)*	**1,125**	748	663	50.4 %	12.8 %
Initial Public Offerings (number of transactions in U.S.) *(c)*	**221**	139	138	59.0 %	0.7 %
Managed Municipal Underwritings (number of transactions in U.S.) *(d)*	**11,321**	13,115	10,574	(13.7)%	24.0 %
Managed Municipal Underwritings (value of transactions in billions in U.S.) *(d)*	**$ 331.0**	$ 379.6	$ 287.7	(12.8)%	31.9 %
10-Year Treasuries Average Rate	**2.35%**	1.72%	2.79%	36.6 %	(38.4)%
3-Month Treasuries Average Rate	**0.06%**	0.07%	0.05%	(14.3)%	40.0 %

(a) Data provided is at period end.

(b) Source Securities Data Corporation.

(c) Source Dealogic (offerings with reported market value greater than $20 million).

(d) Source Thomson Financial.

(e) Number of transactions includes convertible offerings.

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), the level and shape of various yield curves, the volume and value of trading in securities, and the demand for asset management services as reflected by the amount of assets under management.

Factors that differentiate our business within the financial services industry may also affect our financial results. For example, our 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.

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 Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in 2010 bringing sweeping change to financial services regulation in the U.S. Changes in the regulatory environment in which we operate could affect our business and the competitive environment, potentially adversely.

Outlook for 2014

In 2014, we expect continuing improvement in U.S. economic growth, modest appreciation in the equity markets and gradually increasing U.S. interest rates as the U.S. economy continues to improve by building on momentum that emerged in the second half of 2013. We believe that the interest rate environment has largely factored in the Federal Reserve's intention to taper bond purchases under its quantitative easing program, and interest rates generally will move in response to the rate of economic growth going forward. We are cognizant, however, that quantitative easing may have influenced capital flows into certain asset classes. We will monitor the potential impact on our markets as these capital flows normalize in the absence of quantitative easing.

Rising interest rates and mixed financial market conditions in 2013 resulted in varied financial results across our debt financing and fixed income institutional brokerage businesses. Our fixed income institutional brokerage business reported stronger financial results in the second half of 2013 after overcoming turbulent conditions earlier in the year. Rising interest rates negatively impacted our debt financing revenues as public finance issuances decreased as debt refinancing activity became less attractive. We anticipate that interest rates will continue to increase gradually throughout 2014, which could impact our debt financing and fixed income institutional brokerage revenues. We expect less favorable public finance underwriting conditions in 2014 as the demand for refinancing activity subsides in a rising interest rate environment and new issuance activity is not expected to entirely offset this decline. Our public finance underwriting business is expected to benefit from increased market share and our fixed income institutional sales and trading activities is expected to benefit from the expansion of our middle market sales force. We will continue to manage our inventories and hedging strategies to mitigate market volatility and our exposure to rising interest rates.

The equity markets experienced significant appreciation in 2013 and volatility remained low. Each of our equity-related businesses benefited from these favorable market conditions. We believe that the equity markets will continue to appreciate in 2014, but at more modest levels that may include a period of market correction. Conditions should continue to be accommodative for our equity-related businesses, however, a period of market correction may be disruptive to our capital raising, while our trading business should benefit from higher volatility. In 2014, we expect to reap the full-year benefits of the investments we made in 2013.

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

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 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional discussion and reconciliations.

Financial Summary

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.

	Year Ended December 31,					As a Percentage of Net Revenues for the Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**	**2013 v2012**	**2012 v2011**	**2013**	**2012**	**2011**
Revenues:								
Investment banking	**$ 248,563**	$ 232,958	$ 202,513	6.7%	15.0%	**47.3%**	47.6%	46.9 %
Institutional brokerage	**146,648**	166,642	135,358	(12.0)	23.1	**27.9**	34.1	31.3
Asset management	**83,045**	65,699	63,307	26.4	3.8	**15.8**	13.4	14.7
Interest	**50,409**	37,845	43,447	33.2	(12.9)	**9.6**	7.7	10.1
Investment income	**21,566**	4,903	8,178	339.9	(40.0)	**4.1**	1.0	1.9
Total revenues	**550,231**	508,047	452,803	8.3	12.2	**104.8**	103.9	104.8
Interest expense	**25,036**	19,095	20,720	31.1	(7.8)	**4.8**	3.9	4.8
Net revenues	**525,195**	488,952	432,083	7.4	13.2	**100.0**	100.0	100.0
Non-interest expenses:								
Compensation and benefits	**322,464**	296,882	265,015	8.6	12.0	**61.4**	60.7	61.3
Occupancy and equipment	**25,493**	26,454	28,430	(3.6)	(7.0)	**4.9**	5.4	6.6
Communications	**21,431**	20,543	22,121	4.3	(7.1)	**4.1**	4.2	5.1
Floor brokerage and clearance	**8,270**	8,054	8,925	2.7	(9.8)	**1.6**	1.6	2.1
Marketing and business development	**21,603**	19,908	22,640	8.5	(12.1)	**4.1**	4.1	5.2
Outside services	**32,982**	27,998	27,570	17.8	1.6	**6.3**	5.7	6.4
Restructuring and integration costs	**4,689**	3,642	—	28.7	N/M	**0.9**	0.7	—
Goodwill impairment	**—**	—	120,298	N/M	N/M	**—**	—	27.8
Intangible asset amortization expense	**7,993**	6,944	7,256	15.1	(4.3)	**1.5**	1.4	1.7
Other operating expenses	**4,657**	9,516	10,017	(51.1)	(5.0)	**0.9**	1.9	2.3
Total non-interest expenses	**449,582**	419,941	512,272	7.1	(18.0)	**85.6**	85.9	118.6
Income/(loss) from continuing operations before income tax expense	**75,613**	69,011	(80,189)	9.6	N/M	**14.4**	14.1	(18.6)
Income tax expense	**20,390**	19,470	9,120	4.7	113.5	**3.9**	4.0	2.1
Income/(loss) from continuing operations	**55,223**	49,541	(89,309)	11.5	N/M	**10.5**	10.1	(20.8)
Discontinued operations:								
Loss from discontinued operations, net of tax	**(4,739)**	(5,807)	(11,248)	(18.4)	(48.4)	**(0.9)**	(1.2)	(2.6)
Net income/(loss)	**50,484**	43,734	(100,557)	15.4	N/M	**9.6**	8.9	(23.3)
Net income applicable to noncontrolling interests	**5,394**	2,466	1,463	118.7	68.6%	**1.0**	0.5	0.3
Net income/(loss) applicable to Piper Jaffray Companies	**$ 45,090**	$ 41,268	$ (102,020)	9.3%	N/M	**8.6%**	8.4%	(23.6)%

N/M – Not meaningful

For the year ended December 31, 2013, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $45.1 million. The current period results of operations include a $4.0 million tax benefit from reversing the full amount of our U.K. subsidiary's deferred tax asset valuation allowance. Net revenues from continuing operations for the year ended December 31, 2013 were $525.2 million, a 7.4 percent increase compared to $489.0 million in the year-ago period. In 2013, investment banking revenues were $248.6 million, compared with $233.0 million in the prior-year period due to higher equity financing revenues, offset in part by a decline in advisory revenues. For the year ended December 31, 2013, institutional brokerage revenues decreased 12.0 percent to $146.6 million, compared with $166.6 million in 2012. The decline was driven by lower fixed income strategic trading results in 2013. In 2013, asset management fees increased 26.4 percent to $83.0 million, compared with $65.7 million in 2012, due to higher management fees from increased assets under management and higher performance fees earned in the fourth quarter of 2013. In 2013, net interest income increased 35.3 percent to $25.4 million, compared with $18.8 million in 2012. The increase was primarily the result of higher net interest income attributable to noncontrolling interests from our municipal bond fund, as well as higher inventory balances in mortgage-backed and municipal securities. For the year ended December 31, 2013, investment income was $21.6 million, compared with $4.9 million in the prior-year period as we recorded higher investment gains associated with our merchant banking and firm investments. Non-interest expenses from continuing operations were $449.6 million for the year ended December 31, 2013, an increase of 7.1 percent compared to $419.9 million in the prior year, primarily resulting from higher compensation expenses due to an increased revenue base.

For the year ended December 31, 2012, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $41.3 million. Net revenues from continuing operations for the year ended December 31, 2012 were $489.0 million, a 13.2 percent increase from 2011. In 2012, investment banking revenues were $233.0 million, compared with $202.5 million in 2011, due to higher public finance and advisory services revenues. For the year ended December 31, 2012, institutional brokerage revenues increased 23.1 percent to $166.6 million, compared with $135.4 million in 2011, driven by strong fixed income strategic trading revenues. In 2012, asset management fees were $65.7 million, up modestly compared with 2011. Net interest income in 2012 decreased 17.5 percent to $18.8 million, compared with $22.7 million in 2011. The decrease was primarily the result of a strategic decision to further diversify from overnight funding sources to short term funding sources with extended terms. These short term funding sources with extended terms typically have higher interest costs than overnight financing obtained from repurchase obligations. The change in net interest income is also partly attributable to a decline of our average long inventory balances. For the year ended December 31, 2012, investment income was $4.9 million, compared with $8.2 million in 2011 as we recorded higher investment gains associated with our merchant banking investments in 2011. In 2012, non-interest expenses from continuing operations were $419.9 million, compared with $392.0 million in 2011, which excludes the pre-tax goodwill impairment charge of $120.3 million. This increase was driven by increased variable compensation due to 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 year ended December 31, 2013, compensation and benefits expenses increased 8.6 percent to $322.5 million from $296.9 million in 2012. Compensation and benefits expenses as a percentage of net revenues increased from 60.7 percent in 2012 to 61.4 percent in 2013, primarily attributable to changes in our mix of business, as we recorded significantly higher fixed income strategic trading revenues in 2012, which have a lower compensation payout.

For the year ended December 31, 2012, compensation and benefits expenses increased 12.0 percent to $296.9 million from $265.0 million in 2011, due to increased variable compensation expense driven by higher net revenues and operating profits. Compensation and benefits expenses as a percentage of net revenues was 60.7 percent in 2012, compared with 61.3 percent in 2011. The lower compensation ratio in 2012 was driven by increased revenues and our mix of business as we recorded significantly higher fixed income strategic trading revenues in 2012.

Occupancy and Equipment – For the year ended December 31, 2013, occupancy and equipment expenses decreased 3.6 percent to $25.5 million, compared with $26.5 million in the corresponding period of 2012. The decrease was primarily the result of prior investments in technology and equipment becoming fully depreciated and lower occupancy costs associated with our headquarters office space, offset in part by incremental occupancy expense from our acquisitions of Seattle-Northwest and Edgeview during the third quarter of 2013.

For the year ended December 31, 2012, occupancy and equipment expenses decreased 7.0 percent to $26.5 million, compared with $28.4 million in 2011. The decrease was primarily due to cost saving initiatives.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the year ended December 31, 2013, communication expenses increased 4.3 percent to $21.4 million, compared with $20.5 million for the year ended December 31, 2012. The increase resulted from higher market data service expenses.

For the year ended December 31, 2012, communication expenses decreased 7.1 percent to $20.5 million, compared with $22.1 million in 2011. The decrease was primarily attributable to lower market data service expenses.

Floor Brokerage and Clearance – For the year ended December 31, 2013, floor brokerage and clearance expenses increased slightly to $8.3 million, compared with $8.1 million million in the year ended December 31, 2012.

For the year ended December 31, 2012, floor brokerage and clearance expenses decreased 9.8 percent to $8.1 million, compared with $8.9 million in 2011. The decline was due to lower trading fees resulting from lower U.S. equity client volumes.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In 2013, marketing and business development expenses increased 8.5 percent to $21.6 million, compared with $19.9 million in the year ended December 31, 2012, due to higher travel expenses resulting from increased equity underwriting activity.

In 2012, marketing and business development expenses decreased 12.1 percent to $19.9 million, compared with $22.6 million in 2011. In 2011, we recorded higher travel expenses from write-offs related to equity investment banking deals that were never completed due to volatility in the capital markets.

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 17.8 percent to $33.0 million in 2013, compared with $28.0 million in the corresponding period of 2012, due to higher computer consulting and fund expenses.

In 2012, outside services expenses were $28.0 million, essentially flat compared with 2011.

Restructuring and Integration Costs – During the year ended December 31, 2013, we recorded restructuring, integration and transaction costs of $4.7 million primarily related to the acquisitions of Seattle-Northwest and Edgeview. For the year ended December 31, 2012, we recorded a restructuring charge of $3.6 million, which consisted of $2.4 million of employee severance costs and $1.2 million for the reduction of leased office space.

Goodwill Impairment — In 2011, we recorded a non-cash goodwill impairment charge of $120.3 million related to our Capital Markets reporting unit. The charge primarily related to the goodwill originating from our 1998 acquisition by U.S. Bancorp, which was retained by us when we spun off as a separate public company on December 31, 2003.

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 year ended December 31, 2013, intangible asset amortization expense was $8.0 million, compared with $6.9 million in the corresponding period of 2012. The increase was attributable to incremental intangible asset amortization expense related to the acquisitions of Seattle-Northwest and Edgeview.

In 2012, intangible asset amortization expense was $6.9 million, compared with $7.3 million in 2011.

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 decreased 51.1 percent to $4.7 million in 2013, compared with $9.5 million in 2012. In 2013, we received insurance proceeds for the reimbursement of prior legal settlements.

Other operating expenses decreased 5.0 percent to $9.5 million in 2012, compared with $10.0 million in 2011, due primarily to a business tax refund received in 2012.

Income Taxes – For the year ended December 31, 2013, our provision for income taxes was $20.4 million equating to an effective tax rate, excluding noncontrolling interests, of 29.0 percent. In 2013, we recorded a tax benefit for the full reversal of our U.K subsidiary's deferred tax asset valuation allowance of $4.0 million as we achieved three years of profitability and expect future taxable profits.

For the year ended December 31, 2012, our provision for income taxes was $19.5 million, equating to an effective tax rate, excluding noncontrolling interests, of 29.3 percent. In 2012, we recorded a tax benefit for the reversal of previously accrued uncertain state income tax positions of $7.4 million, net of federal tax, partially offset by a $4.6 million write-off of deferred tax assets related to equity grants that either were forfeited or vested at share prices lower than the grant date share price.

In 2011, our provision for income taxes was $9.1 million. In 2011, we incurred a pre-tax loss due to the $120.3 million goodwill impairment charge. Excluding the goodwill impairment charge, the substantial majority of which had no tax impact, we recorded pre-tax income from continuing operations of $40.1 million, which resulted in an effective tax rate for 2011 of 23.6 percent. Income tax expense in 2011 included a $1.1 million partial reversal of our U.K. subsidiary's deferred tax asset valuation allowance.

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 management team 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, (4) restructuring and integration costs, and (5) a goodwill impairment charge recognized in 2011. For U.S. GAAP purposes, these items are included in each of their respective line items on the consolidated statements of operations.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin present the segments' results of operations excluding the impact resulting from the consolidation of noncontrolling interests in alternative asset management funds and private equity investment vehicles. Consolidation of these funds results in the inclusion of the proportionate share of the income or loss attributable to the equity interests in consolidated funds that are not attributable, either directly or indirectly, to us (i.e. noncontrolling interests). This proportionate share is reflected in net income/(loss) applicable to noncontrolling interests in the accompanying consolidated statements of operations, and has no effect on the overall financial performance of the segments, as ultimately, this income or loss is not income or loss for the segments themselves. Included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin is the actual proportionate share of the income or loss attributable to us as an investor in such funds. Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin also exclude amortization of intangible assets and compensation from acquisition-related agreements resulting from our ARI, Seattle-Northwest and Edgeview acquisitions. The restructuring and integration costs excluded from adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin represent charges that resulted from severance benefits, vacating redundant office space and contract termination costs. The goodwill impairment charge recognized in 2011 primarily pertained to goodwill created from the 1998 acquisition of Piper Jaffray Companies Inc. by U.S. Bancorp, which was retained by us when we spun-off from U.S. Bancorp on December 31, 2003.

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:

	Year Ended December 31,							
	2013				2012			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	**Total Adjusted**	**Noncontrolling Interests**	**Other Adjustments**	**U.S. GAAP**	**Total Adjusted**	**Noncontrolling Interests**	**Other Adjustments**	**U.S. GAAP**
Investment banking								
Financing								
Equities	$ 100,224	$ —	$ —	$ 100,224	$ 73,180	$ —	$ —	$ 73,180
Debt	74,284	—	—	74,284	74,102	—	—	74,102
Advisory services	74,420	—	—	74,420	86,165	—	—	86,165
Total investment banking	248,928	—	—	248,928	233,447	—	—	233,447
Institutional sales and trading								
Equities	91,169	—	—	91,169	75,723	—	—	75,723
Fixed income	76,275	—	—	76,275	111,492	—	—	111,492
Total institutional sales and trading	167,444	—	—	167,444	187,215	—	—	187,215
Total management and performance fees	3,891	—	—	3,891	1,678	—	—	1,678
Investment income	21,610	8,794	—	30,404	5,666	4,174	—	9,840
Long-term financing expenses	(7,420)	—	—	(7,420)	(7,982)	—	—	(7,982)
Net revenues	434,453	8,794	—	443,247	420,024	4,174	—	424,198
Operating expenses	382,157	3,400	7,674	393,231	366,408	1,708	3,512	371,628
Segment pre-tax operating income	$ 52,296	$ 5,394	$ (7,674)	$ 50,016	$ 53,616	$ 2,466	$ (3,512)	$ 52,570
Segment pre-tax operating margin	12 0%			11 3%	12 8%			12 4%

(1) *The following is a summary of the adjustments needed to reconcile our consolidated U.S. GAAP pre-tax operating 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

	Year Ended December 31,	
(Dollars in thousands)	***2013***	***2012***
Compensation from acquisition-related agreements	*$ 1,620*	*$ —*
Restructuring and integration costs	*4,705*	*3,512*
Amortization of intangible assets related to acquisitions	*1,349*	*—*
	$ 7,674	*$ 3,512*

Capital Markets adjusted net revenues increased 3.4 percent to $434.5 million for the year ended December 31, 2013, compared with $420.0 million in the prior-year period.

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

In 2013, investment banking revenues increased 6.6 percent to $248.9 million compared with $233.4 million in the corresponding period of the prior year, due to higher equity financing revenues, offset in part by a decline in advisory services revenues. For the year ended December 31, 2013, equity financing revenues were $100.2 million, up 37.0 percent compared with $73.2 million in the prior-year period as strong gains in the equity markets resulted in robust conditions for equity capital raising. During 2013, we completed 92 equity financings, raising $19.9 billion for our clients, compared with 67 equity financings, raising $9.1 billion for our clients (excluding the $16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position) in the comparable year-ago period. Debt financing revenues for the year ended December 31, 2013 were $74.3 million, essentially flat compared with the prior year. During 2013, we completed 413 negotiated public finance issues with a total par value of $7.9 billion, compared with 444 negotiated public finance issues with a total par value of $7.3 billion during the prior-year period. A decrease in the number of completed negotiated public finance issues from 2012 was offset by increased revenue per transaction in 2013. Additionally, our market share gains and industry sector strengths offset weak refunding activity in the second half of 2013. In 2013, our par value from negotiated debt issuances increased 7.9 percent, compared to a 17.1 percent decline for the industry. For the year ended December 31, 2013, advisory services revenues decreased 13.6 percent to $74.4 million due to lower U.S. advisory services revenue from fewer completed transactions. In 2012, sellers were motivated to complete transactions due to anticipated tax increases in 2013. Although this resulted in reduced activity through mid-year 2013, as we rebuilt our advisory pipeline, we experienced increasing demand through the second half of 2013. We completed 31 transactions with an aggregate enterprise value of $2.9 billion in 2013, compared with 40 transactions with an aggregate enterprise value of $10.2 billion in 2012.

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 year ended December 31, 2013, institutional brokerage revenues decreased 10.6 percent to $167.4 million, compared with $187.2 million in the prior-year period, as a decline in fixed income institutional brokerage revenues was offset in part by higher equity institutional brokerage revenues. Equity institutional brokerage revenues increased 20.4 percent to $91.2 million in 2013, compared with $75.7 million in the corresponding period of 2012, reflecting the favorable equity markets and improved trading performance. Our improved trading performance resulted from successfully executing a set of client-focused product strategies which we began implementing in 2012, and more effective deployment of capital within this business. We generated revenues from our equity strategic trading activities, which we began in the second half of 2013 to leverage our intellectual capital and to diversify our strategic trading efforts. For the year ended December 31, 2013, fixed income institutional brokerage revenues were $76.3 million, compared with $111.5 million in the prior-year period. The decrease primarily resulted from lower revenues from our strategic trading activities, primarily related to non-agency mortgage-backed securities. In addition, we experienced trading losses in the second quarter of 2013 on inventory positions due to the volatile trading environment caused by the rapid rise in interest rates and widening of credit spreads.

Management and performance fees include the performance and management fees generated from our municipal bond and merchant banking funds. For the year ended December 31, 2013, management and performance fees were $3.9 million, compared with $1.7 million in the prior-year period, due to increased management fees from our municipal bond fund driven by higher AUM from net client inflows and a full year of management fees generated from our merchant banking fund.

Adjusted investment income includes realized and unrealized gains and losses on our merchant banking and other firm investments. Also, it includes realized and unrealized gains and losses on our investment in the municipal bond funds that we manage. For the year ended December 31, 2013, adjusted investment income was $21.6 million, compared to $5.7 million in the corresponding period of 2012. The significant increase from 2012 was driven by larger gains on our merchant banking investments. Merchant banking investments made before 2010 are accounted for on a cost basis, which can result, and in this case did result, in significant realized gains in the period of a liquidity event for these investments.

Long-term financing expenses represent interest paid on our variable rate senior notes and syndicated bank facility. For the year ended December 31, 2013, long-term financing expenses decreased 7.0 percent to $7.4 million, compared to $8.0 million in the prior-year period. The decrease was due to additional costs recognized in the fourth quarter of 2012 upon prepayment of the syndicated bank facility.

Capital Markets adjusted segment pre-tax operating margin for the year ended December 31, 2013 decreased slightly to 12.0 percent, compared with 12.8 percent for the corresponding period of 2012.

	Year Ended December 31,							
	2012				2011			
		Adjustments [1]				Adjustments [1]		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$ 73,180	$ —	$ —	$ 73,180	$ 74,161	$ —	$ —	$ 74,161
Debt	74,102	—	—	74,102	54,565	—	—	54,565
Advisory services	86,165	—	—	86,165	74,373	—	—	74,373
Total investment banking	233,447	—	—	233,447	203,099	—	—	203,099
Institutional sales and trading								
Equities	75,723	—	—	75,723	86,175	—	—	86,175
Fixed income	111,492	—	—	111,492	75,589	—	—	75,589
Total institutional sales and trading	187,215	—	—	187,215	161,764	—	—	161,764
Total management and performance fees	1,678	—	—	1,678	243	—	—	243
Investment income	5,666	4,174	—	9,840	9,267	1,785	—	11,052
Long-term financing expenses	(7,982)	—	—	(7,982)	(7,067)	—	—	(7,067)
Net revenues	420,024	4,174	—	424,198	367,306	1,785	—	369,091
Operating expenses	366,408	1,708	3,512	371,628	343,714	322	120,298	464,334
Segment pre-tax operating income	$ 53,616	$ 2,466	$ (3,512)	$ 52,570	$ 23,592	$ 1,463	$ (120,298)	$ (95,243)
Segment pre-tax operating margin	12 8%			12 4%	6 4%			N/M

(1) *Other Adjustments – For the year ended December 31, 2012, restructuring and integration costs of $3.5 million are not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin. For the year ended December 31, 2011, adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin exclude a goodwill impairment charge of $120.3 million.*

Capital Markets adjusted net revenues increased 14.4 percent to $420.0 million for the year ended December 31, 2012, compared with $367.3 million for the year ended December 31, 2011.

In 2012, investment banking revenues increased 14.9 percent to $233.4 million compared with $203.1 million in the prior year, due to an increase in debt financing and advisory services revenues. For the year ended December 31, 2012, equity financing revenues were $73.2 million, essentially flat compared with the prior year. In 2012, we continued to experience sluggish equity capital markets activity due to uncertain economic conditions. During 2012, we completed 67 equity financings, raising $9.1 billion for our clients (excluding the $16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position), compared with 60 equity financings, raising $12.9 billion in 2011. Debt financing revenues in 2012 increased 35.8 percent to $74.1 million, compared with $54.6 million in 2011, due to an increase in public finance revenues. In 2012, historically low interest rates created client refinancing opportunities, which resulted in a 33.6 percent increase in our par value from negotiated debt issuances. In addition, 2011 municipal underwriting activity was at historic lows following a robust 2010 municipal financing year driven by the taxable Build America Bonds. In 2012, we completed 444 negotiated public finance issues with a total par value of $7.3 billion, compared with 410 negotiated public finance issues with a total par value of $5.5 billion in 2011. Additionally, in 2012 we grew our public finance economic market share. For the year ended December 31, 2012, advisory services revenues increased 15.9 percent to $86.2 million due to higher U.S. advisory services revenue. This increase was attributable to more conducive equity capital markets in the U.S., an increased internal focus on this product and motivated sellers anticipating tax increases for 2013. We completed 40 transactions with an aggregate enterprise value of $10.2 billion during 2012, compared with 38 transactions with an aggregate enterprise value of $5.2 billion in 2011.

In 2012, institutional brokerage revenues increased 15.7 percent to $187.2 million, compared with $161.8 million in 2011, driven by strong fixed income trading revenues. Equity institutional brokerage revenues decreased to $75.7 million in 2012, compared with $86.2 million in 2011. The decrease was attributable to lower U.S. equity client volumes resulting from the uncertainty in the equity markets in 2012. For the year ended December 31, 2012, fixed income institutional brokerage revenues increased to $111.5 million, compared with $75.6 million in 2011. The increase was principally driven by our non-agency mortgage-backed security strategic trading activities. Additionally, in 2012 we experienced more favorable fixed income market conditions that resulted in higher customer activity and increased taxable fixed income sales and trading revenues.

Management and performance fees were $1.7 million for the year ended December 31, 2012, compared to $0.2 million for 2011. The increase was primarily due to the recognition of a full year of management and performance fees generated from our municipal bond fund, which commenced operations mid-year in 2011.

For the year ended December 31, 2012, adjusted investment income was $5.7 million, compared with $9.3 million in the prior year. In 2012, we recorded lower gains on our merchant banking investments.

Long-term financing expenses increased 12.9 percent to $8.0 million for the year ended December 31, 2012, compared with $7.1 million in the prior-year period. The increase resulted from additional costs recognized in the fourth quarter of 2012 upon repayment of our syndicated bank facility.

Capital Markets adjusted segment pre-tax operating margin for 2012 was 12.8 percent, compared with 6.4 percent for 2011. The increase compared to 2011 was due to operating leverage from higher net revenues and a lower compensation ratio due to our mix of business, as we recorded significantly higher fixed income strategic trading revenues in 2012, which have a lower compensation payout.

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:

	Year Ended December 31,							
	2013				2012			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	**Total Adjusted**	**Noncontrolling Interests**	**Other Adjustments**	**U.S. GAAP**	**Total Adjusted**	**Noncontrolling Interests**	**Other Adjustments**	**U.S. GAAP**
Management fees								
Value equity	$ 50,066	$ —	$ —	$ 50,066	$ 48,636	$ —	$ —	$ 48,636
MLP	21,248	—	—	21,248	14,600	—	—	14,600
Total management fees	71,314	—	—	71,314	63,236	—	—	63,236
Performance fees								
Value equity	7,620			7,620	785	—	—	785
MLP	220			220	—	—	—	—
Total performance fees	7,840	—	—	7,840	785	—	—	785
Total management and performance fees	79,154	—	—	79,154	64,021	—	—	64,021
Investment income	2,794	—	—	2,794	733	—	—	733
Total net revenues	81,948	—	—	81,948	64,754	—	—	64,754
Operating expenses	48,439	—	7,912	56,351	39,955	—	8,358	48,313
Segment pre-tax operating income	$ 33,509	$ —	$ (7,912)	$ 25,597	$ 24,799	$ —	$ (8,358)	$ 16,441
Segment pre-tax operating margin	40 9%			31 2%	38 3%			25 4%

(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*

	Year Ended December 31,	
(Dollars in thousands)	***2013***	***2012***
Compensation from acquisition-related agreements	*$ 1,284*	*$ 1,284*
Restructuring and integration costs	*(16)*	*130*
Amortization of intangible assets related to acquisitions	*6,644*	*6,944*
	$ 7,912	*$ 8,358*

Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Fluctuations in financial markets 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 December 31, 2013, approximately two percent of our AUM was eligible to earn performance fees.

For the year ended December 31, 2013, management fees were $71.3 million, an increase of 12.8 percent, compared with $63.2 million in the prior-year period, due primarily to increased AUM and management fees from our MLP product offerings. In 2013, management fees related to our value equity strategies were $50.1 million, up 2.9 percent compared to the corresponding period of 2012. The impact of increased AUM in 2013 from market appreciation was offset by a lower average effective revenue yield (total management fees as a percentage of our average AUM). The average effective revenue yield for our value equity strategies was 80 basis points for the year ended December 31, 2013, compared to 81 basis points in the corresponding period of the prior-year. Management fees from our MLP and energy infrastructure strategies increased 45.5 percent in 2013 to $21.2 million, compared with $14.6 million in 2012, due to increased average AUM and a higher average effective revenue yield. The average effective revenue yield for our MLP strategies was 53 basis points for the year ended December 31, 2013, compared to 49 basis points for the year ended December 31, 2012.

For the year ended December 31, 2013, performance fees were $7.8 million, compared to $0.8 million in the prior-year period. The performance fees recorded in 2013 resulted from certain funds exceeding their performance targets over a specified measurement period. The performance fees recorded during 2012 were the result of certain funds exceeding their performance targets at the time of client asset withdrawals.

Investment income includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. For the year ended December 31, 2013, investment income was $2.8 million compared with $0.7 million for the prior-year period.

Adjusted segment pre-tax operating margin for the year ended December 31, 2013 was 40.9 percent, compared to 38.3 percent for the year ended December 31, 2012. The increase resulted from improved operating results driven by higher net revenues.

	Year Ended December 31,							
	2012				2011			
		Adjustments [1]				Adjustments [1]		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$ 48,636	$ —	$ —	$ 48,636	$ 50,565	$ —	$ —	$ 50,565
MLP	14,600	—	—	14,600	10,254	—	—	10,254
Total management fees	63,236	—	—	63,236	60,819	—	—	60,819
Performance fees								
Value equity	785	—	—	785	2,092	—	—	2,092
MLP	—	—	—	—	153	—	—	153
Total performance fees	785	—	—	785	2,245	—	—	2,245
Total management and performance fees	64,021	—	—	64,021	63,064	—	—	63,064
Investment income/(loss)	733	—	—	733	(72)	—	—	(72)
Total net revenues	64,754	—	—	64,754	62,992	—	—	62,992
Operating expenses	39,955	—	8,358	48,313	39,398	—	8,540	47,938
Segment pre-tax operating income	$ 24,799	$ —	$ (8,358)	$ 16,441	$ 23,594	$ —	$ (8,540)	$ 15,054
Segment pre-tax operating margin	38 3%			25 4%	37 5%			23 9%

(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

	Year Ended December 31,	
(Dollars in thousands)	*2012*	*2011*
Compensation from acquisition-related agreements	*$ 1,284*	*$ 1,284*
Restructuring and integration costs	*130*	*—*
Amortization of intangible assets related to acquisitions	*6,944*	*7,256*
	$ 8,358	*$ 8,540*

For the year ended December 31, 2012, management fees were $63.2 million, an increase of 4.0 percent, compared with the prior year, as a decline in management fees from our value equity strategies were more than offset by increased management fees from our MLP product offerings. In 2012, management fees related to our value equity strategies decreased 3.8 percent to $48.6 million, compared with $50.6 million in 2011, due to a lower average effective revenue yield. Our average effective revenue yield for value equity strategies was 81 basis points in 2012, compared with 84 basis points in the prior year. Management fees associated with our MLP strategy increased 42.4 percent in 2012 to $14.6 million, compared with $10.3 million in 2011, due to increases in our average effective revenue yield and average AUM. Our average effective revenue yield for the MLP strategy was 49 basis points in 2012, compared with 43 basis points in 2011.

For the year ended December 31, 2012, performance fees were $0.8 million, compared with $2.2 million in 2011. The performance fees recorded during 2012 and 2011 were the result of certain funds exceeding their performance targets at the time of client asset withdrawals.

For the year ended December 31, 2012, investment income was $0.7 million compared with a loss of $0.1 million for 2011.

Adjusted segment pre-tax operating margin for 2012 was 38.3 percent, compared to 37.5 percent for 2011.

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

	Twelve Months Ended December 31,		
(Dollars in millions)	**2013**	**2012**	**2011**
Value Equity			
Beginning of period	**$ 5,865**	**$ 5,805**	**$ 6,449**
Net outflows	(756)	(515)	(711)
Net market appreciation	1,574	575	67
End of period	**$ 6,683**	**$ 5,865**	**$ 5,805**
MLP			
Beginning of period	**$ 3,186**	**$ 2,751**	**$ 1,567**
Net inflows	498	338	912
Net market appreciation	865	97	272
End of period	**$ 4,549**	**$ 3,186**	**$ 2,751**
Total			
Beginning of period	**$ 9,051**	**$ 8,556**	**$ 8,016**
Net inflows/(outflows)	(258)	(177)	201
Net market appreciation	2,439	672	339
End of period	**$ 11,232**	**$ 9,051**	**$ 8,556**

Total AUM increased $2.2 billion to $11.2 billion in 2013 as the strong equity markets drove net market appreciation of $2.4 billion in 2013. Value equity AUM was $6.7 billion at December 31, 2013, compared to $5.9 billion at December 31, 2012 as net market appreciation of $1.6 billion was offset by net client outflows of $0.8 billion during the period, due to changes in client investment strategies away from the value equity platform. The value equity strategy has not attracted significant net new assets as investors are seeking greater upside potential in the strong equity markets. MLP AUM increased $1.4 billion to $4.5 billion in 2013 as we experienced both net market appreciation and net client inflows during this period.

For the year ended December 31, 2012, total AUM increased $0.5 billion to $9.1 billion. Value equity AUM was $5.9 billion at December 31, 2012, essentially flat compared to the prior year, as net market appreciation of $0.6 billion was offset by client outflows of $0.5 billion during 2012. In 2012, we experienced the broader market trend of AUM flowing out of equity products into fixed income or alternative assets. MLP AUM increased $0.4 billion to $3.2 billion in 2012 as we experienced net inflows of $0.3 billion and net market appreciation of $0.1 billion.

Discontinued Operations

Discontinued operations include the operating results of our Hong Kong capital markets business, which ceased operations as of September 30, 2012, and FAMCO, an asset management subsidiary we sold in the second quarter of 2013. The results of these businesses are presented as discontinued operations for all periods presented. For the year ended December 31, 2013, we recorded a loss from discontinued operations, net of tax, of $4.7 million. The net loss from discontinued operations was $5.8 million in 2012 and $11.2 million in 2011.

The results of discontinued operations for the Hong Kong capital markets business were as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Net revenues	**$ —**	$ 6,635	$ 15,996
Restructuring expenses	**—**	11,535	—
Other expenses	**1,197**	16,550	24,983
Total non-interest expenses	**1,197**	28,085	24,983
Loss from discontinued operations before income tax expense/(benefit)	**(1,197)**	(21,450)	(8,987)
Income tax expense/(benefit)	**(415)**	(21,069)	1,927
Loss from discontinued operations, net of tax	**$ (782)**	$ (381)	$ (10,914)

The $1.2 million of other expenses recorded in 2013 consisted of costs to liquidate our Hong Kong subsidiaries.

The $11.5 million of restructuring expenses recorded in 2012 consisted primarily of costs incurred for early termination of leased office space and severance benefits. Additionally, we recorded a $21.1 million U.S. tax benefit related to the realized loss on our Piper Jaffray Asia subsidiaries.

The results of discontinued operations for FAMCO were as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Net revenues	**$ 1,650**	$ 5,718	$ 6,584
Goodwill impairment	**—**	5,508	—
Operating expenses	**5,057**	8,362	7,089
Total non-interest expenses	**5,057**	13,870	7,089
Loss from discontinued operations before income tax benefit	**(3,407)**	(8,152)	(505)
Income tax benefit	**(1,326)**	(2,726)	(171)
Loss from discontinued operations	**(2,081)**	(5,426)	(334)
Loss on sale, net of tax	**(1,876)**	—	—
Loss from discontinued operations, net of tax	**$ (3,957)**	$ (5,426)	$ (334)

The loss from discontinued operations for the year ended December 31, 2013 primarily related to an indemnification obligation related to the sale of FAMCO.

The $5.5 million non-cash goodwill impairment charge recorded in 2012 represented the full value of goodwill attributable to the FAMCO reporting unit and pertained to goodwill created from our 2007 acquisition of FAMCO.

See Note 5 to our consolidated financial statements for further discussion of our discontinued operations.

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K, 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.

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K. 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 other assets 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. 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. Our 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, we may use information provided by third-party pricing vendors to corroborate internally-developed fair value estimates.

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 objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). 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 consolidated financial statements for additional discussion of our assets and liabilities in the fair value hierarchy.

We employ specific control processes to determine the reasonableness of the fair value of our financial instruments. Our 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. We have established parameters which set forth when 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 our financial statements, changes in fair value from period to period, and other specific facts and circumstances of our security portfolio. In evaluating the initial internally-estimated fair values made by our 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. We have a valuation committee, comprised of members of senior management and risk management, that provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

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 December 31, 2013, we had goodwill of $210.6 million. The goodwill balance consists of $13.8 million recorded in 2013 as a result of our acquisitions of Seattle-Northwest and Edgeview within our capital markets segment and the remaining $196.8 million relates to our asset management segment. At December 31, 2013, we had intangible assets of $39.9 million, which includes $6.7 million of intangible assets acquired in 2013 related to our acquisitions of Seattle-Northwest and Edgeview.

Under FASB Accounting Standards Codification Topic 350, "Intangibles – Goodwill and Other," ("ASC 350") 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. See Note 14 to our consolidated financial statements for additional information on our goodwill impairment testing.

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 annual goodwill impairment testing as of October 31, 2013, and concluded there was no goodwill impairment. We performed a qualitative assessment to test the goodwill in our capital markets reporting unit for impairment. The following relevant events and circumstances were evaluated in concluding that it was not more likely than not that this goodwill was impaired: macroeconomic conditions, industry and market considerations, overall financial performance and the timing of the Seattle-Northwest and Edgeview acquisitions.

In the first quarter of 2012, we reorganized our FAMCO and ARI reporting units, resulting in FAMCO's MLP business becoming part of ARI. In accordance with ASC 350, \$44.6 million of the \$50.1 million in goodwill attributable to our 2007 acquisition of FAMCO was reallocated to the ARI reporting unit.

In 2012, our annual goodwill impairment testing resulted in a non-cash goodwill impairment charge of \$5.5 million related to our FAMCO reporting unit reported within discontinued operations. The amount represented the full value of goodwill attributable to the FAMCO reporting unit and pertained to goodwill created from our 2007 acquisition of FAMCO.

We also tested the intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2013.

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 Plan

We established a deferred compensation plan in 2012 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 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 24 to our 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. 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. In the fourth quarter of 2013, we reversed the full amount of our U.K. subsidiary's deferred tax asset valuation allowance based upon achieving three years of profitability and projected future earnings. This resulted in a $4.0 million tax benefit to our results of operations.

In connection with the closure of our Hong Kong capital markets business, we realized a $21.1 million U.S. tax benefit due to a realized loss on the investment in our Hong Kong subsidiaries. The tax benefit was the excess of the tax basis of our investment in the subsidiaries over the financial statement carrying amount. We recorded the tax benefit within discontinued operations for the year ended December 31, 2012.

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. At December 31, 2013, the excess tax benefits recorded as additional paid-in capital was not material. In the first quarter of 2014, approximately 102,000 options expired and 469,000 shares vested resulting in $0.1 million of income tax expense in the first quarter of 2014.

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. In 2012, we recorded the reversal of a previously accrued uncertain state income tax position of $7.4 million, net of federal income tax.

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.

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 new share repurchase authorization of up to $100 million in common shares through September 30, 2014. During 2013, related to this authorization we repurchased 1,719,662 shares, or 11.3 percent of our outstanding common stock, for an aggregate purchase price of $55.9 million. At December 31, 2013, we had $39.5 million remaining under this authorization. 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 2013, we purchased 386,713 shares or $15.5 million of our common shares for this purpose.

Cash Flows

Cash and cash equivalents increased $18.3 million to $123.7 million at December 31, 2013 from December 31, 2012. Operating activities provided cash of $46.6 million primarily due to cash received from earnings and the increase in compensation related accruals. These increases were offset in part by cash used to fund reverse repurchase agreements as we increased hedging of our inventories, deployment of capital into other firm investments and an increase in fees receivable. Investing activities in 2013 used $30.0 million of cash, the majority of which related to our acquisitions of Seattle-Northwest and Edgeview. Cash of $1.4 million was provided through financing activities as increases in noncontrolling interest were offset by a net decrease in repurchase agreements and short-term financing that are used to fund inventory and $71.5 million of cash used to repurchase common stock.

Cash and cash equivalents increased $20.3 million to $105.4 million at December 31, 2012 from December 31, 2011. Operating activities used $211.8 million of cash due to an increase in operating assets, particularly our net financial instruments and other inventory positions owned. Inventory increased related to the expansion of our fixed income sales and trading efforts to support customer flow and increases related to our strategic trading portfolios. The increase is also attributable to the low level of inventory we maintained at the end of 2011 as we managed risk due to more volatile market conditions at that time. Partially offsetting these increases in operating assets were increases in operating liabilities, particularly related to accrued compensation, payables to brokers, dealers and clearing organizations and other liabilities and accrued expenses. Investing activities in 2012 used $2.1 million of cash for the purchase of fixed assets. Cash of $234.3 million was provided through financing activities; primarily an increase in short-term financing, offset in part by decreases in repurchase agreements. A significant portion of our funding needs are driven by the levels of long inventory positions. As we increased our levels of long inventory in 2012, it led to an increase in funding needs, particularly related to short-term financing. Additionally, we entered into a Note Purchase Agreement under which we issued unsecured variable rate senior notes in late 2012, which provided $125.0 million in financing that was used to repay our bank syndicated credit agreement which had $115.0 million outstanding as of December 31, 2011. Offsetting these increases to financing was $47.2 million used to repurchase common stock.

Cash and cash equivalents increased $34.8 million to $85.0 million at December 31, 2011 from December 31, 2010. Operating activities provided $205.3 million of cash. Late in 2011, to manage risk due to volatile market conditions, we reduced long inventory balances, which increased our cash position. This reduction in long inventory resulted in a decreased receivable related to unsettled inventory trades, which provided additional cash flow. The reduction in long inventory also allowed us to reduce our short inventory hedges, which resulted in a decrease of our securities purchased under agreements to resell, when compared to December 31, 2010. Partially offsetting these increases in cash was a decrease in operating liabilities, particularly related to accrued compensation and other liabilities and accrued expenses. Additionally, included in our net loss of $100.6 million was a non-cash goodwill charge of $120.3 million. Investing activities in 2011 used $7.7 million of cash for the purchase of fixed assets. Cash of $162.7 million was used through financing activities. A significant portion of our funding needs are driven by the levels of long inventory positions. As we lowered our levels of long inventory late in 2011, it led to a reduction in funding needs, particularly related to repurchase agreements.

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)	**December 31, 2013**	December 31, 2012
Total assets	**$ 2,318,157**	$ 2,087,733
Deduct: Goodwill and intangible assets	**(250,564)**	(240,480)
Deduct: Assets from noncontrolling interests	**(317,558)**	(120,453)
Adjusted assets	**$ 1,750,035**	$ 1,726,800
Total shareholders' equity	**$ 882,072**	$ 790,175
Deduct: Goodwill and intangible assets	**(250,564)**	(240,480)
Deduct: Noncontrolling interests	**(147,396)**	(56,883)
Tangible common shareholders' equity	**$ 484,112**	$ 492,812
Leverage ratio (1)	**2.6**	2.6
Adjusted leverage ratio (2)	**3.6**	3.5

(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.

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. 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. 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. From time to time, the number of counterparties that will enter into municipal repurchase agreements can be limited based on market conditions. Currently, the majority of our bank lines, our commercial paper programs and our prime broker arrangement will accept municipal inventory as collateral, which helps mitigate this municipal repurchase agreement counterparty risk. 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. The following table provides information about our commercial paper programs at December 31, 2013:

(Dollars in millions)	**CP Series A**	**CP Series II A**	**CP Series III A**
Maximum amount that may be issued	$ 300.0	$ 150.0	$ 100.0
Amount outstanding	146.8	60.9	72.6
Weighted average maturity, in days	132	107	31

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. More specifically, this funding is at the discretion of the prime broker and could be denied subject to a notice period. At December 31, 2013, we had $234.4 million of financing outstanding under this prime broker arrangement.

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., our U.S. broker dealer subsidiary, 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 renewed the facility for another one-year term in the fourth quarter of 2013. At December 31, 2013, we had no advances against this line of credit.

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 December 31, 2013, we had no advances against these lines of credit.

The following tables present the average balances outstanding for our various short-term funding sources by quarter for 2013 and 2012, respectively.

	Average Balance for the Three Months Ended			
(Dollars in millions)	**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

	Average Balance for the Three Months Ended			
(Dollars in millions)	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar. 31, 2012**
Funding source:				
Repurchase agreements	$ 50.0	$ 71.0	$ 158.5	$ 114.3
Commercial paper	307.2	278.5	238.8	201.2
Prime broker arrangement	180.0	154.7	32.1	5.8
Short-term bank loans	0.2	3.5	40.9	9.7
Total	$ 537.4	$ 507.7	$ 470.3	$ 331.0

The average funding in the fourth quarter of 2013 increased to $570.8 million, compared with $510.2 million during the third quarter of 2013, due to an increase in average inventory balances in the fourth quarter of 2013. The increased inventory balances relate primarily to our municipal alternative asset management fund which attracted additional capital from outside investors during the second half of 2013.

The following tables present the maximum daily funding amount by quarter for 2013 and 2012, respectively.

	For the Three Months Ended			
(Dollars in millions)	**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

	For the Three Months Ended			
(Dollars in millions)	**Dec. 31, 2012**	**Sept. 30, 2012**	**June 30, 2012**	**Mar. 31, 2012**
Maximum amount of daily funding	$ 619.4	$ 613.8	$ 666.1	$ 486.0

Variable rate senior notes

On November 30, 2012, we entered into a note purchase agreement ("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 Pacific Investment Management Company LLC ("PIMCO"). The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of $50 million and $75 million, respectively. The unpaid principal amount of the Class A Notes and Class B Notes will be due on May 31, 2014 and November 30, 2015, respectively. The proceeds from the Notes were used to repay the outstanding balance under the three-year bank syndicated credit agreement ("Credit Agreement"). The remaining proceeds are used for general corporate purposes.

The 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 Note Purchase Agreement proving untrue in any material respect when made by us, failure to comply with the covenants in the 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 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 December 31, 2013, we were in compliance with all covenants.

Three-year bank syndicated credit agreement

On December 29, 2010, we entered into a Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. The unpaid principal and interest on the Credit Agreement was paid off on November 30, 2012 from the proceeds of the Notes.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at December 31, 2013, in total and by remaining maturity. Excluded from the table are a number of obligations recorded on the consolidated statements of financial condition that generally are short-term in nature, including secured financing transactions, trading liabilities, short-term borrowings and other payables and accrued liabilities.

On May 30, 2012, we entered into a lease agreement for 124,000 square feet of office space for the Company's headquarters. The term of the lease commences on June 1, 2014, and expires on November 30, 2025, and includes an option to terminate the lease early effective January 31, 2022. Our contractual rental obligations for the full 11.5 year lease term are $24.5 million.

(Dollars in millions)	2014	2015 - 2016	2017 - 2018	2019 and thereafter	Total
Operating lease obligations	$ 12.0	$ 20.2	$ 16.7	$ 27.7	$ 76.6
Purchase commitments	13.3	14.0	7.8	—	35.1
Investment commitments (a)	—	—	—	—	47.6
Loan commitments (b)	—	—	—	—	—
Variable rate senior notes	50.0	75.0	—	—	125.0

(a) *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. Investment commitments of $36.3 million relate to a commitment to an affiliated merchant banking fund.*

(b) *We may commit to merchant banking financing for our clients or make commitments to underwrite debt. We are unable to estimate the timing on the funding of these commitments and have no commitments outstanding at this time.*

Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase commitments with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase commitments contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

The amounts presented in the table above may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation. In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of December 31, 2013, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $0.2 million of unrecognized tax benefits have been excluded from the contractual obligation table above. See Note 28 to the consolidated financial statements for a discussion of income taxes.

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 December 31, 2013, our net capital under the SEC's uniform net capital rule was $165.6 million, and exceeded the minimum net capital required under the SEC rule by $164.6 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 December 31, 2013 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.

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 December 31, 2013 and 2012:

	Expiration Per Period at December 31, 2013						Total Contractual Amount	
(Dollars in thousands)	**2014**	**2015**	**2016**	**2017 - 2018**	**2019 - 2020**	**Later**	**December 31, 2013**	**December 31, 2012**
Customer matched-book derivative contracts (1) (2)	$ 30,000	$ 69,332	$ 65,237	$ 40,950	$ 123,926	$ 4,981,484	**$ 5,310,929**	$ 5,569,096
Trading securities derivative contracts (2)	198,500	—	—	—	—	—	**198,500**	244,250
Credit default swap index contracts (2)	—	96,000	—	175,000	—	28,333	**299,333**	230,650
Equity derivative contracts (2)	16,107	713	270	—	—	—	**17,090**	—
Private equity investment commitments (3)	—	—	—	—	—	—	**47,576**	44,010

(1) 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 $200.3 million at December 31, 2013) 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 December 31, 2013, we had $22.0 million of credit exposure with these counterparties, including $9.3 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At December 31, 2013 and December 31, 2012, the net fair value of these derivative contracts approximated $30.4 million and $35.5 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 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 December 31, 2013.

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 consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had $47.6 million of commitments outstanding at December 31, 2013, of which $36.3 million related to a commitment to an affiliated merchant banking fund.

Enterprise Risk Management

Risk is an inherent part of our business. In the course of conducting business operations, we are exposed to a variety of risks. Market risk, liquidity risk, credit risk, operational risk, legal, regulatory and compliance risk, and reputational risk are the principal risks we face in operating our business. We seek to identify, assess and monitor each risk in accordance with defined policies and procedures. The extent to which we properly identify and effectively manage each of these risks is critical to our financial condition and profitability.

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.

In addition to supporting daily risk management processes on the trading desks, our risk management functions support our financial risk committees and valuation committee. The financial risk committees oversee risk management practices, including defining acceptable risk tolerances and approving risk management policies.

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.

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 and bank syndicated financing, and repurchase agreements), which finance these assets. Interest rate risk is managed through the use of appropriate hedging in U.S. government securities, agency securities, mortgage-backed securities, corporate debt securities, interest rate swaps, options, futures, MMD rate lock agreements and forward contracts. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings. 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.

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 on both listed and over-the-counter equity markets. Included in equity price risk is our exposure through strategic trading activities in equities, 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.

Currency Risk — Currency 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. A change in the foreign currency rates could create either a foreign currency transaction gain/loss (recorded in our consolidated statements of operations) or a foreign currency translation adjustment (recorded to accumulated other comprehensive income within the shareholders' equity section of our consolidated statements of financial condition and other comprehensive income within the consolidated statements of comprehensive income).

Value-at-Risk

Value-at-Risk ("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 bonds and equity securities. We use a VaR model because it 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.

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 1 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.

(Dollars in thousands)	**December 31, 2013**	**December 31, 2012**
Interest Rate Risk	**$ 1,793**	$ 779
Equity Price Risk	**788**	911
Diversification Effect (1)	**(765)**	(737)
Total Value-at-Risk	**$ 1,816**	$ 953

(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.

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 years ended December 31, 2013 and 2012, respectively.

(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

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2012			
Interest Rate Risk	$ 1,273	$ 369	$ 780
Equity Price Risk	2,664	170	995
Diversification Effect (1)			(716)
Total Value-at-Risk	$ 2,451	$ 539	$ 1,059

(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. 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 one occasion during 2013.

The aggregate VaR as of December 31, 2013 was higher than the reported VaR on December 31, 2012. The increase in VaR is due to increased volatility during the measurement period and growth in trading efforts in asset classes that are accretive to overall VaR.

In addition to VaR, we also employ additional measures to monitor and manage market risk exposure including the following: 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.

Liquidity Risk

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. Our inventory positions, including those associated with strategic trading activities, subject us to potential financial losses from the reduction in value of illiquid positions.

We are also exposed to liquidity risk in our day-to-day funding activities. We have a relatively low leverage ratio of 2.6 and adjusted leverage ratio of 3.6 as of December 31, 2013. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products. For example, our treasury department actively manages the use of our committed bank line, repurchase agreements, commercial paper issuance and secured and unsecured bank borrowings each day depending on pricing, availability of funding, available collateral and lending parameters from any one of these sources.

In addition to managing our capital and funding, the treasury department oversees the management of net interest income risk and the overall use of our capital, funding, and balance sheet.

We currently act as the remarketing agent for approximately $3.3 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.

Credit Risk

Credit risk in our business arises from potential non-performance by counterparties, customers, borrowers or issuers of securities we hold in our trading inventory. The global credit crisis gave rise to increased credit risk, particularly counterparty risk, as the interconnectedness of the financial markets has caused market participants to be impacted by systemic pressure, or contagion, that results from the failure or potential failure of market participants. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting credit reviews of financial counterparties, and conducting business through clearing organizations, which guarantee performance.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling $22.0 million at December 31, 2013. This counterparty credit exposure is part of our matched-book derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 42.4 percent, or $9.3 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.

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. 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.

Merchant banking debt investments that have been funded are recorded in other assets at amortized cost on the consolidated statements of financial condition. At December 31, 2013, we had one funded merchant banking debt investments totaling $11.6 million. Merchant banking investments are monitored regularly by a financial committee.

Our risk management functions review 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. Counterparty levels are established relative to the level of counterparty ratings and potential levels of activity.

We are subject to credit 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. Potential credit concentration risk is carefully monitored through review of counterparties and borrowers and is managed through the use of policies and limits.

We also are exposed to the risk of loss related to changes in the credit spreads of debt instruments. Credit spread risk arises from potential changes in an issuer’s credit rating or the market’s perception of the issuer’s credit worthiness. We use credit default swap index contracts to mitigate this risk.

Operational Risk

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on the ability of our employees, our internal systems and processes and systems at computer centers operated by third parties to process a large number of transactions. In the event of a breakdown or improper operation of our systems or processes 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 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 the risk that a counterparty's performance obligations will be unenforceable. 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, including, but not limited to, those related to regulatory net capital requirements, sales and trading practices, use and safekeeping of customer funds and securities, credit extension, money-laundering, privacy and recordkeeping.

We have established internal policies relating to ethics and business conduct, and compliance with applicable legal and regulatory requirements, as well as training and other procedures designed to ensure that these policies are followed.

Reputation and Other Risk

We recognize that maintaining our reputation among clients, investors, regulators and the general public is critical. Maintaining our reputation depends on a large number of factors, including the conduct of our business activities and the types of clients and counterparties with whom we conduct business. We seek to maintain our reputation by conducting our business activities in accordance with high ethical standards and performing appropriate reviews of clients and counterparties.

Other risks include political, regulatory and tax risks. These risks reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we review new and pending regulations and legislation. For example, policy discussions surrounding the debt and deficits of the federal government have resulted in various proposals to increase revenue, including through restructuring of the federal tax code, which could affect our business. Specifically, the American Jobs Act of 2011 and the Debt Reduction Act of 2011 proposed capping tax-exempt interest for higher-income taxpayers, and the Bipartisan Tax Fairness and Simplification Act, introduced in the U.S. Senate earlier in 2011, proposed the use of tax-credit bonds over tax-exempt bonds. Any of these proposals, or ones like them, could have a negative impact on our public finance business and the value of municipal securities inventory positions.

Effects of Inflation

Because our assets are 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 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

The information under the caption "Enterprise Risk Management" in Part II, Item 7 entitled, "Management's Discussion and Analysis of Financial Condition and Results of Operations," is incorporated herein by reference.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION.*

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992 framework). Based on its assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2013.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of Piper Jaffray Companies included in this Annual Report on Form 10-K, has issued an attestation report on internal control over financial reporting as of December 31, 2013. Their report, which expresses an unqualified opinion on the effectiveness of Piper Jaffray Companies' internal control over financial reporting as of December 31, 2013, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited Piper Jaffray Companies' (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Piper Jaffray Companies' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Piper Jaffray Companies maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Piper Jaffray Companies and our report dated February 28, 2014, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 28, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Piper Jaffray Companies

We have audited the accompanying consolidated statements of financial condition of Piper Jaffray Companies (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Piper Jaffray Companies at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Piper Jaffray Companies' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 28, 2014

Piper Jaffray Companies

Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	**$ 123,683**	$ 105,371
Cash and cash equivalents segregated for regulatory purposes	**43,012**	31,007
Receivables:		
Customers	**11,633**	13,795
Brokers, dealers and clearing organizations	**127,113**	148,117
Securities purchased under agreements to resell	**167,875**	145,433
Financial instruments and other inventory positions owned	**406,513**	384,789
Financial instruments and other inventory positions owned and pledged as collateral	**957,515**	826,806
Total financial instruments and other inventory positions owned	**1,364,028**	1,211,595
Fixed assets (net of accumulated depreciation and amortization of $62,311 and $61,032, respectively)	**16,114**	15,089
Goodwill	**210,634**	196,844
Intangible assets (net of accumulated amortization of $31,869 and $23,876, respectively)	**39,930**	41,258
Investments	**112,043**	85,772
Other assets	**102,092**	88,799
Assets held for sale	**—**	4,653
Total assets	**$ 2,318,157**	$ 2,087,733
Liabilities and Shareholders' Equity		
Short-term financing	**$ 514,711**	$ 477,014
Variable rate senior notes	**125,000**	125,000
Payables:		
Customers	**33,109**	42,007
Brokers, dealers and clearing organizations	**27,722**	60,155
Securities sold under agreements to repurchase	**4,397**	50,000
Financial instruments and other inventory positions sold, but not yet purchased	**512,833**	357,201
Accrued compensation	**159,928**	132,124
Other liabilities and accrued expenses	**58,385**	53,193
Liabilities held for sale	**—**	864
Total liabilities	**1,436,085**	1,297,558
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at December 31, 2013 and December 31, 2012;		
Shares issued: 19,537,127 at December 31, 2013 and 19,530,359 at December 31, 2012;		
Shares outstanding: 14,383,418 at December 31, 2013 and 15,213,796 at December 31, 2012	**195**	195
Additional paid-in capital	**740,321**	754,566
Retained earnings	**163,893**	118,803
Less common stock held in treasury, at cost: 5,153,709 shares at December 31, 2013 and 4,316,563 shares at December 31, 2012	**(170,629)**	(140,939)
Accumulated other comprehensive income	**896**	667
Total common shareholders' equity	**734,676**	733,292
Noncontrolling interests	**147,396**	56,883
Total shareholders' equity	**882,072**	790,175
Total liabilities and shareholders' equity	**$ 2,318,157**	$ 2,087,733

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Operations

(Amounts in thousands, except per share data)	Year Ended December 31, 2013	2012	2011
Revenues:			
Investment banking	**$ 248,563**	$ 232,958	$ 202,513
Institutional brokerage	**146,648**	166,642	135,358
Asset management	**83,045**	65,699	63,307
Interest	**50,409**	37,845	43,447
Investment income	**21,566**	4,903	8,178
Total revenues	**550,231**	508,047	452,803
Interest expense	**25,036**	19,095	20,720
Net revenues	**525,195**	488,952	432,083
Non-interest expenses:			
Compensation and benefits	**322,464**	296,882	265,015
Occupancy and equipment	**25,493**	26,454	28,430
Communications	**21,431**	20,543	22,121
Floor brokerage and clearance	**8,270**	8,054	8,925
Marketing and business development	**21,603**	19,908	22,640
Outside services	**32,982**	27,998	27,570
Restructuring and integration costs	**4,689**	3,642	—
Goodwill impairment	**—**	—	120,298
Intangible asset amortization expense	**7,993**	6,944	7,256
Other operating expenses	**4,657**	9,516	10,017
Total non-interest expenses	**449,582**	419,941	512,272
Income/(loss) from continuing operations before income tax expense	**75,613**	69,011	(80,189)
Income tax expense	**20,390**	19,470	9,120
Income/(loss) from continuing operations	**55,223**	49,541	(89,309)
Discontinued operations:			
Loss from discontinued operations, net of tax	**(4,739)**	(5,807)	(11,248)
Net income/(loss)	**50,484**	43,734	(100,557)
Net income applicable to noncontrolling interests	**5,394**	2,466	1,463
Net income/(loss) applicable to Piper Jaffray Companies	**$ 45,090**	$ 41,268	$ (102,020)
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	**$ 40,596**	$ 35,335	$ (102,020) [(1)]
Amounts applicable to Piper Jaffray Companies			
Net income/(loss) from continuing operations	**$ 49,829**	$ 47,075	$ (90,772)
Net loss from discontinued operations	**(4,739)**	(5,807)	(11,248)
Net income/(loss) applicable to Piper Jaffray Companies	**$ 45,090**	$ 41,268	$ (102,020)
Earnings/(loss) per basic common share			
Income/(loss) from continuing operations	**$ 2.98**	$ 2.58	$ (5.79)
Loss from discontinued operations	**(0.28)**	(0.32)	(0.72)
Earnings/(loss) per basic common share	**$ 2.70**	$ 2.26	$ (6.51)
Earnings/(loss) per diluted common share			
Income/(loss) from continuing operations	**$ 2.98**	$ 2.58	$ (5.79)
Loss from discontinued operations	**(0.28)**	(0.32)	(0.72)
Earnings/(loss) per diluted common share	**$ 2.70**	$ 2.26	$ (6.51) [(2)]
Weighted average number of common shares outstanding			
Basic	**15,046**	15,615	15,672
Diluted	**15,061**	15,616	15,672 [(2)]

(1) No allocation of income was made due to loss position.

(2) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Amounts in thousands)	Year Ended December 31, 2013	2012	2011
Net income/(loss)	**$ 50,484**	$ 43,734	$ (100,557)
Other comprehensive income/(loss), net of tax:			
Adjustment to unrecognized pension cost	**(38)**	—	—
Foreign currency translation adjustment	**267**	62	(122)
Total other comprehensive income/(loss), net of tax	**229**	62	(122)
Comprehensive income/(loss)	**50,713**	43,796	(100,679)
Comprehensive income applicable to noncontrolling interests	**5,394**	2,466	1,463
Comprehensive income/(loss) applicable to Piper Jaffray Companies	**$ 45,319**	$ 41,330	$ (102,142)

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Changes in Shareholders' Equity

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2010	**14,652,665**	**$ 195**	**$ 836,152**	**$ 179,555**	**$ (203,317)**	**$ 727**	**$ 813,312**	**$ 4,789**	**$ 818,101**
Net income/(loss)	—	—	—	(102,020)	—	—	(102,020)	1,463	(100,557)
Amortization/issuance of restricted stock	—	—	29,459	—	—	—	29,459	—	29,459
Repurchase of common stock through share repurchase program	(293,829)	—	—	—	(5,994)	—	(5,994)	—	(5,994)
Issuance of treasury shares for restricted stock vestings and options exercised	1,796,239	—	(74,920)	—	74,960	—	40	—	40
Repurchase of common stock for employee tax withholding	(509,671)	—	—	—	(20,535)	—	(20,535)	—	(20,535)
Issuance of treasury shares for 401k match	90,085	—	38	—	3,776	—	3,814	—	3,814
Shares reserved to meet deferred compensation obligations	14,699	—	437	—	—	—	437	—	437
Other comprehensive loss	—	—	—	—	—	(122)	(122)	—	(122)
Fund capital contributions, net	—	—	—	—	—	—	—	25,957	25,957
Balance at December 31, 2011	**15,750,188**	**$ 195**	**$ 791,166**	**$ 77,535**	**$ (151,110)**	**$ 605**	**$ 718,391**	**$ 32,209**	**$ 750,600**
Net income	—	—	—	41,268	—	—	41,268	2,466	43,734
Amortization/issuance of restricted stock	—	—	16,681	—	—	—	16,681	—	16,681
Repurchase of common stock through share repurchase program	(1,645,458)	—	—	—	(38,068)	—	(38,068)	—	(38,068)
Issuance of treasury shares for restricted stock vestings	1,323,427	—	(50,776)	—	50,776	—	—	—	—
Repurchase of common stock for employee tax withholding	(385,449)	—	—	—	(9,096)	—	(9,096)	—	(9,096)
Issuance of treasury shares for 401k match	165,241	—	(2,745)	—	6,559	—	3,814	—	3,814
Shares reserved to meet deferred compensation obligations	5,847	—	240	—	—	—	240	—	240
Other comprehensive income	—	—	—	—	—	62	62	—	62
Fund capital contributions, net	—	—	—	—	—	—	—	22,208	22,208
Balance at December 31, 2012	**15,213,796**	**$ 195**	**$ 754,566**	**$ 118,803**	**$ (140,939)**	**$ 667**	**$ 733,292**	**$ 56,883**	**$ 790,175**

Continued on next page

Piper Jaffray Companies

Consolidated Statements of Changes in Shareholders' Equity – Continued

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Net income	—	$ —	$ —	$ 45,090	$ —	$ —	$ 45,090	$ 5,394	$ 50,484
Amortization/issuance of restricted stock	—	—	23,528	—	—	—	23,528	—	23,528
Repurchase of common stock through share repurchase program	(1,719,662)	—	—	—	(55,929)	—	(55,929)	—	(55,929)
Issuance of treasury shares for restricted stock vestings	1,173,180	—	(38,636)	—	38,636	—	—	—	—
Repurchase of common stock for employee tax withholding	(386,713)	—	—	—	(15,533)	—	(15,533)	—	(15,533)
Issuance of treasury shares for 401k match	96,049	—	803	—	3,136	—	3,939	—	3,939
Shares reserved to meet deferred compensation obligations	6,768	—	60	—	—	—	60	—	60
Other comprehensive income	—	—	—	—	—	229	229	—	229
Fund capital contributions, net	—	—	—	—	—	—	—	85,119	85,119
Balance at December 31, 2013	**14,383,418**	**$ 195**	**$ 740,321**	**$ 163,893**	**$ (170,629)**	**$ 896**	**$ 734,676**	**$ 147,396**	**$ 882,072**

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 2013	2012	2011
Operating Activities:			
Net income/(loss)	**$ 50,484**	$ 43,734	$ (100,557)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Depreciation and amortization of fixed assets	**5,714**	7,005	7,338
Deferred income taxes	**(2,630)**	11,458	17,100
Loss on sale of FAMCO	**1,876**	—	—
Loss on disposal of fixed assets	**—**	1,624	—
Share-based and deferred compensation	**21,598**	20,641	22,803
Goodwill impairment	**—**	5,508	120,298
Amortization of intangible assets	**7,993**	7,669	8,276
Amortization of forgivable loans	**6,300**	8,057	8,365
Decrease/(increase) in operating assets:			
Cash and cash equivalents segregated for regulatory purposes	**(12,005)**	(5,999)	1,998
Receivables:			
Customers	**2,162**	10,395	18,706
Brokers, dealers and clearing organizations	**21,004**	(23,452)	66,655
Securities purchased under agreements to resell	**(22,442)**	14,713	98,851
Net financial instruments and other inventory positions owned	**4,685**	(360,317)	14,326
Investments	**(26,271)**	(17,444)	(8,239)
Other assets	**(3,867)**	(15,362)	6,779
Increase/(decrease) in operating liabilities:			
Payables:			
Customers	**(8,898)**	12,592	(22,826)
Brokers, dealers and clearing organizations	**(33,559)**	24,720	19,466
Securities sold under agreements to repurchase	**4,397**	—	(8,581)
Accrued compensation	**32,233**	23,424	(27,225)
Other liabilities and accrued expenses	**(2,354)**	18,945	(38,685)
Decrease in assets held for sale	**605**	435	438
Increase/(decrease) in liabilities held for sale	**(465)**	(128)	47
Net cash provided by/(used in) operating activities	**46,560**	(211,782)	205,333
Investing Activities:			
Business acquisitions, net of cash acquired	**(24,726)**	—	(56)
Sale of FAMCO	**250**	—	—
Purchases of fixed assets, net	**(5,476)**	(2,131)	(7,648)
Net cash used in investing activities	**(29,952)**	(2,131)	(7,704)
Financing Activities:			
Increase/(decrease) in short-term financing	**37,697**	308,313	(29,940)
Issuance/(repayment) of variable rate senior notes	**—**	125,000	—
Decrease in bank syndicated financing	**—**	(115,000)	(10,000)
Decrease in securities sold under agreements to repurchase	**(50,000)**	(59,080)	(122,219)
Increase in noncontrolling interests	**85,119**	22,208	25,957
Repurchase of common stock	**(71,462)**	(47,164)	(26,529)
Excess tax benefit from share-based compensation	**47**	—	—
Proceeds from stock option transactions	**—**	—	40
Net cash provided by/(used in) financing activities	**1,401**	234,277	(162,691)
Currency adjustment:			
Effect of exchange rate changes on cash	**303**	(17)	(130)
Net increase in cash and cash equivalents	**18,312**	20,347	34,808
Cash and cash equivalents at beginning of year	**105,371**	85,024	50,216
Cash and cash equivalents at end of year	**$ 123,683**	$ 105,371	$ 85,024
Supplemental disclosure of cash flow information –			
Cash paid/(received) during the year for:			
Interest	**$ 23,487**	$ 22,129	$ 25,700
Income taxes	**$ 745**	$ (4,961)	$ 14,982
Non-cash financing activities –			
Issuance of common stock for retirement plan obligations:			
96,049 shares, 165,241 shares and 90,085 shares for the years ended December 31, 2013, 2012 and 2011, respectively	**$ 3,939**	$ 3,814	$ 3,814
Issuance of restricted common stock for annual equity award:			
431,582 shares, 487,181 shares and 592,697 shares for the years ended December 31, 2013, 2012 and 2011, respectively	**$ 17,699**	$ 11,244	$ 25,095

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

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 activities, which focus on proprietary investments in municipal bonds, mortgage-backed securities, equity securities and merchant banking activities, which involve 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 on April 30, 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.

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 $11.0 million and $12.0 million of interest revenue and $10.2 million and $10.9 million of interest expense for the years ended December 31, 2012 and 2011, respectively. This change had no effect on net revenues, net income, shareholders' equity or cash flows for any of the periods presented.

In 2012, the Company reclassified the value of restricted stock forfeitures from other income to a reduction of compensation and benefits expense within the consolidated statements of operations to be consistent with the reporting of forfeitures for the Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan and to more accurately reflect compensation expense. The reclassified amount within continuing operations was $3.3 million for the year ended December 31, 2011. This change had no effect on shareholders' equity, net income or cash flows for the period presented.

Note 2 *Summary of Significant Accounting Policies*

Principles of Consolidation

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

Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right or power to make decisions about or direct the entity's activities that most significantly impact the entity's economic performance. Voting interest entities, where the Company has a majority interest, are consolidated in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"). ASC 810 states that the usual condition for a controlling financial interest in an entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interests.

As defined in ASC 810, VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. With the exception of entities eligible for the deferral codified in FASB Accounting Standards Update ("ASU") No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that have both the power to direct the activities of the entity that most significantly impact the entity's economic performance and the obligation to absorb losses of the entity or the rights to receive benefits from the entity that could potentially be significant to the entity. Accordingly, the Company consolidates VIEs in which the Company has a controlling financial interest.

Entities meeting the deferral provision defined by ASU 2010-10 are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. Accordingly, the Company consolidates VIEs subject to the deferral provisions defined by ASU 2010-10 in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company accounts for its investment in accordance with the equity method of accounting prescribed by FASB Accounting Standards Codification Topic 323, "Investments — Equity Method and Joint Ventures." If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at fair value, if the fair value option was elected, or at cost.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of 90 days or less at the date of origination.

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Piper Jaffray, as a registered broker dealer carrying customer accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers.

Customer Transactions

Customer securities transactions are recorded on a settlement date basis, while the related revenues and expenses are recorded on a trade date basis. Customer receivables and payables include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated statements of financial condition.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include receivables arising from unsettled securities transactions, deposits paid for securities borrowed, receivables from clearing organizations, deposits with clearing organizations and amounts receivable for securities not delivered to the purchaser by the settlement date ("securities failed to deliver"). Payables to brokers, dealers and clearing organizations include payables arising from unsettled securities transactions, payables to clearing organizations and amounts payable for securities not received from a seller by the settlement date ("securities failed to receive"). Unsettled securities transactions related to the Company's broker dealer operations are recorded at contract value on a net basis. Unsettled securities transactions related to the Company's consolidated investment company operations are recorded on a gross basis.

Collateralized Securities Transactions

Securities purchased under agreements to resell and securities sold under agreements to repurchase are carried at the contractual amounts at which the securities will be subsequently resold or repurchased, including accrued interest. It is the Company's policy to take possession or control of securities purchased under agreements to resell at the time these agreements are entered into. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial institutions. Collateral is valued daily, and additional collateral is obtained from or refunded to counterparties when appropriate.

Securities borrowed and loaned result from transactions with other broker dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. These amounts are included in receivables from and payables to brokers, dealers and clearing organizations on the consolidated statements of financial condition. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash with the Company. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Interest is accrued on securities borrowed and loaned transactions and is included in (i) other assets or other liabilities and accrued expenses on the consolidated statements of financial condition and (ii) the respective interest income or interest expense amounts on the consolidated statements of operations.

Fair Value of Financial Instruments

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition consist of financial instruments recorded at fair value. Unrealized gains and losses related to these financial instruments are reflected on the consolidated statements of operations. Securities (both long and short) are recognized on a trade-date basis. Additionally, certain of the Company's investments on the consolidated statements of financial condition are recorded at fair value, either as required by accounting guidance or through the fair value election.

Fair Value Hierarchy – FASB Accounting Standards Codification Topic 820, "Fair Value Measurement," ("ASC 820") provides a definition of fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management's assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level I – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market. The type of financial instruments included in Level I are highly liquid instruments with quoted prices such as equities listed in active markets, U.S. treasury bonds, money market securities and certain exchange traded firm investments and derivative instruments.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in this category are certain types of the following securities: non-exchange traded equities, U.S. government agency securities, corporate bonds, municipal securities, asset-backed securities, convertible securities and derivative instruments.

Level III – Instruments that have little to no pricing observability as of the report date. These financial instruments may not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments included in this category generally include certain types of the following securities: asset-backed securities, municipal securities, firm investments, convertible securities, corporate bonds and derivative instruments.

Valuation of Financial Instruments – 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 the Company's business and its role as a "dealer" in the securities industry or its role as a manager of alternative asset management funds, the fair values of its financial instruments are determined internally. When available, the Company values financial instruments at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

A substantial percentage of the fair value of the Company's 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 involve some degree of judgment. Results from valuation models and other techniques in one period may not be indicative of 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 the Company to estimate the value of the securities using the best information available. Among the factors considered by the Company 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 the Company derives 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 instance, the Company assumes that the size of positions in securities that the Company holds would not be large enough to affect the quoted price of the securities if the firm sells them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the currently estimated fair value.

The fair values related to derivative contract transactions are reported in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition and any unrealized gain or loss resulting from changes in fair values of derivatives is reported on the consolidated statements of operations. Depending upon the product and terms of the transaction, the fair value of the Company's derivative contracts can be observed or priced using models based on the net present value of estimated future cash flows. The valuation models used require inputs including contractual terms, yield curves, discount rates and measures of volatility. The Company does not utilize "hedge accounting" as described within FASB Accounting Standards Codification Topic 815, "Derivatives and Hedging" ("ASC 815").

Fixed Assets

Fixed assets include furniture and equipment, software and leasehold improvements. Furniture and equipment and software are depreciated using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over their estimated useful life or the life of the lease, whichever is shorter. The Company capitalizes certain costs incurred in connection with internal use software projects and amortizes the amount over the expected useful life of the asset, generally three to seven years.

Leases

The Company leases its corporate headquarters and other offices under various non-cancelable leases. The leases require payment of real estate taxes, insurance and common area maintenance, in addition to rent. The terms of the Company's lease agreements generally range up to twelve years. Some of the leases contain renewal options, escalation clauses, rent-free holidays and operating cost adjustments.

For leases that contain escalation clauses or rent-free holidays, the Company recognizes the related rent expense on a straight-line basis from the date the Company takes possession of the property to the end of the initial lease term. The Company records any difference between the straight-line rent amounts and amounts payable under the leases as part of other liabilities and accrued expenses.

Cash or lease incentives received upon entering into certain leases are recognized on a straight-line basis as a reduction of rent expense from the date the Company takes possession of the property or receives the cash to the end of the initial lease term. The Company records the unamortized portion of lease incentives as part of other liabilities and accrued expenses.

Goodwill and Intangible Assets

Goodwill represents the fair value of the consideration transferred in excess of the fair value of identifiable net assets at the acquisition date. The recoverability of goodwill is evaluated annually, at a minimum, or on an interim basis if circumstances indicate a possible inability to realize the carrying amount. The Company has the option to first assess qualitative factors to determine whether the fair value of a reporting unit is less than its carrying amount. Further quantitative analysis is required if the Company determines that the fair value of a reporting unit is less than its carrying amount. The evaluation includes assessing the estimated fair value of the Company's reporting units based on a discounted cash flow model using revenue and profit forecasts, the Company's market capitalization, public market comparables and multiples of recent mergers and acquisitions of similar businesses, if available.

Intangible assets with determinable lives consist of asset management contractual relationships and capital markets customer relationships and non-competition agreements that are amortized over their estimated useful lives ranging from two to ten years. Indefinite-life intangible assets consist of the ARI trade name. It is not amortized and is evaluated annually, at a minimum, or on an interim basis if events or circumstances indicate a possible inability to realize the carrying amount.

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. Equity investments in private companies are accounted for at fair value, if the fair value option was elected, or at cost. Investments in partnerships are accounted for under the equity method, which is generally the net asset value. Registered mutual funds are accounted for at fair value. Company-owned warrants with a cashless exercise option are valued at fair value, while warrants without a cashless exercise option are valued at cost. Private company debt investments are recorded at amortized cost, net of any unamortized premium or discount.

Other Assets

Other assets include net deferred income tax assets, receivables and prepaid expenses. Receivables include fee receivables, accrued interest, income tax receivables and loans made to employees, typically in connection with their recruitment. Employee loans are forgiven based on continued employment and are amortized to compensation and benefits expense using the straight-line method over the respective terms of the loans, which generally range from two to five years.

Revenue Recognition

Investment Banking – Investment banking revenues, which include underwriting fees, management fees and advisory fees, are recorded when services for the transactions are completed under the terms of each engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Investment banking revenues are presented net of related unreimbursed expenses. Expenses related to investment banking deals not completed are recognized as non-interest expenses on the consolidated statements of operations.

Institutional Brokerage – Institutional brokerage revenues include (i) commissions received from customers for the execution of brokerage transactions in listed and over-the-counter (OTC) equity, fixed income and convertible debt securities, which are recorded on a trade date basis, (ii) trading gains and losses and (iii) fees received by the Company for equity research. The Company permits institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. As the Company is not the primary obligor for these arrangements, expenses relating to soft dollars are netted against commission revenues.

Asset Management – Asset management fees include revenues the Company receives in connection with management and investment advisory services performed for separately managed accounts and various funds and partnerships. These fees are recognized in the period in which services are provided. Fees are defined in client contracts as either fixed or based on a percentage of portfolio assets under management and may include performance fees. 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 (monthly, quarterly or annually). Performance fees, if earned, are generally recognized at the end of the specified measurement period, typically the fourth quarter of the applicable year, or upon client liquidation. Performance fees are recognized as of each reporting date for certain consolidated entities.

Interest Revenue and Expense – The Company nets interest expense within net revenues to mitigate the effects of fluctuations in interest rates on the Company's consolidated statements of operations. The Company recognizes contractual interest on financial instruments owned and financial instruments sold, but not yet purchased (excluding derivative instruments), on an accrual basis as a component of interest revenue and expense. The Company accounts for interest related to its short-term and bank syndicated financings and its variable rate senior notes on an accrual basis with related interest recorded as interest expense. In addition, the Company recognizes interest revenue related to its securities borrowed and securities purchased under agreements to resell activities and interest expense related to its securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Investment Income – Investment income includes realized and unrealized gains and losses from the Company's merchant banking and other firm investments.

Stock-based Compensation

FASB Accounting Standards Codification Topic 718, “Compensation — Stock Compensation,” (“ASC 718”) requires all stock-based compensation to be expensed on the consolidated statements of operations based on the grant date fair value of the award. Compensation expense related to share-based awards that do not require future service are recognized in the year in which the awards were deemed to be earned. Share-based awards that require future service are amortized over the relevant service period net of estimated forfeitures.

Income Taxes

The Company files a consolidated U.S. federal income tax return, which includes all of its qualifying subsidiaries. The Company is also subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Income taxes are provided for using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, 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 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 a deferred tax asset will not be realized. Tax reserves for uncertain tax positions are recorded in accordance with FASB Accounting Standards Codification Topic 740, “Income Taxes” (“ASC 740”).

Earnings Per Share

Basic earnings per common share is computed by dividing net income/(loss) applicable to common shareholders by the weighted average number of common shares outstanding for the period. Net income/(loss) applicable to common shareholders represents net income/(loss) reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the earnings allocation in the earnings per share calculation under the two-class method. The Company grants restricted stock and restricted stock units as part of its share-based compensation program. Recipients of restricted stock are entitled to receive nonforfeitable dividends during the vesting period, and therefore meet the definition of a participating security. The Company's unvested restricted stock units are not participating securities as recipients are not eligible to receive nonforfeitable dividends.

Foreign Currency Translation

The Company consolidates foreign subsidiaries which have designated their local currency as their functional currency. Assets and liabilities of these foreign subsidiaries are translated at year-end rates of exchange. In accordance with FASB Accounting Standards Codification Topic 830, “Foreign Currency Matters,” gains or losses resulting from translating foreign currency financial statements are included in other comprehensive income. Gains or losses resulting from foreign currency transactions are included in net income.

Contingencies

The Company is involved in various pending and potential legal proceedings related to its business, including litigation, arbitration and regulatory proceedings. The Company establishes reserves for potential losses in accordance with FASB Accounting Standards Codification Topic 450, “Contingencies,” to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of the outcome and reserve amounts requires significant judgment on the part of management.

Note 3 *Recent Accounting Pronouncements*

Adoption of New Accounting Standards

Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," ("ASU 2011-11") amending FASB Accounting Standards Codification Topic 210, "Balance Sheet." The amended guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities," ("ASU 2013-01") to limit the scope of ASU 2011-11 to derivatives, repurchase agreements, and securities lending arrangements. ASU 2011-11 and ASU 2013-01 were effective for the Company as of January 1, 2013. The adoption of ASU 2011-11 and ASU 2013-01 did not impact the Company's results of operations or financial position, but did impact the Company's disclosures about the offsetting of certain assets and liabilities, and related arrangements.

Indefinite-Lived Intangible Assets

In July 2012, the FASB issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment," ("ASU 2012-02") amending FASB Accounting Standards Codification Topic 350, "Intangibles - Goodwill and Other." The amended guidance permits companies to first assess qualitative factors in determining whether the fair value of an indefinite-lived intangible asset is less than its carrying amount. ASU 2012-02 was effective for annual and interim indefinite-lived intangible asset impairment tests performed by the Company for the fiscal year beginning as of January 1, 2013. The adoption of ASU 2012-02 did not impact the Company's results of operations or financial position.

Future Adoption of New Accounting Standards

Investment Companies

In June 2013, the FASB issued 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 is effective for interim and annual periods beginning after December 15, 2013. The adoption of ASU 2013-08 is not expected to have an impact on 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 strengthens the Company's mergers and acquisitions position in the middle market and adds 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 $13.8 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 $1.1 million were incurred for the year ended December 31, 2013, and are included in restructuring and integration costs within continuing operations on the consolidated statements of operations.

In the fourth quarter of 2013, the Company recorded measurement period adjustments to reflect the final fair values of intangible assets and acquired leases. 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	13,790
Intangible assets	6,665
Other assets	8,922
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 at the beginning of the comparable prior periods presented. 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 periods presented, does not contemplate anticipated operational efficiencies of the combined entities, nor does it indicate the results of operations in future periods.

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Net revenues	**$ 541,304**	$ 535,694	$ 458,831
Net income/(loss) from continuing operations applicable to Piper Jaffray Companies	**$ 48,568**	$ 50,413	$ (90,810)

Note 5 *Discontinued Operations*

The Company's Hong Kong capital markets business ceased operations as of September 30, 2012. In accordance with the provisions of FASB Accounting Standards Codification Topic 205-20, “Discontinued Operations,” the results from this business, previously reported in the Capital Markets segment, have been classified as discontinued operations for all periods presented.

The components of discontinued operations for the Hong Kong capital markets business are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Net revenues	**$ —**	$ 6,635	$ 15,996
Restructuring expenses	**—**	11,535	—
Other expenses	**1,197**	16,550	24,983
Total non-interest expenses	**1,197**	28,085	24,983
Loss from discontinued operations before income tax expense/(benefit)	**(1,197)**	(21,450)	(8,987)
Income tax expense/(benefit)	**(415)**	(21,069)	1,927
Loss from discontinued operations, net of tax	**$ (782)**	$ (381)	$ (10,914)

On April 30, 2013, the Company completed the sale of FAMCO for consideration of $4.0 million under a previously announced definitive agreement. The sale consideration of $4.0 million consisted of $0.3 million in cash and a $3.7 million note receivable from the buyer. FAMCO's results, previously reported in the Asset Management segment, have been presented as discontinued operations for all periods presented and the related assets and liabilities were classified as held for sale as of December 31, 2012. The disposal group primarily consisted of intangible assets, other receivables and accrued compensation. As part of the sale, the Company indemnified the buyer against certain costs and obligations. As of December 31, 2013, a $0.5 million remaining indemnification obligation was included within other liabilities and accrued expenses on the consolidated statements of financial condition. The potential amount of future payments that the Company could be required to make pursuant to the terms of the definitive sale agreement is not limited, however it is not expected to be material.

The components of discontinued operations for FAMCO are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Net revenues	**$ 1,650**	$ 5,718	$ 6,584
Goodwill impairment	**—**	5,508	—
Operating expenses	**5,057**	8,362	7,089
Total non-interest expenses	**5,057**	13,870	7,089
Loss from discontinued operations before income tax benefit	**(3,407)**	(8,152)	(505)
Income tax benefit	**(1,326)**	(2,726)	(171)
Loss from discontinued operations	**(2,081)**	(5,426)	(334)
Loss on sale, net of tax	**(1,876)**	—	—
Loss from discontinued operations, net of tax	**$ (3,957)**	$ (5,426)	$ (334)

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)	**December 31, 2013**	December 31, 2012
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	**$ 54,097**	$ 16,478
Convertible securities	**80,784**	44,978
Fixed income securities	**10,102**	33,668
Municipal securities:		
Taxable securities	**232,379**	164,059
Tax-exempt securities	**460,865**	418,189
Short-term securities	**62,620**	68,328
Asset-backed securities	**119,811**	116,195
U.S. government agency securities	**304,737**	304,259
U.S. government securities	**—**	4,966
Derivative contracts	**38,633**	40,475
Total financial instruments and other inventory positions owned	**1,364,028**	1,211,595
Less noncontrolling interests *(1)*	**(291,513)**	(103,480)
	$ 1,072,515	$ 1,108,115
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	**$ 69,205**	$ 27,090
Convertible securities	**—**	1,015
Fixed income securities	**24,021**	19,314
Municipal securities:		
Short-term securities	**—**	60
U.S. government agency securities	**120,084**	73,724
U.S. government securities	**291,320**	231,043
Derivative contracts	**8,203**	4,955
Total financial instruments and other inventory positions sold, but not yet purchased	**512,833**	357,201
Less noncontrolling interests *(2)*	**(68,356)**	(27,308)
	$ 444,477	$ 329,893

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $101.8 million and $43.8 million of taxable municipal securities, $183.9 million and $58.0 million of tax-exempt municipal securities, and $5.8 million and $1.7 million of derivative contracts as of December 31, 2013 and 2012, respectively.

(2) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $67.4 million and $27.3 million of U.S. government securities as of December 31, 2013 and 2012, respectively, and $1.0 million of derivative contracts as of December 31, 2013.

At December 31, 2013 and 2012, financial instruments and other inventory positions owned in the amount of $957.5 million and $826.8 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, futures and exchange traded options.

Derivative Contract Financial Instruments

The Company uses interest rate swaps, interest rate locks, credit default swap index contracts 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.

Firm investments: The Company has historically entered into foreign currency forward contracts to manage the currency exposure related to its non-U.S. dollar denominated firm investments.

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

(Dollars in thousands) **Transaction Type or Hedged Security**	**Derivative Category**	**December 31, 2013**	**December 31, 2012**
Customer matched-book	Interest rate derivative contract	**$ 5,310,929**	$ 5,569,096
Trading securities	Interest rate derivative contract	**198,500**	244,250
Trading securities	Credit default swap index contract	**299,333**	230,650
Trading securities	Equity option derivative contract	**17,090**	—
		$ 5,825,852	$ 6,043,996

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 following table presents the Company's unrealized gains/(losses) on derivative instruments:

(Dollars in thousands)		**Year Ended December 31,**		
Derivative Category	**Operations Category**	**2013**	**2012**	**2011**
Interest rate derivative contract	Investment banking	**$ (1,529)**	$ (2,583)	$ (4,959)
Interest rate derivative contract	Institutional brokerage	**(2,511)**	(798)	(7,371)
Credit default swap index contract	Institutional brokerage	**(1,522)**	(1,603)	1,009
Equity option derivative contract	Institutional brokerage	**(646)**	—	—
Foreign currency forward contract	Other operating expenses	**—**	—	(59)
		$ (6,208)	$ (4,984)	$ (11,380)

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) Derivative Category	Financial Condition Location	Asset Value at December 31, 2013	Financial Condition Location	Liability Value at December 31, 2013
Interest rate derivative contract	Financial instruments and other inventory positions owned	$ 342,210	Financial instruments and other inventory positions sold, but not yet purchased	$ 323,032
Credit default swap index contract	Financial instruments and other inventory positions owned	10,070	Financial instruments and other inventory positions sold, but not yet purchased	7,676
Equity option derivative contract	Financial instruments and other inventory positions owned	19	Financial instruments and other inventory positions sold, but not yet purchased	1,889
		$ 352,299		$ 332,597

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 December 31, 2013, the Company had $22.0 million of uncollateralized credit exposure with these counterparties (notional contract amount of $200.3 million), including $9.3 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 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.

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 80-175 basis points ("bps") on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 192-383 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, 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 used 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 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 $16.1 million and $15.4 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 December 31, 2013 and 2012, 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 $10.6 million and $2.6 million for the years ended December 31, 2013 and 2012, respectively.

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 December 31, 2013:

	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)	2 - 8%	4.7%
		Prepayment rates (4)	2 - 8%	5.3%
		Loss severity (3)	52 - 100%	69.4%
		Valuation yields (3)	4 - 8%	6.0%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	3 - 49 bps	20.2 bps
Investments at fair value:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	33.5%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	28 - 97%	56.0%
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 7 times	3.2 times
		EBITDA multiple (2)	12 times	12.0 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)	1 - 15 bps	9.1 bps

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.*

(3) *Significant changes in any of these inputs in isolation could result in a significantly different fair value. Generally, 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.*

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
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 39,711	$ 14,386	$ —	$ —	$ 54,097
Convertible securities	—	80,784	—	—	80,784
Fixed income securities	—	10,002	100	—	10,102
Municipal securities:					
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
Total financial instruments and other inventory positions owned:	39,730	1,515,285	122,679	(313,666)	1,364,028
Cash equivalents	101,629	—	—	—	101,629
Investments at fair value	20,690	—	49,240	—	69,930
Total assets	$ 162,049	$ 1,515,285	$ 171,919	$ (313,666)	$ 1,535,587
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
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
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 362,414	$ 468,170	$ 6,643	$ (324,394)	$ 512,833

(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 following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2012:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$ 3,180	$ 13,298	$ —	$ —	$ 16,478
Convertible securities	—	44,978	—	—	44,978
Fixed income securities	—	33,668	—	—	33,668
Municipal securities:					
Taxable securities	—	164,059	—	—	164,059
Tax-exempt securities	—	416,760	1,429	—	418,189
Short-term securities	—	67,672	656	—	68,328
Asset-backed securities	—	24	116,171	—	116,195
U.S. government agency securities	—	304,259	—	—	304,259
U.S. government securities	4,966	—	—	—	4,966
Derivative contracts	—	595,486	827	(555,838)	40,475
Total financial instruments and other inventory positions owned:	8,146	1,640,204	119,083	(555,838)	1,211,595
Cash equivalents	51,346	—	—	—	51,346
Investments at fair value	5,810	—	33,245	—	39,055
Total assets	$ 65,302	$ 1,640,204	$ 152,328	$ (555,838)	$ 1,301,996
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$ 25,362	$ 1,728	$ —	$ —	$ 27,090
Convertible securities	—	1,015	—	—	1,015
Fixed income securities	—	19,314	—	—	19,314
Municipal securities:					
Short-term securities	—	60	—	—	60
U.S. government agency securities	—	73,724	—	—	73,724
U.S. government securities	231,043	—	—	—	231,043
Derivative contracts	—	569,764	5,218	(570,027)	4,955
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 256,405	$ 665,605	$ 5,218	$ (570,027)	$ 357,201

(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 $171.9 million and $152.3 million, or 11.2 percent and 11.7 percent of financial instruments measured at fair value at December 31, 2013 and 2012, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were $0.6 million of transfers of financial assets from Level III to Level II during the year ended December 31, 2013, related to investments for which recent trade activity was observed and valuation inputs became observable. There were no other transfers between Level I, Level II or Level III for the year ended December 31, 2013.

The following tables summarize the changes in fair value associated with Level III financial instruments during the years ended December 31, 2013 and 2012:

(Dollars in thousands)	**Balance at December 31, 2012**	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at December 31, 2013**
Assets:								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Fixed income securities..	**$ —**	$ 100	$ —	$ —	$ —	$ —	$ —	**$ 100**
Municipal securities:								
Tax-exempt securities	**1,429**	1	—	—	—	—	3	**1,433**
Short-term securities	**656**	—	—	—	—	—	—	**656**
Asset-backed securities.....	**116,171**	227,634	(238,860)	—	—	17,105	(2,251)	**119,799**
Derivative contracts	**827**	5	(2,382)	—	—	2,377	(136)	**691**
Total financial instruments and other inventory positions owned:...............	**119,083**	227,740	(241,242)	—	—	19,482	(2,384)	**122,679**
Investments at fair value	**33,245**	16,825	(10,358)	—	(619)	5,949	4,198	**49,240**
Total assets	**$ 152,328**	$ 244,565	$(251,600)	$ —	$ (619)	$ 25,431	$ 1,814	**$ 171,919**
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	**$ 5,218**	$ (5,702)	$ 457	$ —	$ —	$ 5,232	$ 1,438	**$ 6,643**
Total financial instruments and other inventory positions sold, but not yet purchased:.........................	**$ 5,218**	$ (5,702)	$ 457	$ —	$ —	$ 5,232	$ 1,438	**$ 6,643**

(1) 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. 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 on the consolidated statements of operations.

(Dollars in thousands)	**Balance at December 31, 2011**	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	**Balance at December 31, 2012**
Assets:								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Fixed income securities	**$ 2,815**	$ 1,995	$ (4,594)	$ —	$ —	$ (118)	$ (98)	**$ —**
Municipal securities:								
Tax-exempt securities	**3,135**	1,550	(2,997)	266	—	(1,156)	631	**1,429**
Short-term securities	**175**	650	—	—	—	—	(169)	**656**
Asset-backed securities	**53,088**	125,844	(69,623)	38	—	487	6,337	**116,171**
Derivative contracts	**—**	—	—	—	—	—	827	**827**
Total financial instruments and other inventory positions owned:	**59,213**	130,039	(77,214)	304	—	(787)	7,528	**119,083**
Investments at fair value	**21,341**	15,003	(2,394)	—	(266)	1,595	(2,034)	**33,245**
Total assets	**$ 80,554**	$ 145,042	$ (79,608)	$ 304	$ (266)	$ 808	$ 5,494	**$ 152,328**
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Corporate securities:								
Convertible securities	**$ 1,171**	$ —	$ —	$ —	$ (1,171)	$ —	$ —	**$ —**
Fixed income securities	**900**	(897)	—	—	—	(49)	46	**—**
Derivative contracts	**3,594**	(6,549)	—	—	—	6,549	1,624	**5,218**
Total financial instruments and other inventory positions sold, but not yet purchased:	**$ 5,665**	$ (7,446)	$ —	$ —	$ (1,171)	$ 6,500	$ 1,670	**$ 5,218**

(1) 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. 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 on the consolidated statements of operations.

The carrying values of some of the Company's financial instruments approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include 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.

Non-Recurring Fair Value Measurement

In 2012, the Company recorded a goodwill impairment charge of $5.5 million within discontinued operations representing the full value of goodwill attributable to FAMCO. The fair value measurement used in the analysis was based on a discounted cash flow model and the anticipated pricing for the sale of FAMCO. The discounted cash flow model was calculated using unobservable inputs, such as operational budgets, strategic plans and other estimates, which are classified as Level III within the fair value hierarchy.

In 2011, the Company recorded a goodwill impairment charge of $120.3 million within continuing operations representing the full value of goodwill attributable to the capital markets reporting unit. The fair value measurement used in the analysis was based on the Company's market capitalization, a discounted cash flow model, and public company comparables. The discounted cash flow model was calculated using unobservable inputs, such as operational budgets, long range strategic plans and other estimates, which are classified as Level III within the fair value hierarchy. See Note 14 for further discussion.

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.

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 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 $0.8 billion at December 31, 2013 and 2012, respectively. The Company's exposure to loss from these VIEs is $12.5 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at December 31, 2013. The Company had no liabilities related to these VIEs at December 31, 2013 and 2012.

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 December 31, 2013.

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)	December 31, 2013	December 31, 2012
Receivable arising from unsettled securities transactions	**$ 59,657**	$ 66,426
Deposits paid for securities borrowed	**36,278**	32,163
Receivable from clearing organizations	**966**	17,655
Deposits with clearing organizations	**20,995**	24,717
Securities failed to deliver	**593**	5,440
Other	**8,624**	1,716
	$ 127,113	$ 148,117

Amounts payable to brokers, dealers and clearing organizations included:

(Dollars in thousands)	December 31, 2013	December 31, 2012
Payable arising from unsettled securities transactions	**$ 5,643**	$ 24,643
Payable to clearing organizations	**9,462**	5,763
Securities failed to receive	**744**	7,459
Other	**11,873**	22,290
	$ 27,722	$ 60,155

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 *Receivables from and Payables to Customers*

Amounts receivable from customers included:

(Dollars in thousands)	December 31, 2013	December 31, 2012
Cash accounts	**$ 5,013**	$ 7,444
Margin accounts	**6,620**	6,351
Total receivables	**$ 11,633**	$ 13,795

Securities owned by customers are held as collateral for margin loan receivables. This collateral is not reflected on the consolidated financial statements. Margin loan receivables earn interest at floating interest rates based on prime rates.

Amounts payable to customers included:

(Dollars in thousands)	December 31, 2013	December 31, 2012
Cash accounts	**$ 30,499**	$ 32,103
Margin accounts	**2,610**	9,904
Total payables	**$ 33,109**	$ 42,007

Payables to customers primarily comprise certain cash balances in customer accounts consisting of customer funds pending settlement of securities transactions and customer funds on deposit. Except for amounts arising from customer short sales, all amounts payable to customers are subject to withdrawal by customers upon their request.

Note 11 *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.

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 $212.4 million and $186.1 million at December 31, 2013 and 2012, respectively, of which $194.9 million and $174.4 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 December 31, 2013:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Asset-backed securities	$ 3,672	$ 5,328	1.85%
Term of 30 to 90 day maturities:			
Asset-backed securities	725	966	1.99%
	$ 4,397	$ 6,294	

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 December 31, 2013 and 2012, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of December 31, 2013 or 2012. See Note 6 for information related to the Company's offsetting of derivative contracts.

Note 12 *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)	**December 31, 2013**	December 31, 2012
Investments at fair value	**$ 69,930**	$ 39,055
Investments at cost	**20,709**	26,364
Investments accounted for under the equity method	**21,404**	20,353
Total investments	**112,043**	85,772
Less investments attributable to noncontrolling interests (1)	**(21,137)**	(13,236)
	$ 90,906	$ 72,536

(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 December 31, 2013, investments carried on a cost basis had an estimated fair market value of $29.9 million. The estimated fair value of these investments was measured using discounted cash flow models that use market data for comparable companies (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA")). Because valuation adjustments, based upon management's judgment, were made to account for differences between the measured security and comparable securities, 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 13 *Other Assets*

Other assets included:

(Dollars in thousands)	**December 31, 2013**	December 31, 2012
Net deferred income tax assets	**$ 36,252**	$ 33,622
Fee receivables	**34,415**	25,343
Accrued interest receivables	**9,793**	8,029
Forgivable loans, net	**7,879**	10,315
Income tax receivables	**—**	5,448
Prepaid expenses	**5,237**	3,840
Other	**8,516**	2,202
Total other assets	**$ 102,092**	$ 88,799

See Note 28 for additional details concerning the Company's net deferred income tax assets.

Note 14 *Goodwill and Intangible Assets*

The following table presents the changes in the carrying value of goodwill and intangible assets from continuing operations for the years ended December 31:

(Dollars in thousands)	Capital Markets	Asset Management	Total
Goodwill			
Balance at December 31, 2011	**$ —**	**$ 196,844**	**$ 196,844**
Goodwill acquired	—	—	—
Impairment charge	—	—	—
Balance at December 31, 2012	**$ —**	**$ 196,844**	**$ 196,844**
Goodwill acquired	13,790	—	13,790
Impairment charge	—	—	—
Balance at December 31, 2013	**$ 13,790**	**$ 196,844**	**$ 210,634**
Intangible assets			
Balance at December 31, 2011	**$ —**	**$ 48,202**	**$ 48,202**
Amortization of intangible assets	—	(6,944)	(6,944)
Balance at December 31, 2012	**$ —**	**$ 41,258**	**$ 41,258**
Intangible assets acquired	6,665	—	6,665
Amortization of intangible assets	(1,349)	(6,644)	(7,993)
Balance at December 31, 2013	**$ 5,316**	**$ 34,614**	**$ 39,930**

The Company tests goodwill and indefinite-life intangible assets for impairment on an annual basis and on an interim basis when circumstances exist that could indicate possible impairment. The Company tests for impairment at the reporting unit level, which is generally one level below its operating segments. The Company has identified two reporting units: capital markets and asset management. When testing for impairment, the Company has 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, the Company determines 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 the Company concludes otherwise, then the Company is 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, the Company's 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 Company completed its annual goodwill impairment testing as of October 31, 2013, and concluded there was no goodwill impairment. In 2012, the Company recorded a non-cash goodwill impairment charge of $5.5 million within discontinued operations. This amount represented the full value of goodwill attributable to FAMCO. In 2011, the Company recorded a non-cash goodwill impairment charge of $120.3 million within continuing operations. The charge related to the capital markets reporting unit and primarily pertained to goodwill created from the 1998 acquisition of Piper Jaffray Companies Inc. by U.S. Bancorp, which was retained by the Company when the Company spun-off from U.S. Bancorp on December 31, 2003.

The Company also tested its intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2013, 2012 and 2011, respectively.

The addition of goodwill and intangible assets during the year ended December 31, 2013 related to the acquisitions of Seattle-Northwest and Edgeview, as discussed in Note 4. Management identified $6.7 million of intangible assets, consisting of customer relationships ($6.0 million) and non-competition agreements ($0.7 million), which will be amortized over a weighted average life of 1.9 years and 3.0 years, respectively.

Intangible assets with determinable lives consist of asset management contractual relationships and capital markets customer relationships and non-competition agreements. The intangible assets are amortized over their estimated useful lives ranging from two to ten years. The following table summarizes the future aggregate amortization expense of the Company's intangible assets with determinable lives for the years ended:

(Dollars in thousands)	
2014	$ 9,272
2015	7,093
2016	6,219
2017	5,230
Thereafter	9,256
Total	$ 37,070

Note 15 *Fixed Assets*

The following is a summary of fixed assets:

(Dollars in thousands)	December 31, 2013	December 31, 2012
Furniture and equipment	**$ 34,980**	$ 36,454
Leasehold improvements	**23,478**	19,508
Software	**19,967**	20,159
Total	**78,425**	76,121
Accumulated depreciation and amortization	**(62,311)**	(61,032)
	$ 16,114	$ 15,089

For the years ended December 31, 2013, 2012 and 2011, depreciation and amortization of furniture and equipment, leasehold improvements and software from continuing operations totaled $5.6 million, $6.5 million and $6.6 million, respectively, and are included in occupancy and equipment on the consolidated statements of operations.

Note 16 *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	
(Dollars in thousands)	**December 31, 2013**	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Commercial paper (secured)	**$ 280,294**	$ 304,439	**1.59%**	1.65%
Prime broker arrangement	**234,417**	172,575	**0.90%**	0.98%
Total short-term financing	**$ 514,711**	$ 477,014		

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 December 31, 2013, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 132 days, 107 days and 31 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.

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 funding is at the discretion of the prime broker.

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 December 31, 2013 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 a 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 December 31, 2013, the Company had no advances against this line of credit.

The Company's uncommitted secured lines at December 31, 2013 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 December 31, 2013, the Company had no advances against these lines of credit.

Note 17 *Variable Rate Senior Notes*

On November 30, 2012, the Company entered into a note purchase agreement ("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. The Class A Notes bear interest at a rate equal to three-month LIBOR plus 4.00 percent and mature on May 31, 2014. The Class B Notes 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. The proceeds from the Notes were used to repay the outstanding balance under the bank syndicated credit agreement ("Credit Agreement") discussed in Note 18. The remaining proceeds are being used for general corporate purposes.

The 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 Note Purchase Agreement proving untrue in any material respect when made by the Company, failure to comply with the covenants in the 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 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 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 December 31, 2013, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of December 31, 2013, the carrying value of the Notes approximates fair value.

Note 18 *Bank Syndicated Financing*

On December 29, 2010, the Company entered into a three-year Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. SunTrust Bank was the administrative agent ("Agent") for the lenders. The interest rate for borrowing under the Credit Agreement was, at the option of the Company, equal to LIBOR or a base rate, plus an applicable margin, adjustable and payable quarterly at a minimum. The base rate was defined as the highest of the Agent's prime lending rate, the Federal Funds Rate plus 0.50 percent or one-month LIBOR plus 1.00 percent. The applicable margin varied from 1.50 percent to 3.00 percent and was based on the Company's leverage ratio. In addition, the Company also paid a nonrefundable commitment fee of 0.50 percent on the unused portion of the revolving credit facility on a quarterly basis. The outstanding balance and unpaid interest on the Credit Agreement was repaid on November 30, 2012 from the proceeds of the Notes discussed in Note 17.

Note 19 *Contingencies, Commitments and Guarantees*

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.

Litigation-related reserve activity from continuing operations included within other operating expenses resulted in a benefit of $4.1 million primarily attributable to the receipt of insurance proceeds for the reimbursement of prior legal settlements, expense of $0.9 million, and a benefit of $0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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 December 31, 2013 are as follows:

(Dollars in thousands)	
2014	$ 11,997
2015	10,011
2016	10,203
2017	8,477
2018	8,158
Thereafter	27,718
	$ 76,564

Total minimum rentals to be received from 2014 through 2018 under noncancelable subleases were $9.8 million at December 31, 2013.

Rental expense, including operating costs and real estate taxes, from continuing operations was $12.9 million, $13.1 million and $14.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Fund Commitments

As of December 31, 2013, the Company had commitments to invest approximately $47.6 million in limited partnerships that make investments in private equity and venture capital funds. The commitments are estimated to be funded, if called, through the end of the respective investment periods ranging from 2014 to 2018.

Other Guarantees

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements with these entities, members generally are required to guarantee the performance of other members, and if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. In addition, the Company identifies and guarantees certain clearing agents against specified potential losses in connection with providing services to the Company or its affiliates. The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes the likelihood that the Company would be required to make payments under these arrangements is remote. Accordingly, no liability is recorded in the consolidated financial statements for these arrangements.

As general partner, Piper Jaffray Investment Management LLC, a wholly-owned subsidiary of the Company, has guaranteed the debts, liabilities and obligations of a municipal bond fund to the extent of the general partner's assets. Management believes the likelihood that the Company would be required to make payments under this arrangement is remote. Accordingly, no liability is recorded in the consolidated financial statements for this arrangement.

Concentration of Credit Risk

The Company provides investment, capital-raising and related services to a diverse group of domestic and foreign customers, including governments, corporations, and institutional and individual investors. The Company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To alleviate the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions.

Note 20 *Restructuring*

For the year ended December 31, 2013, the Company incurred pre-tax restructuring charges of $3.6 million from continuing operations. The charge resulted from severance benefits of $2.4 million, $0.5 million for vacating redundant leased office space and $0.7 million for contract termination costs. For the year ended December 31, 2012, the Company incurred pre-tax restructuring-related charges of $3.6 million from continuing operations. The charge resulted from severance benefits of $2.4 million and from the reduction of leased office space of $1.2 million.

Note 21 *Shareholders' Equity*

The certificate of incorporation of Piper Jaffray Companies provides for the issuance of up to 100,000,000 shares of common stock with a par value of $0.01 per share and up to 5,000,000 shares of undesignated preferred stock with a par value of $0.01 per share.

Common Stock

The holders of Piper Jaffray Companies common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. Subject to preferences that may be applicable to any outstanding preferred stock of Piper Jaffray Companies, the holders of its common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Piper Jaffray Companies board of directors out of funds legally available for that purpose. Piper Jaffray Companies does not currently pay cash dividends on its common stock. Additionally, there are dividend restrictions as set forth in Note 27.

In the event that Piper Jaffray Companies is liquidated or dissolved, the holders of its common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to any prior distribution rights of Piper Jaffray Companies preferred stock, if any, then outstanding. Currently, there is no outstanding preferred stock. The holders of the common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to Piper Jaffray Companies common stock.

During the year ended December 31, 2013, the Company issued 96,049 common shares out of treasury stock in fulfillment of $3.9 million in obligations under the Piper Jaffray Companies Retirement Plan (the "Retirement Plan") and issued 786,467 common shares out of treasury stock as a result of employee restricted share vesting as discussed in Note 24. During the year ended December 31, 2012, the Company issued 165,241 common shares out of treasury stock in fulfillment of $3.8 million in obligations under the Retirement Plan and issued 937,978 common shares out of treasury stock as a result of employee restricted share vesting.

In the third quarter of 2010, the Company's board of directors authorized the repurchase of up to $75.0 million in common shares through September 30, 2012. During the nine months ended September 30, 2012, the Company repurchased 1,488,881 shares of the Company's common stock at an average price of $22.48 per share for an aggregate purchase price of $33.5 million related to this authorization. This share repurchase authorization expired as of September 30, 2012.

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 fourth quarter of 2012, the Company repurchased 156,577 shares of the Company's common stock at an average price of $29.38 per share for an aggregate purchase price of $4.6 million related to this authorization. During the year ended December 31, 2013, the Company repurchased 1,719,662 shares, or 11.3 percent of the Company's outstanding common stock, at an average price of $32.52 per share for an aggregate purchase price of $55.9 million related to this authorization. The Company has $39.5 million remaining under 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 386,713 shares or $15.5 million and 385,449 shares or $9.1 million of the Company's common stock for this purpose during the years ended December 31, 2013 and 2012, respectively.

Preferred Stock

The Piper Jaffray Companies board of directors has the authority, without action by its shareholders, to designate and issue preferred stock in one or more series and to designate the rights, preferences and privileges of each series, which may be greater than the rights associated with the common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of common stock until the Piper Jaffray Companies board of directors determines the specific rights of the holders of preferred stock. However, the effects might include, among other things, the following: restricting dividends on its common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock and delaying or preventing a change in control of Piper Jaffray Companies without further action by its shareholders.

Note 22 *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 $126.3 million, a merchant banking fund of $14.1 million and private equity investment vehicles aggregating $7.0 million as of December 31, 2013. As of December 31, 2012, noncontrolling interests included the minority equity holders' proportionate share of the equity in a municipal bond fund of $43.7 million, a merchant banking fund of $6.4 million and private equity investment vehicles aggregating $6.8 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 years ended December 31, 2013, 2012 and 2011.

Note 23 *Employee Benefit Plans*

The Company has various employee benefit plans, and substantially all employees are covered by at least one plan. The plans include health and welfare plans, a tax-qualified retirement plan (the "Retirement Plan"), and a post-retirement medical plan, which was terminated in 2013. During the years ended December 31, 2013, 2012 and 2011, the Company incurred employee benefits expenses from continuing operations of \$12.1 million, \$13.0 million and \$11.6 million, respectively.

Health and Welfare Plans

Company employees who meet certain work schedule and service requirements are eligible to participate in the Company's health and welfare plans. The Company subsidizes the cost of coverage for employees. The medical plan contains cost-sharing features such as deductibles and coinsurance.

The Company is self-insured for losses related to health claims, although it obtains third-party stop loss insurance coverage on both an individual and a group plan basis. Self-insured liabilities are based on a number of factors, including historical claims experience, an estimate of claims incurred but not reported and valuations provided by third-party actuaries. For the years ended December 31, 2013, 2012 and 2011, the Company recognized expense of \$7.2 million, \$8.0 million and \$6.9 million, respectively, in compensation and benefits expense from continuing operations on the consolidated statements of operations related to its health plans.

Retirement Plan

The Retirement Plan consists of a defined contribution retirement savings plan. The defined contribution retirement savings plan allows qualified employees, at their option, to make contributions through salary deductions under Section 401(k) of the Internal Revenue Code. Employee contributions are 100 percent matched by the Company to a maximum of six percent of recognized compensation up to the social security taxable wage base. Although the Company's matching contribution vests immediately, a participant must be employed on December 31 to receive that year's matching contribution. The matching contribution can be made in cash or Piper Jaffray Companies common stock, at the Company's discretion.

Post-retirement Medical Plan

All employees of the Company who met defined age and service requirements were eligible to receive post-retirement health care benefits provided under a post-retirement medical plan established by the Company in 2004. The estimated cost of these retiree health care benefits was accrued during the employees' active service. The Company accounted for its post-retirement medical plan in accordance with FASB Accounting Standards Codification Topic 715, "Compensation – Retirement Benefits" ("ASC 715"). The Company recognized the funded status of its plan on the consolidated statements of financial condition with a corresponding adjustment to accumulated other comprehensive income, net of tax. The net unrecognized actuarial losses and unrecognized prior service costs were amortized as a component of net periodic benefit cost. Further, actuarial gains and losses that arose and were not recognized as net periodic benefit cost in the same periods were recognized as a component of other comprehensive income. These amounts were amortized as a component of net periodic benefit cost on the same basis as the amounts recognized in accumulated other comprehensive income. For each of the years ended December 31, 2013, 2012 and 2011, the net periodic benefit cost from continuing operations was \$0.1 million.

The Company terminated the post-retirement medical plan in 2013. The Company recognized a settlement gain of \$1.1 million in compensation and benefits expense from continuing operations on the consolidated statements of operations for the year ended December 31, 2013. In conjunction with the termination, the Company elected to make lump sum cash distributions to current plan participants, Company employees meeting certain age requirements and certain former employees with accumulated credits. These lump sum cash payments, totaling \$1.1 million, were based on a percentage of accumulated retiree health care credits and were included in compensation and benefits expense from continuing operations on the consolidated statements of operations for the year ended December 31, 2013.

Note 24 *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 December 31, 2013:

Incentive Plan	
Restricted Stock	
Annual grants	866,894
Sign-on grants	436,402
Retention grants	—
Performance grants	—
	1,303,296
Inducement Plan	
Restricted Stock	58,310
Total restricted stock related to compensation	1,361,606
ARI deal consideration (1)	220,456
Total restricted stock outstanding	1,582,062
Incentive Plan	
Restricted Stock Units	
Leadership grants	290,536
Incentive Plan	
Stock options outstanding	469,289

(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 (1.1 million shares remained available for future issuance under the Incentive Plan as of December 31, 2013). 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.

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 has also granted incremental restricted stock awards with service conditions to key employees ("Retention Grants") and restricted stock with performance conditions to members of senior management ("Performance 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 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.

Retention Grants were subject to ratable vesting based upon a five-year service requirement and were amortized as compensation expense on a straight-line basis from the 2008 grant date over the requisite service period, which ended in May 2013. Employees forfeited unvested retention shares upon termination of employment and a reversal of compensation expense was recorded.

Performance Grants awarded in 2008 and 2009 expired unvested in May 2013.

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 restricted stock units to its leadership team ("Leadership Grants") in May 2012 and 2013, respectively. 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
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.

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 $21.0 million, $20.2 million and $21.2 million for the years ended December 31, 2013, 2012 and 2011, 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, Retention and Leadership Grants, less forfeitures of $1.0 million, $1.3 million and $3.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. The tax benefit related to stock-based compensation costs totaled $8.2 million, $7.9 million and $8.2 million for the years ended December 31, 2013, 2012 and 2011, 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 years ended December 31, 2013, 2012 and 2011:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2010	**4,523,184**	**$ 39.84**
Granted	663,887	40.87
Vested	(1,791,712)	37.77
Canceled	(243,358)	39.03
December 31, 2011	**3,152,001**	**$ 38.79**
Granted	635,136	22.89
Vested	(1,309,881)	34.21
Canceled	(154,818)	39.37
December 31, 2012	**2,322,438**	**$ 37.01**
Granted	682,760	38.35
Vested	(1,165,989)	39.83
Canceled	(257,147)	38.30
December 31, 2013	**1,582,062**	**$ 35.25**

The fair value of restricted stock that vested during the years ended December 31, 2013, 2012 and 2011 was $46.4 million, $44.8 million and $67.7 million, respectively.

The following summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan for the years ended December 31, 2013 and 2012:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2011	**—**	**$ —**
Granted	214,526	12.12
Vested	—	—
Canceled	(41,255)	12.12
December 31, 2012	**173,271**	**$ 12.12**
Granted	117,265	21.32
Vested	—	—
Canceled	—	—
December 31, 2013	**290,536**	**$ 15.83**

As of December 31, 2013, there was $13.5 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.86 years.

The following table summarizes the changes in the Company's outstanding stock options for the years ended December 31, 2013, 2012 and 2011:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2010	**515,492**	**$ 44.64**	**4.9**	**$ 166,406**
Granted	—	—		
Exercised	(1,023)	39.62		
Canceled	(11,846)	42.19		
December 31, 2011	**502,623**	**$ 44.71**	**3.9**	**$ —**
Granted	—	—		
Exercised	—	—		
Canceled	(16,060)	43.17		
December 31, 2012	**486,563**	**$ 44.76**	**2.9**	**$ 94,150**
Granted	—	—		
Exercised	—	—		
Canceled	(17,274)	42.85		
December 31, 2013	**469,289**	**$ 44.83**	**2.0**	**$ 288,318**
Options exercisable at December 31, 2011	**502,623**	**$ 44.71**	**3.9**	**$ —**
Options exercisable at December 31, 2012	**486,563**	**$ 44.76**	**2.9**	**$ 94,150**
Options exercisable at December 31, 2013	**469,289**	**$ 44.83**	**2.0**	**$ 288,318**

Additional information regarding Piper Jaffray Companies options outstanding as of December 31, 2013 is as follows:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	**Shares**	**Weighted Average Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
$28.01	22,852	1.3	$ 28.01	22,852	$ 28.01
$33.40	4,001	1.6	$ 33.40	4,001	$ 33.40
$39.62	131,637	1.1	$ 39.62	131,637	$ 39.62
$41.09	128,887	4.1	$ 41.09	128,887	$ 41.09
$47.30 - $51.05	134,499	0.5	$ 47.74	134,499	$ 47.74
$70.13 - $70.65	47,413	2.9	$ 70.26	47,413	$ 70.26

As of December 31, 2013, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

The fair value of options exercised, cash received from option exercises and the resulting tax benefit realized for the tax deductions from option exercises were immaterial for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company has a policy of issuing shares out of treasury (to the extent available) to satisfy share option exercises and restricted stock vesting. The Company expects to withhold approximately 0.3 million shares from employee equity awards vesting in 2014, related to employee individual income tax withholding obligations on restricted stock vesting. For accounting purposes, withholding shares to cover employees' tax obligations is deemed to be a repurchase of shares by the Company.

Deferred Compensation Plan

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.

Note 25 *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:

	Year Ended December 31,		
(Amounts in thousands, except per share data)	**2013**	**2012**	**2011**
Net income/(loss) from continuing operations applicable to Piper Jaffray Companies	**$ 49,829**	$ 47,075	$ (90,772)
Net loss from discontinued operations	**(4,739)**	(5,807)	(11,248)
Net income/(loss) applicable to Piper Jaffray Companies	**45,090**	41,268	(102,020)
Earnings allocated to participating securities (1)	**(4,494)**	(5,933)	—
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders (2)	**$ 40,596**	$ 35,335	$ (102,020)
Shares for basic and diluted calculations:			
Average shares used in basic computation	**15,046**	15,615	15,672
Stock options	**15**	1	13
Restricted stock	**—**	—	2,892
Average shares used in diluted computation	**15,061**	15,616	18,577 (3)
Earnings/(loss) per basic common share:			
Income/(loss) from continuing operations	**$ 2.98**	$ 2.58	$ (5.79)
Loss from discontinued operations	**(0.28)**	(0.32)	(0.72)
Earnings/(loss) per basic common share	**$ 2.70**	$ 2.26	$ (6.51)
Earnings/(loss) per diluted common share:			
Income/(loss) from continuing operations	**$ 2.98**	$ 2.58	$ (5.79)
Loss from discontinued operations	**(0.28)**	(0.32)	(0.72)
Earnings/(loss) per diluted common share	**$ 2.70**	$ 2.26	$ (6.51) (3)

(1) *Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 1,667,067; 2,622,438 and 3,528,624 for the years ended December 31, 2013, 2012 and 2011, 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.*

(3) *Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred.*

The anti-dilutive effects from stock options were immaterial for the years ended December 31, 2013, 2012 and 2011.

Note 26 *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:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Capital Markets			
Investment banking			
Financing			
Equities	**$ 100,224**	$ 73,180	$ 74,161
Debt	**74,284**	74,102	54,565
Advisory services	**74,420**	86,165	74,373
Total investment banking	**248,928**	233,447	203,099
Institutional sales and trading			
Equities	**91,169**	75,723	86,175
Fixed income	**76,275**	111,492	75,589
Total institutional sales and trading	**167,444**	187,215	161,764
Management and performance fees	**3,891**	1,678	243
Investment income	**30,404**	9,840	11,052
Long-term financing expenses	**(7,420)**	(7,982)	(7,067)
Net revenues	**443,247**	424,198	369,091
Non-interest expenses			
Goodwill impairment	**—**	—	120,298
Operating expenses (1)	**393,231**	371,628	344,036
Total non-interest expenses	**393,231**	371,628	464,334
Segment pre-tax operating income/(loss)	**$ 50,016**	$ 52,570	$ (95,243)
Segment pre-tax operating margin	**11.3%**	12.4%	N/M

Continued on next page

(Dollars in thousands)	Year Ended December 31, 2013	2012	2011
Asset Management			
Management and performance fees			
Management fees	**$ 71,314**	$ 63,236	$ 60,819
Performance fees	**7,840**	785	2,245
Total management and performance fees	**79,154**	64,021	63,064
Investment income/(loss)	**2,794**	733	(72)
Net revenues	**81,948**	64,754	62,992
Operating expenses (1)	**56,351**	48,313	47,938
Segment pre-tax operating income	**$ 25,597**	$ 16,441	$ 15,054
Segment pre-tax operating margin	**31.2%**	25.4%	23.9%
Total			
Net revenues	**$ 525,195**	$ 488,952	$ 432,083
Non-interest expenses			
Goodwill impairment	**—**	—	120,298
Operating expenses (1)	**449,582**	419,941	391,974
Total non-interest expenses	**449,582**	419,941	512,272
Pre-tax operating income/(loss)	**$ 75,613**	$ 69,011	$ (80,189)
Pre-tax operating margin	**14.4%**	14.1%	N/M

N/M – Not meaningful

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

(Dollars in thousands)	Year Ended December 31, 2013	2012	2011
Capital Markets	**$ 1,349**	$ —	$ —
Asset Management	**6,644**	6,944	7,256
Total intangible asset amortization expense	**$ 7,993**	$ 6,944	$ 7,256

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.

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Net revenues:			
United States	**$ 513,433**	$ 476,718	$ 415,647
Europe	**11,762**	12,234	16,436
Consolidated	**$ 525,195**	$ 488,952	$ 432,083

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

(Dollars in thousands)	**December 31, 2013**	**December 31, 2012**
Long-lived assets:		
United States	**$ 296,516**	$ 285,682
Europe	**6,414**	1,131
Consolidated	**$ 302,930**	$ 286,813

Note 27 *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 December 31, 2013, net capital calculated under the SEC rule was $165.6 million, and exceeded the minimum net capital required under the SEC rule by $164.6 million.

The Company's short-term committed credit facility of $250 million and its variable rate senior notes include covenants requiring Piper Jaffray to maintain minimum 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 December 31, 2013, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Note 28 *Income Taxes*

Income tax expense is provided using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, 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 components of income tax expense from continuing operations are as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Current:			
Federal	**$ 20,468**	$ 16,939	$ (6,108)
State	**3,795**	(9,563)	27
Foreign	**183**	—	—
	24,446	7,376	(6,081)
Deferred:			
Federal	**(1,582)**	7,735	13,803
State	**(4,041)**	4,413	2,491
Foreign	**1,567**	(54)	(1,093)
	(4,056)	12,094	15,201
Total income tax expense from continuing operations	**$ 20,390**	$ 19,470	$ 9,120
Total income tax expense/(benefit) from discontinued operations	**$ (2,935)**	$ (23,795)	$ 1,756

A reconciliation of federal income taxes at statutory rates to the Company's effective tax rates from continuing operations is as follows:

	Year Ended December 31,		
(Dollars in thousands)	**2013**	**2012**	**2011**
Federal income tax expense/(benefit) at statutory rates	**$ 26,464**	$ 24,153	$ (28,066)
Increase/(reduction) in taxes resulting from:			
Goodwill impairment	**—**	—	40,440
State income taxes, net of federal tax benefit	**2,785**	2,540	1,327
Net tax-exempt interest income	**(3,917)**	(3,353)	(3,308)
Foreign jurisdictions tax rate differential	**(185)**	(164)	413
Change in valuation allowance	**(4,182)**	(1,110)	(2,185)
Restricted stock deferred tax asset write-off	**—**	4,577	557
Income attributable to noncontrolling interests	**(1,888)**	(863)	(512)
Other, net	**1,313**	(6,310)	454
Total income tax expense from continuing operations	**$ 20,390**	$ 19,470	$ 9,120

In accordance with ASC 740, U.S. income taxes are not provided on undistributed earnings of international subsidiaries that are permanently reinvested. As of December 31, 2013, undistributed earnings permanently reinvested in the Company's foreign subsidiaries were not material.

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes. The net deferred income tax assets included in other assets on the consolidated statements of financial condition consisted of the following items:

(Dollars in thousands)	**December 31, 2013**	December 31, 2012
Deferred tax assets:		
Deferred compensation	**$ 43,608**	$ 38,090
Net operating loss carry forwards	**5,569**	7,645
Liabilities/accruals not currently deductible	**1,903**	2,035
Other	**1,459**	2,667
Total deferred tax assets	**52,539**	50,437
Valuation allowance	**(159)**	(5,139)
Deferred tax assets after valuation allowance	**52,380**	45,298
Deferred tax liabilities:		
Goodwill amortization	**9,957**	6,010
Unrealized gains on firm investments	**3,577**	2,134
Fixed assets	**1,017**	2,706
Other	**1,577**	826
Total deferred tax liabilities	**16,128**	11,676
Net deferred tax assets	**$ 36,252**	$ 33,622

The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The Company believes that its future tax profits will be sufficient to recognize its deferred tax assets, with the exception of $0.2 million in state net operating loss carryforwards.

The Company accounts for unrecognized tax benefits in accordance with the provisions of ASC 740, which requires tax reserves to be recorded for uncertain tax positions on the consolidated statements of financial condition. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Dollars in thousands)		
Balance at December 31, 2010	**$**	**9,510**
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		—
Reductions for tax positions of prior years		(595)
Settlements		—
Balance at December 31, 2011	**$**	**8,915**
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		200
Reductions for tax positions of prior years		(8,825)
Settlements		—
Balance at December 31, 2012	**$**	**290**
Additions based on tax positions related to the current year		—
Additions for tax positions of prior years		2,000
Reductions for tax positions of prior years		(90)
Settlements		—
Balance at December 31, 2013	**$**	**2,200**

As of December 31, 2013, approximately $0.2 million of the Company's unrecognized tax benefits would impact the annual effective rate, if recognized. In 2012, the Company reversed $8.8 million for unrecognized tax benefits. In addition, the Company reversed $2.6 million of accrued interest related to these positions. In aggregate, the Company recorded a $7.4 million credit to income tax expense in 2012, net of federal income tax. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. During the year ended December 31, 2013, the Company recognized $0.2 million in interest and penalties. During the year ended December 31, 2012, the Company recognized no interest and penalties. During the year ended December 31, 2011, the Company recognized approximately $0.3 million in interest and penalties. The Company had approximately $0.2 million and $0.1 million for the payment of interest and penalties accrued at December 31, 2013 and 2012, respectively. The Company or one of its subsidiaries files income tax returns with the various states and foreign jurisdictions in which the Company operates. The Company is not subject to U.S. federal tax authorities for years before 2011 and is not subject to state and local or non-U.S. tax authorities for taxable years before 2006. The Company anticipates all of its uncertain income tax provisions will be resolved within the next twelve months.

Note 29 *Piper Jaffray Companies (Parent Company only)*

Condensed Statements of Financial Condition

(Amounts in thousands)	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	**$ 336**	$ 1,069
Investment in and advances to subsidiaries	**870,104**	857,973
Other assets	**9,119**	20,850
Total assets	**$ 879,559**	$ 879,892
Liabilities and Shareholders' Equity		
Variable rate senior notes	**$ 125,000**	$ 125,000
Accrued compensation	**18,454**	20,838
Other liabilities and accrued expenses	**1,429**	762
Total liabilities	**144,883**	146,600
Shareholders' equity	**734,676**	733,292
Total liabilities and shareholders' equity	**$ 879,559**	$ 879,892

Condensed Statements of Operations

	Year Ended December 31,		
(Amounts in thousands)	2013	2012	2011
Revenues:			
Dividends from subsidiaries	**$ 46,000**	$ 119,000	$ 80,483
Interest	**254**	82	31
Other revenues	**198**	—	—
Total revenues	**46,452**	119,082	80,514
Interest expense	**5,850**	5,823	5,392
Net revenues	**40,602**	113,259	75,122
Non-interest expenses:			
Total non-interest expenses	**3,096**	4,222	13,044
Income from continuing operations before income tax expense/(benefit) and equity in undistributed/(distributed in excess of) income of subsidiaries	**37,506**	109,037	62,078
Income tax expense/(benefit)	**13,263**	39,175	(3,128)
Income from continuing operations of parent company	**24,243**	69,862	65,206
Equity in undistributed/(distributed in excess of) income of subsidiaries	**25,200**	(49,617)	(167,226)
Net income/(loss) from continuing operations	**49,443**	20,245	(102,020)
Discontinued operations:			
Income/(loss) from discontinued operations, net of tax	**(4,353)**	21,023	—
Net income/(loss)	**$ 45,090**	$ 41,268	$ (102,020)

Condensed Statements of Cash Flows

(Amounts in thousands)	Year Ended December 31, 2013	2012	2011
Operating Activities:			
Net income/(loss)	**$ 45,090**	$ 41,268	$ (102,020)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Share-based and deferred compensation	**60**	240	437
Goodwill impairment	**—**	—	9,247
Equity distributed in excess of/(in undistributed) income of subsidiaries	**(25,200)**	49,617	167,226
Net cash provided by operating activities	**19,950**	91,125	74,890
Financing Activities:			
Issuance of variable rate senior notes	**—**	125,000	—
Decrease in bank syndicated financing	**—**	(115,000)	(10,000)
Advances from/(to) subsidiaries	**35,246**	(76,481)	(51,916)
Repurchase of common stock	**(55,929)**	(38,068)	(5,994)
Net cash used in financing activities	**(20,683)**	(104,549)	(67,910)
Net increase/(decrease) in cash and cash equivalents	**(733)**	(13,424)	6,980
Cash and cash equivalents at beginning of year	**1,069**	14,493	7,513
Cash and cash equivalents at end of year	**$ 336**	$ 1,069	$ 14,493
Supplemental disclosures of cash flow information			
Cash received/(paid) during the year for:			
Interest	**$ (5,596)**	$ (5,741)	$ (5,361)
Income taxes	**$ (13,263)**	$ (39,175)	$ 3,128

Piper Jaffray Companies

Supplemental Information

Quarterly Information (unaudited)

(Amounts in thousands, except per share data)	2013 Fiscal Quarter			
	First	**Second**	**Third**	**Fourth**
Total revenues	$ 115,312	$ 106,520	$ 134,506	$ 193,893
Interest expense	5,779	6,748	6,192	6,317
Net revenues	109,533	99,772	128,314	187,576
Non-interest expenses	91,365	96,439	116,254	145,524
Income from continuing operations before income tax expense	18,168	3,333	12,060	42,052
Income tax expense	5,600	1,644	2,886	10,260
Net income from continuing operations	12,568	1,689	9,174	31,792
Loss from discontinued operations, net of tax	(521)	(1,871)	(1,529)	(818)
Net income/(loss)	12,047	(182)	7,645	30,974
Net income/(loss) applicable to noncontrolling interests	1,901	(2,670)	2,323	3,840
Net income applicable to Piper Jaffray Companies	$ 10,146	$ 2,488	$ 5,322	$ 27,134
Net income applicable to Piper Jaffray Companies' common shareholders	$ 8,966	$ 2,266	$ 4,826	$ 24,445
Amounts applicable to Piper Jaffray Companies				
Net income from continuing operations	$ 10,667	$ 4,359	$ 6,851	$ 27,952
Net loss from discontinued operations	(521)	(1,871)	(1,529)	(818)
Net income applicable to Piper Jaffray Companies	$ 10,146	$ 2,488	$ 5,322	$ 27,134
Earnings per basic common share				
Income from continuing operations	$ 0.60	$ 0.25	$ 0.42	$ 1.75
Loss from discontinued operations	(0.03)	(0.11)	(0.09)	(0.05)
Earnings per basic common share	$ 0.58	$ 0.15	$ 0.33	$ 1.70
Earnings per diluted common share				
Income from continuing operations	$ 0.60	$ 0.25	$ 0.42	$ 1.75
Loss from discontinued operations	(0.03)	(0.11)	(0.09)	(0.05)
Earnings per diluted common share	$ 0.57	$ 0.15	$ 0.33	$ 1.70
Weighted average number of common shares				
Basic	15,582	15,621	14,641	14,378
Diluted	15,610	15,626	14,626	14,397

Piper Jaffray Companies

Supplemental Information – Continued

(Amounts in thousands, except per share data)	2012 Fiscal Quarter First	Second	Third	Fourth
Total revenues	$ 117,566	$ 107,417	$ 135,900	$ 147,164
Interest expense	4,128	4,319	4,395	6,253
Net revenues	113,438	103,098	131,505	140,911
Non-interest expenses	98,216	97,443	106,153	118,129
Income from continuing operations before income tax expense/(benefit)	15,222	5,655	25,352	22,782
Income tax expense/(benefit)	7,553	(5,699)	10,194	7,422
Net income from continuing operations	7,669	11,354	15,158	15,360
Income/(loss) from discontinued operations, net of tax	(3,303)	(3,934)	5,171	(3,741)
Net income	4,366	7,420	20,329	11,619
Net income/(loss) applicable to noncontrolling interests	1,437	569	665	(205)
Net income applicable to Piper Jaffray Companies	$ 2,929	$ 6,851	$ 19,664	$ 11,824
Net income applicable to Piper Jaffray Companies' common shareholders	$ 2,480	$ 5,890	$ 16,840	$ 10,198
Amounts applicable to Piper Jaffray Companies				
Net income from continuing operations	$ 6,232	$ 10,785	$ 14,493	$ 15,565
Net income/(loss) from discontinued operations	(3,303)	(3,934)	5,171	(3,741)
Net income applicable to Piper Jaffray Companies	$ 2,929	$ 6,851	$ 19,664	$ 11,824
Earnings per basic common share				
Income from continuing operations	$ 0.33	$ 0.58	$ 0.82	$ 0.88
Income/(loss) from discontinued operations	(0.17)	(0.21)	0.29	(0.21)
Earnings per basic common share	$ 0.15	$ 0.37	$ 1.11	$ 0.67
Earnings per diluted common share				
Income from continuing operations	$ 0.33	$ 0.58	$ 0.82	$ 0.88
Income/(loss) from discontinued operations	(0.17)	(0.21)	0.29	(0.21)
Earnings per diluted common share	$ 0.15	$ 0.37	$ 1.11	$ 0.67
Weighted average number of common shares				
Basic	16,072	15,932	15,210	15,253
Diluted	16,072	15,932	15,210	15,256

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.*

None.

ITEM 9A. *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 fourth quarter of our fiscal year ending December 31, 2013, 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.

Management's Report on Internal Control Over Financial Reporting and the attestation report of our independent registered public accounting firm on management's assessment of internal control over financial reporting are included in Part II, Item 8 entitled "Financial Statements and Supplemental Information" and are incorporated herein by reference.

ITEM 9B. *OTHER INFORMATION.*

Not applicable.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

The information regarding our executive officers included in Part I of this Form 10-K under the caption "Executive Officers" is incorporated herein by reference. The information in the definitive proxy statement for our 2014 annual meeting of shareholders to be held on May 7, 2014, under the captions "Item I — Election of Directors," "Information Regarding the Board of Directors and Corporate Governance — Committees of the Board — Audit Committee," "Information Regarding the Board of Directors and Corporate Governance — Codes of Ethics and Business Conduct" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

ITEM 11. *EXECUTIVE COMPENSATION.*

The information in the definitive proxy statement for our 2014 annual meeting of shareholders to be held on May 7, 2014, under the captions "Executive Compensation," "Certain Relationships and Related Transactions — Compensation Committee Interlocks and Insider Participation," "Information Regarding the Board of Directors and Corporate Governance — Compensation Program for Non-Employee Directors" and "Information Regarding the Board of Directors and Corporate Governance — Non-Employee Director Compensation for 2013" is incorporated herein by reference.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS.***

The information in the definitive proxy statement for our 2014 annual meeting of shareholders to be held on May 7, 2014, under the captions "Security Ownership — Beneficial Ownership of Directors, Nominees and Executive Officers," "Security Ownership — Beneficial Owners of More than Five Percent of Our Common Stock" and "Executive Compensation — Outstanding Equity Awards" are incorporated herein by reference.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.***

The information in the definitive proxy statement for our 2014 annual meeting of shareholders to be held on May 7, 2014, under the captions "Information Regarding the Board of Directors and Corporate Governance — Director Independence," "Certain Relationships and Related Transactions — Transactions with Related Persons" and "Certain Relationships and Related Transactions — Review and Approval of Transactions with Related Persons" is incorporated herein by reference.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES.***

The information in the definitive proxy statement for our 2014 annual meeting of shareholders to be held on May 7, 2014, under the captions "Audit Committee Report and Payment of Fees to Our Independent Auditor — Auditor Fees" and "Audit Committee Report and Payment of Fees to Our Independent Auditor — Auditor Services Pre-Approval Policy" is incorporated herein by reference.

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.***

(a)(1) FINANCIAL STATEMENTS OF THE COMPANY.

The Consolidated Financial Statements are incorporated herein by reference and included in Part II, Item 8 to this Form 10-K.

(a)(2) FINANCIAL STATEMENT SCHEDULES.

All financial statement schedules for the Company have been included in the consolidated financial statements or the related footnotes, or are either inapplicable or not required.

(a)(3) EXHIBITS.

Exhibit Number	Description
2.1	Separation and Distribution Agreement dated as of December 23, 2003, between U.S. Bancorp and Piper Jaffray Companies (incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). #
2.2	Agreement of Purchase and Sale dated March 8, 2013 among Piper Jaffray Asset Management Inc., Piper Jaffray Companies, Fiduciary Asset Management LLC, The Wiley Angell Family Trust, and Wiley D. Angell (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed March 11, 2013). #
2.3	Agreement and Plan of Merger dated April 16, 2013 among Piper Jaffray Companies, Piper Jaffray & Co., Piper Jaffray Newco Inc., Seattle-Northwest Securities Corporation and Karl Leaverton, as representative of the shareholders (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed April 17, 2013). #

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed August 3, 2007).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, filed August 3, 2007).
4.1	Form of Specimen Certificate for Piper Jaffray Companies Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Form 10, filed June 25, 2003).
4.2	Second Amended and Restated Indenture dated as of June 11, 2012 (Secured Commercial Paper Notes), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, filed August 2, 2012).
4.3	Indenture dated as of April 2, 2012 (Secured Commercial Paper Notes -- Series II), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 5, 2012).
4.4	Indenture dated April 1, 2013 (Secured Commercial Paper Notes -- Series III), between Piper Jaffray & Co. and the Bank of New York Mellon (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed April 1, 2013).
10.1	Office Lease Agreement, dated May 30, 2012, by and among Piper Jaffray & Co. and Wells REIT – 800 Nicollett Avenue Owner, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 1, 2012).
10.2	U.S. Bancorp Piper Jaffray Inc. Second Century 2000 Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). †
10.3	U.S. Bancorp Piper Jaffray Inc. Second Century Growth Deferred Compensation Plan, as amended and restated effective September 30, 1998 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed March 8, 2004). †
10.4	Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement for its 2013 Annual Meeting of Shareholders, filed March 22, 2013). †
10.5	Form of Performance Share Unit Agreement for 2013 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed July 31, 2013). †
10.6	Piper Jaffray Companies Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed July 31, 2013). †
10.7	Form of Restricted Stock Agreement for Employee Grants in 2011, 2012, and 2013 (related to 2010, 2011, and 2012 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011). †
10.8	Form of Restricted Stock Agreement for Employee Grants in 2014 (related to 2013 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan. † *
10.9	Form of Stock Option Agreement for Employee Grants in 2004 and 2005 (related to 2003 and 2004 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 4, 2004). †

Exhibit Number	Description
10.10	Form of Stock Option Agreement for Employee Grants in 2006 (related to 2005 performance) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed March 1, 2006). †
10.11	Form of Stock Option Agreement for Employee Grants in 2007 and 2008 (related to 2006 and 2007 performance, respectively) under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed March 1, 2007). †
10.12	Form of Stock Option Agreement for Non-Employee Director Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, filed August 4, 2004). †
10.13	Form of Performance Share Unit Agreement for 2012 Leadership Team Grants under the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012, filed August 2, 2012). †
10.14	Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 28, 2011). †
10.15	Summary of Non-Employee Director Compensation Program. † *
10.16	Form of Notice Period Agreement (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed March 1, 2007). †
10.17	Amended and Restated Loan Agreement dated December 28, 2012, between Piper Jaffray & Co. and U.S. Bank National Association (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 27, 2013).
10.18	First Amendment to Amended and Restated Loan Agreement, dated December 28, 2013, between Piper Jaffray & Co. and U.S. Bank National Association.*
10.19	Note Purchase Agreement dated November 30, 2012 among Piper Jaffray Companies, Piper Jaffray & Co. and the Purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 30, 2012).
10.20	Restricted Stock Agreement with Brien O'Brien (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, filed on May 7, 2010). †
10.21	Amendment to Restricted Stock Agreement with Brien O'Brien (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.22	Employment Agreement between the Company and Brien M. O'Brien (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed January 11, 2012). †
10.23	First Amendment to Employment Agreement, dated February 27, 2012, by and between Piper Jaffray Companies and Brien M. O'Brien (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K, filed February 27, 2012). †
10.24	Second Amendment to Employment Agreement, dated January 30, 2013, by and between Piper Jaffray Companies and Brien M. O'Brien (incorporated by reference to Exhibit 10.1 to the Company's Current Report on 8-K, filed February 8, 2013). †

Exhibit Number	Description
10.25	Compensation Arrangement with M. Brad Winges (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 27, 2013). †
10.26	Advisory Research, Inc. Long-Term Incentive Plan. † *
10.27	Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.28	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2012 and 2013 (related to performance in 2011 and 2012, respectively) (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 27, 2012). †
10.29	Form of Mutual Fund Restricted Share Agreement for Employee Grants in 2014 (related to performance in 2013). † *
21.1	Subsidiaries of Piper Jaffray Companies *
23.1	Consent of Ernst & Young LLP *
24.1	Power of Attorney *
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer. *
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. *
32.1	Section 1350 Certifications. **
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of December 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011, (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011 and (vi) the notes to the Consolidated Financial Statements.

\# *The Company hereby agrees to furnish supplementally to the Commission upon request any omitted exhibit or schedule.*

† *This exhibit is a management contract or compensatory plan or agreement.*

* *Filed herewith*

** *This information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.*

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 February 28, 2014.

PIPER JAFFRAY COMPANIES

By [redacted]
Its Chairman and Chief Executive Officer

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 February 28, 2014.

SIGNATURE	TITLE
[redacted] Andrew S. Duff	Chairman and Chief Executive Officer (Principal Executive Officer)
[redacted] Debbra L. Schoneman	Chief Financial Officer (Principal Financial and Accounting Officer)
[redacted] Michael R. Francis	Director
[redacted] B. Kristine Johnson	Director
[redacted] Addison L. Piper	Director
[redacted] Lisa K. Polsky	Director
[redacted] Philip E. Soran	Director
[redacted] Scott C. Taylor	Director
[redacted] Michele Volpi	Director
[redacted] Hope Woodhouse	Director

Corporate Headquarters
Piper Jaffray Companies
Mail Stop J09SSH
800 Nicollet Mall, Suite 1000
Minneapolis, MN 55402
612 303-6000

Company Web Site
www.piperjaffray.com

Stock Transfer Agent and Registrar
Computershare acts as transfer agent and registrar for Piper Jaffray Companies and maintains all shareholder records for the company. For questions regarding owned Piper Jaffray Companies stock, stock transfers, address corrections or changes, lost stock certificates or duplicate mailings, please contact Computershare by writing or calling:

> *Computershare*
> P.O. Box 30170
> College Station, TX 77842-3170
> 800 872-4409
>
> *Street Address for Overnight Deliveries*
> 211 Quality Circle, Suite 210
> College Station, TX 77845

Web Site Access to Registrar
Shareholders may access their investor statements online 24 hours a day, seven days a week at www.computershare.com/investor.

Independent Accountants
Ernst & Young LLP

Common Stock Listing
New York Stock Exchange (symbol: PJC)

Investor Inquiries
Shareholders, securities analysts and investors seeking more information about the company should contact Tom Smith, director of investor relations, at thomas.g.smith@pjc.com, 612 303-6336, or the corporate headquarters address.

Web Site Access to SEC Reports and Corporate Governance Information
Piper Jaffray Companies makes available free of charge on its Web site, www.piperjaffray.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as all other reports filed by Piper Jaffray Companies with the SEC, as soon as reasonably practicable after it electronically files them with, or furnishes them to, the SEC. Piper Jaffray Companies also makes available free of charge on its Web site the company's codes of ethics and business conduct, its corporate governance principles and the charters of the audit, compensation, and nominating and governance committees of the board of directors. Printed copies of these materials will be mailed upon request.

Dividends
Piper Jaffray Companies does not currently pay cash dividends on its common stock.

Forward Looking Statements
This annual report and the preceding letter to shareholders contain forward looking statements. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements and are subject to significant risks and uncertainties that are difficult to predict. A number of these risks and uncertainties are described in our SEC reports, including our Annual Report on Form 10-K for the year ended December 31, 2013.

FSC
www.fsc.org
MIX
From responsible sources
FSC® C022483

GUIDES FOR THE JOURNEY® | PiperJaffray®

8. PRICING

Pricing submitted separately in a separate, sealed envelope with disc or USB in Packet #2.

9. DEAL LISTS, RESUMES AND REFERENCES

DEAL LISTS REQUESTED FOR TAB 4(a)

	Issuer	Sale Date	Par Amt ($MMs)	State	Issue Description	Series	Security	Interest Type	M	S	F	Role	% of Takedown
Transportation Revenue													
1	Pennsylvania Turnpike Commission	06/08/16	447.850	PA	Turnpike Revenue Bonds	Series A-1 of 2016	Toll Rev	Fixed Rate	A1	NR	A+	Snr Mgr	45%
	Pennsylvania Turnpike Commission	06/08/16	140.590	PA	Turnpike Revenue Bonds	Series A-2 of 2016	Toll Rev	Variable Index	A1	NR	A+	Snr Mgr	45%
2	Illinois State Toll Highway Auth	05/18/16	300.000	IL	Toll Highway Senior Revenue Bonds	2016 Series B	Toll Rev	Fixed Rate	Aa3	AA-	AA-	Snr Mgr	24%
3	Texas Transportation Commission	09/16/15	911.360	TX	GO Mobility Fund Refunding Bonds	Series 2015 A	GO	Fixed Rate	Aaa	AAA	AAA	Snr Mgr	21%
4	Pennsylvania Turnpike Commission	04/22/15	209.010	PA	Tunrpike Sub Rev & Ref Bonds	Series A-1 of 2015	Toll Rev	Fixed Rate	A3	A-	A-	Snr Mgr	40%
	Pennsylvania Turnpike Commission	04/22/15	50.000	PA	Turnpike Subordinate Rev Bonds	Series A-2 of 2015	Toll Rev	Variable Index	A3	A-	A-	Snr Mgr	40%
5	Texas Transportation Commission	03/07/14	1,157.795	TX	State Highway Fd Rev & Ref Bonds	Series 2014-A	State Hwy Funds	Fixed Rate	Aaa	AAA	NR	Snr Mgr	30%
	Texas Transportation Commission	03/07/14	300.000	TX	State Highway Fund Rev Bonds	Series 2014-B	State Hwy Funds	Variable Index	Aaa	AAA	NR	Snr Mgr	30%
Other Representative Transactions													
6	University of Connecticut	01/12/17	345.150	CT	GO & Refunding Bonds	Series 2017 A	GO	Fixed Rate	Aa3	AA-	A+	Snr Mgr	50%
7	Ball State Univ Board of Trustees	01/10/17	123.025	IN	Ball State Univ Student Fee Bonds	Series R	Student Fees	Fixed Rate	Aa3	AA-	NR	Snr Mgr	45%
8	Mississippi Development Bank	12/01/16	103.185	MS	Special Obligation Bonds	Series 2016	Utility Rev	Variable Index	NR	NR	NR	Sole	100%
9	Unified Gov of Wyandotte Co/Kansas City	11/16/16	98.810	KS	Utility System Improvement Rev Bonds	Series 2016-B & C	Utility Rev	Fixed Rate	A3	A+	A+	Sole	100%
10	Denver Convention Ctr Hotel Auth	11/04/16	271.795	CO	Senior Revenue Refunding Bonds	Series 2016	Hotel Rev & Econ Dev	Fixed Rate	Baa2	BBB-	NR	Snr Mgr	45%
11	Iowa Finance Authority	10/05/16	163.275	IA	State Revolving Fund RevBonds	Series 2016	State Rev Fund	Fixed Rate	Aaa	AAA	AAA	Snr Mgr	40%
12	Fresno Co USD	09/14/16	150.081	CA	GO Refunding Bonds	Series 2016 A & B	GO	Fixed & Zero	Aa3	NR	NR	Snr Mgr	50%
13	Phoenix City-Arizona	08/23/16	226.215	AZ	GO Refunding Bonds	Series 2016	GO	Fixed Rate	Aa1	AA+	NR	Snr Mgr	50%
14	Elk Grove Finance Auth	08/10/16	113.500	CA	Special Tax Revenue Bonds	Series 2016	Special Tax Rev	Fixed Rate	NR	NR	NR	Sole	100%
15	Johnson Co (Olathe) USD #233	08/10/16	326.940	KS	GO School Bonds	Series 2016 A & B	GO	Fixed Rate	Aa2	AA	NR	Sole	100%
16	Westmoreland Co Municipal Auth	07/14/16	184.475	PA	Municipal Service Revenue Bonds	Series of 2016	Utility Rev	Fixed Rate	NR	AA	NR	Snr Mgr	40%
17	Chabot-Las Positas Comm Coll Dt	07/13/16	247.360	CA	GO Refunding Bonds	2016 Series	GO	Fixed Rate	Aa2	AA-	NR	Snr Mgr	75%
18	King Co (Issaquah) SD #411	07/13/16	134.890	WA	Unlimited Tax GO Bonds	Series 2016	GO	Fixed Rate	Aaa	AA+	NR	Sole	100%
19	California Sch Cash Reserve Auth	06/29/16	176.965	CA	Revenue Bonds	2016-2017 Series A-E	District Revs	Fixed Rate	NR	NR	NR	Sole	100%
20	California Infrstr & Eco Dev Bank	06/14/16	141.600	CA	Infras State Revolv Fund Bonds	Series 2016 A	State Rev Fund	Fixed Rate	Aaa	AAA	AAA	Co-Snr	32%
21	Nashville-Davidson Co Metro Govt	05/17/16	343.975	TN	GO Refunding Bonds	Series 2016	GO	Fixed Rate	Aa2	AA	NR	Snr Mgr	55%
22	Ohlone Community College Dt	04/26/16	155.000	CA	General Obligation Bonds	Series C	GO	Fixed Rate	Aa2	AA	NR	Sole	100%
23	California Infrstr & Eco Dev Bank	04/12/16	410.735	CA	Clean Wtr St Revolv Fund Bonds	Series 2016	State Rev Fund	Fixed Rate	Aaa	AAA	AAA	Co-Snr	27%
24	San Antonio City-Texas	02/02/16	216.340	TX	Water Sys Jr Ln Rev Ref Bonds	Series 2016 A & B	Utility Rev	Fixed Rate	Aa2	AA	AA	Snr Mgr	45%
25	Unified Gov of Wyandotte Co/Kansas City	01/13/16	114.165	KS	Utility System Imp Rev Bonds	Series 2016-A	Utility Rev	Fixed Rate	A3	A+	A+	Snr Mgr	70%
26	West View Boro Municipal Auth	10/23/14	103.105	PA	Water Revenue Bonds	Series of 2014	Utility Rev	Fixed Rate	NR	AA	NR	Sole	100%
27	Missouri Jt Muni Elec Util Comm	09/23/14	155.730	MO	Power Project Revenue Ref Bonds	Series 2014 A	Utility Rev	Fixed Rate	A2	NR	A	Snr Mgr	63%
28	San Antonio City-Texas	07/30/14	233.245	TX	Tax Notes & Gen Imp & Ref Bonds	Series 2014 A & B	GO	Fixed Rate	Aaa	AAA	AAA	Snr Mgr	45%
29	Unified Gov of Wyandotte Co/Kansas City	06/11/14	190.620	KS	Utility Sys Imp & Ref Rev Bonds	Series 2014 A	Utility Rev	Fixed Rate	A3	A+	A+	Snr Mgr	65%
30	Phoenix City-Arizona	06/04/14	278.015	AZ	GO Refunding Bonds	Series 2014	GO	Fixed Rate	Aa1	AA+	NR	Snr Mgr	50%

RESUMES FOR TAB 4(b)

Investment Banking Team

Neil Pritz, Managing Director | Government Group
Engagement Lead
444 West Lake Street, Suite 3300 | Chicago, IL 60606 | 312-267-5193 | neil.a.pritz@pjc.com

[redacted]

David Klinges, Managing Director | Transportation Group
National Transportation Expertise
345 Park Avenue | New York, NY 10145 | 212-284-9526 | david.h.klinges@pjc.com

[redacted]

Brian LePenske, Vice President | Transportation Group
Day-to-Day Contact, Lead Quantitative Banker and Transaction Execution
444 West Lake Street, Suite 3300 | Chicago, IL 60606 | (312) 267-5165 | brian.r.lepenske@pjc.com

[redacted]

[redacted]

Adrivit Mukherjee, Associate | Transportation Group
Modeling and Analytics
444 West Lake Street, Suite 3300 | Chicago, IL 60606 | 312 267-5165 | adrivit.x.mukherjee@pjc.com

[redacted]

David Heetderks, Analyst | Government Group
Modeling and Analytics
444 West Lake Street, Suite 3300 | Chicago, IL 60606 | 312 267-5188 | david.c.heetderks@pjc.com

[redacted]

Underwriting, Sales and Credit Analytics

John Miller, Managing Director | Head of Municipal Institutional Sales
Lead Fixed Rate Underwriter
11635 Rosewood Street | Leawood, KS 66211 | 913-345-3361 | john.v.miller@pjc.com

[redacted]

Stephen Cavalier, Managing Director | Head of Fixed Rate Underwriting
Lead Fixed Rate Underwriter
800 Nicollet Mall | Minneapolis, MN 55402 | 612-303-8235 | stephen.a.cavalier@pjc.com

[redacted]

Joanna Brody, Managing Director | Head of Short-Term Underwriting
Lead Short-Term & Variable Rate Underwriter
345 Park Avenue | New York, NY 10145 | 212-284-9421 | joanna.l.brody@pjc.com

[redacted]

[redacted]

Brent Rivard, Vice President | Taxable Fixed-Rate Underwriting
Taxable Underwriter
800 Nicollet Mall | Minneapolis, MN 55402 | 612-303-5678 | brent.m.rivard@pjc.com

[redacted]

Justin Hoogendoorn, Managing Director | Strategic Analytics Group
Municipal Credit Analyst
444 West Lake Street, Suite 3300 | Chicago, IL 60606 | 312 267-5162 | justin.h.hoogendoorn@pjc.com

[redacted]

Peter Stetter, Principal | Strategic Analytics Group
Municipal Credit Analyst
444 West Lake Street, Suite 3300 | Chicago, IL 60606 | 312 267-5187 | peter.c.stettler@pjc.com

[redacted]

REFERENCES FOR TAB 4(b)

STATE OF ILLINOIS
REFERENCES

Provide references from established firms or government agencies (3 – for with offeror served as Bond Underwriter.) other than the procuring agency/university that can attest to Offeror's experience and ability to perform the contract that is the subject of this solicitation.

J.1. Firm/Government Agency/University (name):

Pennsylvania Turnpike Commission

Contact Person (name, title, email address, address, and phone):

Nikolaus Grieshaber, Chief Financial Officer
ngriesha@paturnpike.com
700 South Eisenhower Blvd
Middletown, PA 17057
(717) 920-7221

Date of Supplies/Services Provided:

April 28, 2016 through June 21, 2016

Type of Supplies/Services Provided:

Senior Managing Underwriter
$588,440,000 Turnpike Revenue Bonds, Series A of 2016

J.2. Firm/Government Agency/University (name):

City of Chicago, Illinois.

Contact Person (name, title, email address, address, and phone):

Kelly Flannery, Deputy Chief Financial Officer
Kelly.flannery@cityofchicago.org
121 North LaSalle St
Chicago, IL 60602
(312) 744-7106.

Date of Supplies/Services Provided:

O'Hare Bonds: October 2016 through January 10, 2017
Midway Bonds: December 2016 - maturity

Type of Supplies/Services Provided:

Co-Senior Managing Underwriter
$1,117,250,000 Chicago O'Hare International Airport, General Airport Senior Lien Revenue Bonds, Series 2016DEFG

Remarketing Agent (replacement)
$64,425,000 Chicago Midway Airport Second Lien Revenue Bonds, Series 2004C-2 (AMT)

J.3. Firm/Government Agency/University (name):
City of Milwaukee, WI

Contact Person (name, title, email address, address, and phone):

Richard Li, Public Debt Specialist
rsli@milwaukee.gov
200 East Wells Street
Milwaukee, WI 53202
(414) 286-2319

Date of Supplies/Services Provided:

August 2016 through December 2016

Type of Supplies/Services Provided:
Sole Underwriter
Redevelopment Authority of the City of Milwaukee (Wisconsin)
Redevelopment Lease Revenue Bonds, Series 2016ABC
$18,710,000 Tax-Exempt, Series 2016A
$6,275,000 Taxable Qualified Energy Conservation Bonds, Series 2016B

Placement Agent
$1,470,000 Taxable Qualified Zone Academy Bonds, Series 2016C

Offeror Name: Piper Jaffray & Co.
Return Mailing Address:
444 W. Lake Street, 33rd Floor
Chicago, IL 60606

C. Project Title / Reference #22039948: Bond Underwriting Services, RFP #16-0155

The undersigned authorized representative of the identified Offeror hereby submits this Offer to perform in full compliance with the subject solicitation. By completing and signing this Form, the Offeror makes an Offer to the State of Illinois that the State may accept.

Offeror should use this Form as a final check to ensure that all required documents are completed and included with the Offer. Offeror must mark each blank below as appropriate; mark N/A when a section is not applicable to this solicitation. Offeror understands that failure to meet all requirements is cause for disqualification.

C.1. SOLICITATION AND CONTRACT REVIEW: Offeror reviewed the Request for Proposal, including all referenced documents and instructions, completed all blanks, provided all required information, and demonstrated how it will meet the requirements of the State of Illinois.

☒ Yes ☐ No

C.2. ADDENDA: Offeror acknowledges receipt of any and all addenda to the solicitation and has taken those into account in making this Offer.

☒ Yes ☐ No ☐ N/A

C.3. OFFEROR CONFERENCE: If attendance was mandatory, Offeror attended the Offeror's Conference.

☐ Yes ☐ No ☒ N/A

C.4. OFFER SUBMISSION: Offeror is submitting the correct number of copies, in a properly labeled container(s), to the correct location, and by the due date and time.

☒ Yes ☐ No

C.5. FORMS A or FORMS B: Offeror is properly submitting either Forms A or Forms B, but not both.

☒ Yes ☐ No

C.6. BOND: If applicable, Offeror is submitting its Bid Bond or Performance Bond.

☐ Yes ☐ No ☒ N/A

C.7. SMALL BUSINESS SET-ASIDE: Offeror is a qualified small business in the Small Business Set-Aside Program at the time Offers are due.

☐ Yes ☐ No ☒ N/A

C.8. PACKET 1 – SPECIFICATIONS/QUALIFICATIONS/STATEMENT OF WORK

[X] Yes [ ] No

C.8.1	Offeror's Proposed Solution to Meet the State's Requirements	[X] Yes [ ] No
C.8.2	Milestones and Deliverables	[X] Yes [ ] No
C.8.3	Offeror/Staff Specifications	[X] Yes [ ] No
C.8.4	Transportation and Delivery Terms	[ ] Yes [ ] No [X] N/A
C.8.5	Where Services Are to Be Performed	[X] Yes [ ] No [ ] N/A

C.9. PACKET 2 – PRICING

[X] Yes [ ] No

C.10. PACKET 3 – OFFER

[X] Yes [ ] No

C.10.1	Offer	[X] Yes [ ] No
C.10.2	Exceptions to Solicitation Contract Terms and Conditions	[X] Yes [ ] No [ ] N/A
C.10.3	Supplemental Provisions	[X] Yes [ ] No [ ] N/A
C.10.4	Subcontractor Disclosures	[X] Yes [ ] No [ ] N/A
C.10.5	References	[X] Yes [ ] No [ ] N/A

C.11. PACKET 4 – FORMS A

[ ] Yes [X] No

C.11.1	Business and Directory Information	[ ] Yes [X] No
C.11.2	Illinois Department of Human Rights Public Contracts Number	[ ] Yes [X] No
C.11.3	Authorized to do Business in Illinois	[ ] Yes [X] No
C.11.4	Standard Certifications	[ ] Yes [X] No
C.11.5	State Board of Elections	[ ] Yes [X] No
C.11.6	Disclosure of Business Operations in Iran	[ ] Yes [X] No
C.11.7	Financial Disclosures and Conflicts of Interest	[ ] Yes [X] No
C.11.8	Taxpayer Identification Number	[ ] Yes [X] No

C.12. PACKET 4 – FORMS B

☒ Yes ☐ No

C.12.1	Illinois Procurement Gateway Registration # with expiration date	☒ Yes ☐ No
C.12.2	Certifications Timely to this Solicitation	☒ Yes ☐ No
C.12.3	Replacement Certification to IPG Certification #6 (supersedes response in IPG)	☒ Yes ☐ No
C.12.4	Disclosure of Lobbyists for Bidder and parent entity(ies)	☒ Yes ☐ No
C.12.5	Disclosure of current and pending contract	☒ Yes ☐ No
C.12.6	Signature	☒ Yes ☐ No
C.12.7	Taxpayer Identification Number	☒ Yes ☐ No

C.13. PACKET 5 – REDACTED OFFER

☐ Yes ☒ No

C.14. PACKET 6 – BEP UTILIZATION PLAN

C.14.1	Does this solicitation contain a BEP goal?	☐ Yes ☒ No
C.14.2	Minorities, Females, Persons with Disabilities Participation and Utilization Plan	☐ Yes ☒ No ☐ N/A

C.15. PACKET 7 – VSB UTILIZATION PLAN

C.15.1	Does this solicitation contain a VSB goal?	☐ Yes ☒ No
C.15.2	Veteran Small Business Participation and Utilization Plan	☐ Yes ☒ No ☐ N/A

C.16. PREFERENCES

The Illinois Procurement Code provides various preferences to promote business opportunities in Illinois.

Does Offeror make any claims for preferences? If so, please mark the applicable preference(s) and include a listing of the items that qualify for the preference at the end of this Section and a description of why the preference applies. Agency reserves the right to determine whether the preference indicated applies to Offeror.

☐ Resident Bidder (30 ILCS 500/45-10).

☐ Soybean Oil-Based Ink (30 ILCS 500/45-15).

☐ Recycled Materials (30 ILCS 500/45-20).

☐ Recycled Paper (30 ILCS 500/45-25).

☐ Environmentally Preferable Supplies (30 ILCS 500/45-26).

☐ Correctional Industries (30 ILCS 500/45-30).

☐ Sheltered Workshops for the Severely Handicapped (30 ILCS 500/45-35).

☐ Gas Mileage (30 ILCS 500/45-40).

☐ Small Businesses (30 ILCS 500/45-45).

☐ Illinois Agricultural Products (30 ILCS 500/45-50).

☐ Corn-Based Plastics (30 ILCS 500/45-55).

☐ Disabled Veterans (30 ILCS 500/45-57).

☐ Vehicles Powered by Agricultural Commodity-Based Fuel (30 ILCS 500/45-6)

☐ Biobased Products (30 ILCS 500/45-75).

☐ Historic Preference Area (30 ILCS 500/45-80).

☐ Procurement of Domestic Products (30 ILCS 517).

☐ Public Purchases in Other States (30 ILCS 520).

☐ Illinois Mined Coal (30 ILCS 555).

☐ Steel Products Procurement (30 ILCS 565).

☐ Business Enterprise for Minorities, Females, and Persons with Disabilities Act (30 ILCS 575).

☐ Veterans Preference (330 ILCS 55).

Items that Qualify and Explanation: n/a

Signature of Authorized Representative: [redacted]

Printed Name of Signatory: Neil Pritz

Offeror's Name: Piper Jaffray & Co.

Date: February 3, 2017

SECTION 3.

F.1. TERM AND TERMINATION:

1.1. TERM OF THIS CONTRACT: This contract has an initial term of three (3) years. If a start date is not identified, then the term shall commence upon the last dated signature of the Parties.

1.1.1. In no event will the total term of this contract, including the initial term, any renewal terms and any extensions, exceed ten (10) years.

1.1.2. Vendor shall not commence billable work in furtherance of this contract prior to final execution of this contract except when permitted pursuant to 30 ILCS 500/20-80.

1.2. RENEWAL: Subject to the maximum total term identified above, the State has the option to renew for the following term(s): up to two years, in any combination of full or partial year terms.

1.2.1. Pricing for the renewal term(s), or the formula for determining price, is shown in the pricing section of this contract.

1.2.2. Any renewal of this contract is subject to the same terms and conditions as apply to the initial term of this contract unless otherwise provided in the pricing section. The State may renew this contract for any or all of the option periods specified, may exercise any of the renewal options early, and may exercise more than one option at a time based on continuing need and favorable market conditions, when in the best interest of the State. This contract may neither renew automatically nor renew solely at the Vendor's option.

1.3. TERMINATION FOR CAUSE: The State may terminate this contract, in whole or in part, immediately upon notice to the Vendor if: (a) the State determines that the actions or inactions of the Vendor, its agents, employees or subcontractors have caused, or reasonably could cause, jeopardy to health, safety, or property, or (b) the Vendor has notified the State that it is unable or unwilling to perform this contract.

If Vendor fails to perform any material requirement of this contract to the State's satisfaction, is in violation of a material provision of this contract, or the State determines that the Vendor lacks the financial resources to perform the contract, then the State shall provide written notice to the Vendor to cure the problem identified within the period of time specified in the State's written notice. If not cured by that date the State may either: (a) immediately terminate this contract without additional written notice or (b) enforce the terms and conditions of this contract.

For termination due to any of the causes contained in this Section, the State retains its rights to seek any available legal or equitable remedies and damages.

1.4. TERMINATION FOR CONVENIENCE: The State may, for its convenience and with thirty (30) days' prior written notice to Vendor, terminate this contract in whole or in part and without payment of any penalty or incurring any further obligation to the Vendor.

1.4.1. Upon submission of invoices and proof of claim, the Vendor shall be entitled to compensation for supplies and services provided in compliance with this contract up to and including the date of termination.

1.5. AVAILABILITY OF APPROPRIATION: This contract is contingent upon and subject to the availability of funds. The State, at its sole option, may terminate or suspend this contract, in whole or in part, without penalty or further payment being required, if (1) the Illinois General Assembly or the Federal funding source fails to make an appropriation sufficient to pay such obligation, or if funds needed are insufficient for any reason (30 ILCS 500/20-60), (2) the Governor decreases the Agency's funding by reserving some or all of the Agency's appropriation(s) pursuant to power delegated to the Governor by the Illinois General Assembly, or (3) the Agency determines, in its sole discretion or as directed by the Office of the Governor, that a reduction is necessary or advisable based upon actual or projected budgetary considerations. Contractor will be notified in writing of the failure of appropriation or of a reduction or decrease.

F.2. PAYMENT TERMS AND CONDITIONS:

2.1. LATE PAYMENT: Payments, including late payment charges, will be paid in accordance with the State Prompt Payment Act and rules when applicable. 30 ILCS 540; 74 ILL. ADM. CODE 900. This shall be Vendor's sole remedy for late payments by the State. Payment terms contained in Vendor's invoices shall have no force or effect.

2.2. MINORITY CONTRACTOR INITIATIVE: Any Vendor awarded a contract of $1,000 or more under Section 20-10, 20-15, 20-25 or 20-30 of the Illinois Procurement Code (30 ILCS 500) is required to pay a fee of $15. The Comptroller shall deduct the fee from the first check issued to the Vendor under this contract and deposit the fee in the Comptroller's Administrative Fund. 15 ILCS 405/23.9.

2.3. EXPENSES: The State will not pay for supplies provided or services rendered, including related expenses, incurred prior to the execution of this contract by the Parties even if the effective date of this contract is prior to execution.

2.4. PREVAILING WAGE: As a condition of receiving payment Vendor must (i) be in compliance with this contract, (ii) pay its employees prevailing wages when required by law, (iii) pay its suppliers and subcontractors according to the terms of their respective contracts, and (iv) provide lien waivers to the State upon request. Examples of prevailing wage categories include public works, printing, janitorial, window washing, building and grounds services, site technician services, natural resource services, security guard and food services. The prevailing wages are revised by the Illinois Department of Labor (DOL)and are available on DOL's official website, which shall be deemed proper notification of any rate changes under this subsection. Vendor is responsible for contacting DOL at 217-782-6206 or (http://www.state.il.us/agency/idol/index.htm) to ensure understanding of prevailing wage requirements.

2.5. FEDERAL FUNDING: This contract may be partially or totally funded with Federal funds. If Federal funds are expected to be used, then the percentage of the goods/services paid using Federal funds and the total Federal funds expected to be used will be provided to the awarded Vendor in the notice of intent to award.

2.6. INVOICING: By submitting an invoice, Vendor certifies that the supplies or services provided meet all requirements of this contract, and the amount billed and expenses incurred are as allowed in this contract. Invoices for supplies purchased, services performed and expenses incurred through June 30 of any year must be submitted to the State no later than July 31 of that year; otherwise Vendor may be required to seek payment through the Illinois Court of Claims. 30 ILCS 105/25. All invoices are subject to statutory offset. 30 ILCS 210.

2.6.1. Vendor shall not bill for any taxes unless accompanied by proof that the State is subject to the tax. If necessary, Vendor may request the applicable Agency's Illinois tax exemption number and Federal tax exemption information.

2.6.2. Vendor shall invoice at the completion of this contract unless invoicing is tied in this contract to milestones, deliverables, or other invoicing requirements agreed to therein.

Send invoices to:

Agency:	Illinois Tollway
Attn:	Procurement
Address:	P O Box 3094
City, State Zip	Lisle, Illinois 60532-8094

F.3. ASSIGNMENT: This contract may not be assigned or transferred in whole or in part by Vendor without the prior written consent of the State.

F.4. SUBCONTRACTING: For purposes of this section, subcontractors are those specifically hired to perform all or part of the work covered by this contract. Vendor must receive prior written approval before use of any subcontractors in the performance of this contract. Vendor shall describe, in an attachment if not already provided, the names and addresses of all authorized subcontractors to be utilized by Vendor in the performance of this contract, together with a description of the work to be performed by the subcontractor and the anticipated amount of money that each subcontractor is expected to receive pursuant to this contract. If required, Vendor shall provide a copy of any subcontracts within fifteen (15) days after execution of this contract. All subcontracts must include the same certifications that Vendor must make as a condition of this contract. Vendor shall include in each subcontract the subcontractor certifications as shown on the Standard Certification form available from the State. If at any time during the term of the Contract, Vendor adds or changes any subcontractors, then Vendor must promptly notify, by written amendment to the Contract, the State Purchasing Officer or the Chief Procurement Officer of the names and addresses and the expected amount of money that each new or replaced subcontractor will receive pursuant to the Contract.

F.5. AUDIT/RETENTION OF RECORDS: Vendor and its subcontractors shall maintain books and records relating to the performance of this contract and any subcontract necessary to support amounts charged to the State pursuant this contract or subcontract. Books and records, including information stored in databases or other computer systems, shall be maintained by the Vendor for a period of three (3) years from the later of the date of final payment under this contract or completion of the contract, and by the subcontractor(s) for a period of three (3) years from the later of final payment under the term or completion of the subcontract. If Federal funds are used to pay contract costs, the Vendor and its subcontractors must retain their respective records for five (5) years. Books and records required to be maintained under this section shall be available for review or audit by representatives of: the procuring Agency/University, the Auditor General, the Executive Inspector General, the Chief Procurement Officer, State of Illinois internal auditors or other governmental entities with monitoring authority, upon reasonable notice and during normal business hours. Vendor and its subcontractors shall cooperate fully with any such audit and with any investigation conducted by any of these entities. Failure to maintain books and records required by this section shall establish a presumption in favor of the State for the recovery of any funds paid by the State under this contract or any subcontract for which adequate books and records are not available to support the purported disbursement. The Vendor or subcontractors shall not impose a charge for audit or examination of the Vendor's or subcontractor's books and records. 30 ILCS 500/20-65.

F.6. **TIME IS OF THE ESSENCE**: Time is of the essence with respect to Vendor's performance of this contract. Vendor shall continue to perform its obligations while any dispute concerning this contract is being resolved unless otherwise directed by the State.

F.7. **NO WAIVER OF RIGHTS**: Except as specifically waived in writing, failure by a Party to exercise or enforce a right does not waive that Party's right to exercise or enforce that or other rights in the future.

F.8. **FORCE MAJEURE**: Failure by either Party to perform its duties and obligations will be excused by unforeseeable circumstances beyond its reasonable control and not due to its negligence including acts of nature, acts of terrorism, riots, labor disputes, fire, flood, explosion, and governmental prohibition. The non-declaring Party may cancel this contract without penalty if performance does not resume within thirty (30) days after the declaration.

F.9. **CONFIDENTIAL INFORMATION**: Each Party to this contract, including its agents and subcontractors, may have or gain access to confidential data or information owned or maintained by the other Party in the course of carrying out its responsibilities under this contract. Vendor shall presume all information received from the State or to which it gains access pursuant to this contract is confidential. Vendor information, unless clearly marked as confidential and exempt from disclosure under the Illinois Freedom of Information Act, shall be considered public. No confidential data collected, maintained, or used in the course of performance of this contract shall be disseminated except as authorized by law and with the written consent of the disclosing Party, either during the period of this contract or thereafter. The receiving Party must return any and all data collected, maintained, created or used in the course of the performance of this contract, in whatever form it is maintained, promptly at the end of this contract, or earlier at the request of the disclosing Party, or notify the disclosing Party in writing of its destruction. The foregoing obligations shall not apply to confidential data or information lawfully in the receiving Party's possession prior to its acquisition from the disclosing Party that were received in good faith from a third-party not subject to any confidentiality obligation to the disclosing Party; that is now or later becomes publicly known through no breach of confidentiality obligation by the receiving Party; or that is independently developed by the receiving Party without the use or benefit of the disclosing Party's confidential information.

F.10. **USE AND OWNERSHIP**: All work performed or supplies created by Vendor under this contract, whether written documents or data, goods or deliverables of any kind, shall be deemed work-for-hire under copyright law and all intellectual property and other laws, and the State of Illinois is granted sole and exclusive ownership to all such work, unless otherwise agreed in writing. Vendor hereby assigns to the State all right, title, and interest in and to such work including any related intellectual property rights, and waives any and all claims that Vendor may have to such work including any so-called "moral rights" in connection with the work. Vendor acknowledges the State may use the work product for any purpose. Confidential data or information contained in such work shall be subject to the confidentiality provisions of this contract.

F.11. **INDEMNIFICATION**: The Vendor shall indemnify and hold harmless the State of Illinois, the Illinois State Tollway Highway Authority, its officers, employees, and agents from any and all costs, demands, expenses, losses, claims, damages, liabilities, settlements, and judgments, including in-house and contracted attorneys' fees and expenses, arising out of: (a) any breach or violation by Vendor of any of its certifications, representations, warranties, covenants or agreements; (b) any actual or alleged death or injury to any person, damage to any real or personal property, or any other damage or loss claimed to result in whole or in part from Vendor's negligent performance; (c) any act, activity or omission of Vendor or any of its employees, representatives, subcontractors or agents; or (d) any actual or alleged claim that the services or goods provided under this contract infringe, misappropriate, or otherwise violate any intellectual property (patent, copyright, trade secret, or trademark) rights of a third party.

F.12 **INSURANCE**: The Vendor shall procure and maintain for the duration of the contract, insurance against claims for injuries to persons or damage to property which may arise from or in connection with the performance of the work by the Vendor, his/her agents, representatives, employees or subcontractors. Work shall not commence until insurance required by this section has been obtained and documentation submitted to the Tollway for acceptance. All coverages must be with Insurance Companies with an A.M. Best Company financial strength rating of "A minus" or better. Insurance coverage shall not limit Vendor's obligation to indemnify, defend or settle any claims.

A. Minimum Scope of Insurance Coverage shall be at least as broad as:

1. Commercial General Liability coverage on an unmodified, Insurance Service Office "Occurrence" form, current edition or an alternative form providing equivalent protection.
2. Automobile Liability on an unmodified, Insurance Service Office form, current edition or an alternative form providing equivalent protection.
3. Worker's Compensation insurance as required by the State of Illinois and include Employers Liability.

B. Minimum Limits of Insurance Contractor or vendor shall maintain no less than:

1. Commercial General Liability: \$1,000,000 each occurrence for bodily injury, personal injury, and property damage and \$2,000,000 general aggregate and \$2,000,000 products/completed operations aggregate .
2. Automobile Liability: \$1,000,000 combined single limit per accident for bodily injury and property damage.
3. Worker's Compensation and Employers Liability: Statutory Limits with Employers Liability limit of not less than \$500,000 per occurrence.

In addition to the above, the Vendor shall maintain, for the duration of the contract, professional liability insurance in an amount acceptable to the Tollway. Work shall not commence until documentation acceptable to the Tollway evidencing such professtional liability insurance has been provided.

The Illinois State Toll Highway Authority including all appointed officials and employees, shall be named "Additional Insured" as part of the commercial general liability and automobile liability coverage. This coverage shall be primary for the Additional Insured and not contributing with any other insurance or similar protection available to the Additional Insured, whether said other coverage be primary, contributing or excess.

All deductibles or self-insured retentions must be declared and recognized by the Authority. Proof of insurance shall include originals of the applicable "additional insured" endorsements for approval of the Authority. <u>Any failure by the Authority to request proof of insurance will not waive the requirement of maintenance of minimum protection specified.</u>

F.13 **INDEPENDENT CONTRACTOR:** Vendor shall act as an independent contractor and not an agent or employee of, or joint venturer with the State. All payments by the State shall be made on that basis.

F.14 **SOLICITATION AND EMPLOYMENT**: Vendor shall not employ any person employed by the State during the term of this contract to perform any work under this contract. Vendor shall give notice immediately to the Agency's director or University's president if Vendor solicits or intends to solicit State employees to perform any work under this contract.

F.15 COMPLIANCE WITH THE LAW: The Vendor, its employees, agents, and subcontractors shall comply with all applicable Federal, State, and local laws, rules, ordinances, regulations, orders, Federal circulars and all license and permit requirements in the performance of this contract. Vendor shall be in compliance with applicable tax requirements and shall be current in payment of such taxes. Vendor shall obtain at its own expense, all licenses and permissions necessary for the performance of this contract.

F.16 BACKGROUND CHECK: Whenever the State deems it reasonably necessary for security reasons, the State may conduct, at its expense, criminal and driver history background checks of Vendor's and subcontractor's officers, employees or agents. Vendor or subcontractor shall immediately reassign any individual who, in the opinion of the State, does not pass the background checks.

F.17 APPLICABLE LAW:

17.1 PREVAILING LAW: This contract shall be construed in accordance with and is subject to the laws and rules of the State of Illinois.

17.2 EQUAL OPPORTUNITY: The Department of Human Rights' Equal Opportunity requirements are incorporated by reference. 44 ILL. ADM. CODE 750.

17.3 COURT OF CLAIMS; ARBITRATION; SOVEREIGN IMMUNITY: Any claim against the State arising out of this contract must be filed exclusively with the Illinois Court of Claims. 705 ILCS 505/1. The State shall not enter into binding arbitration to resolve any dispute arising out of this contract. The State of Illinois does not waive sovereign immunity by entering into this contract.

17.4 OFFICIAL TEXT: The official text of the statutes cited herein is incorporated by reference. An unofficial version can be viewed at (www.ilga.gov/legisl18ation/ilcs/ilcs.asp).

F.18 ANTI-TRUST ASSIGNMENT: If Vendor does not pursue any claim or cause of action it has arising under Federal or State antitrust laws relating to the subject matter of this contract, then upon request of the Illinois Attorney General, Vendor shall assign to the State all of Vendor's rights, title and interest in and to the claim or cause of action.

F.19 CONTRACTUAL AUTHORITY: The Agency/University that signs this contract on behalf of the State of Illinois shall be the only State entity responsible for performance and payment under this contract. When the Chief Procurement Officer or authorized designee or State Purchasing Officer signs in addition to an Agency/University, he/she does so as approving officer and shall have no liability to Vendor. When the Chief Procurement Officer or authorized designee or State Purchasing Officer signs a master contract on behalf of State agencies, only the Agency/University that places an order or orders with the Vendor shall have any liability to the Vendor for that order or orders.

F.20 NOTICES: Notices and other communications provided for herein shall be given in writing via electronic mail whenever possible. If transmission via electronic mail is not possible, then notices and other communications shall be given in writing via registered or certified mail with return receipt requested, via receipted hand delivery, via courier (UPS, Federal Express or other similar and reliable carrier), or via facsimile showing the date and time of successful receipt. Notices shall be sent to the individuals who signed this contract using the contact information following the signatures. Each such notice shall be deemed to have been provided at the time it is actually received. By giving notice, either Party may change its contact information.

F.21 MODIFICATIONS AND SURVIVAL: Amendments, modifications, and waivers must be in writing and signed by authorized representatives of the Parties. Any provision of this contract officially declared void, unenforceable, or against public policy, shall be ignored and the remaining provisions shall be interpreted, to the extent possible, to give effect to the Parties' intent. All provisions that by their nature would be expected to survive, shall survive termination. In the event of a conflict between the State's and the Vendor's terms, conditions and attachments, the State's terms, conditions, and attachments shall prevail.

F.22 **PERFORMANCE RECORD/SUSPENSION**: Upon request of the State, Vendor shall meet to discuss performance or provide contract performance updates to help ensure proper performance of this contract. The State may consider Vendor's performance under this contract and compliance with law and rule to determine whether to continue this contract, whether to suspend Vendor from doing future business with the State for a specified period of time, or whether Vendor can be considered responsible on specific future contract opportunities.

F.23 **FREEDOM OF INFORMATION ACT**: This contract and all related public records maintained by, provided to, or required to be provided to the State are subject to the Illinois Freedom of Information Act notwithstanding any provision to the contrary that may be found in this contract. 5 ILCS 140.

F.24 **SCHEDULE OF WORK**: Any work performed on State premises shall be performed during the hours designated by the State and performed in a manner that does not interfere with the State and its personnel.

F.25 **WARRANTIES FOR SUPPLIES AND SERVICES**

25.1 Vendor warrants that the supplies furnished under this contract will: (a) conform to the standards, specifications, drawings, samples or descriptions furnished by the State or furnished by the Vendor and agreed to by the State, including but not limited to all specifications attached as exhibits hereto; (b) be merchantable, of good quality and workmanship, and free from defects for a period of twelve months or longer if so specified in writing, and fit and sufficient for the intended use; (c) comply with all Federal and State laws, regulations, and ordinances pertaining to the manufacturing, packing, labeling, sale, and delivery of the supplies; (d) be of good title and be free and clear of all liens and encumbrances and; (e) not infringe any patent, copyright or other intellectual property rights of any third party. Vendor agrees to reimburse the State for any losses, costs, damages or expenses, including without limitation, reasonable attorneys' fees and expenses arising from failure of the supplies to meet such warranties.

25.2 Vendor shall ensure that all manufacturers' warranties are transferred to the State and shall provide to the State copies of such warranties. These warranties shall be in addition to all other warranties, express, implied, or statutory, and shall survive the State's payment, acceptance, inspection, or failure to inspect the supplies.

25.3 Vendor warrants that all services will be performed to meet the requirements of this contract in an efficient and effective manner by trained and competent personnel. Vendor shall monitor the performance of each individual and shall immediately reassign any individual who does not perform in accordance with this contract, who is disruptive or not respectful of others in the workplace, or who in any way violates the contract or State policies.

F.26 **REPORTING, STATUS AND MONITORING SPECIFICATIONS:**

26.1 Vendor shall immediately notify the State of any event that may have a material impact on Vendor's ability to perform this contract.

26.2 By August 31 of each year, Vendor shall report to the Agency or University the number of qualified veterans and certain ex-offenders hired during Vendor's last completed fiscal year. For the purposes of this section, qualified veteran is defined in 30 ILCS 500/45-67 and ex-offender is defined in 30 ILCS 500/45-70.

F.27 **EMPLOYMENT TAX CREDIT**: Vendors who hire qualified veterans and certain ex-offenders may be eligible for tax credits. 35 ILCS 5/216, 5/217. Please contact the Illinois Department of Revenue (telephone #: 217-524-4772) for information about tax credits.

STATE OF ILLINOIS
EXCEPTIONS TO SOLICITATION AND CONTRACT TERMS AND CONDITIONS

G. Piper Jaffray & Co. agrees with the terms and conditions set forth in the State of Illinois Request for Proposal (Reference Number: 22039948), including the standard terms and conditions, Illinois Tollway's supplemental provisions, certifications, and disclosures, with the following exceptions:

	Excluding certifications required by statute to be made by the Offeror, both Parties agree that all of the duties and obligations that the Offeror owes to Tollway for the work performed shall be pursuant to the solicitation, resulting contract, and Offeror's exceptions accepted by the State thereto as set forth below.
	STANDARD TERMS AND CONDITIONS
Section/ Subsection #	State the exception such as "add," "replace," and/or "delete."
Section 3 / Subsection # F.1.3	**ADD "Subject to any conflicting provisions of a bond purchase or similar agreement,"** the State may terminate this contract, in whole or in part, immediately upon notice to the Vendor if: (a) the State determines that the actions or inactions of the Vendor, its agents, employees or subcontractors have caused, or reasonably could cause, jeopardy to health, safety, or property, or (b) the Vendor has notified the State that it is unable or unwilling to perform this contract.
Section 3 / Subsection # F.1.4	**ADD "Subject to any conflicting provisions of a bond purchase or similar agreement,"** The State may, for its convenience and with thirty (30) days' prior written notice to Vendor, terminate this contract in whole or in part and without payment of any penalty or incurring any further obligation to the Vendor.
Section 3 / Subsection # F.9	"The receiving Party must return any and all data collected, maintained, created or used in the course of the performance of this contract, in whatever form it is maintained, promptly at the end of this contract, or earlier at the request of the disclosing Party, or notify the disclosing Party in writing of its destruction - **ADD "subject to party's document retention requirements."**
Section 3 / Subsection # F.9	**ADD "Any provision of this Section F.9 that conflicts with vendor's disclosure obligations under state or federal securities laws or rules is excepted from this section."**
Section 3 / Subsection # F.11	The Vendor shall indemnify and hold harmless the State of Illinois, the Illinois State Tollway Highway Authority, its officers, employees, and agents from any and all costs, **DELETE "demands"**, expenses, losses, claims, damages, liabilities, settlements, and judgments, including in-house and contracted attorneys' fees and expenses, **ADD "but not including special or punitive damages, finally and judicially determined to have been directly caused by" DELETE "arising out of"**: (a) any **ADD "material or negligent"** breach or violation by Vendor of any of its certifications, representations, warranties, covenants or agreements; (b) any actual or alleged death or injury to any person, damage to any real or personal property, or any other damage or loss claimed to result in whole or in part from Vendor's negligent performance; **DELETE "(c) any act, activity or omission of Vendor or any of its employees, representatives, subcontractors or agents;"** or (d) any actual or alleged claim that the services or goods provided under this contract infringe, misappropriate, or otherwise violate any intellectual property (patent, copyright, trade secret, or trademark) rights of a third party.
Section 3 / Subsection # F.12	**DELETE "All deductibles or self-insured retentions must be declared and recognized by the Authority. *Proof of* insurance shall include originals of the applicable "additional insured" endorsements for approval of the Authority."**
Section 3 / Subsection #F.25	**DELETE Full Section: WARRANTIES FOR SUPPLIES AND SERVICES**
Section 3 / Subsection #F.26	**DELETE "26.2 - By August 31 of each year, Vendor shall report to the Agency or University the number of qualified veterans and certain ex-offenders hired during Vendor's last completed fiscal year. For the purposes of this section, qualified veteran is defined in 30 ILCS 500/45-67 and ex-offender is defined in 30 ILCS 500/45-70."**

	ADDITIONAL OFFEROR PROVISIONS
New Provision(s), # et. seq.	**Section/Subsection New Number, Title of New Subsection**: State the new additional term or condition.
N/A	N/A

By: Neil Pritz

Signed: [redacted]

Position: Managing Director [redacted]

Date: February 3, 2017

STATE OF ILLINOIS
STATE SUPPLEMENTAL PROVISIONS

H.1. State Supplemental Provisions:

☐ Illinois Tollway Definitions

Click here to enter text.

☐ Required Federal Clauses, Certifications and Assurances

Click here to enter text.

☐ American Recovery and Reinvestment Act of 2009 (ARRA) Requirements

Click here to enter text.

☐ Public Works Requirements (construction and maintenance of a public work) 820 ILCS 130/4.

Click here to enter text.

☐ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, security services, and printing, if valued at more than $200 per month or $2,000 per year) 30 ILCS 500/25-60.

Click here to enter text.

☐ Illinois Tollway Specific Terms and Conditions

Click here to enter text.

☐ Other (describe)

Click here to enter text.

1.1 TOLLWAY SUPPLEMENTAL PROVISIONS:

☐ Definitions

☐ Required Federal Clauses, Certifications and Assurances

☐ ARRA Requirements (American Recovery and Reinvestment Act of 2009)

☐ Public Works Requirements (construction and maintenance of a public work) (820 ILCS 130/4)

☐ Prevailing Wage (janitorial cleaning, window cleaning, building and grounds, site technician, natural resources, food services, and security services, if valued at more than $200 per month or $2000 per year (30 ILCS 500/25-60)

☐ Prevailing Wage (all printing contracts) (30 ILCS 500/25-60)

☐ BEP Subcontracting Requirements (Utilization Plan and Letter of Intent)

☒ PAYMENT OF TOLLS: The Vendor shall be required to pay the full amount of tolls, if any, incurred by it during the duration of the contract. Said tolls will not be refunded by the Illinois Tollway. Furthermore, in the event that a final determination is made by the Illinois Tollway that the Contractor has failed to pay any required tolls and associated fines, the Illinois Tollway is authorized to take steps necessary to withhold the amounts of the unpaid tolls and fines from any payment due the contractor by the Illinois Tollway and/or other Tollway of Illinois office, department, commission, board or agency.

1.2 AGENCY SUPPLEMENTAL TERMS AND CONDITIONS:

1.2.1 Order of Precedence:
This contract Request for Proposal (RFP), taken together, comprises the Contract between the parties. With respect to any inconsistency or conflict among these documents the following order of precedence shall prevail:

1. This Contract
2. The RFP
3. Other submissions received after the initial proposal as part of the renegotiation process, if applicable and agreed upon

1.2.2 Agents and Employees:
Vendor shall be responsible for the negligent acts and omissions of its agents, employees and if applicable, subcontractors in their performance of Vendor's duties under this Contract. Vendor represents that it shall utilize the services of individuals skilled in the profession for which they will be used in performing services or supplying goods hereunder. In the event that the Tollway/Buyer determines that any individual performing services or supplying goods for Vendor hereunder is not providing such skilled services or delivery of goods, it shall promptly notify the Vendor and the Vendor shall replace that individual.

1.2.3 Publicity:
Vendor shall not, in any advertisement or any other type of solicitation for business, state, indicate or otherwise imply that it is under contract to the Tollway/Buyer nor shall the Tollway/Buyer's name be used in any such advertisement or solicitation without prior written approval except as required by law.

1.2.4 Consultation:
Vendor shall keep the Tollway/Buyer fully informed as to the progress of matters covered by this Contract. Where time permits and Vendor is not otherwise prohibited from so doing, Vendor shall offer the Tollway/Buyer the opportunity to review relevant documents prior to filing with any public body or adversarial party.

1.2.5 Third Party Beneficiaries:
There are no third party beneficiaries to this Contract. This Contract is intended only to benefit the Tollway/Buyer and the Vendor.

1.2.6 Successors In Interest:
All the terms, provisions, and conditions of the Contract shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives.

1.2.7 Vendor's Termination Duties**:**
The Vendor, upon receipt of notice of termination or upon request of the Tollway/Buyer, shall:

1.2.7.1 Cease work under this Contract and take all necessary or appropriate steps to limit disbursements and minimize costs, and furnish a report within thirty (30) days of the date of notice of termination, describing the status of all work under the Contract, including, without limitation, results accomplished, conclusions resulting there from, any other matters the Tollway/Buyer may require;

1.2.7.2 Immediately cease using and return to the Tollway/Buyer any personal property or materials, whether tangible or intangible, provided by the Tollway/Buyer to the Vendor;

1.2.7.3 Comply with the Tollway/Buyer's instructions for the timely transfer of any active files and work product produced by the Vendor under this Contract;

1.2.7.4 Cooperate in good faith with the Tollway/Buyer, its employees, agents and contractors during the transition period between the notification of termination and the substitution of any replacement contractor;

1.2.7.5 Immediately return to the Tollway/Buyer any payments made by the Tollway/Buyer for services that were not rendered by the Vendor.

1.3 OVERTIME:

If overtime is contemplated and provided for in this contract, all work performed by Vendor at overtime rates shall be pre-approved by the Tollway/Buyer.

1.4 VENUE AND ILLINOIS LAW:

Any claim against the Tollway arising out of this contract must be filed exclusively with Circuit Court for the Eighteenth Judicial Circuit, DuPage County, Illinois for State claims and the U.S. District Court for the Northern District of Illinois for Federal claims.

1.4.1 Whenever "State" is used or referenced in this Contract, it shall be interpreted to mean the Illinois State Toll Highway Authority.

1.4.2 The State Prompt Payment Act (30 ILCS 40) does not apply to the Tollway. Therefore, the first two sentences of paragraph 2.1 are deleted.

1.4.3. The Tollway is not currently an appropriated agency. Therefore, to the extent paragraph 1.5 concerns the Tollway being an appropriated agency, it does not apply.

1.4.4. The invoice submission deadline included in the second sentence of above paragraph 2.6 does not apply to the Tollway. Therefore, the second sentence of this paragraph is stricken. However, the remainder of the paragraph remains in effect.

1.5 REPORT OF A CHANGE IN CIRCUMSTANCES:

The (Contractor/Vendor) agrees to report to the TOLLWAY as soon as practically possible, but no later than 21 days following any change in facts or circumstances that might impact the (CONTRACTOR/VENDOR)'s ability to satisfy its legal or contractual responsibilities and obligations under this contract. Required reports include, but are not limited to changes in the (CONTRACTOR/VENDOR)'s Certification/Disclosure Forms, the (CONTRACTOR/VENDOR)'s IDOT pre-qualification, or any certification or licensing required for this project. Additionally, (CONTRACTOR/VENDOR) agrees to report to the Tollway within the above timeframe any arrests, indictments, convictions or other matters involving the (CONTRACTOR/VENDOR), or any of its principals, that might occur while this contract is in effect. This reporting requirement does not apply to common offenses, including but not limited to minor traffic/vehicle offenses.

Further, the (CONTRACTOR/VENDOR) agrees to incorporate substantially similar reporting requirements into the terms of any and all subcontracts relating to work performed under this agreement. The (CONTRACTOR/VENDOR) agrees to forward or relay to the Tollway any reports received from subcontractors pursuant to this paragraph within 21 days.

Finally, the (CONTRACTOR/VENDOR) acknowledges and agrees that the failure of the (CONTRACTOR/VENDOR) to comply with this reporting requirement shall constitute a material breach of contract which may result in this contract being declared void.

STATE OF ILLINOIS
SUBCONTRACTOR DISCLOSURE

I.1. Will subcontractors be utilized? ☐ Yes ☒ No

A subcontractor is a person or entity that enters into a contractual agreement with a total value of $50,000 or more with a person or entity who has a contract subject to the Illinois Procurement Code pursuant to which the person or entity provides some or all of the goods, services, real property, remuneration, or other monetary forms of consideration that are the subject of the primary State contract, including subleases from a lessee of a State contract.

All contracts with subcontractors must include Standard Certifications completed and signed by the subcontractor.

I.2. The maximum percentage of the goods or services that are the subject of this Offer and the resulting contract that may be subcontracted is 0%.

I.3. Please identify below subcontracts with an annual value of $50,000 or more that will be utilized in the performance of the contract, the names and addresses of the subcontractors, and a description of the work to be performed by each.

- Subcontractor Name: N/A

  Anticipated/Estimated Amount to Be Paid: N/A

  Address: N/A

  Description of Work: N/A

- Subcontractor Name: N/A

  Anticipated/Estimated Amount to Be Paid: N/A

  Address: N/A

  Description of Work: N/A

If additional space is necessary to provide subcontractor information, please attach an additional page.

I.4. For the subcontractors identified above, the Offeror must provide each subcontractor's Financial Disclosures and Conflicts of Interest to the State.

I.5. If the subcontractor is registered in the Illinois Procurement Gateway (IPG) and the Offeror is using the subcontractor's Standard Certifications or Financial Disclosures and Conflicts of Interest from the IPG, then the Offeror must also provide a completed Forms B for the subcontractor.

STATE OF ILLINOIS
REFERENCES

Provide references from established firms or government agencies (3 – for with offeror served as Bond Underwriter.) other than the procuring agency/university that can attest to Offeror's experience and ability to perform the contract that is the subject of this solicitation.

J.1. Firm/Government Agency/University (name):

Pennsylvania Turnpike Commission

Contact Person (name, title, email address, address, and phone):

Nikolaus Grieshaber, Chief Financial Officer
ngriesha@paturnpike.com
700 South Eisenhower Blvd
Middletown, PA 17057
(717) 920-7221

Date of Supplies/Services Provided:

April 28, 2016 through June 21, 2016

Type of Supplies/Services Provided:

Senior Managing Underwriter
$588,440,000 Turnpike Revenue Bonds, Series A of 2016

J.2. Firm/Government Agency/University (name):

City of Chicago, Illinois.

Contact Person (name, title, email address, address, and phone):

Kelly Flannery, Deputy Chief Financial Officer
Kelly.flannery@cityofchicago.org
121 North LaSalle St
Chicago, IL 60602
(312) 744-7106.

Date of Supplies/Services Provided:

O'Hare Bonds: October 2016 through January 10, 2017
Midway Bonds: December 2016 - maturity

Type of Supplies/Services Provided:

Co-Senior Managing Underwriter
$1,117,250,000 Chicago O'Hare International Airport, General Airport Senior Lien Revenue Bonds, Series 2016DEFG

Remarketing Agent (replacement)
$64,425,000 Chicago Midway Airport Second Lien Revenue Bonds, Series 2004C-2 (AMT)

J.3. Firm/Government Agency/University (name):
City of Milwaukee, WI

Contact Person (name, title, email address, address, and phone):

Richard Li, Public Debt Specialist
rsli@milwaukee.gov
200 East Wells Street
Milwaukee, WI 53202
(414) 286-2319

Date of Supplies/Services Provided:

August 2016 through December 2016

Type of Supplies/Services Provided:
Sole Underwriter
Redevelopment Authority of the City of Milwaukee (Wisconsin)
Redevelopment Lease Revenue Bonds, Series 2016ABC
$18,710,000 Tax-Exempt, Series 2016A
$6,275,000 Taxable Qualified Energy Conservation Bonds, Series 2016B

Placement Agent
$1,470,000 Taxable Qualified Zone Academy Bonds, Series 2016C

Offeror Name: Piper Jaffray & Co.
Return Mailing Address:
444 W. Lake Street, 33rd Floor
Chicago, IL 60606

STATE OF ILLINOIS
FORMS B CERTIFICATIONS AND DISCLOSURES

IPB Reference #: 22039948 Procurement/Contract #: Bond Underwriting Services, RFP #16-0155

This Forms B may be used when responding to an Invitation for Bid (IFB) or a Request for Proposal (RFP) if the vendor is registered in the Illinois Procurement Gateway (IPG) and has a valid IPG Registration Number.

If a vendor does not have a valid IPG registration number, then the vendor must complete and submit Forms A with their response. Failure to do so may render the submission non-responsive and result in disqualification.

Please read this entire section and provide the requested information as applicable. All parts in Forms B must be completed in full and submitted along with the vendor's response.

1. Certification of Illinois Procurement Gateway Registration

My business has a valid Illinois Procurement Gateway (IPG) registration. The State of Illinois Chief Procurement Office approved the registration and provided the IPG registration number and expiration date disclosed in this Forms B.

To ensure that you have a valid registration in the IPG, search for your business name in the IPG Registered Vendor Directory. If your company does not appear in the search results, then you do not have a valid IPG registration.

IPG Registration #: 20425009 IPG Expiration Date: July 15, 2017

2. Certification Timely to this Solicitation or Contract

Vendor certifies it is not barred from having a contract with the State based upon violating the prohibitions related to either submitting/writing specifications or providing assistance to an employee of the State of Illinois by reviewing, drafting, directing, or preparing any invitation for bids, a request for proposal, or request of information, or similar assistance (except as part of a public request for such information). 30 ILCS 500/50-10.5(e), amended by Public Act No. 97-0895 (August 3, 2012). ☒ Yes ☐ No

3. Replacement Certification to IPG Certification #6 (supersedes response in IPG)

If Vendor has been convicted of a felony, Vendor certifies at least five years have passed since the date of completion of the sentence for such felony, unless no person held responsible by a prosecutor's office for the facts upon which the conviction was based continues to have any involvement with the business. Vendor further certifies that it is not barred from being awarded a contract. 30 ILCS 500/50-10. ☒ Yes ☐ No

4. Disclosure of Lobbyist or Agent (Complete only if bid, offer, or contract has an annual value over $50,000)

Is your company or parent entity(ies) represented by or do you or your parent entity(ies) employ a lobbyist required to register under the Lobbyist Registration Act (lobbyist must be registered pursuant to the Act with the Secretary of State) or an agent who has communicated, is communicating, or may communicate with any State/Public University officer or employee concerning the bid or offer? If yes, please identify each lobbyist and agent, including the name and address below. ☒ Yes ☐ No

If yes, please identify each lobbyist and agent, including the name and address below. If you have a lobbyist that does not meet the criteria, then you do not have to disclose the lobbyist's information. Additional rows may be inserted into the table or an attachment may be provided if needed.

STATE OF ILLINOIS
FORMS B CERTIFICATIONS AND DISCLOSURES

Name	Address	Relationship to Disclosing Entity
Neil Pritz	444 W. Lake Street, Chicago, IL 60606	Employee, Managing Director
David D. Olson	444 W. Lake Street, Chicago, IL 60606	Employee, Vice Chairman, FIG
Brian LePenske	444 W. Lake Street, Chicago, IL 60606	Employee, Vice President

Describe all costs/fees/compensation/reimbursements related to the assistance provided by each representative lobbyist or other agent to obtain this Agency/University contract: Neil Pritz is an employee of Piper Jaffray & Co. He is paid a salary and incentive, and his expenses are reimbursed. Mr. Pritz does not receive any compensation for his Lobbyist duties. David D. Olson is an employee of Piper Jaffray & Co. He is paid a salary and incentive, and his expenses are reimbursed. Mr. Olson does not receive any compensation for his Lobbyist duties. Brian LePenske is an employee of Piper Jaffray & Co. He is paid a salary and incentive, and his expenses are reimbursed. Mr. LePenske does not receive any compensation for his Lobbyist duties.

5. Disclosure of Current and Pending Contracts

Complete only if: (a) your business is for-profit and (b) the bid, offer, or contract has an annual value over $50,000. Do not complete if you are a not-for-profit entity.

☒ Yes ☐ No. Do you have any contracts, pending contracts, bids, proposals, subcontracts, leases or other ongoing procurement relationships with units of State of Illinois government?

If "Yes", please specify below. Additional rows may be inserted into the table or an attachment in the same format may be provided if needed.

Agency/University	Project Title	Status	Value	Contract Reference/P.O./Illinois Procurement Bulletin #
Illinois Finance Authority	SRF Underwriting Services	Extended	TBD	14-0007
Illinois Tollway	Bond Underwriting and Remarketing Services	Ongoing Contract	TBD	Contract #: 12-0045 IPB Rf. #: 22037040

6. Signature

As of the date signed below, I certify that:

- My business' information and the certifications made in the Illinois Procurement Gateway are truthful and accurate.
- The certifications and disclosures made in this Forms B are truthful and accurate.

This Forms B is signed by an authorized officer or employee on behalf of the bidder, offeror, or vendor pursuant to Sections 50-13 and 50-35 of the Illinois Procurement Code, and the affirmation of the accuracy of the financial disclosures is made under penalty of perjury.

STATE OF ILLINOIS
FORMS B CERTIFICATIONS AND DISCLOSURES

This disclosure information is submitted on behalf of:

Vendor Name: Piper Jaffray & Co.

Street Address: 800 Nicollet Mall, Suite 800

City, State, Zip: Minneapolis, MN 55402

Phone: 312-267-5193

Email: neil.a.pritz@pjc.com

Vendor Contact: Neil Pritz

Signature: [redacted]

Date: February 3, 2017

Printed Name: Neil Pritz

Title: Managing Director

STATE OF ILLINOIS
TAXPAYER IDENTIFICATION NUMBER

I certify that:

The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and

I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and

I am a U.S. person (including a U.S. resident alien).

- If you are an individual, enter your name and SSN as it appears on your Social Security Card.
- If you are a sole proprietor, enter the owner's name on the name line followed by the name of the business and the owner's SSN or EIN.
- If you are a single-member LLC that is disregarded as an entity separate from its owner, enter the owner's name on the name line and the D/B/A on the business name line and enter the owner's SSN or EIN.
- If the LLC is a corporation or partnership, enter the entity's business name and EIN and for corporations, attach IRS acceptance letter (CP261 or CP277).
- For all other entities, enter the name of the entity as used to apply for the entity's EIN and the EIN.

Name: Piper Jaffray & Co.

Business Name: Piper Jaffray & Co.

Taxpayer Identification Number:

Social Security Number: Click here to enter text.

or

Employer Identification Number: [redacted]

Legal Status (check one):

☐ Individual

☐ Sole Proprietor

☐ Partnership

☐ Legal Services Corporation

☐ Tax-exempt

☐ Corporation providing or billing medical and/or health care services

☒ Corporation NOT providing or billing medical and/or health care services

☐ Governmental

☐ Nonresident alien

☐ Estate or trust

☐ Pharmacy (Non-Corp.)

☐ Pharmacy/Funeral Home/Cemetery (Corp.)

☐ Limited Liability Company (select applicable tax classification)

☐ C = corporation

☐ P = partnership

Signature of Authorized Representative: [redacted]

Date: February 3, 2017

THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY
PURCHASING
PURCHASE REQUISITION

[redacted]

04/28/16

NEED NUMBER 825095
FUND ACCOUNT 01
OLD PROJECT NUMBER ......
C.P. NUMBER...............

REQUESTING LOCATION ... ADM ADMINISTRATION
REQUISITIONER .... GROSSO
SHIP TO .... ADM
VENDOR'S INVOICE ......

C.P. NUMBER	PROJ NO.	CC	ACCNT NO.	ITEM NUMBER	QTY	U/M	DESCRIPTION / COMMENTS	ESTIMATED UNIT COST	EMERG	LAST ORDER NUMBER	LAST ORD DATE	** FILL IN *** ORDER NUMBER
	0000	40	43220	099899	000001	EA	RFP FOR BOND UNDERWRITER	14,935,000.00000	NO			
				REC SRC 1:			RFP FOR BOND UNDERWRITING					
				REC SRC 1:			/REMARKETING SERVICES RFP FOR BOND UNDERWRITERS RFP TO ESTABLISH POOLS OF FIRMS TO PROVIDE BOND UNDERWRITING AND REMARKET ING SERVICES FOR A 3-YEAR INITIAL TERM WITH RENEWAL OPTIONS UP TO 2 YEARS. EST. COST FOR FULL 5 YEAR S IS $14,935,000,					

Paid on PAV
CP# PIP98777950

NEED 825095 Approved By: GREG BEDALOV 04/20/2016

NEED 825095 Approved By: MIKE COLSCH 04/19/2016

NEED 825095 Approved By: PATTI PEARN 04/06/2016

total $200,000

16-0156 H