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PIPER JAFFRAY COMPANIES

Form 10-Q

October 28, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact Name of Registrant as specified in its Charter)

DELAWARE

30-0168701

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

800 Nicollet Mall, Suite 1000

55402

Minneapolis, Minnesota

(Address of Principal Executive Offices)

(Zip Code)

(612) 303-6000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of October 19, 2016, the registrant had 15,129,897 shares of Common Stock outstanding.



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

PART I. FINANCIAL INFORMATION

ITEM 1. <u>FINANCIAL STATEMENTS</u>	<u>3</u>
<u>Consolidated Statements of Financial Condition as of September 30, 2016 (Unaudited) and December 31, 2015</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and September 30, 2015 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and September 30, 2015 (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015 (Unaudited)</u>	<u>6</u>
<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>42</u>
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>71</u>
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	<u>71</u>

PART II. OTHER INFORMATION

ITEM 1. <u>LEGAL PROCEEDINGS</u>	<u>71</u>
ITEM 1A. <u>RISK FACTORS</u>	<u>71</u>
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>72</u>
ITEM 6. <u>EXHIBITS</u>	<u>72</u>
<u>SIGNATURES</u>	<u>73</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## Piper Jaffray Companies

## Consolidated Statements of Financial Condition

	September 30, 2016	December 31, 2015
	(Unaudited)	
(Amounts in thousands, except share data)		
Assets		
Cash and cash equivalents	\$ 51,371	\$ 189,910
Cash and cash equivalents segregated for regulatory purposes	46,022	81,022
Receivables:		
Customers	87,577	41,167
Brokers, dealers and clearing organizations	169,427	147,949
Securities purchased under agreements to resell	147,475	136,983
Financial instruments and other inventory positions owned	488,427	283,579
Financial instruments and other inventory positions owned and pledged as collateral	592,060	707,355
Total financial instruments and other inventory positions owned	1,080,487	990,934
Fixed assets (net of accumulated depreciation and amortization of \$56,778 and \$51,874, respectively)	23,400	18,984
Goodwill	278,699	217,976
Intangible assets (net of accumulated amortization of \$64,203 and \$48,803, respectively)	41,781	30,530
Investments	144,542	163,861
Other assets	140,542	119,202
Total assets	\$ 2,211,323	\$ 2,138,518
Liabilities and Shareholders' Equity		
Short-term financing	\$ 425,785	\$ 446,190
Senior notes	175,000	175,000
Payables:		
Customers	50,730	37,364
Brokers, dealers and clearing organizations	201,926	48,131
Securities sold under agreements to repurchase	22,009	45,319
Financial instruments and other inventory positions sold, but not yet purchased	255,950	239,155
Accrued compensation	202,352	251,638
Other liabilities and accrued expenses	38,554	62,901
Total liabilities	1,372,306	1,305,698
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2016 and December 31, 2015;		
Shares issued: 19,534,376 at September 30, 2016 and 19,510,858 at December 31, 2015;		
Shares outstanding: 12,274,902 at September 30, 2016 and 13,311,016 at December 31, 2015	195	195
Additional paid-in capital	781,055	752,066
Retained earnings	294,173	279,140

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Less common stock held in treasury, at cost: 7,259,474 at September 30, 2016 and 6,199,842 shares at December 31, 2015	(288,911	) (247,553	)
Accumulated other comprehensive loss	(2,032	) (189	)
Total common shareholders' equity	784,480	783,659	
Noncontrolling interests	54,537	49,161	
Total shareholders' equity	839,017	832,820	
Total liabilities and shareholders' equity	\$ 2,211,323	\$ 2,138,518	
See Notes to the Consolidated Financial Statements			

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Table of Contents

Piper Jaffray Companies

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(Amounts in thousands, except per share data)				
Revenues:				
Investment banking	\$ 136,682	\$ 91,640	\$ 338,034	\$ 284,786
Institutional brokerage	42,189	34,182	122,423	106,879
Asset management	15,256	18,951	43,699	58,730
Interest	7,343	9,128	24,094	32,755
Investment income	4,806	831	14,019	10,123
Total revenues	206,276	154,732	542,269	493,273
Interest expense	5,429	5,115	17,383	17,719
Net revenues	200,847	149,617	524,886	475,554
Non-interest expenses:				
Compensation and benefits	135,186	96,132	356,770	295,543
Outside services	10,288	9,316	28,923	26,385
Occupancy and equipment	8,743	7,025	25,311	20,791
Communications	7,845	6,234	22,469	17,650
Marketing and business development	7,629	6,965	23,804	21,186
Trade execution and clearance	2,008	1,982	5,686	5,956
Restructuring and integration costs	—	1,496	10,206	1,496
Intangible asset amortization expense	8,010	1,773	15,400	5,319
Other operating expenses	2,687	11,906	7,915	17,289
Total non-interest expenses	182,396	142,829	496,484	411,615
Income before income tax expense	18,451	6,788	28,402	63,939
Income tax expense	6,515	1,573	8,767	20,605
Net income	11,936	5,215	19,635	43,334
Net income applicable to noncontrolling interests	1,278	384	4,602	4,532
Net income applicable to Piper Jaffray Companies	\$ 10,658	\$ 4,831	\$ 15,033	\$ 38,802
Net income applicable to Piper Jaffray Companies' common shareholders	\$ 8,582	\$ 4,448	\$ 12,476	\$ 35,908
Earnings per common share				
Basic	\$ 0.70	\$ 0.32	\$ 0.98	\$ 2.46
Diluted	\$ 0.70	\$ 0.32	\$ 0.97	\$ 2.46

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Weighted average number of common shares outstanding

Basic	12,282	13,938	12,787	14,568
Diluted	12,298	13,952	12,801	14,594

See Notes to the Consolidated Financial Statements

Table of Contents

Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2016	2015	2016	2015
Net income	\$11,936	\$5,215	\$19,635	\$43,334
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(587 )	(352 )	(1,843 )	(326 )
Comprehensive income	11,349	4,863	17,792	43,008
Comprehensive income applicable to noncontrolling interests	1,278	384	4,602	4,532
Comprehensive income applicable to Piper Jaffray Companies	\$10,071	\$4,479	\$13,190	\$38,476

See Notes to the Consolidated Financial Statements



Table of Contents

Piper Jaffray Companies

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Operating Activities:		
Net income	\$ 19,635	\$ 43,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	4,724	3,703
Deferred income taxes	715	(3,967 )
Stock-based and deferred compensation	43,839	30,892
Amortization of intangible assets	15,400	5,319
Amortization of forgivable loans	6,894	4,499
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	35,000	(2,003 )
Receivables:		
Customers	(46,398 )	(40,093 )
Brokers, dealers and clearing organizations	(21,478 )	(164,399)
Securities purchased under agreements to resell	(10,492 )	77,114
Net financial instruments and other inventory positions owned	(72,758 )	177,254
Investments	11,093	(32,045 )
Other assets	(24,758 )	(8,733 )
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	13,366	36,021
Brokers, dealers and clearing organizations	153,795	69,784
Securities sold under agreements to repurchase	(2,018 )	14,186
Accrued compensation	(51,569 )	(49,824 )
Other liabilities and accrued expenses	(32,005 )	129,271
Net cash provided by operating activities	42,985	290,313
Investing Activities:		
Business acquisitions, net of cash acquired	(71,019 )	(8,737 )
Repayment of note receivable	—	1,500
Purchases of fixed assets, net	(7,360 )	(4,286 )
Net cash used in investing activities	(78,379 )	(11,523 )

Continued on next page

Table of Contents

Piper Jaffray Companies

Consolidated Statements of Cash Flows – Continued

(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Financing Activities:		
Increase/(decrease) in short-term financing	\$(20,405)	\$37,980
Decrease in securities sold under agreements to repurchase	(21,292 )	(72,944 )
Increase/(decrease) in noncontrolling interests	10,189	(116,870)
Repurchase of common stock	(70,428 )	(106,239)
Excess tax benefit from stock-based compensation	16	5,885
Proceeds from stock option exercises	103	1,856
Net cash used in financing activities	(101,817 )	(250,332)
Currency adjustment:		
Effect of exchange rate changes on cash	(1,328 )	(277 )
Net increase/(decrease) in cash and cash equivalents	(138,539 )	28,181
Cash and cash equivalents at beginning of period	189,910	15,867
Cash and cash equivalents at end of period	\$51,371	\$44,048
Supplemental disclosure of cash flow information –		
Cash paid during the period for:		
Interest	\$17,679	\$18,324
Income taxes	\$22,148	\$24,349
Non-cash investing activities –		
Issuance of common stock related to the acquisition of Simmons & Company International: 25,525 shares for the nine months ended September 30, 2016	\$1,074	\$—
Non-cash financing activities –		
Issuance of restricted common stock for annual equity award: 843,889 shares and 550,650 shares for the nine months ended September 30, 2016 and 2015, respectively	\$35,089	\$30,429

See Notes to the Consolidated Financial Statements

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Index

Note 1	<u>Organization and Basis of Presentation</u>	9
Note 2	<u>Accounting Policies and Pronouncements</u>	10
Note 3	<u>Acquisitions</u>	12
Note 4	<u>Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased</u>	14
Note 5	<u>Fair Value of Financial Instruments</u>	16
Note 6	<u>Variable Interest Entities</u>	26
Note 7	<u>Receivables from and Payables to Brokers, Dealers and Clearing Organizations</u>	27
Note 8	<u>Collateralized Securities Transactions</u>	27
Note 9	<u>Investments</u>	28
Note 10	<u>Other Assets</u>	29
Note 11	<u>Goodwill and Intangible Assets</u>	29
Note 12	<u>Short-Term Financing</u>	30
Note 13	<u>Senior Notes</u>	30
Note 14	<u>Contingencies and Commitments</u>	31
Note 15	<u>Restructuring</u>	32
Note 16	<u>Shareholders' Equity</u>	32
Note 17	<u>Compensation Plans</u>	34
Note 18	<u>Earnings Per Share</u>	38
Note 19	<u>Segment Reporting</u>	39
Note 20	<u>Net Capital Requirements and Other Regulatory Matters</u>	41

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Basis of Presentation

Organization

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. ("Piper Jaffray"), a securities broker dealer and investment banking firm; Piper Jaffray Ltd., a firm providing securities brokerage and mergers and acquisitions services in Europe headquartered in London, England; Simmons & Company International Limited ("SCIL"), a firm providing mergers and acquisitions services to the energy industry headquartered in Aberdeen, Scotland; 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, financial advisory 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 energy, 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.

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.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to this guidance, certain information and disclosures have been omitted that are included within complete annual financial statements. Except as disclosed herein, there have been no material changes in the information reported in the financial statements and related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The consolidated financial statements 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 the Company's alternative asset management funds. All material intercompany balances have been eliminated.

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates and assumptions are based on the best information available, actual results could differ from those estimates.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 2 Accounting Policies and Pronouncements

Summary of Significant Accounting Policies

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a full description of the Company's significant accounting policies. Changes to the Company's significant accounting policies are described below.

Principles of Consolidation

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

VIEs are entities in which (i) the total equity investment at risk is not sufficient to enable the entity to finance its activities independently or (ii) the at-risk equity holders do not have the normal characteristics of a controlling financial interest. 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 VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The enterprise with a controlling financial interest is the primary beneficiary and consolidates the VIE.

Voting interest entities lack one or more of the characteristics of a VIE. The usual condition for a controlling financial interest is ownership of a majority voting interest for a corporation or a majority of kick-out rights for a limited partnership.

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. 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.

Adoption of New Accounting Standards

Consolidation

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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 was effective for the Company as of January 1, 2016. The adoption of ASU 2015-02 resulted in the deconsolidation of certain investment partnerships with assets (and the related noncontrolling interests) of approximately \$9.4 million. There was no impact to the Company's retained earnings upon adoption. In addition, certain entities previously consolidated as voting interest entities became consolidated VIEs under the amended guidance.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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 FASB has subsequently issued various ASUs which amend specific areas of guidance in ASU 2014-09. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

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.

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability on the consolidated statements of financial position and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current U.S. GAAP. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

Stock-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 makes targeted amendments to the accounting for share-based payments to employees. Under ASU 2016-09, entities will be required to recognize the income tax effects of awards in the income statement when the awards vest or are settled, rather than as additional paid-in capital. ASU 2016-09 also amends the guidance regarding the employer's statutory income tax withholding requirements and allows an entity to make an accounting policy election for forfeitures. The guidance is effective on a prospective basis for annual and interim periods beginning after December 15, 2016. As of September 30, 2016, the Company had \$7.0 million of excess tax benefits recorded as additional paid-in capital, which will remain in additional paid-in capital upon adoption. The adoption of ASU 2016-09 will impact the Company's 2017 results of operations as all income tax effects of awards that vest or are settled will be recognized in the income statement as



opposed to additional paid-in capital.

#### Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The new guidance requires an entity to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts as opposed to delaying recognition until the loss was probable of occurring. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Statement of Cash Flows

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The amendments in ASU 2016-15 are effective for annual and interim periods beginning after December 31, 2017 and should be applied retrospectively. Early adoption is permitted. The Company is evaluating the impact of the amendments on its consolidated statements of cash flows.

Note 3 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.

Simmons & Company International

On February 26, 2016, the Company completed the purchase of Simmons & Company International ("Simmons"), an employee-owned investment bank and broker dealer focused on the energy industry. The economic value of the acquisition was approximately \$140.0 million and was completed pursuant to the Securities Purchase Agreement dated November 16, 2015, as amended. The acquisition of Simmons expands the Company's equity investment banking business into the energy sector and grows its advisory business.

The Company acquired net assets with a fair value of \$119.3 million as described below. As part of the purchase price, the Company issued 1,149,340 restricted shares valued at \$48.2 million as equity consideration on the acquisition date. These restricted shares cliff vest after three years, and the employees must fulfill service requirements in exchange for the rights to the shares. Compensation expense will be amortized on a straight-line basis over the requisite service period of one or three years (a weighted average service period of 2.7 years). The fair value of the restricted stock was determined using the market price of the Company's common stock on the date of the acquisition.

The Company also entered into acquisition-related compensation arrangements with certain employees of \$20.6 million which consisted of cash (\$9.0 million) and restricted stock (\$11.6 million) for retention purposes. Compensation expense related to these arrangements will be amortized on a straight-line basis over the requisite service period of three years. Additional cash compensation may be available to certain investment banking employees subject to exceeding an investment banking revenue threshold during the three year post-acquisition period to the extent they are employed by the Company at the time of payment. Amounts estimated to be payable, if any, related to this performance award plan will be recorded as compensation expense on the consolidated statements of operations over the requisite performance period of three years.

The Company recorded \$60.7 million of goodwill on the consolidated statements of financial condition, of which \$59.4 million is expected to be deductible for income tax purposes. In management's opinion, the goodwill represents the reputation and operating expertise of Simmons.

Identifiable intangible assets purchased by the Company consisted of customer relationships and the Simmons trade name with acquisition-date fair values of \$17.5 million and \$9.1 million, respectively. Transaction costs of \$0.9 million were incurred for the nine months ended September 30, 2016, and are included in restructuring and integration costs on the consolidated statements of operations.

In the third quarter of 2016, the Company recorded a \$12.0 million measurement period adjustment to reflect the final fair value of Simmons intangible assets, which resulted in a corresponding decrease to goodwill. Based on the final fair value of Simmons intangible assets, the Company would have recorded additional amortization expense of \$2.3 million from the acquisition date through June 30, 2016.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of the acquisition:

(Dollars in thousands)

## Assets:

Cash and cash equivalents	\$47,201
Fixed assets	1,868
Goodwill	60,737
Intangible assets	26,638
Investments	980
Other assets	5,071
Total assets acquired	142,495

## Liabilities:

Accrued compensation	15,387
Other liabilities and accrued expenses	7,814
Total liabilities assumed	23,201

Net assets acquired \$119,294

Simmons' results of operations have been included in the Company's consolidated financial statements prospectively beginning on the date of acquisition. The acquisition has 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 acquisition had occurred at the beginning of the comparable prior period presented. Pro forma results have been prepared by adjusting the Company's historical results to include Simmons' results of operations adjusted for the following changes: amortization expense was adjusted to account for the acquisition-date fair value of intangible assets; compensation and benefits expenses were adjusted to reflect such expenses based on the Company's compensation arrangements and the restricted stock issued as equity consideration; and the income tax effect of applying the Company's statutory tax rates to Simmons' 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 acquisition 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.

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	2015
(Dollars in thousands)			
Net revenues	\$ 163,090	\$532,683	\$540,571
Net income applicable to Piper Jaffray Companies	619	15,642	30,753

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. 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 Company recorded \$6.1 million of goodwill on the consolidated statements of financial condition related to these acquisitions and \$7.5 million of identifiable intangible assets consisting of

customer relationships. In management's opinion, the goodwill represents the reputation and operating expertise of River Branch and BMO GKST.

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.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 4 Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased

	September 30, 2016	December 31, 2015
(Dollars in thousands)		
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	\$ 4,699	\$ 9,505
Convertible securities	49,191	18,460
Fixed income securities	43,368	48,654
Municipal securities:		
Taxable securities	94,420	111,591
Tax-exempt securities	603,001	416,966
Short-term securities	70,678	33,068
Mortgage-backed securities	14,630	121,794
U.S. government agency securities	154,980	188,140
U.S. government securities	3,432	7,729
Derivative contracts	42,088	35,027
Total financial instruments and other inventory positions owned	1,080,487	990,934
Less noncontrolling interests (1)	(64,490 )	(43,397 )
	\$ 1,015,997	\$ 947,537
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	\$ 51,012	\$ 15,740
Fixed income securities	25,770	39,909
U.S. government agency securities	10,506	21,267
U.S. government securities	162,964	159,037
Derivative contracts	5,698	3,202
Total financial instruments and other inventory positions sold, but not yet purchased	255,950	239,155
Less noncontrolling interests (2)	(4,937 )	(4,586 )
	\$ 251,013	\$ 234,569

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of \$10.9 million and \$7.5 million of taxable municipal securities, \$51.7 million and \$35.1 million of tax-exempt municipal securities, and \$1.9 million and \$0.8 million of derivative contracts as of September 30, 2016 and December 31, 2015, respectively.

(2) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of U.S. government securities as of September 30, 2016 and December 31, 2015.

At September 30, 2016 and December 31, 2015, financial instruments and other inventory positions owned in the amount of \$592.1 million and \$707.4 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, U.S. treasury bond and Eurodollar futures and exchange traded options.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Derivative Contract Financial Instruments

The Company uses interest rate swaps, interest rate locks, credit default swap index contracts, 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)	September 30, 2016			December 31, 2015		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivative Category	(1)	(2)		(1)	(2)	
Interest rate						
Customer matched-book	\$406,716	\$388,924	\$3,507,518	\$406,888	\$386,284	\$4,392,440
Trading securities	960	8,967	401,350	—	7,685	290,600
Credit default swap index						
Trading securities	—	1,083	63,000	5,411	530	94,270
Futures and equity options						
Trading securities	—	—	271	164	149	2,345,037
	\$407,676	\$398,974	\$3,972,139	\$412,463	\$394,648	\$7,122,347

(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.





Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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

(Dollars in thousands)		Three Months		Nine Months	
		Ended		Ended	
Derivative Category	Operations Category	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest rate derivative contract	Investment banking	\$(1,901)	\$(689)	\$(3,953)	\$(1,688)
Interest rate derivative contract	Institutional brokerage	8,438	(10,450)	819	2,106
Credit default swap index contract	Institutional brokerage	74	4,268	3,958	16,913
Futures and equity option derivative contracts	Institutional brokerage	107	86	255	139
		\$6,718	\$(6,785)	\$1,079	\$17,470

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of September 30, 2016, the Company had \$29.1 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$184.9 million), including \$21.9 million of uncollateralized credit exposure with one counterparty.

## Note 5 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.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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.

## Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation (“CMO”) securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 170-510 basis points on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 6%-20% 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 \$18.9 million and \$19.7 million, included within investments on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets at September 30, 2016 and December 31, 2015, respectively. The realized and unrealized net gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were \$1.0 million and \$0.7 million for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level III financial instruments as of September 30, 2016:

	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:				
Financial instruments and other inventory positions owned:				
Municipal securities:				
Tax-exempt securities	Discounted cash flow	Expected recovery rate (% of par) (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)	0 - 4%	0.5%
		Prepayment rates (4)	1 - 35%	9.7%
		Loss severity (3)	0 - 100%	53.6%
		Valuation yields (3)	2 - 7%	3.6%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve in basis points ("bps") (1)	3 - 27 bps	13.9 bps
Investments at fair value:				
Equity securities in private companies	Market approach	Revenue multiple (2)	3 - 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 - 16 bps	9.5 bps
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Sensitivity of the fair value to changes in unobservable inputs:

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

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

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

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 (4) directionally inverse changes in fair value depending on whether the security trades at a premium or discount to the par value.





Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820") as of September 30, 2016:

(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	\$2,607	\$2,092	\$—	\$—	\$4,699
Convertible securities	—	49,191	—	—	49,191
Fixed income securities	—	43,368	—	—	43,368
Municipal securities:					
Taxable securities	—	94,420	—	—	94,420
Tax-exempt securities	—	601,824	1,177	—	603,001
Short-term securities	—	69,930	748	—	70,678
Mortgage-backed securities	—	953	13,677	—	14,630
U.S. government agency securities	—	154,980	—	—	154,980
U.S. government securities	3,432	—	—	—	3,432
Derivative contracts	—	406,716	960	(365,588)	42,088
Total financial instruments and other inventory positions owned	6,039	1,423,474	16,562	(365,588)	1,080,487
Cash equivalents	662	—	—	—	662
Investments at fair value	33,008	—	98,718	(2)—	131,726
Total assets	\$39,709	\$1,423,474	\$115,280	\$(365,588)	\$1,212,875
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$50,930	\$82	\$—	\$—	\$51,012
Fixed income securities	—	25,770	—	—	25,770
U.S. government agency securities	—	10,506	—	—	10,506
U.S. government securities	162,964	—	—	—	162,964
Derivative contracts	—	391,686	7,288	(393,276)	5,698
Total financial instruments and other inventory positions sold, but not yet purchased	\$213,894	\$428,044	\$7,288	\$(393,276)	\$255,950

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

(2) Noncontrolling interests of \$29.9 million are attributable to third party ownership in a consolidated merchant banking fund.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 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	(2)—	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.

(2) Noncontrolling interests of \$40.1 million are attributable to third party ownership in a consolidated merchant banking fund and private investment vehicles.

The Company's Level III assets were \$115.3 million and \$236.7 million, or 9.5 percent and 18.7 percent of financial instruments measured at fair value at September 30, 2016 and December 31, 2015, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were \$14.3 million of transfers of financial assets out of Level III for the nine months ended September 30, 2016, of which \$9.1 million primarily related to the deconsolidation of certain investment partnerships as discussed in Note 2, and \$5.2 million related to taxable municipal securities for which valuation inputs became observable. There were no other significant transfers between Level I, Level II or Level III for the three and nine months ended September 30, 2016.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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

	Balance at June 30, 2016	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at September 30, 2016	Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2016 (1)
(Dollars in thousands)									
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Tax-exempt securities	\$ 1,177	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,177	\$ —
Short-term securities	748	—	—	—	—	—	—	748	—
Mortgage-backed securities	56,053	—	(44,006 )	—	—	1,440	190	13,677	111
Derivative contracts	18	—	—	—	—	—	942	960	960
Total financial instruments and other inventory positions owned	57,996	—	(44,006 )	—	—	1,440	1,132	16,562	1,071
Investments at fair value	116,405	944	(21,309 )	—	—	10,336	(7,658 )	98,718	2,621
Total assets	\$ 174,401	\$ 944	\$ (65,315 )	\$ —	\$ —	\$ 11,776	\$ (6,526 )	\$ 115,280	\$ 3,692
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$ 14,785	\$ (5,922 )	\$ 171	\$ —	\$ —	\$ 5,751	\$ (7,497 )	\$ 7,288	\$ (1,263 )
Total financial instruments and other inventory positions sold, but not yet purchased	\$ 14,785	\$ (5,922 )	\$ 171	\$ —	\$ —	\$ 5,751	\$ (7,497 )	\$ 7,288	\$ (1,263 )

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

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

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

	Balance at June 30, 2015	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2015	Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2015 (1)
(Dollars in thousands)									
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Taxable securities	\$—	\$7,624	\$(683)	\$4,158		\$66	\$341	\$11,506	\$341
Tax-exempt securities	1,186	5,686	—	—	—	—	(8)	6,864	(8)
Short-term securities	720	—	—	—	—	—	—	720	—
Mortgage-backed securities	129,399	24,836	(32,748)	—	—	(7)	511	121,991	451
Derivative contracts	5,309	882	(2,630)	—	—	1,748	(5,309)	—	—
Total financial instruments and other inventory positions owned	136,614	39,028	(36,061)	4,158	—	1,807	(4,465)	141,081	784
Investments at fair value	94,196	—	(7)	—	—	(98)	2,278	96,369	2,174
Total assets	\$230,810	\$39,028	\$(36,068)	\$4,158	\$—	—\$1,709	\$(2,187)	\$237,450	\$2,958
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$435	\$(2,287)	\$—	\$—	\$—	—\$2,287	\$5,142	\$5,577	\$5,456
Total financial instruments and other inventory positions sold, but not yet purchased	\$435	\$(2,287)	\$—	\$—	\$—	—\$2,287	\$5,142	\$5,577	\$5,456

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

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

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

	Balance at			Transfers		Realized	Unrealized	Balance at	Unrealized
	December 31,			in		gains/	gains/	September 30,	gains/
(Dollars in thousands)	2015	Purchases	Sales	in	out	(losses) (1)	(losses) (1)	2016	for assets/
									liabilities
									held at
									September 30,
									September 30,
									2016 (1)
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Taxable securities	\$ 5,816	\$—	\$(611 )	\$	—\$(5,216 )	\$ 11	\$—	\$—	\$—
Tax-exempt securities	1,177	—	—	—	—	—	—	1,177	—
Short-term securities	720	—	—	—	—	—	28	748	28
Mortgage-backed securities	121,124	26,519	(133,913 )	—	—	3,285	(3,338 )	13,677	241
Derivative contracts	—	246	—	—	—	(246 )	960	960	960
Total financial instruments and other inventory positions owned	128,837	26,765	(134,524 )	—	(5,216 )	3,050	(2,350 )	16,562	1,229
Investments at fair value	107,907	11,786	(21,309 )	—	(9,088 )	10,336	(914 )	98,718	(1,186 )
Total assets	\$ 236,744	\$ 38,551	\$(155,833 )	\$	—\$(14,304 )	\$ 13,386	\$(3,264 )	\$ 115,280	\$ 43
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$ 7,148	\$(23,700)	\$ 171	\$	—\$—	\$ 23,529	\$ 140	\$ 7,288	\$ 7,288
Total financial instruments and other inventory positions sold, but not yet purchased	\$ 7,148	\$(23,700)	\$ 171	\$	—\$—	\$ 23,529	\$ 140	\$ 7,288	\$ 7,288

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

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





Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

	Balance at			Realized		Unrealized	Balance at		Unrealized
	December 31,			Transfers		gains/	September 30		gains/
(Dollars in thousands)	2014	Purchases	Sales	in	out	(losses) (1)	(losses) (1)	2015	September 30, 2015 (1)
<b>Assets:</b>									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Taxable securities	\$ —	\$7,624	\$(683)	) \$4,158	\$ —	\$66	\$341	\$11,506	\$341
Tax-exempt securities	1,186	5,686	—	—	—	—	(8)	6,864	8
Short-term securities	720	—	—	—	—	—	—	720	—
Mortgage-backed securities	124,749	244,606	(252,050)	) —	—	3,948	738	121,991	1,616
Derivative contracts	140	1,401	(5,577)	) —	—	4,176	(140)	—	—
Total financial instruments and other inventory positions owned	126,795	259,317	(258,310)	) 4,158	—	8,190	931	141,081	1,965
Investments at fair value	74,165	7,900	(7)	) —	—	(98)	) 14,409	96,369	14,304
Total assets	\$200,960	\$267,217	\$(258,317)	\$4,158	\$ —	\$8,092	\$15,340	\$237,450	\$16,269
<b>Liabilities:</b>									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$7,822	\$(12,941)	) \$535	\$ —	\$ —	\$12,406	\$(2,245)	) \$5,577	\$5,577
Total financial instruments and other inventory positions sold, but not yet purchased	\$7,822	\$(12,941)	) \$535	\$ —	\$ —	\$12,406	\$(2,245)	) \$5,577	\$5,577

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

(1) Realized and unrealized gains/(losses) related to customer matched-book derivatives are reported in investment banking. Realized and unrealized gains/(losses) related to investments are reported in investment banking revenues or investment income 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.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 6 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, or providing financing to senior living facilities, 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 structure and nature of each 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 and how the entity is financed.

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. Effective January 1, 2016, the Company adopted ASU 2015-02. Prior to the adoption of ASU 2015-02, the primary beneficiary analysis differed for entities which qualified for the deferral under previous consolidation guidance (i.e., asset managers and investment companies). For these entities, the Company was considered to be the primary beneficiary if it absorbed a majority of the VIE's expected losses, received a majority of the VIE's expected residual returns, or both.

## Consolidated VIEs

The Company's consolidated VIEs at September 30, 2016 include certain alternative asset management funds in which the Company has an investment and as the managing partner, is deemed to have both the power to direct the most significant activities of the funds and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to these funds. Prior to the adoption of ASU 2015-02, these entities lacked the characteristics of a VIE and were consolidated as voting interest entities.

The following table presents information about the carrying value of the assets and liabilities of the VIEs which are consolidated by the Company and included on the consolidated statements of financial condition at September 30, 2016. The assets can only be used to settle the liabilities of the respective VIE, and the creditors of the VIEs do not have recourse to the general credit of the Company. The assets and liabilities are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation.

(Dollars in thousands)	Alternative Asset Management Funds
Assets:	
Receivables from brokers, dealers and clearing organizations	\$ 54,547
Financial instruments and other inventory positions owned and pledged as collateral	379,971
Investments	77,340
Other assets	22,949

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Total assets	\$ 534,807
Liabilities:	
Short-term financing	\$ 247,453
Payables to brokers, dealers and clearing organizations	106,287
Financial instruments and other inventory positions sold, but not yet purchased	29,087
Other liabilities and accrued expenses	3,735
Total liabilities	\$ 386,562

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 17 for additional information on the nonqualified deferred compensation plan.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Nonconsolidated VIEs

The Company determined it is not the primary beneficiary of certain VIEs and accordingly does not consolidate them. These VIEs had net assets approximating \$0.8 billion and \$0.4 billion at September 30, 2016 and December 31, 2015, respectively. The Company's exposure to loss from these VIEs is \$9.3 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at September 30, 2016. The Company had no liabilities related to these VIEs at September 30, 2016 and December 31, 2015, respectively. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of September 30, 2016.

## Note 7 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

	September 30, December 31,	
(Dollars in thousands)	2016	2015
Receivable arising from unsettled securities transactions	\$ 54,547	\$ 62,105
Deposits paid for securities borrowed	35,367	47,508
Receivable from clearing organizations	19,903	3,155
Deposits with clearing organizations	40,052	27,019
Securities failed to deliver	6,100	2,100
Other	13,458	6,062
Total receivables from brokers, dealers and clearing organizations	\$ 169,427	\$ 147,949

	September 30, December 31,	
(Dollars in thousands)	2016	2015
Payable arising from unsettled securities transactions	\$ 181,567	\$ 34,445
Payable to clearing organizations	3,311	3,115
Securities failed to receive	10,691	4,468
Other	6,357	6,103
Total payables to brokers, dealers and clearing organizations	\$ 201,926	\$ 48,131

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 8 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.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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 \$186.5 million and \$185.8 million at September 30, 2016 and December 31, 2015, respectively, of which \$175.3 million and \$175.8 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 September 30, 2016:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term of 30 to 60 day maturities:			
Mortgage-backed securities	\$ 5,977	\$8,120	2.57%
On demand maturities:			
U.S. government securities	16,032	15,593	0.00 - 0.15%
	\$ 22,009	\$23,713	

Reverse repurchase agreements, repurchase agreements and securities borrowed and loaned are reported on a net basis by counterparty when a legal right of offset exists. There were no gross amounts offset on the consolidated statements of financial condition for reverse repurchase agreements, securities borrowed or repurchase agreements at September 30, 2016 and December 31, 2015, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of September 30, 2016 or December 31, 2015. See Note 4 for information related to the Company's offsetting of derivative contracts.

## Note 9 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.

(Dollars in thousands)	September 30, 2016	December 31, 2015
Investments at fair value	\$ 131,726	\$ 142,781
Investments at cost	2,489	3,299
Investments accounted for under the equity method	10,327	17,781
Total investments	144,542	163,861

Less investments attributable to noncontrolling interests (1)	(29,914)	(40,069)
	\$ 114,628	\$ 123,792

(1) Noncontrolling interests are attributable to third party ownership in a consolidated merchant banking fund.

At September 30, 2016, investments carried on a cost basis had an estimated fair market value of \$4.4 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.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 10 Other Assets

	September 30, December 31,	
(Dollars in thousands)	2016	2015
Net deferred income tax assets	\$ 66,095	\$ 66,810
Fee receivables	19,439	18,362
Senior Living Fund notes receivable	17,396	1,536
Accrued interest receivables	7,022	6,145
Forgivable loans, net	10,236	10,234
Prepaid expenses	5,806	6,161
Other	14,548	9,954
Total other assets	\$ 140,542	\$ 119,202

## Note 11 Goodwill and Intangible Assets

	Capital	Asset	
(Dollars in thousands)	Markets	Management	Total
Goodwill			
Balance at December 31, 2015	\$21,132	\$ 196,844	\$217,976
Goodwill acquired	60,723	—	60,723
Balance at September 30, 2016	\$81,855	\$ 196,844	\$278,699

## Intangible assets

Balance at December 31, 2015	\$8,256	\$ 22,274	\$30,530
Intangible assets acquired	26,651	—	26,651
Amortization of intangible assets	(11,239 )	(4,161 )	(15,400 )
Balance at September 30, 2016	\$23,668	\$ 18,113	\$41,781

The addition of goodwill and intangible assets during the nine months ended September 30, 2016 related to the acquisition of Simmons, as discussed in Note 3. Management identified \$26.6 million of intangible assets, consisting of customer relationships (\$17.5 million) and the Simmons trade name (\$9.1 million), which will be amortized over a weighted average life of 1.6 years and 4.0 years, respectively. In the third quarter of 2016, the Company recorded a measurement period adjustment to reflect the final fair value of Simmons intangible assets, as discussed in Note 3.

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)

Remainder of 2016	\$5,739
2017	14,972
2018	9,476
2019	7,463
2020	1,018
Thereafter	254
Total	\$38,922



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 12 Short-Term Financing

	Outstanding Balance		Weighted Average Interest Rate	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
(Dollars in thousands)				
Commercial paper (secured)	\$ 178,332	\$ 276,894	1.91%	1.74%
Prime broker arrangements	247,453	169,296	1.22%	1.07%
Total short-term financing	\$ 425,785	\$ 446,190		

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes ("CP Notes") can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and are secured by different inventory classes. As of September 30, 2016, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 67 days, 8 days and 17 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 arrangements to obtain financing with prime brokers related to its municipal bond fund and convertible securities. Financing under these arrangements is primarily secured by municipal securities, and collateral limitations could reduce the amount of funding available under the arrangements. Prime broker financing activities are recorded net of receivables from trading activity. The funding is at the discretion of the prime brokers subject to a notice period.

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

The Company's committed short-term bank line financing at September 30, 2016 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 September 30, 2016, the Company had no advances against this line of credit.

The Company's uncommitted secured lines at September 30, 2016 totaled \$185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. The availability of the Company's uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. At September 30, 2016, the Company had no advances against these lines of credit.

## Note 13 Senior Notes

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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 September 30, 2016 and December 31, 2015, respectively.

	Outstanding Balance	
	September 30,	December 31,
(Dollars in thousands)	2016	2015
Class A Notes	\$ 50,000	\$ 50,000
Class C Notes	125,000	125,000
Total senior notes	\$ 175,000	\$ 175,000

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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 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. At September 30, 2016, the Company was in compliance with all covenants.

The senior notes are recorded at amortized cost. As of September 30, 2016, the carrying value of the variable rate Class A Notes approximated fair value. As of September 30, 2016, the fair value of the fixed rate Class C Notes was approximately \$127.5 million.

Note 14 Contingencies and Commitments

Legal Contingencies

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

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

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



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Operating Lease Commitments

The Company leases office space throughout the United States and in a limited number of foreign countries where the Company's international operations reside. Aggregate minimum lease commitments under operating leases as of September 30, 2016 are as follows:

(Dollars in thousands)

Remainder of 2016	\$3,961
2017	14,060
2018	13,144
2019	11,495
2020	10,996
Thereafter	26,707
	\$80,363

## Note 15 Restructuring

The Company incurred the following pre-tax restructuring charges within the Capital Markets segment primarily in conjunction with the Simmons acquisition discussed in Note 3.

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	
(Dollars in thousands)	2015	2016	2015
Severance, benefits and outplacement costs	\$ — \$ 1,017	\$6,608	\$1,017
Vacated redundant leased office space	— —	1,320	—
Contract termination costs	— 232	1,026	232
Total pre-tax restructuring charges	\$ — \$ 1,249	\$8,954	\$1,249

## Note 16 Shareholders' Equity

## Share Repurchases

Effective August 14, 2015, the Company's board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2017. During the nine months ended September 30, 2016, the Company repurchased 1,536,226 shares at an average price of \$38.89 per share for an aggregate purchase price of \$59.7 million related to this authorization. The Company has \$71.8 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 255,164 shares and 270,922 shares, or \$10.7 million and \$14.1 million of the Company's common stock for this purpose during the nine months ended September 30, 2016 and 2015, respectively.

## Issuance of Shares

The Company issues common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 17. During the nine months ended September 30, 2016 and 2015, the Company



issued 731,758 shares and 485,251 shares, respectively, related to these obligations.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## 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 merchant banking fund of \$31.8 million, a municipal bond fund with employee investors of \$9.1 million and a senior living fund aggregating \$13.6 million as of September 30, 2016. As of December 31, 2015, noncontrolling interests included the minority equity holders' proportionate share of the equity in a merchant banking fund of \$31.8 million, a municipal bond fund with employee investors of \$7.0 million and private investment vehicles aggregating \$10.4 million.

Ownership interests in entities held by parties other than the Company's common shareholders are presented as noncontrolling interests within shareholders' equity, separate from the Company's own equity. Revenues, expenses and net income or loss are reported on the consolidated statements of operations on a consolidated basis, which includes amounts attributable to both the Company's common shareholders and noncontrolling interests. Net income or loss is then allocated between the Company and noncontrolling interests based upon their relative ownership interests. Net income applicable to noncontrolling interests is deducted from consolidated net income to determine net income applicable to the Company. There was no other comprehensive income or loss attributed to noncontrolling interests for the nine months ended September 30, 2016 and 2015, respectively.

The following table presents the changes in shareholders' equity for the nine months ended September 30, 2016:

	Common Shares	Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
(Amounts in thousands, except share amounts)	Outstanding	Equity	Interests	Equity
Balance at December 31, 2015	13,311,016	\$ 783,659	\$ 49,161	\$ 832,820
Net income	—	15,033	4,602	19,635
Amortization/issuance of restricted stock (1)	—	57,015	—	57,015
Issuance of treasury shares for options exercised	2,500	103	—	103
Issuance of treasury shares for restricted stock vestings	729,258	—	—	—
Repurchase of common stock through share repurchase program	(1,536,226 )	(59,739 )	—	(59,739 )
Repurchase of common stock for employee tax withholding	(255,164 )	(10,689 )	—	(10,689 )
Excess tax benefit from stock-based compensation	—	16	—	16
Shares reserved/issued for director compensation	23,518	925	—	925
Other comprehensive loss	—	(1,843 )	—	(1,843 )
Deconsolidation of investment partnerships (2)	—	—	(9,415 )	(9,415 )
Fund capital contributions, net	—	—	10,189	10,189
Balance at September 30, 2016	12,274,902	\$ 784,480	\$ 54,537	\$ 839,017

(1) Includes amortization of restricted stock as part of deal consideration for the acquisition of Simmons. See Note 3 for further discussion.

(2) The Company deconsolidated certain investment partnerships upon adoption of ASU 2015-02. See Note 2 for further discussion.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 17 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 2016 Employment Inducement Award Plan (the "Inducement Plan"). The Company's equity awards are recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

The following table provides a summary of the Company's outstanding equity awards (in shares or units) as of September 30, 2016:

## Incentive Plan

## Restricted Stock

Annual grants	1,320,271
Sign-on grants	292,809
	1,613,080

## Inducement Plan

Restricted Stock	274,430
------------------	---------

Total restricted stock related to compensation 1,887,510

Simmons Deal Consideration (1) 1,029,251

Total restricted stock outstanding 2,916,761

## Incentive Plan

## Restricted Stock Units

Market condition leadership grants	374,460
------------------------------------	---------

## Incentive Plan

Stock Options	132,288
---------------	---------

(1) The Company issued restricted stock with service conditions as part of deal consideration for the acquisition of Simmons. See Note 3 for further discussion.

## 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 (0.9 million shares remained available for future issuance under the Incentive Plan as of September 30, 2016). 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 requisite service period. The Company grants shares of restricted stock to employees as part of year-end compensation ("Annual Grants") and upon initial hiring or as a retention award ("Sign-on Grants").

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The Company's Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation – Stock Compensation" ("ASC 718"). Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal 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 one 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 targets 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	Expected Stock
	Interest Rate	Price Volatility
2016	0.98%	34.9%
2015	0.90%	29.8%
2014	0.82%	41.3%

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

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Stock Options

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

## Inducement Plan

The Company established the Inducement Plan in conjunction with the acquisition of Simmons. The Company granted \$11.6 million (286,776 shares) in restricted stock under the Inducement Plan on May 15, 2016. These shares cliff vest in three years. 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 compensation expense of \$17.9 million and \$8.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$41.6 million and \$30.4 million for the nine months ended September 30, 2016 and 2015, respectively, related to employee restricted stock and restricted stock unit awards. Forfeitures were \$0.5 million for the three months ended September 30, 2016, and \$0.6 million and \$0.3 million for the nine months ended September 30, 2016 and 2015, respectively. Forfeitures were immaterial for the three months ended September 30, 2015. The tax benefit related to stock-based compensation costs totaled \$6.6 million and \$3.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$15.5 million and \$11.8 million for the nine months ended September 30, 2016 and 2015, respectively.

The following table summarizes the changes in the Company's unvested restricted stock:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2015	1,287,915	\$ 46.20
Granted	2,341,453	41.68
Vested	(602,978)	44.99
Canceled	(109,629)	42.85
September 30, 2016	2,916,761	\$ 42.95

The following table summarizes the changes in the Company's unvested restricted stock units:

Unvested Restricted	Weighted Average Grant Date
------------------------	-----------------------------------

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	Stock Units	Fair Value
December 31, 2015	356,242	\$ 22.18
Granted	135,483	19.93
Vested	(117,265 )	21.32
Canceled	—	—
September 30, 2016	374,460	\$ 21.63

As of September 30, 2016, there was \$54.1 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.



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

The following table summarizes the changes in the Company's outstanding stock options:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2015	157,201	\$ 50.35	1.6	\$—
Granted	—	—		
Exercised	(2,500)	) 41.09		
Canceled	—	—		
Expired	(22,413)	) 59.83		
September 30, 2016	132,288	\$ 48.91	1.1	\$ 696,825
Options exercisable at September 30, 2016	132,288	\$ 48.91	1.1	\$ 696,825

As of September 30, 2016, there was no unrecognized compensation cost related to stock options expected to be recognized over future years. The intrinsic value of options exercised and resulting tax benefit realized were immaterial for the nine months ended September 30, 2016. The intrinsic value of options exercised was \$0.9 million, and the resulting tax benefit realized was \$0.3 million for the nine months ended September 30, 2015.

## 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 \$24.0 million and \$14.6 million as of September 30, 2016 and December 31, 2015, 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 \$24.1 million and \$14.5 million as of September 30, 2016 and December 31, 2015, 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 investment funds. 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. MFRS Awards are owned by employee recipients and as such are not included on the consolidated statements of financial condition.

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 compensation expense of \$6.6 million and \$4.9 million for the three months ended September 30, 2016 and 2015, respectively, and \$13.8 million and \$18.8 million for the nine months ended September 30, 2016 and 2015, 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 three and nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 18 Earnings Per Share

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

The computation of earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except per share data)	2016	2015	2016	2015
Net income applicable to Piper Jaffray Companies	\$10,658	\$4,831	\$15,033	\$38,802
Earnings allocated to participating securities (1)	(2,076 )	(383 )	(2,557 )	(2,894 )
Net income applicable to Piper Jaffray Companies' common shareholders (2)	\$8,582	\$4,448	\$12,476	\$35,908

Shares for basic and diluted calculations:

Average shares used in basic computation	12,282	13,938	12,787	14,568
Stock options	16	14	14	26
Average shares used in diluted computation	12,298	13,952	12,801	14,594

Earnings per common share:

Basic	\$0.70	\$0.32	\$0.98	\$2.46
Diluted	\$0.70	\$0.32	\$0.97	\$2.46

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

- (1) Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 2,974,676 and 1,199,864 for the three months ended September 30, 2016 and 2015, respectively, and 2,623,095 and 1,176,310 for the nine months ended September 30, 2016 and 2015, respectively. 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
- (2) dilutive shares outstanding, which alters the ratio used to allocate earnings to Piper Jaffray Companies' common shareholders and participating securities for purposes of calculating diluted and basic EPS.

The anti-dilutive effects from stock options were immaterial for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 19 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.

Reportable segment financial results are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Capital Markets				
Investment banking				
Financing				
Equities	\$30,479	\$24,290	\$53,831	\$94,621
Debt	30,898	20,446	80,195	69,082
Advisory services	75,230	47,135	204,971	121,653
Total investment banking	136,607	91,871	338,997	285,356
Institutional sales and trading				
Equities	20,492	20,026	62,773	59,338
Fixed income	25,812	18,259	71,818	59,958
Total institutional sales and trading	46,304	38,285	134,591	119,296
Management and performance fees	1,353	1,898	4,112	3,926
Investment income	4,472	7,274	14,009	22,194
Long-term financing expenses	(2,253 )	(1,668 )	(6,838 )	(4,781 )
Net revenues	186,483	137,660	484,871	425,991
Operating expenses (1)	169,745	129,224	460,628	369,114
Segment pre-tax operating income	\$ 16,738	\$ 8,436	\$ 24,243	\$ 56,877
Segment pre-tax operating margin	9.0	% 6.1	% 5.0	% 13.4

Continued on next page

# Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Asset Management				
Management and performance fees				
Management fees	\$ 13,903	\$ 17,053	\$ 39,587	\$ 54,596
Performance fees	—	—	—	208
Total management and performance fees	13,903	17,053	39,587	54,804
Investment income/(loss)	461	(5,096 )	428	(5,241 )
Net revenues	14,364	11,957	40,015	49,563
Operating expenses (1)	12,651	13,605	35,856	42,501
Segment pre-tax operating income/(loss)	\$ 1,713	\$ (1,648 )	\$ 4,159	\$ 7,062
Segment pre-tax operating margin	11.9	% (13.8 )%	10.4	% 14.2 %
Total				
Net revenues	\$ 200,847	\$ 149,617	\$ 524,886	\$ 475,554
Operating expenses (1)	182,396	142,829	496,484	411,615
Pre-tax operating income	\$ 18,451	\$ 6,788	\$ 28,402	\$ 63,939
Pre-tax operating margin	9.2	% 4.5	% 5.4	% 13.4 %

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Capital Markets	\$ 6,623	\$ 263	\$ 11,239	\$ 789
Asset Management	1,387	1,510	4,161	4,530
Total intangible asset amortization expense	\$ 8,010	\$ 1,773	\$ 15,400	\$ 5,319

Reportable segment assets are as follows:

	September 30, December 31,	
(Dollars in thousands)	2016	2015
Capital Markets	\$ 1,974,983	\$ 1,870,272
Asset Management	236,340	268,246
	\$ 2,211,323	\$ 2,138,518



Table of Contents

Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 20 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 September 30, 2016, net capital calculated under the SEC rule was \$184.8 million, and exceeded the minimum net capital required under the SEC rule by \$183.0 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. and SCIL, broker dealer subsidiaries registered in the United Kingdom, are subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of September 30, 2016, Piper Jaffray Ltd. and SCIL were 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 September 30, 2016, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.



Table of Contents

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

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

Explanation of Non-GAAP Financial Measures

We have included financial measures that are not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include adjustments to exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions, (3) compensation from acquisition-related agreements and (4) restructuring and acquisition integration costs. These adjustments affect the following financial measures: net revenues, compensation expenses, non-compensation expenses, net income applicable to Piper Jaffray Companies, earnings per diluted common share, 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 our operating results across periods, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of financial performance prepared in accordance with U.S. GAAP.

## Table of Contents

### Executive Overview

Our business principally consists of 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 and Asset Management. Refer to our Annual Report on Form 10-K for the year ended December 31, 2015 for a full description of our business.

Since the second quarter of 2015, we have made significant progress on our strategic growth initiatives, primarily by expanding into new industry sectors within equity capital markets and the expansion of our fixed income middle market sales platform. The following is a summary of our most recent significant activity:

As part of our strategy to expand our equity investment banking business into the energy sector and grow our advisory business, on February 26, 2016, we completed the purchase of Simmons & Company International ("Simmons"), an employee-owned investment bank and broker dealer focused on the energy industry.

In the second quarter of 2015, we began expanding our equity investment banking business into the financial institutions sector through significant hiring in our Capital Markets segment.

On September 30, 2015, we built upon our expansion into the financial institutions sector by acquiring the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. The acquisition further strengthened our mergers and acquisitions leadership in the middle markets and added investment banking resources dedicated to banks, thrifts, and depository institutions.

- 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 expanded our fixed income institutional sales, trading and underwriting platforms. Additionally, it strengthened our strategic analytic and advisory capabilities.

For more information on our acquisitions, see Note 3 of our accompanying unaudited consolidated financial statements included in this report.

With respect to our Asset Management segment, an extended cycle of investors favoring passive investment vehicles over active management, combined with certain products having investment performance below their benchmarks, have reduced management and performance fees for this business and caused a corresponding decline in profitability. This business remains an important strategic focus for us, as it helps diversify our business mix from the Capital Markets segment. In the fourth quarter, we will conduct our annual goodwill impairment testing, including the goodwill associated with our Asset Management segment, which will be an area of focus for us given recent performance. For more information on our goodwill impairment testing in this area, please refer to our "Critical Accounting Policies" section.

Table of Contents

## Financial Highlights

(Amounts in thousands, except per share data)	Three Months Ended			Nine Months Ended		
	Sept. 30, 2016	Sept. 30, 2015	Percent Inc/(Dec)	Sept. 30, 2016	Sept. 30, 2015	Percent Inc/(Dec)
<b>U.S. GAAP</b>						
Net revenues	\$200,847	\$149,617	34.2 %	\$524,886	\$475,554	10.4 %
Compensation and benefits expenses	135,186	96,132	40.6	356,770	295,543	20.7
Non-compensation expenses	47,210	46,697	1.1	139,714	116,072	20.4
Net income applicable to Piper Jaffray Companies	10,658	4,831	120.6	15,033	38,802	(61.3 )
Earnings per diluted common share	\$0.70	\$0.32	118.8	\$0.97	\$2.46	(60.6 )
<b>Non-GAAP<sup>(1)</sup></b>						
Adjusted net revenues	\$199,001	\$148,394	34.1 %	\$518,396	\$468,012	10.8 %
Adjusted compensation and benefits expenses	127,010	95,442	33.1	335,226	292,698	14.5
Adjusted non-compensation expenses	38,632	42,589	(9.3 )	112,220	106,247	5.6
Adjusted net income applicable to Piper Jaffray Companies	20,976	7,250	189.3	45,523	44,703	1.8
Adjusted earnings per diluted common share	\$1.37	\$0.48	185.4	\$2.95	\$2.83	4.2

## For the three months ended September 30, 2016

Net revenues increased 34.2 percent from the year-ago period due primarily to higher investment banking revenues. Higher fixed income institutional brokerage revenues also contributed to the increase.

Compensation and benefits expenses increased 40.6 percent compared with the prior-year period due to higher compensation expenses arising from increased revenues, as well as higher acquisition-related compensation costs.

Non-compensation expenses were up slightly compared to the year-ago period. In the third quarter of 2016, non-compensation expenses included intangible amortization expense and other incremental costs related to our recent acquisitions of Simmons, BMO GKST and River Branch. Non-compensation expenses in the prior-year period included a \$9.8 million charge related to a legal settlement.

Adjusted earnings per diluted common share was \$1.37 for the three months ended September 30, 2016, compared to \$0.48 per diluted common share in the year-ago period. On an adjusted basis, the impact of the \$9.8 million, pre-tax, legal settlement charge was \$0.39 per diluted common share in the third quarter of 2015.

## For the nine months ended September 30, 2016

Net revenues increased 10.4 percent from the year-ago period, as higher debt financing, advisory services and fixed income institutional brokerage revenues were partially offset by lower equity financing and asset management revenues.

Compensation and benefits expenses were up 20.7 percent compared to the year-ago period due primarily to higher compensation expenses arising from increased revenues, as well as additional compensation expenses associated with our recent acquisitions.

For the nine months ended September 30, 2016, non-compensation expenses increased 20.4 percent compared with the nine months ended September 30, 2015, as higher acquisition-related expenses and higher costs as a result of business expansion were partially offset by a \$9.8 million settlement of a legal matter in the prior-year period.

For the twelve months ended September 30, 2016, our rolling twelve month return on average common shareholders' equity was 3.6 percent, compared with 6.3 percent for the rolling twelve months ended September 30, 2015. On an adjusted basis, we generated a rolling twelve month return on average common shareholders' equity of 8.4 percent<sup>(2)</sup> for the twelve months ended September 30, 2016, compared with 7.3 percent<sup>(2)</sup> for rolling twelve months ended

September 30, 2015.

Table of Contents

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

(Amounts in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net revenues:				
Net revenues – U.S. GAAP basis	\$200,847	\$149,617	\$524,886	\$475,554
Adjustments:				
Revenue related to noncontrolling interests	(1,846 )	(1,223 )	(6,490 )	(7,542 )
Adjusted net revenues	\$199,001	\$148,394	\$518,396	\$468,012
Compensation and benefits:				
Compensation and benefits – U.S. GAAP basis	\$135,186	\$96,132	\$356,770	\$295,543
Adjustments:				
Compensation from acquisition-related agreements	(8,176 )	(690 )	(21,544 )	(2,845 )
Adjusted compensation and benefits	\$127,010	\$95,442	\$335,226	\$292,698
Non-compensation expenses:				
Non-compensation expenses – U.S. GAAP basis	\$47,210	\$46,697	\$139,714	\$116,072
Adjustments:				
Non-compensation expenses related to noncontrolling interests	(568 )	(839 )	(1,888 )	(3,010 )
Restructuring and integration costs	—	(1,496 )	(10,206 )	(1,496 )
Amortization of intangible assets related to acquisitions	(8,010 )	(1,773 )	(15,400 )	(5,319 )
Adjusted non-compensation expenses	\$38,632	\$42,589	\$112,220	\$106,247
Net income applicable to Piper Jaffray Companies:				
Net income applicable to Piper Jaffray Companies – U.S. GAAP basis	\$10,658	\$4,831	\$15,033	\$38,802
Adjustments:				
Compensation from acquisition-related agreements	5,424	422	14,067	1,738
Restructuring and integration costs	—	914	7,014	914
Amortization of intangible assets related to acquisitions	4,894	1,083	9,409	3,249
Adjusted net income applicable to Piper Jaffray Companies	\$20,976	\$7,250	\$45,523	\$44,703
Earnings per diluted common share:				
Earnings per diluted common share – U.S. GAAP basis	\$0.70	\$0.32	\$0.97	\$2.46
Adjustments:				
Compensation from acquisition-related agreements	0.36	0.03	0.91	0.11
Restructuring and integration costs	—	0.06	0.45	0.06
Amortization of intangible assets related to acquisitions	0.32	0.07	0.61	0.21
Adjusted earnings per diluted common share	\$1.37	\$0.48	\$2.95	\$2.83

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).

## Table of Contents

### 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, often unpredictable and at times inherently volatile. 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 and credit spreads (especially rapid and extreme changes), 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 active asset management services.

Factors that differentiate our business within the financial services industry also may affect our financial results. For example, our capital markets business focuses on specific industry sectors while serving principally middle-market clientele. If the business environment for our focus sectors is impacted adversely, our business and results of operations could reflect these impacts. In addition, our business, with its specific areas of focus and investment, may not track 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 the remainder of 2016

We believe the U.S. economy will continue its sluggish growth pattern for the remainder of 2016. Risks to continued growth include, among other factors, ongoing or accelerating weakness in major international economies, European economic uncertainty following the Brexit vote, and geopolitical conditions, any of which, or in some combination, could adversely impact the rate of growth in the U.S. and could inject volatility into the U.S. equity and debt markets. The 2016 U.S. presidential election also could influence the volatility or direction of markets based on investors' assessment of the outcome and the overall political outlook in the United States. In addition, the U.S. Federal Reserve has signaled its intent to begin moving to a more normalized interest rate environment, likely in the coming months, in light of the continued solid performance of the labor market and the outlook for economic activity and inflation. A rising interest rate environment may have an adverse impact to certain of our businesses.

Equity capital raising conditions improved in the third quarter of 2016 after a sluggish start to the year, driven by low volatility and improving equity valuations. We believe that equity financing activity will remain relatively consistent through the end of the year, absent any episodes of heightened volatility or significant declines in equity market valuations. While lower volatility benefited our capital raising business, it adversely impacted our equity sales and trading business; however, sustained market volatility or prolonged market correction may be disruptive to our capital raising activities. Mergers and acquisition activity levels were strong in our advisory services business in the third quarter of 2016, outpacing markets in which we compete that were generally flat to declining. We believe this business will continue to perform well through the end of 2016 on the strength of our market position, recent investments, and sustained CEO confidence levels. Advisory services revenues for any given quarter are impacted by the timing and size of the deals' closings, which can result in fluctuations in revenues period over period.

Fixed income market conditions continued to be accommodative in the third quarter of 2016 as market-wide municipal issuance volumes remained strong and sales and trading volumes increased. Our geographic range and industry expertise drove our strong performance in public finance. We believe that the current level of municipal debt underwriting activity will continue into the fourth quarter of 2016. Higher trading volumes and a broader trading

platform drove our fixed income institutional brokerage revenues in the current quarter; however, periods of interest rate uncertainty or volatility may adversely impact our fixed income institutional brokerage business. We generally anticipate maintaining a conservative bias in managing our inventories and hedging strategies as we assess the quality and direction of the market on an ongoing basis.

Asset management revenues will continue to be affected by valuations and investment performance, as well as broad market trends, such as the shift from active to passive management. Our investment performance, both absolute and relative, will influence both the total amount of assets under management and the level of net flows into our products. The variety of investment strategies we offer may also impact the total assets under management and net flows we experience.

Table of Contents

## Results of Operations

## Financial Summary for the three months ended September 30, 2016 and September 30, 2015

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.

	Three Months Ended September 30,			As a Percentage of Net Revenues for the Three Months Ended September 30,		
(Dollars in thousands)	2016	2015	2016 v2015	2016	2015	
Revenues:						
Investment banking	\$136,682	\$91,640	49.2 %	68.1 %	61.2 %	
Institutional brokerage	42,189	34,182	23.4	21.0	22.8	
Asset management	15,256	18,951	(19.5 )	7.6	12.7	
Interest	7,343	9,128	(19.6 )	3.7	6.1	
Investment income	4,806	831	478.3	2.4	0.6	
Total revenues	206,276	154,732	33.3	102.7	103.4	
Interest expense	5,429	5,115	6.1	2.7	3.4	
Net revenues	200,847	149,617	34.2	100.0	100.0	
Non-interest expenses:						
Compensation and benefits	135,186	96,132	40.6	67.3	64.3	
Outside services	10,288	9,316	10.4	5.1	6.2	
Occupancy and equipment	8,743	7,025	24.5	4.4	4.7	
Communications	7,845	6,234	25.8	3.9	4.2	
Marketing and business development	7,629	6,965	9.5	3.8	4.7	
Trade execution and clearance	2,008	1,982	1.3	1.0	1.3	
Restructuring and integration costs	—	1,496	N/M	—	1.0	
Intangible asset amortization expense	8,010	1,773	351.8	4.0	1.2	
Other operating expenses	2,687	11,906	(77.4 )	1.3	8.0	
Total non-interest expenses	182,396	142,829	27.7	90.8	95.5	
Income before income tax expense	18,451	6,788	171.8	9.2	4.5	
Income tax expense	6,515	1,573	314.2	3.2	1.1	
Net income	11,936	5,215	128.9	5.9	3.5	
Net income applicable to noncontrolling interests	1,278	384	232.8	0.6	0.3	
Net income applicable to Piper Jaffray Companies	\$10,658	\$4,831	120.6 %	5.3 %	3.2 %	



N/M – Not meaningful

For the three months ended September 30, 2016, we recorded net income applicable to Piper Jaffray Companies of \$10.7 million. Net revenues for the three months ended September 30, 2016 were \$200.8 million, a 34.2 percent increase compared to \$149.6 million in the year-ago period. In the third quarter of 2016, investment banking revenues were \$136.7 million, compared with \$91.6 million in the prior-year period, due to strong performances in each of our investment banking businesses. For the three months ended September 30, 2016, institutional brokerage revenues increased 23.4 percent to \$42.2 million, compared with \$34.2 million in the third quarter of 2015, driven by higher fixed income institutional brokerage revenues. In the third quarter of 2016, asset management fees of \$15.3 million were down 19.5 percent compared with \$19.0 million in the third quarter of 2015 due to

## Table of Contents

lower management fees from both our value equity and master limited partnership ("MLP") product offerings. For the three months ended September 30, 2016, net interest income was \$1.9 million, compared with \$4.0 million in the prior-year period. The decrease primarily resulted from lower interest income earned on mortgage-backed securities as a result of lower inventory balances, the liquidation of our municipal bond fund with outside investors in the second half of 2015, and additional interest expense on our senior notes due to an increase in the amount of debt outstanding and a higher cost as we shifted from variable to fixed rate through our refinancing in late 2015. In the third quarter of 2016, investment income was \$4.8 million, compared with \$0.8 million in the prior-year period. In the current quarter, we recorded gains on the investments in registered funds that we manage versus losses in the prior-year period, which were partially offset by lower gains on our investment and the noncontrolling interests in the merchant banking fund that we manage. Also, in the prior-year period, we recorded losses on our investment and the noncontrolling interests in the municipal bond fund with outside investors that we liquidated in the fourth quarter of 2015. Non-interest expenses were \$182.4 million for the three months ended September 30, 2016, up 27.7 percent compared to \$142.8 million in the prior-year period, due to increased compensation expense driven by higher revenues. Additionally, the third quarter of 2016 included incremental expenses from our expansion into the energy and financial institutions sectors over the past year, including an additional \$6.2 million of intangible amortization expense resulting from our recent acquisitions. These increases were partially offset by lower legal reserves resulting from a \$9.8 million settlement of a legal matter during the third quarter of 2015.

### Consolidated Non-Interest Expenses

**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. We have granted restricted stock with service conditions as a component of our acquisition deal consideration, which is amortized to compensation expense over the service period.

For the three months ended September 30, 2016, compensation and benefits expenses increased to \$135.2 million, compared with \$96.1 million in the corresponding period of 2015. Compensation and benefits expenses as a percentage of net revenues was 67.3 percent in the third quarter of 2016, compared with 64.3 percent in the third quarter of 2015. The increased compensation ratio was attributable to increased acquisition-related compensation.

**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 were \$10.3 million in the third quarter of 2016, compared with \$9.3 million in the corresponding period of 2015. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 25.6 percent due primarily to higher professional fees, as well as incremental expenses related to our recent acquisitions.

**Occupancy and Equipment** – For the three months ended September 30, 2016, occupancy and equipment expenses increased 24.5 percent to \$8.7 million, compared with \$7.0 million for the three months ended September 30, 2015. The increase was primarily the result of incremental occupancy expenses from business expansion efforts associated with our acquisitions of River Branch and BMO GKST completed during the third and fourth quarters of 2015, respectively, and our acquisition of Simmons completed during the first quarter of 2016.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the three months ended September 30, 2016, communication expenses increased 25.8 percent to \$7.8 million, compared with \$6.2 million for the three months ended September 30, 2015, due to higher market data services, primarily resulting from additional headcount associated with our acquisitions of River Branch, BMO GKST, and Simmons.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. For the three months ended September 30, 2016, marketing and business development expenses increased 9.5 percent to \$7.6 million, compared with \$7.0 million in the corresponding period of 2015. The increase was driven by higher travel expenses, offset by a decline in third party marketing fees.

## Table of Contents

**Trade Execution and Clearance** – For the three months ended September 30, 2016, trade execution and clearance expenses were \$2.0 million, flat compared with the corresponding period of 2015.

**Restructuring and Integration Costs** – In the third quarter of 2015, we recorded restructuring and integration costs of \$1.5 million primarily related to the acquisitions of River Branch and BMO GKST. The expenses consisted of \$1.0 million of severance benefits, \$0.3 million of transaction costs, and \$0.2 million of contract termination costs.

**Intangible Asset Amortization Expense** – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of customer relationships and the Simmons trade name. For the three months ended September 30, 2016, intangible asset amortization expense was \$8.0 million, compared with \$1.8 million in the three months ended September 30, 2015. The increase was due to incremental intangible amortization expense for the acquisitions of River Branch, BMO GKST, and Simmons. In the third quarter of 2016, we recorded a measurement period adjustment to reflect the final fair value of Simmons intangible assets. Based on this final fair value, we recorded additional amortization expense of \$2.3 million in the third quarter.

**Other Operating Expenses** – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses were \$2.7 million in the third quarter of 2016, compared with \$11.9 million in the third quarter of 2015. Legal reserves were higher in the third quarter of 2015 due to a \$9.8 million charge resulting from settlement of a legal matter.

**Income Taxes** – For the three months ended September 30, 2016, our provision for income taxes was \$6.5 million equating to an effective tax rate, excluding noncontrolling interests, of 37.9 percent, compared with \$1.6 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 24.6 percent. The reduced effective tax rate in the prior-year period was due to the impact of tax-exempt interest income representing a larger proportion of pre-tax income.

## Segment Performance

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, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP segment results should be considered in addition to, not as a substitute for, the segment results prepared in accordance with U.S. GAAP.

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.

Table of Contents

## Capital Markets

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

	Three Months Ended September 30, 2016				2015				
		Adjustments (1)				Adjustments (1)			
(Dollars in thousands)	Total	Noncontrolling	Other	U.S.	Total	Noncontrolling	Other	U.S.	
	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP	
Investment banking									
Financing									
Equities	\$30,479	\$—	\$ —	\$30,479	\$24,290	\$—	\$ —	\$24,290	
Debt	30,898	—	—	30,898	20,446	—	—	20,446	
Advisory services	75,230	—	—	75,230	47,135	—	—	47,135	
Total investment banking	136,607	—	—	136,607	91,871	—	—	91,871	
Institutional sales and trading									
Equities	20,492	—	—	20,492	20,026	—	—	20,026	
Fixed income	25,399	413	—	25,812	18,259	—	—	18,259	
Total institutional sales and trading	45,891	413	—	46,304	38,285	—	—	38,285	
Management and performance fees	1,353	—	—	1,353	1,898	—	—	1,898	
Investment income	3,039	1,433	—	4,472	6,051	1,223	—	7,274	
Long-term financing expenses	(2,253 )	—	—	(2,253 )	(1,668 )	—	—	(1,668 )	
Net revenues	184,637	1,846	—	186,483	136,437	1,223	—	137,660	
Operating expenses	154,378	568	14,799	169,745	125,936	839	2,449	129,224	
Segment pre-tax operating income	\$30,259	\$1,278	\$(14,799 )	\$16,738	\$10,501	\$384	\$(2,449 )	\$8,436	
Segment pre-tax operating margin	16.4	%		9.0	%	7.7	%	6.1	%

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

	Three Months Ended September 30,	
(Dollars in thousands)	2016	2015
Compensation from acquisition-related agreements	\$8,176	\$690
Restructuring and integration costs	—	1,496
Amortization of intangible assets related to acquisitions	6,623	263
	\$14,799	\$2,449

Capital Markets net revenues on a U.S. GAAP basis were \$186.5 million for the three months ended September 30, 2016, compared with \$137.7 million in the prior-year period. For the three months ended September 30, 2016, adjusted net revenues were \$184.6 million, compared with \$136.4 million in the third quarter of 2015. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis.

## Table of Contents

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 the third quarter of 2016, investment banking revenues increased 48.7 percent to \$136.6 million, compared with \$91.9 million in the corresponding period of the prior year. For the three months ended September 30, 2016, equity financing revenues were \$30.5 million, an increase of 25.5 percent compared with \$24.3 million in the prior-year period, due to more completed transactions and higher revenue per transaction. The equity capital raising environment continues to improve from the trough we experienced in the first quarter of 2016, driven by low volatility and improving equity valuations. Our results reflect strong, relative performance and included significant contributions from both the energy and financial institutions sectors. During the third quarter of 2016, we completed 25 equity financings, raising \$4.9 billion for our clients, compared with 22 equity financings, raising \$3.0 billion for our clients in the comparable year-ago period. Debt financing revenues for the three months ended September 30, 2016 were \$30.9 million, up 51.1 percent compared with \$20.4 million in the year-ago period, due to higher public finance revenues which resulted from robust market conditions, driven by low interest rates and increased new money issuance volumes, combined with increased market share attributable to our geographic expansion and other investments in the business. During the third quarter of 2016, we completed 180 negotiated municipal issues with a total par value of \$3.8 billion, compared with 159 negotiated municipal issues with a total par value of \$3.3 billion during the prior-year period. For the three months ended September 30, 2016, advisory services revenues were \$75.2 million, up 59.6 percent compared to \$47.1 million in the third quarter of 2015. The increase reflects our long-term effort to grow our advisory services business, including expansion into the energy and financial institutions sectors over the past year, as well as significant market share gains as our revenues increased more than 50 percent while mergers and acquisitions markets in which we compete were generally flat to declining. We completed 46 transactions with an aggregate enterprise value of \$5.8 billion in the third quarter of 2016, compared with 23 transactions with an aggregate enterprise value of \$7.0 billion in the third quarter of 2015.

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 three months ended September 30, 2016, institutional brokerage revenues were \$46.3 million, an increase of 20.9 percent compared with \$38.3 million in the prior-year period, due to higher fixed income institutional brokerage revenues. Equity institutional brokerage revenues were \$20.5 million in the third quarter of 2016, compared with \$20.0 million in the corresponding period of 2015. Incremental equity institutional brokerage revenues resulting from our expansion into the energy sector were offset by a decline in client trading volumes driven by low levels of volatility in the equity markets. For the three months ended September 30, 2016, fixed income institutional brokerage revenues were \$25.8 million, up 41.4 percent compared with \$18.3 million in the prior-year period, due to increased market volumes, particularly in the municipal asset class, as well as incremental revenues resulting from our acquisition of BMO GKST in the fourth quarter of 2015.

Management and performance fees include the fees generated from our energy, municipal bond, merchant banking and senior living funds with outside investors. For the three months ended September 30, 2016, management and performance fees were \$1.4 million, compared with \$1.9 million in the prior-year period, due to lower performance



fees from our merchant banking fund, as well as lower management fees from a municipal bond fund, which we closed in the third quarter of 2015. The decrease was partially offset by incremental management fees generated from two energy funds, which we acquired with the Simmons acquisition.

Investment income includes realized and unrealized gains and losses on investments, including amounts attributable to noncontrolling interests, in our merchant banking fund, municipal bond fund, and other firm investments. For the three months ended September 30, 2016, investment income was \$4.5 million, compared to \$7.3 million in the corresponding period of 2015. In the third quarter of 2015, we recorded higher gains from the merchant banking fund that we manage. Excluding the impact of noncontrolling interests, adjusted investment income was \$3.0 million for the three months ended September 30, 2016.

Long-term financing expenses primarily represent interest paid on our senior notes. For the three months ended September 30, 2016, long-term financing expenses increased to \$2.3 million, from \$1.7 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.

Table of Contents

Capital Markets segment pre-tax operating margin for the three months ended September 30, 2016 was 9.0 percent, compared with 6.1 percent for the corresponding period of 2015. Pre-tax operating margin was higher in the third quarter of 2016 compared to the prior-year period due to lower non-compensation costs resulting from a legal settlement in the third quarter of 2015. However, higher acquisition-related costs depressed the current quarter margin. Adjusted segment pre-tax operating margin for the three months ended September 30, 2016 was 16.4 percent, compared with 7.7 percent for the corresponding period of 2015. Adjusted pre-tax operating margin was higher compared to the third quarter of 2015 as non-compensation expenses decreased primarily as a result of a legal settlement in the prior-year period.

## Asset Management

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

	Three Months Ended September 30, 2016			2015		
	Total	Adjustments (1)	Noncontrolling U.S. Interests	Total	Adjustments (1)	Noncontrolling U.S. Interests
(Dollars in thousands)	Adjusted	Other Adjustments	GAAP	Adjusted	Other Adjustments	GAAP
Management fees						
Value equity	\$6,750	\$ —	\$6,750	\$8,997	\$ —	\$8,997
MLP	7,153	—	7,153	8,056	—	8,056
Total management fees	13,903	—	13,903	17,053	—	17,053
Performance fees						
Value equity	—	—	—	—	—	—
MLP	—	—	—	—	—	—
Total performance fees	—	—	—	—	—	—
Total management and performance fees	13,903	—	13,903	17,053	—	17,053
Investment income/(loss)	461	—	461	(5,096 )	—	(5,096 )
Total net revenues	14,364	—	14,364	11,957	—	11,957
Operating expenses	11,264	— 1,387	12,651	12,095	— 1,510	13,605
Segment pre-tax operating income/(loss)	\$3,100	\$ — (1,387 )	\$1,713	\$(138 )	\$ — (1,510 )	\$(1,648)
Segment pre-tax operating margin	21.6 %		11.9 %	(1.2 )%		(13.8 )%
Adjusted segment pre-tax operating margin excluding investment income/(loss) (2)	19.0 %			29.1 %		

Other Adjustments – Amortization of intangible assets related to acquisitions of \$1.4 million and \$1.5 million for (1) the three months ended September 30, 2016 and 2015, respectively, is not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin for the periods presented.

Management believes that presenting adjusted segment pre-tax operating margin excluding investment (2) 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. Client asset inflows and outflows and investment performance 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

Table of Contents

upon withdrawal of client assets. At September 30, 2016, approximately five percent of our AUM was eligible to earn performance fees.

For the three months ended September 30, 2016, management fees were \$13.9 million, a decrease of 18.5 percent, compared with \$17.1 million in the prior-year period, due to lower management fees from both our value equity and MLP product offerings. In the third quarter of 2016, management fees related to our value equity strategies were \$6.8 million, down 25.0 percent compared to \$9.0 million in the corresponding period of 2015, driven by lower average AUM resulting from net client outflows. The majority of these outflows were in the first quarter of 2016, and have stabilized as the year progressed with significantly lower net outflows in the last two quarters. Management fees from our MLP strategies decreased 11.2 percent in the third quarter of 2016 to \$7.2 million, compared with \$8.1 million in the third quarter of 2015. The decline in management fees resulted from lower average AUM, driven by a decline in MLP valuations in the second half of 2015.

Investment income/(loss) includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. For the three months ended September 30, 2016, investment income was \$0.5 million compared with a loss of \$5.1 million for the prior-year period.

Segment pre-tax operating margin for the three months ended September 30, 2016 was 11.9 percent, compared to a negative 13.8 percent for the three months ended September 30, 2015. The variability in investment income/(loss), along with lower management fees, drove the variance in segment pre-tax operating margin. Excluding investment income/(loss) on firm capital invested in our strategies, adjusted operating margin declined from 29.1 percent in the third quarter of 2015 to 19.0 percent in the third quarter of 2016, due to lower management fees.

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

	Three Months Ended		Twelve Months Ended
	September 30,		September 30,
(Dollars in millions)	2016	2015	2016
<b>Value Equity</b>			
Beginning of period	\$3,681	\$5,757	\$ 5,054
Net outflows	(103 )	(208 )	(1,585 )
Net market appreciation/(depreciation)	300	(495 )	409
End of period	\$3,878	\$5,054	\$ 3,878
<b>MLP</b>			
Beginning of period	\$4,410	\$5,626	\$ 4,309
Net inflows/(outflows)	(122 )	154	(148 )
Net market appreciation/(depreciation)	263	(1,471 )	390
End of period	\$4,551	\$4,309	\$ 4,551
<b>Total</b>			
Beginning of period	\$8,091	\$11,383	\$ 9,363
Net outflows	(225 )	(54 )	(1,733 )
Net market appreciation/(depreciation)	563	(1,966 )	799
End of period	\$8,429	\$9,363	\$ 8,429

Total AUM was \$8.4 billion at September 30, 2016. Both value equity and MLP AUM increased during the quarter as net market appreciation more than offset net client outflows.

Table of Contents

Financial Summary for the nine months ended September 30, 2016 and September 30, 2015

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.

	Nine Months Ended			As a Percentage of Net Revenues for the Nine Months Ended		
	September 30,			September 30,		
	2016			2015		
(Dollars in thousands)	2016	2015	2016 v2015	2016	2015	
Revenues:						
Investment banking	\$338,034	\$284,786	18.7 %	64.4 %	59.9 %	
Institutional brokerage	122,423	106,879	14.5	23.3	22.5	
Asset management	43,699	58,730	(25.6 )	8.3	12.3	
Interest	24,094	32,755	(26.4 )	4.6	6.9	
Investment income	14,019	10,123	38.5	2.7	2.1	
Total revenues	542,269	493,273	9.9	103.3	103.7	
Interest expense	17,383	17,719	(1.9 )	3.3	3.7	
Net revenues	524,886	475,554	10.4	100.0	100.0	
Non-interest expenses:						
Compensation and benefits	356,770	295,543	20.7	68.0	62.1	
Outside services	28,923	26,385	9.6	5.5	5.5	
Occupancy and equipment	25,311	20,791	21.7	4.8	4.4	
Communications	22,469	17,650	27.3	4.3	3.7	
Marketing and business development	23,804	21,186	12.4	4.5	4.5	
Trade execution and clearance	5,686	5,956	(4.5 )	1.1	1.3	
Restructuring and integration costs	10,206	1,496	582.2	1.9	0.3	
Intangible asset amortization expense	15,400	5,319	189.5	2.9	1.1	
Other operating expenses	7,915	17,289	(54.2 )	1.5	3.6	
Total non-interest expenses	496,484	411,615	20.6	94.6	86.6	
Income before income tax expense	28,402	63,939	(55.6 )	5.4	13.4	
Income tax expense	8,767	20,605	(57.5 )	1.7	4.3	
Net income	19,635	43,334	(54.7 )	3.7	9.1	
Net income applicable to noncontrolling interests	4,602	4,532	1.5	0.9	1.0	
Net income applicable to Piper Jaffray Companies	\$15,033	\$38,802	(61.3 )%	2.9 %	8.2 %	

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

Table of Contents

For the nine months ended September 30, 2016, we recorded net income applicable to Piper Jaffray Companies of \$15.0 million. Net revenues for the nine months ended September 30, 2016 were \$524.9 million, compared to \$475.6 million in the year-ago period. In the first nine months of 2016, investment banking revenues were \$338.0 million, up 18.7 percent compared with \$284.8 million in the prior-year period as higher advisory services and debt financing revenues were partially offset by lower equity financing revenues. For the nine months ended September 30, 2016, institutional brokerage revenues increased 14.5 percent to \$122.4 million, compared with \$106.9 million in the first nine months of 2015, due to higher fixed income and equity institutional brokerage revenues driven by business expansion. In the first nine months of 2016, asset management fees decreased 25.6 percent to \$43.7 million, compared with \$58.7 million in the first nine months of 2015, due to lower management fees from our value equity and MLP product offerings. In the first nine months of 2016, net interest income decreased to \$6.7 million, compared with \$15.0 million in the prior-year period. The decrease primarily resulted from the liquidation of our municipal bond fund with outside investors in the second half of 2015, and additional interest expense on our senior notes. In addition, we had lower interest income earned on mortgage-backed and convertible securities as a result of lower inventory balances. For the nine months ended September 30, 2016, investment income was \$14.0 million, compared with \$10.1 million in the prior-year period. Non-interest expenses were \$496.5 million for the nine months ended September 30, 2016, compared with \$411.6 million in the year-ago period. The increase was primarily due to higher compensation expense driven by increased revenues and higher expenses resulting from our recent acquisitions and business expansion. Partially offsetting this increase was lower legal reserves associated with a \$9.8 million legal settlement in the third quarter of 2015.

## Consolidated Non-Interest Expenses

**Restructuring and Integration Costs** – For the nine months ended September 30, 2016, we recorded restructuring and acquisition integration costs of \$10.2 million primarily related to the acquisition of Simmons. The expenses consisted of \$6.6 million of severance, benefits and outplacement costs, \$1.3 million of vacated redundant leased office space, \$1.3 million of transaction costs, and \$1.0 million of contract termination costs. For the nine months ended September 30, 2015, we recorded restructuring and integration costs of \$1.5 million primarily related to the acquisitions of River Branch and BMO GKST. The expenses consisted of \$1.0 million of severance benefits, \$0.3 million of transaction costs, and \$0.2 million of contract termination costs.

**Income Taxes** – For the nine months ended September 30, 2016, our provision for income taxes was \$8.8 million equating to an effective tax rate, excluding noncontrolling interests, of 36.8 percent, compared with \$20.6 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 34.7 percent.



Table of Contents

## Segment Performance

## Capital Markets

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

(Dollars in thousands)	Nine Months Ended September 30, 2016				2015			
	Total Adjusted	Adjustments <sup>(1)</sup>		U.S. GAAP	Total Adjusted	Adjustments <sup>(1)</sup>		U.S. GAAP
		Noncontrolling Interests	Other Adjustments			Noncontrolling Interests	Other Adjustments	
Investment banking								
Equities	\$53,831	\$—	\$—	\$53,831	\$94,621	\$—	\$—	\$94,621
Debt	80,195	—	—	80,195	69,082	—	—	69,082
Advisory services	204,971	—	—	204,971	121,653	—	—	121,653
Total investment banking	338,997	—	—	338,997	285,356	—	—	285,356
Institutional sales and trading								
Equities	62,773	—	—	62,773	59,338	—	—	59,338
Fixed income	70,665	1,153	—	71,818	59,958	—	—	59,958
Total institutional sales and trading	133,438	1,153	—	134,591	119,296	—	—	119,296
Management and performance fees	4,112	—	—	4,112	3,926	—	—	3,926
Investment income	8,672	5,337	—	14,009	14,652	7,542	—	22,194
Long-term financing expenses	(6,838 )	—	—	(6,838 )	(4,781 )	—	—	(4,781 )
Net revenues	478,381	6,490	—	484,871	418,449	7,542	—	425,991
Operating expenses	415,760	1,888	42,980	460,628	361,188	3,010	4,916	369,114
Segment pre-tax operating income	\$62,621	\$4,602	\$ (42,980 )	\$24,243	\$57,261	\$4,532	\$ (4,916 )	\$56,877
Segment pre-tax operating margin	13.1 %			5.0 %	13.7 %			13.4 %

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

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

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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:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Compensation from acquisition-related agreements	\$21,544	\$2,631
Restructuring and integration costs	10,197	1,496
Amortization of intangible assets related to acquisitions	11,239	789
	\$42,980	\$4,916

Capital Markets net revenues on a U.S. GAAP basis were \$484.9 million for the nine months ended September 30, 2016, compared with \$426.0 million in the prior-year period. In the first nine months of 2016, Capital Markets adjusted net revenues were \$478.4 million, compared with \$418.4 million in the first nine months of 2015. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis.

## Table of Contents

In the first nine months of 2016, investment banking revenues increased to \$339.0 million, compared with \$285.4 million in the corresponding period of the prior year. For the nine months ended September 30, 2016, equity financing revenues were \$53.8 million, a decrease of 43.1 percent compared with \$94.6 million in the prior-year period, due primarily to fewer completed transactions during the first half of 2016. On a year-to-date basis, the overall fee pool in our markets is down approximately 50 percent. During the first nine months of 2016, we completed 48 equity financings, raising \$9.7 billion for our clients, compared with 83 equity financings, raising \$15.5 billion for our clients in the year-ago period. Debt financing revenues for the nine months ended September 30, 2016 were \$80.2 million, up 16.1 percent compared with \$69.1 million in the year-ago period, due to higher public finance revenues. Higher revenue per transaction, as well as gains in market share and favorable market conditions, drove the increase in revenues. During the first nine months of 2016, we completed 512 negotiated municipal issues with a total par value of \$11.6 billion, compared with 527 negotiated municipal issues with a total par value of \$11.7 billion during the prior-year period. For the nine months ended September 30, 2016, advisory services revenues increased 68.5 percent to \$205.0 million, compared with \$121.7 million in the first nine months of 2015, due to more completed transactions. We completed 104 transactions with an aggregate enterprise value of \$14.1 billion in the first nine months of 2016, compared with 57 transactions with an aggregate enterprise value of \$13.0 billion in the first nine months of 2015.

For the nine months ended September 30, 2016, institutional brokerage revenues increased 12.8 percent to \$134.6 million, compared with \$119.3 million in the prior-year period. Equity institutional brokerage revenues increased to \$62.8 million in the first nine months of 2016, compared with \$59.3 million in the corresponding period of 2015. For the nine months ended September 30, 2016, fixed income institutional brokerage revenues were \$71.8 million, up 19.8 percent compared with \$60.0 million in the prior-year period, due to increased market volumes, particularly in the municipal asset class, as well as incremental revenues from the BMO GKST acquisition.

For the nine months ended September 30, 2016, management and performance fees were \$4.1 million, up slightly compared with \$3.9 million in the prior-year period.

For the nine months ended September 30, 2016, investment income was \$14.0 million, compared to \$22.2 million in the corresponding period of 2015. In the first nine months of 2015, we recored higher gains in our merchant banking fund.

For the nine months ended September 30, 2016, long-term financing expenses increased to \$6.8 million, compared with \$4.8 million in the prior-year period, due to an increase in the amount of outstanding principal on our senior notes in the fourth quarter of 2015.

Capital Markets segment pre-tax operating margin for the nine months ended September 30, 2016 was 5.0 percent, compared with 13.4 percent for the corresponding period of 2015. The decrease in pre-tax operating margin was due to higher acquisition-related expenses. Adjusted segment pre-tax operating margin for the nine months ended September 30, 2016 was 13.1 percent, compared with 13.7 percent for the corresponding period of 2015.

# Table of Contents

## Asset Management

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

	Nine Months Ended September 30, 2016			2015		
	Adjustments (1)			Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Non-Controlling Interests	U.S. GAAP	Total Adjusted	Non-Controlling Interests	U.S. GAAP
Management fees						
Value equity	\$21,051	\$—	\$21,051	\$29,404	\$—	\$29,404
MLP	18,536	—	18,536	25,192	—	25,192
Total management fees	39,587	—	39,587	54,596	—	54,596
Performance fees						
Value equity	—	—	—	208	—	208
MLP	—	—	—	—	—	—
Total performance fees	—	—	—	208	—	208
Total management and performance fees	39,587	—	39,587	54,804	—	54,804
Investment income/(loss)	428	—	428	(5,241 )	—	(5,241 )
Total net revenues	40,015	—	40,015	49,563	—	49,563
Operating expenses	31,686	— 4,170	35,856	37,757	— 4,744	42,501
Segment pre-tax operating income	\$8,329	\$—\$ (4,170 )	\$4,159	\$11,806	\$—\$ (4,744 )	\$7,062
Segment pre-tax operating margin	20.8 %		10.4 %	23.8 %		14.2 %
Adjusted segment pre-tax operating margin excluding investment income/(loss) (2)	20.0 %			31.1 %		

(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:

	Nine Months Ended September 30,	
(Dollars in thousands)	2016	2015
Compensation from acquisition-related agreements	\$—	\$214
Restructuring and integration costs	9	—
Amortization of intangible assets related to acquisitions	4,161	4,530
	\$4,170	\$4,744

(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.

For the nine months ended September 30, 2016, management fees were \$39.6 million, a decrease of 27.5 percent, compared with \$54.6 million in the prior-year period, due to lower management fees from both our value equity and MLP product offerings. In the first nine months of 2016, management fees related to our value equity strategies were \$21.1 million, down 28.4 percent compared to \$29.4 million in the corresponding period of 2015, due to lower AUM. Management fees from our MLP strategies decreased 26.4 percent in the first nine months of 2016 to \$18.5 million, compared with \$25.2 million in the first nine months of 2015, due to lower average AUM, partially offset by a slightly higher average effective revenue yield. Our average effective revenue yield for our MLP strategies was 62 basis points for the nine months ended September 30, 2016, compared to 60 basis points for the corresponding period in the prior year.

Segment pre-tax operating margin for the nine months ended September 30, 2016 was 10.4 percent, compared to 14.2 percent for the nine months ended September 30, 2015. Excluding investment loss on firm capital invested in our strategies, adjusted operating margin declined from 31.1 percent in the first nine months of 2015 to 20.0 percent in the first nine months of 2016, due to lower management fees.

Table of Contents

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

	Nine Months Ended		Twelve Months Ended
(Dollars in millions)	September 30, 2016	2015	September 30, 2016
Value Equity			
Beginning of period	\$4,954	\$5,758	\$ 5,054
Net outflows	(1,379 )	(366 )	(1,585 )
Net market appreciation/(depreciation)	303	(338 )	409
End of period	\$3,878	\$5,054	\$ 3,878
MLP			
Beginning of period	\$3,924	\$5,711	\$ 4,309
Net inflows/(outflows)	(193 )	389	(148 )
Net market appreciation/(depreciation)	820	(1,791 )	390
End of period	\$4,551	\$4,309	\$ 4,551
Total			
Beginning of period	\$8,878	\$11,469	\$ 9,363
Net inflows/(outflows)	(1,572 )	23	(1,733 )
Net market appreciation/(depreciation)	1,123	(2,129 )	799
End of period	\$8,429	\$9,363	\$ 8,429

Total AUM decreased \$0.4 billion to \$8.4 billion in the first nine months of 2016. Value equity AUM was \$3.9 billion at September 30, 2016, compared with \$5.0 billion at December 31, 2015 as net client outflows of \$1.4 billion during the period were partially offset by net market appreciation of \$0.3 billion. The asset management industry has experienced an ongoing trend of investors favoring passive investment vehicles over active management. Our AUM outflows in the first nine months of 2016 reflected the impact of this trend, including a large investor in our all-cap product shifting to a passive investment. In addition, performance in our small/mid-cap and all-cap value strategies has lagged their relative benchmarks which has contributed to client outflows. MLP AUM increased to \$4.6 billion in the first nine months of 2016 as we experienced net market appreciation of \$0.8 billion which more than offset net client outflows of \$0.2 billion during the period.

## Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 2 to our unaudited consolidated financial statements, and are incorporated by reference.

## Table of Contents

### 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.

We believe that of our significant accounting policies, the following are our critical accounting policies:

- Valuation of Financial Instruments
- Goodwill and Intangible Assets
- Compensation Plans
- Income Taxes

See the "Critical Accounting Policies" section and Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for further information. See also Note 2, "Accounting Policies and Pronouncements" in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for changes to our significant accounting policies.

We anticipate completing our 2016 annual goodwill and intangible asset impairment testing in the fourth quarter of 2016. Impairment charges resulting from this valuation analysis could materially adversely affect our results of operations.

At September 30, 2016, \$196.8 million of our goodwill balance relates to our Asset Management segment. The estimated fair value of the Asset Management segment exceeded the related carrying value by approximately 45 percent as of October 31, 2015, the date of our most recent annual impairment testing. Our Asset Management segment has experienced significant net client outflows of AUM in 2016, primarily related to our value equity strategies, due to investment performance below benchmarks and an extended cycle of investors favoring passive investment vehicles over active management. This level of outflows was not anticipated at the time of the 2015 annual impairment assessment, however, AUM outflows have been partially offset by net market appreciation. For the nine months ended September 30, 2016, management and performance fees have declined 27.8 percent compared to the prior-year period, and profitability has declined 41.1 percent over the same time period. Changes in the assumptions underlying projected cash flows from the reporting unit or its EBITDA multiple, such as those resulting from market conditions or other factors, could result in an impairment of goodwill related to our Asset Management segment.

### 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.



Table of Contents

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 August 14, 2015, our board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2017. During the nine months ended September 30, 2016, we repurchased 1,536,226 shares of our common stock at an average price of \$38.89 per share for an aggregate purchase price of \$59.7 million related to this authorization. We have \$71.8 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 the first nine months of 2016, we purchased 255,164 shares or \$10.7 million of our common shares for this purpose.

## Leverage

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

	September 30, December 31,	
(Dollars in thousands)	2016	2015
Total assets	\$ 2,211,323	\$ 2,138,518
Deduct: Goodwill and intangible assets	(320,480 )	(248,506 )
Deduct: Assets from noncontrolling interests	(120,887 )	(88,590 )
Adjusted assets	\$ 1,769,956	\$ 1,801,422
 Total shareholders' equity	 \$ 839,017	 \$ 832,820
Deduct: Goodwill and intangible assets	(320,480 )	(248,506 )
Deduct: Noncontrolling interests	(54,537 )	(49,161 )
Tangible common shareholders' equity	\$ 464,000	\$ 535,153
 Leverage ratio (1)	 2.6	 2.6
 Adjusted leverage ratio (2)	 3.8	 3.4

(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. Our adjusted leverage ratio has increased in 2016 primarily as a result of an increase in goodwill and intangible assets related to our acquisition of Simmons.



Table of Contents

## Funding and Capital Resources

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

## Short-term financing

Our day-to-day funding and liquidity is obtained primarily through the use of commercial paper issuance, repurchase agreements, prime broker agreements, and bank lines of credit, and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory, which is a necessary part of our institutional brokerage 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 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 September 30, 2016:

(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	105.4	20.0	52.9
Weighted average maturity, in days	67	8	17
Weighted average maturity at issuance, in days	150	96	42

Prime Broker Arrangements – 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. Additionally, we have established a second overnight financing arrangement with another broker dealer related to our convertible securities inventories. Financing under these

arrangements is secured primarily by municipal securities, and collateral limitations could reduce the amount of funding available under these arrangements. Our prime broker financing activities are recorded net of receivables from trading activity. The funding is at the discretion of the prime brokers and could be denied subject to a notice period. At September 30, 2016, we had \$247.5 million of financing outstanding under these prime broker arrangements.

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 anticipate being able to renew the facility for another one-year term in the fourth quarter of 2016. At September 30, 2016, we had no advances against this line of credit.

Table of Contents

Uncommitted Lines – We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total \$185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have an uncommitted unsecured facility with one of these banks. All of these uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. More specifically, these lines are subject to approval by the respective bank each time an advance is requested and advances may be denied, which may be particularly true during times of market stress or market perceptions of our exposures. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At September 30, 2016, 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 2016 and 2015, respectively.

	Average Balance for the Three Months Ended			
(Dollars in millions)	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	
Funding source:				
Repurchase agreements	\$ 14.8	\$ 28.9	\$ 30.5	
Commercial paper	235.8	279.7	279.2	
Prime broker arrangements	200.6	169.2	159.0	
Short-term bank loans	—	6.4	0.8	
Total	\$451.2	\$484.2	\$469.5	
	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 arrangements	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

The average funding in the third quarter of 2016 decreased to \$451.2 million, compared with \$484.2 million during the second quarter of 2016, due to a decline in funding from commercial paper as we continued to manage average inventory balances to lower levels.

The following table presents the maximum daily funding amount by quarter for 2016 and 2015, respectively.

(Dollars in millions)	2016	2015
First Quarter	\$576.4	\$949.8
Second Quarter	\$669.7	\$876.0
Third Quarter	\$525.6	\$666.1
Fourth Quarter		\$531.7

## 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 September 30, 2016 and December 31, 2015, respectively.

	Outstanding Balance	
	September 30,	December 31,
(Dollars in thousands)	2016	2015
Class A Notes	\$ 50,000	\$ 50,000
Class C Notes	125,000	125,000
Total senior notes	\$ 175,000	\$ 175,000

Table of Contents

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 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. At September 30, 2016, we were in compliance with all covenants.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2015, except for our operating lease obligations. On April 5, 2016, we entered into a new lease agreement for our capital markets business in Chicago, Illinois. In addition, we acquired several leases in connection with our acquisition of Simmons.

	Remainder of	2017	2019	2021 and thereafter	Total
(Dollars in millions)	2016	-	-		
Operating lease obligations	\$ 4.0	\$27.2	\$22.5	\$ 26.7	\$80.4

Capital Requirements

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority ("FINRA"), Piper Jaffray & Co., 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 September 30, 2016, our net capital under the SEC's uniform net capital rule was \$184.8 million, and exceeded the minimum net capital required under the SEC rule by \$183.0 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.

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

At September 30, 2016, Piper Jaffray Ltd. and Simmons & Company International Limited, our broker dealer subsidiaries registered in the United Kingdom, were subject to, and were 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 September 30, 2016, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.



Table of Contents

## Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance sheet arrangements for the periods presented:

(Dollars in thousands)	Expiration Per Period at December 31,					Total Contractual Amount	
	2016	2017	2018 - 2019	2020 - 2021	2022 - Later	September 30, 2016	December 31, 2015
Customer matched-book derivative contracts (1) (2)	\$22,008	\$40,950	\$ —	\$69,226	\$67,690	\$3,307,644	\$3,507,518 \$ 4,392,440
Trading securities derivative contracts (2)	271,600	100,000	—	—	—	29,750	401,350 290,600
Credit default swap index contracts (2)	—	—	—	5,000	58,000	—	63,000 94,270
Futures and equity option derivative contracts (2)	271	—	—	—	—	—	271 2,345,037
Investment commitments (3)	—	—	—	—	—	—	24,587 32,819

Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with one major financial institution, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$184.9 million at (1) September 30, 2016) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At September 30, 2016, we had \$29.1 million of credit exposure with these counterparties, including \$21.9 million of credit exposure with one counterparty.

We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we (2) believe the notional or contract amount overstates the expected payout. At September 30, 2016 and December 31, 2015, the net fair value of these derivative contracts approximated \$36.4 million and \$31.8 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 4, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our unaudited consolidated financial statements.

## Loan Commitments

We may commit to bridge loan financing for our clients. We had no loan commitments outstanding at September 30, 2016.

## Investment Commitments

Our private equity and principal investments, including those made as part of our merchant banking activities, are made through investments in 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.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had \$24.6 million of commitments outstanding at September 30, 2016, of which \$15.6 million relate to an affiliated merchant banking fund and \$5.5 million relate to an affiliated fund, which provides financing for senior living facilities.

## Table of Contents

### 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 financial risk committees to assist in governing risk and ensure that our business activities are properly assessed, monitored and managed. Our financial risk committees oversee risk management practices, including defining acceptable risk tolerances and approving risk management policies. Membership is comprised of senior leadership, including but not limited to, 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. 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.

## Table of Contents

### 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 4 of our accompanying unaudited consolidated financial statements for additional information on our derivative contracts. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

**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.

Table of Contents

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

	September 30, December 31,	
(Dollars in thousands)	2016	2015
Interest Rate Risk	\$ 423	\$ 608
Equity Price Risk	170	119
Diversification Effect (1) (82 )		(66 )
Total Value-at-Risk	\$ 511	\$ 661

(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 VaR calculated for each component of market risk during the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively.

(Dollars in thousands)	High	Low	Average
For the Nine Months Ended September 30, 2016			
Interest Rate Risk	\$722	\$251	\$ 479
Equity Price Risk	412	6	151
Diversification Effect (1)			(69 )
Total Value-at-Risk	\$790	\$362	\$ 561
(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

(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 eleven occasions during the first nine months of 2016.

The aggregate VaR as of September 30, 2016 was lower than the reported VaR on December 31, 2015. The decrease in VaR resulted from a decrease in overall inventories and increased hedging activities during the nine months ended September 30, 2016, due to continued uncertainty in the quality and direction of the markets.

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.



## Table of Contents

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

Our inventory positions, including those associated with strategic trading activities, subject us to potential financial losses from the reduction in value of illiquid positions. Market risk can be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Depending on the specific security, the structure of the financial product, and/or overall market conditions, we may be forced to hold a security for substantially longer than we had planned 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 \$29.1 million at September 30, 2016. 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 75.2 percent, or \$21.9 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.

## Table of Contents

### Operational Risk

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

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

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

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

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

During the third quarter of our fiscal year ending December 31, 2016, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

ITEM 1A. RISK FACTORS.

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as updated in our subsequent reports on Form 10-Q filed with the SEC. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. The following information updates the risk factor of the same heading from our Annual Report on Form 10-K.

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. With respect to accounting for goodwill, we will be conducting our annual impairment testing in the fourth quarter,

including testing of the goodwill associated with our Asset Management segment. Our Asset Management segment has experienced significant net client outflows of AUM in 2016, primarily related to our value equity strategies, due to investment performance below benchmarks and an extended cycle of investors favoring passive investment vehicles over active management. Changes in the assumptions underlying projected cash flows from the reporting unit or its EBITDA multiple, such as those resulting from market conditions or other factors, could result in an impairment of goodwill related to our Asset Management segment. Any impairment charges resulting from this valuation analysis could materially affect our results of operations.

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

Table of Contents

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 EBITDA) and changes in market outlook, among other factors. These valuation techniques require significant management estimation and judgment.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2016.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1)
Month #1 (July 1, 2016 to July 31, 2016)	198,809	(2) \$ 39.91	185,211	\$ 72 million
Month #2 (August 1, 2016 to August 31, 2016)	8,135	\$ 43.17	—	\$ 72 million
Month #3 (September 1, 2016 to September 30, 2016)	—	\$ —	—	\$ 72 million
Total	206,944	\$ 40.03	185,211	\$ 72 million

(1) Effective August 14, 2015, the our board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2017.

(2) Consists of 185,211 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 \$39.78 per share, and 13,598 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 \$41.57.

## ITEM 6. EXHIBITS.

Exhibit Number	Description	Method of Filing
3.1	Amended and Restated Bylaws (as of August 5, 2016).	(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith

32.1	Section 1350 Certifications.	Filed herewith
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

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(1) Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 5, 2016, and incorporated by reference herein.



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 October 28, 2016.

PIPER JAFFRAY COMPANIES

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

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

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Exhibit Index

Exhibit Number	Description	Method of Filing
3.1	Amended and Restated Bylaws (as of August 5, 2016).	(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Section 1350 Certifications.	Filed herewith
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

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(1) Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 5, 2016, and incorporated by reference herein.