PIPER JAFFRAY COMPANIES
Form 10-Q
October 30, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2015
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 Minneapolis, Minnesota	55402
(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 þ 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 þ 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 þ 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 þ

As of October 23, 2015, the registrant had 15,187,330 shares of Common Stock outstanding.

Piper Jaffray Companies
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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.
Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$44,048	$15,867
Cash and cash equivalents segregated for regulatory purposes	27,014	25,011
Receivables:		
Customers	49,751	9,658
Brokers, dealers and clearing organizations	325,408	161,009
Securities purchased under agreements to resell	231,051	308,165
Financial instruments and other inventory positions owned	482,187	507,794
Financial instruments and other inventory positions owned and pledged as collateral	608,171	1,108,567
Total financial instruments and other inventory positions owned	1,090,358	1,616,361
Fixed assets (net of accumulated depreciation and amortization of $50,761 and $47,327, respectively)	18,784	18,171
Goodwill	219,423	211,878
Intangible assets (net of accumulated amortization of $46,460 and $41,141, respectively)	26,939	30,658
Investments	158,885	126,840
Other assets	107,401	100,299
Total assets	$2,299,062	$2,623,917
Liabilities and Shareholders' Equity		
Short-term financing	$415,747	$377,767
Variable rate senior notes	125,000	125,000
Payables:		
Customers	49,349	13,328
Brokers, dealers and clearing organizations	95,348	25,564
Securities sold under agreements to repurchase	43,888	102,646
Financial instruments and other inventory positions sold, but not yet purchased	389,375	738,124
Accrued compensation	175,220	228,877
Other liabilities and accrued expenses	172,540	43,151
Total liabilities	1,466,467	1,654,457
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at September 30, 2015 and December 31, 2014;		
Shares issued: 19,510,858 at September 30, 2015 and 19,523,371 at December 31, 2014;		
Shares outstanding: 13,947,210 at September 30, 2015 and 15,265,420 at December 31, 2014	195	195

Additional paid-in capital	751,280	735,415
Retained earnings	265,867	227,065
Less common stock held in treasury, at cost: 5,563,648 at September 30, 2015 and 4,257,951 shares at December 31, 2014	(222,008)	(143,140)
Accumulated other comprehensive income	51	377
Total common shareholders' equity	795,385	819,912
Noncontrolling interests	37,210	149,548
Total shareholders' equity	832,595	969,460
Total liabilities and shareholders' equity	$2,299,062	$2,623,917

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Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands, except per share data)	2015	2014	2015	2014
Revenues:				
Investment banking	$91,640	$94,911	$284,786	$287,198
Institutional brokerage	34,182	35,923	106,879	114,485
Asset management	18,951	21,595	58,730	64,820
Interest	9,128	10,828	32,755	36,935
Investment income	831	2,690	10,123	12,379
Total revenues	154,732	165,947	493,273	515,817
Interest expense	5,115	6,521	17,719	18,227
Net revenues	149,617	159,426	475,554	497,590
Non-interest expenses:				
Compensation and benefits	96,132	97,180	295,543	300,745
Outside services	9,316	9,155	26,385	27,837
Occupancy and equipment	7,025	8,312	20,791	22,151
Communications	6,234	5,661	17,650	17,048
Marketing and business development	6,965	6,827	21,186	19,787
Trade execution and clearance	1,982	1,905	5,956	5,527
Restructuring and integration costs	1,496	—	1,496	—
Intangible asset amortization expense	1,773	2,318	5,319	6,954
Other operating expenses	11,906	2,376	17,289	8,719
Total non-interest expenses	142,829	133,734	411,615	408,768
Income before income tax expense	6,788	25,692	63,939	88,822
Income tax expense	1,573	8,596	20,605	28,472
Net income	5,215	17,096	43,334	60,350
Net income applicable to noncontrolling interests	384	2,428	4,532	9,721
Net income applicable to Piper Jaffray Companies	$4,831	$14,668	$38,802	$50,629
Net income applicable to Piper Jaffray Companies' common shareholders	$4,448	$13,552	$35,908	$46,386
Earnings per common share				
Basic	$0.32	$0.90	$2.46	$3.12

Diluted	$0.32	$0.90	$2.46	$3.11
Weighted average number of common shares outstanding				
Basic	13,938	15,066	14,568	14,880
Diluted	13,952	15,129	14,594	14,934

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Piper Jaffray Companies
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Amounts in thousands)	2015	2014	2015	2014
Net income	$5,215	$17,096	$43,334	$60,350
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(352)	(399)	(326)	(143)
Comprehensive income	4,863	16,697	43,008	60,207
Comprehensive income applicable to noncontrolling interests	384	2,428	4,532	9,721
Comprehensive income applicable to Piper Jaffray Companies	$4,479	$14,269	$38,476	$50,486

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Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2015	2014
Operating Activities:		
Net income	$43,334	$60,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	3,703	3,992
Deferred income taxes	(3,967)	(2,487)
Stock-based and deferred compensation	30,892	21,067
Amortization of intangible assets	5,319	6,954
Amortization of forgivable loans	4,499	3,961
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	(2,003)	4,983
Receivables:		
Customers	(40,093)	(14,036)
Brokers, dealers and clearing organizations	(164,399)	(164,077)
Securities purchased under agreements to resell	77,114	(95,805)
Net financial instruments and other inventory positions owned	177,254	136,592
Investments	(32,045)	(13,124)
Other assets	(8,733)	2,548
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	36,021	2,835
Brokers, dealers and clearing organizations	69,784	56,622
Securities sold under agreements to repurchase	14,186	—
Accrued compensation	(49,824)	25,741
Other liabilities and accrued expenses	129,271	(4,559)
Net cash provided by operating activities	290,313	31,557
Investing Activities:		
Business acquisitions, net of cash acquired	(8,737)	—
Repayment of note receivable	1,500	750
Purchases of fixed assets, net	(4,286)	(5,270)
Net cash used in investing activities	(11,523)	(4,520)

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Piper Jaffray Companies
Consolidated Statements of Cash Flows – Continued
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2015	2014
Financing Activities:		
Increase/(decrease) in short-term financing	$37,980	$(175,916)
Issuance of variable rate senior notes	—	50,000
Repayment of variable rate senior notes	—	(50,000)
Increase/(decrease) in securities sold under agreements to repurchase	(72,944)	62,576
Decrease in noncontrolling interests	(116,870)	(16,402)
Repurchase of common stock	(106,239)	(10,563)
Excess tax benefit from stock-based compensation	5,885	1,006
Proceeds from stock option exercises	1,856	3,644
Net cash used in financing activities	(250,332)	(135,655)
Currency adjustment:		
Effect of exchange rate changes on cash	(277)	(118)
Net increase/(decrease) in cash and cash equivalents	28,181	(108,736)
Cash and cash equivalents at beginning of period	15,867	123,683
Cash and cash equivalents at end of period	$44,048	$14,947
Supplemental disclosure of cash flow information –		
Cash paid during the period for:		
Interest	$18,324	$17,116
Income taxes	$24,349	$45,284
Non-cash financing activities –		
Issuance of common stock for retirement plan obligations:		
103,598 shares for the nine months ended September 30, 2014	$—	$4,156
Issuance of restricted common stock for annual equity award:		
550,650 shares and 402,074 shares for the nine months ended September 30, 2015 and 2014, respectively	$30,429	$16,131

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies
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(Unaudited)

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Note 1 Organization and Basis of Presentation

Organization

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

Capital Markets

The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Investment banking services include management of and participation in underwritings, merger and acquisition services and public finance activities. Revenues are generated through the receipt of advisory and financing fees. Also, the Company generates revenue through strategic trading and investing activities, which focus on proprietary investments in a variety of securities, including municipal bonds, mortgage-backed securities, and equity securities, and merchant banking activities involving equity or debt investments in late stage private companies. The Company has created alternative asset management funds in merchant banking and municipal securities 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, 2014.

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 a municipal bond fund, merchant banking fund and private equity investment vehicles. 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.

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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, 2014 for a full description of the Company's significant accounting policies.

Future Adoption of New Applicable Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-09") which supersedes current revenue recognition guidance, including most industry-specific guidance. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services, and also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The guidance, as stated in ASU 2014-09, is effective for annual and interim periods beginning after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date by one year, with early adoption on the original effective date permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 makes several modifications to the consolidation guidance for variable interest entities ("VIEs") and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. It is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact of the amended guidance on its consolidated financial statements.

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Note 3 Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased

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

(Dollars in thousands)	September 30, 2015	December 31, 2014
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	$45,192	$50,365
Convertible securities	68,365	156,685
Fixed income securities	81,062	48,651
Municipal securities:		
Taxable securities	84,732	312,753
Tax-exempt securities	370,478	559,704
Short-term securities	60,934	68,717
Mortgage-backed securities	121,991	125,065
U.S. government agency securities	221,445	244,046
U.S. government securities	60	2,549
Derivative contracts	36,099	47,826
Total financial instruments and other inventory positions owned	1,090,358	1,616,361
Less noncontrolling interests (1)	—	(267,742)
	$1,090,358	$1,348,619
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	$69,915	$154,589
Fixed income securities	29,679	21,460
U.S. government agency securities	33,106	27,735
U.S. government securities	251,754	523,527
Derivative contracts	4,921	10,813
Total financial instruments and other inventory positions sold, but not yet purchased	389,375	738,124
Less noncontrolling interests (2)	—	(98,669)
	$389,375	$639,455

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

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

At September 30, 2015 and December 31, 2014, financial instruments and other inventory positions owned in the amount of $608.2 million and $1.1 billion, respectively, had been pledged as collateral for short-term financings and repurchase agreements.

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

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Derivative Contract Financial Instruments

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

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

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

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:

	September 30, 2015			December 31, 2014		
(Dollars in thousands)	Derivative	Derivative	Notional	Derivative	Derivative	Notional
Derivative Category	Assets (1)	Liabilities (2)	Amount	Assets (1)	Liabilities (2)	Amount
Interest rate						
Customer matched-book	$447,226	$425,506	$4,653,035	$447,987	$425,227	$4,860,302
Trading securities	—	6,512	241,850	140	8,242	297,250
Credit default swap index						
Trading securities	5,366	1,347	105,538	5,808	5,188	267,796
Equity option						
Trading securities	167	144	8,421	76	189	19,380
	$452,759	$433,509	$5,008,844	$454,011	$438,846	$5,444,728

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

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

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

		Three Months Ended		Nine Months Ended	
(Dollars in thousands)		September 30,		September 30,	
Derivative Category	Operations Category	2015	2014	2015	2014
Interest rate derivative contract	Investment banking	$(689)	$(809)	$(1,688)	$(2,178)
Interest rate derivative contract	Institutional brokerage	(10,450)	1,368	2,106	(2,898)
Credit default swap index contract	Institutional brokerage	4,268	2,078	16,913	(845)
Equity option derivative contract	Institutional brokerage	86	693	139	1,112
		$(6,785)	$3,330	$17,470	$(4,809)

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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, 2015, the Company had $25.9 million of uncollateralized credit exposure with these counterparties (notional contract amount of $187.9 million), including $17.5 million of uncollateralized credit exposure with one counterparty.

Note 4 Fair Value of Financial Instruments

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

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

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

Cash Equivalents

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

Financial Instruments and Other Inventory Positions Owned

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

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(Unaudited)

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

Convertible securities – Convertible securities are valued based on observable trades, when available. Accordingly, these convertible securities are categorized as Level II.

Corporate fixed income securities – Fixed income securities include corporate bonds which are valued based on recently executed market transactions of comparable size, internally-developed fair value estimates based on observable inputs, or broker quotations. Accordingly, these corporate bonds are categorized as Level II.

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

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

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

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

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation ("CMO") securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 120-380 basis points ("bps") on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 4%-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, treasury futures and 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 public companies, investments in registered mutual funds, warrants of public and private companies and private company debt. Exchange traded direct equity investments in public companies and registered mutual funds are valued based on quoted prices on active markets and classified as Level I. Company-owned warrants, which have a cashless exercise option, are valued based upon the Black-Scholes option-pricing model and certain unobservable inputs. The Company applies a liquidity discount to the value of its warrants in public and private companies. For warrants in private companies, valuation adjustments, based upon management’s judgment, are made to account for differences between the measured security and the stock volatility factors of comparable companies. Company-owned warrants are reported as Level III assets. Investments in private companies are valued based on an assessment of each underlying security, considering rounds of financing, third party transactions and market-based information, including comparable company transactions, trading multiples (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA")) and changes in market outlook, among other factors. These securities are generally categorized as Level III.

Fair Value Option – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. Merchant banking and other equity investments of $19.1 million and $18.4 million, included within investments on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets at September 30, 2015 and December 31, 2014, respectively. The realized and unrealized gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were $0.7 million and $2.1 million for the nine months ended September 30, 2015 and 2014, respectively.

The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company’s Level III financial instruments as of September 30, 2015:

	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:				
Financial instruments and other inventory positions owned:				
Municipal securities:				
Tax-exempt securities	Discounted cash flow	Debt service coverage ratio (2)	5 - 60%	19.4%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	66 - 94%	91.0%
Mortgage-backed securities:				
Collateralized by residential mortgages	Discounted cash flow	Credit default rates (3)	1 - 8%	3.8%
		Prepayment rates (4)	3 - 20%	5.4%
		Loss severity (3)	25 - 100%	61.7%
		Valuation yields (3)	5 - 9%	5.8%
Investments at fair value:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	39.2%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	30 - 58%	40.4%
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 7 times	5.0 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 - 25 bps	9.5 bps

Sensitivity of the fair value to changes in unobservable inputs:

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

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

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

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

par value.

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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, 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	$32,558	$12,634	$—	$—	$45,192
Convertible securities	—	68,365	—	—	68,365
Fixed income securities	—	81,062	—	—	81,062
Municipal securities:					
Taxable securities	—	73,226	11,506	—	84,732
Tax-exempt securities	—	363,614	6,864	—	370,478
Short-term securities	—	60,214	720	—	60,934
Mortgage-backed securities	—	—	121,991	—	121,991
U.S. government agency securities	—	221,445	—	—	221,445
U.S. government securities	60	—	—	—	60
Derivative contracts	167	452,592	—	(416,660)	36,099
Total financial instruments and other inventory positions owned:	32,785	1,333,152	141,081	(416,660)	1,090,358
Cash equivalents	1,426	—	—	—	1,426
Investments at fair value	37,403	—	96,369	—	133,772
Total assets	$71,614	$1,333,152	$237,450	$(416,660)	$1,225,556
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$69,308	$607	$—	$—	$69,915
Fixed income securities	—	29,679	—	—	29,679
U.S. government agency securities	—	33,106	—	—	33,106
U.S. government securities	251,754	—	—	—	251,754
Derivative contracts	144	427,788	5,577	(428,588)	4,921
Total financial instruments and other inventory positions sold, but not yet purchased:	$321,206	$491,180	$5,577	$(428,588)	$389,375

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

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The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2014:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$39,191	$11,174	$—	$—	$50,365
Convertible securities	—	156,685	—	—	156,685
Fixed income securities	—	48,651	—	—	48,651
Municipal securities:					
Taxable securities	—	312,753	—	—	312,753
Tax-exempt securities	—	558,518	1,186	—	559,704
Short-term securities	—	67,997	720	—	68,717
Mortgage-backed securities	—	316	124,749	—	125,065
U.S. government agency securities	—	244,046	—	—	244,046
U.S. government securities	2,549	—	—	—	2,549
Derivative contracts	76	453,795	140	(406,185)	47,826
Total financial instruments and other inventory positions owned:	41,816	1,853,935	126,795	(406,185)	1,616,361
Cash equivalents	1,562	—	—	—	1,562
Investments at fair value	20,704	—	74,165	—	94,869
Total assets	$64,082	$1,853,935	$200,960	$(406,185)	$1,712,792
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$153,254	$1,335	$—	$—	$154,589
Fixed income securities	—	21,460	—	—	21,460
U.S. government agency securities	—	27,735	—	—	27,735
U.S. government securities	523,527	—	—	—	523,527
Derivative contracts	189	430,835	7,822	(428,033)	10,813
Total financial instruments and other inventory positions sold, but not yet purchased:	$676,970	$481,365	$7,822	$(428,033)	$738,124

(1)

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

The Company's Level III assets were $237.5 million and $201.0 million, or 19.4 percent and 11.7 percent of financial instruments measured at fair value at September 30, 2015 and December 31, 2014, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were $4.2 million of transfers of financial assets from Level II to Level III during the three and nine months ended September 30, 2015, respectively, related to taxable municipal securities for which no recent trade activity was observed and valuation inputs became unobservable. There were no other significant transfers between Level I, Level II or Level III for the three and nine months ended September 30, 2015, respectively.

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

(Dollars in thousands)	Balance at June 30, 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)
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
	$435	$(2,287)	$—	$—	$—	$2,287	$5,142	$5,577	$5,456

Total financial instruments and other inventory positions sold, but not yet purchased:

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

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(Dollars in thousands)	Balance at June 30, 2014	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2014	Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2014 (1)
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Tax-exempt securities	$1,306	$—	$—	$—	$—	$—	$—	$ 1,306	$—
Short-term securities	732	—	—	—	—	—	(1)	731	(1)
Mortgage-backed securities	129,126	58,028	(93,801)	515	—	1,377	29	95,274	363
Derivative contracts	627	—	—	—	—	—	690	1,317	786
Total financial instruments and other inventory positions owned:	131,791	58,028	(93,801)	515	—	1,377	718	98,628	1,148
Investments at fair value	58,567	10,500	(9)	—	—	9	931	69,998	931
Total assets	$190,358	$68,528	$(93,810)	$515	$—	$ 1,386	$ 1,649	$ 168,626	$2,079
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	$10,846	$(8,439)	$—	$—	$—	$ 8,439	$ (679)	$ 10,167	$6,529
Total financial instruments and other inventory positions sold, but not yet purchased:	$10,846	$(8,439)	$—	$—	$—	$ 8,439	$ (679)	$ 10,167	$6,529

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

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(Dollars in thousands)	Balance at December 31, 2014	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)
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	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
Liabilities:									
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	$ 7,822	$ (12,941)	$ 535	$ —	$ —	$ 12,406	$ (2,245)	$ 5,577	$ 5,577

other inventory
positions sold,
but not yet
purchased:

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

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(Dollars in thousands)	Balance at December 31, 2013	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at September 30, 2014	Unrealized gains/ (losses) for assets/ liabilities held at September 30, 2014 (1)
Assets:									
Financial instruments and other inventory positions owned:									
Corporate securities:									
Fixed income securities	$ 100	$—	$(100)	$—	$—	$—	$—	$—	$—
Municipal securities:									
Tax-exempt securities	1,433	—	—	—	—	—	(127)	1,306	(127)
Short-term securities	656	—	(25)	—	—	6	94	731	94
Mortgage-backed securities	119,799	129,764	(163,047)	—	—	9,748	(990)	95,274	925
Derivative contracts	691	2,614	—	—	—	(2,614)	626	1,317	1,317
Total financial instruments and other inventory positions owned:	122,679	132,378	(163,172)	—	—	7,140	(397)	98,628	2,209
Investments at fair value	49,240	20,500	(2,368)	—	—	2,368	258	69,998	1,326
Total assets	$ 171,919	$152,878	$(165,540)	$—	$—	$9,508	$(139)	$ 168,626	$3,535
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	$ 6,643	$(16,751)	$—	$—	$—	$ 16,751	$ 3,524	$ 10,167	$10,167

Total financial instruments and other inventory positions sold, but not yet purchased:	$ 6,643	$ (16,751)	$—	$—	$—	$ 16,751	$ 3,524	$ 10,167	$ 10,167

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

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

Note 5 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations included:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Receivable arising from unsettled securities transactions	$19,011	$52,571
Deposits paid for securities borrowed	74,901	57,572
Receivable from clearing organizations	12,572	4,933
Deposits with clearing organizations	48,329	33,799
Receivable from municipal bond fund	151,053	—
Securities failed to deliver	4,399	1,753
Other	15,143	10,381
	$325,408	$161,009

Amounts payable to brokers, dealers and clearing organizations included:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Payable arising from unsettled securities transactions	$79,649	$11,048
Payable to clearing organizations	3,598	5,185
Securities failed to receive	873	2,430
Other	11,228	6,901
	$95,348	$25,564

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

Note 6 Collateralized Securities Transactions

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

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

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

In the normal course of business, the Company obtains securities purchased under agreements to resell, securities borrowed and margin agreements on terms that permit it to repledge or resell the securities to others, typically pursuant to repurchase agreements. The Company obtained securities with a fair value of approximately $311.5 million and $369.7 million at September 30, 2015 and December 31, 2014, respectively, of which $285.8 million and $338.8 million, respectively, had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

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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, 2015:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Mortgage-backed securities	$29,702	$42,262	1.96 - 2.13%
On demand maturities:			
U.S. government securities	14,186	14,362	—%
	$43,888	$56,624	

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, 2015 and December 31, 2014, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of September 30, 2015 or December 31, 2014. See Note 3 for information related to the Company's offsetting of derivative contracts.

Note 7 Investments

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

(Dollars in thousands)	September 30, 2015	December 31, 2014
Investments at fair value	$133,772	$94,869
Investments at cost	3,263	8,214
Investments accounted for under the equity method	21,850	23,757
Total investments	158,885	126,840
Less investments attributable to noncontrolling interests (1)	(35,381)	(32,563)
	$123,504	$94,277

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

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

At September 30, 2015, investments carried on a cost basis had an estimated fair market value of $3.4 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.

Note 8 Other Assets

Other assets included:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Net deferred income tax assets	$49,818	$45,851
Fee receivables	24,129	23,959
Accrued interest receivables	6,064	10,061
Forgivable loans, net	10,602	8,366
Income tax receivables	3,564	—
Prepaid expenses	6,149	6,067
Other	7,075	5,995
Total other assets	$107,401	$100,299

Note 9 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets for the nine months ended September 30, 2015:

(Dollars in thousands)	Capital Markets	Asset Management	Total
Goodwill			
Balance at December 31, 2014	$15,034	$196,844	$211,878
Goodwill acquired	7,545	—	7,545
Balance at September 30, 2015	$22,579	$196,844	$219,423
Intangible assets			
Balance at December 31, 2014	$2,344	$28,314	$30,658
Intangible assets acquired	1,600	—	1,600
Amortization of intangible assets	(789)	(4,530)	(5,319)
Balance at September 30, 2015	$3,155	$23,784	$26,939

On September 30, 2015, the Company acquired the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. The purchase was completed pursuant to the Asset Purchase Agreement dated July 11, 2015. The terms of the transaction were not disclosed as the acquisition did not have a material impact on the Company's consolidated financial statements.

The acquisition was accounted for pursuant to FASB Accounting Standards Codification Topic 805, "Business Combinations," ("ASC 805"). Accordingly, the purchase price of the acquisition was allocated to the acquired assets and liabilities assumed based on their estimated fair values as of the acquisition date. The excess of the purchase price over the net assets acquired was allocated between goodwill and intangible assets within the Capital Markets segment. Identifiable intangible assets purchased by the Company consisted of customer relationships with an acquisition-date fair value currently estimated to be $1.6 million. The Company anticipates finalizing the fair value of intangible assets in the fourth quarter of 2015. The final goodwill and intangible assets recorded on the Company's consolidated statements of financial condition may differ from that reflected herein as a result of measurement period adjustments. In management's opinion, the goodwill represents the reputation and expertise of River Branch in their business line.

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Note 10 Short-Term Financing

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

	Outstanding Balance		Weighted Average Interest Rate	
(Dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Commercial paper (secured)	$275,962	$238,013	1.64%	1.48%
Prime broker arrangement	139,785	127,754	0.92%	0.91%
Bank lines (secured)	—	12,000	N/A	1.50%
Total short-term financing	$415,747	$377,767		

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes ("CP Notes") can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and are secured by different inventory classes. As of September 30, 2015, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 58 days, 80 days and 6 days, respectively. The CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin. CP Series III A includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain excess net capital of $120 million.

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

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

The Company's committed short-term bank line financing at September 30, 2015 consisted of a one-year $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2014. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain minimum net capital of $120 million, and the unpaid principal amount of all advances under this facility will be due on December 18, 2015. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At September 30, 2015, the Company had no advances against this line of credit.

The Company's uncommitted secured lines at September 30, 2015 totaled $185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. The availability of the Company's uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. At September 30, 2015, the Company had no advances against these lines of credit.

Note 11 Variable Rate Senior Notes

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

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

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

The Amended Note Purchase Agreement includes covenants that, among other things, require the Company to maintain a minimum consolidated tangible net worth and regulatory net capital, limit the Company's leverage ratio and require the Company to maintain a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, the Company's U.S. broker dealer subsidiary is required to maintain minimum net capital of $120 million. At September 30, 2015, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of September 30, 2015, the carrying value of the Notes approximated fair value.

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 new Class C Notes. The Class C Notes bear interest at an annual fixed rate of 5.06 percent and mature on October 9, 2018. Interest on the Class C Notes is payable semi-annually. The unpaid principal amount is due in full on the maturity date and may not be prepaid by the Company. The Second Amended and Restated Note Purchase Agreement includes customary events of default and covenants that coincide with the terms of the Amended Note Purchase Agreement.

Note 12 Legal Contingencies

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

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

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

Several class action complaints were brought on behalf of a purported class of state, local and municipal government entities in connection with the bidding or sale of municipal investment contracts and municipal derivative products directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated into a single nationwide class action entitled In re Municipal Derivatives Antitrust Litigation, MDL No. 1950 (Master Docket No. 08-2516), allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. The consolidated complaint seeks unspecified treble damages under Section 1 of the Sherman Act. Several California municipalities also brought separate class action complaints in California federal court, and approximately eighteen California municipalities and two New York municipalities filed individual lawsuits that are not as part of class actions, all of which have since been transferred to the Southern District of New York and consolidated for pretrial purposes. All three sets of complaints assert similar claims under federal (and for the California and New York plaintiffs, state) antitrust claims. The plaintiffs in the consolidated class action and Piper Jaffray signed a term sheet for settlement of In re Municipal Derivatives Antitrust Litigation on September 15, 2015. The settlement is subject to execution of a final settlement agreement and court approval after notice to the class. If approved, Piper Jaffray will be required to pay $9.8 million to settle the MDL class action. Litigation in the separate California and New York cases is ongoing. As a result, litigation-related reserve activity included within other operating expenses resulted in expense of $9.8 million for the three and nine months ended September 30, 2015.

Note 13 Restructuring and Integration Costs

For the nine months ended September 30, 2015, the Company incurred pre-tax restructuring and integration charges of $1.5 million. The charges resulted from severance benefits, transaction costs and contract termination costs of $1.0 million, $0.3 million and $0.2 million, respectively.

Note 14 Shareholders’ Equity

Share Repurchases

Effective October 1, 2014, the Company’s board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2016. During the nine months ended September 30, 2015, the Company repurchased 1,804,886 shares of the Company's common stock at an average price of $51.06 per share for an aggregate purchase price of $92.1 million related to this authorization. The Company has $7.9 million remaining under this authorization.

Effective August 14, 2015, the Company's board of directors authorized the repurchase of up to an additional $150.0 million in common shares through September 30, 2017. The Company did not repurchase any shares of the Company's outstanding common stock related to this additional 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 270,922 shares or $14.1 million of the Company’s common stock for this purpose during the nine months ended September 30, 2015.

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 15. During the nine months ended September 30, 2015 and 2014, the Company issued 485,251 shares and 635,347 shares, respectively, related to these obligations. During the nine months ended September 30, 2014, the Company also issued 103,598 common shares out of treasury stock in fulfillment of $4.2 million in obligations under the Piper Jaffray Companies Retirement Plan (the "Retirement Plan").

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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 $27.8 million and private equity investment vehicles aggregating $9.4 million as of September 30, 2015. As of December 31, 2014, noncontrolling interests included the minority equity holders' proportionate share of the equity in a municipal bond fund of $117.0 million, a merchant banking fund of $24.7 million and private equity investment vehicles aggregating $7.8 million.

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, 2015 and 2014, respectively.

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2014	15,265,420	$819,912	$149,548	$969,460
Net income	—	38,802	4,532	43,334
Amortization/issuance of restricted stock	—	35,425	—	35,425
Issuance of treasury shares for options exercised	50,671	1,856	—	1,856
Issuance of treasury shares for restricted stock vestings	705,502	—	—	—
Repurchase of common stock through share repurchase program	(1,804,886)	(92,156)	—	(92,156)
Repurchase of common stock for employee tax withholding	(270,922)	(14,083)	—	(14,083)
Excess tax benefit from stock-based compensation	—	5,885	—	5,885
Shares reserved/issued for director compensation	1,425	70	—	70
Other comprehensive loss	—	(326)	—	(326)
Fund capital withdrawals, net	—	—	(116,870)	(116,870)
Balance at September 30, 2015	13,947,210	$795,385	$37,210	$832,595

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Note 15 Compensation Plans

Stock-Based Compensation Plans

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

The following table provides a summary of the Company’s outstanding Incentive Plan equity awards (in shares or units) as of September 30, 2015:

Restricted Stock	
Annual grants	943,146
Sign-on grants	320,562
	1,263,708
Restricted Stock Units	
Market condition leadership grants	356,242
Stock Options	157,201

Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company’s employees and directors for up to 8.2 million shares of common stock (1.7 million shares remained available for future issuance under the Incentive Plan as of September 30, 2015). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant’s death, and at the discretion of the compensation committee of the Company’s board of directors.

Restricted Stock Awards

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

The Company’s Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by 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 2014 for its February 2015 Annual Grant. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as a reversal of compensation expense.

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

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

Restricted Stock Units

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

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

Grant Year	Risk-free Interest Rate	Expected Stock Price Volatility
2015	0.90%	29.8%
2014	0.82%	41.3%
2013	0.40%	44.0%

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

Stock Options

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

Inducement Plan

In 2010, the Company established the 2010 Employment Inducement Award Plan ("Inducement Plan") in conjunction with the acquisition of ARI. The Company granted $7.0 million in restricted stock (158,801 shares) under the Inducement Plan to ARI employees upon closing of the transaction. These shares vested ratably over five years in equal annual installments ending on March 1, 2015. The Company terminated the Inducement Plan in March 2015.

Stock-Based Compensation Activity

The Company recorded total compensation expense of $7.9 million and $7.2 million for the three months ended September 30, 2015 and 2014, respectively, and $30.4 million and $20.5 million for the nine months ended September 30, 2015 and 2014, respectively, related to employee restricted stock and restricted stock unit awards. Total compensation cost includes year-end compensation for Annual Grants and the amortization of Sign-on and Leadership Grants, less forfeitures of $0.5 million for the three months ended September 30, 2014, and $0.3 million and $0.6 million for the nine months ended September 30, 2015 and 2014, respectively. Forfeitures were immaterial for the three months ended September 30, 2015. The tax benefit related to stock-based compensation costs totaled $3.1 million and $2.8 million for the three months ended September 30, 2015 and 2014, respectively, and $11.8 million and $8.0 million for the nine months ended September 30, 2015 and 2014, respectively.

The following table summarizes the changes in the Company’s unvested restricted stock under the Incentive Plan and Inducement Plan:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2014	1,095,305	$36.51
Granted	725,781	52.29
Vested	(547,138)	34.48
Canceled	(10,240)	38.80
September 30, 2015	1,263,708	$46.56

The following table summarizes the changes in the Company’s unvested restricted stock units under the Incentive Plan:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2014	405,826	$17.99
Granted	123,687	21.83
Vested	(149,814)	12.12
Canceled	(23,457)	12.12
September 30, 2015	356,242	$22.18

As of September 30, 2015, there was $15.7 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.4 years.

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

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2014	217,873	$ 46.66	2.0	$3,066,839
Granted	—	—		
Exercised	(50,671)	36.62		
Canceled	—	—		
Expired	(10,001)	39.62		
September 30, 2015	157,201	$ 50.35	2.1	$—
Options exercisable at September 30, 2015	157,201	$ 50.35	2.1	$—

As of September 30, 2015, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

The intrinsic value of options exercised was $0.9 million and $1.1 million, and the resulting tax benefit realized was $0.3 million and $0.4 million for the nine months ended September 30, 2015 and 2014, respectively.

Deferred Compensation Plans

The Company maintains various deferred compensation arrangements for employees.

The nonqualified deferred compensation plan is an unfunded plan which allows certain highly compensated employees, at their election, to defer a percentage of their base salary, commissions and/or cash bonuses. The deferrals vest immediately and are non-forfeitable. The amounts deferred under this plan are held in a grantor trust. The Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan. Investments in the grantor trust, consisting of mutual funds, totaled $14.4 million as of September 30, 2015, and are included in investments on the consolidated statements of financial condition. The compensation deferred by the employees is expensed in the period earned. The deferred compensation liability was $14.3 million as of September 30, 2015. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

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

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

Note 16 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)	2015	2014	2015	2014
Net income applicable to Piper Jaffray Companies	$4,831	$14,668	$38,802	$50,629
Earnings allocated to participating securities (1)	(383)	(1,116)	(2,894)	(4,243)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	$4,448	$13,552	$35,908	$46,386
Shares for basic and diluted calculations:				
Average shares used in basic computation	13,938	15,066	14,568	14,880
Stock options	14	63	26	54
Average shares used in diluted computation	13,952	15,129	14,594	14,934
Earnings per common share:				
Basic	$0.32	$0.90	$2.46	$3.12
Diluted	$0.32	$0.90	$2.46	$3.11

(1) Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 1,199,864 and 1,245,665 for the three months ended September 30, 2015 and 2014, respectively, and 1,176,310 and 1,366,489 for the nine months ended September 30, 2015 and 2014, respectively.

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

The anti-dilutive effects from stock options were immaterial for the nine months ended September 30, 2015 and 2014.

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Note 17 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)	2015	2014	2015	2014
Capital Markets				
Investment banking				
Financing				
Equities	$24,437	$14,269	$96,681	$93,628
Debt	20,476	14,435	72,312	48,148
Advisory services	46,958	66,320	116,363	145,743
Total investment banking	91,871	95,024	285,356	287,519
Institutional sales and trading				
Equities	20,026	16,711	59,338	59,337
Fixed income	18,259	22,737	59,958	69,060
Total institutional sales and trading	38,285	39,448	119,296	128,397
Management and performance fees	1,898	1,387	3,926	4,512
Investment income	7,274	5,224	22,194	20,600
Long-term financing expenses	(1,668)	(1,613)	(4,781)	(5,058)
Net revenues	137,660	139,470	425,991	435,970
Operating expenses (1)	129,224	119,001	369,114	364,622
Segment pre-tax operating income	$8,436	$20,469	$56,877	$71,348
Segment pre-tax operating margin	6.1%	14.7%	13.4%	16.4%

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Asset Management				
Management and performance fees				
Management fees	$17,053	$19,738	$54,596	$59,474
Performance fees	—	470	208	834
Total management and performance fees	17,053	20,208	54,804	60,308
Investment income/(loss)	(5,096)	(252)	(5,241)	1,312
Net revenues	11,957	19,956	49,563	61,620
Operating expenses (1)	13,605	14,733	42,501	44,146
Segment pre-tax operating income/(loss)	$(1,648)	$5,223	$7,062	$17,474
Segment pre-tax operating margin	(13.8)%	26.2%	14.2%	28.4%
Total				
Net revenues	$149,617	$159,426	$475,554	$497,590
Operating expenses (1)	142,829	133,734	411,615	408,768
Pre-tax operating income	$6,788	$25,692	$63,939	$88,822
Pre-tax operating margin	4.5%	16.1%	13.4%	17.9%

(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)	2015	2014	2015	2014
Capital Markets	$263	$743	$789	$2,229
Asset Management	1,510	1,575	4,530	4,725
Total intangible asset amortization expense	$1,773	$2,318	$5,319	$6,954

Reportable segment assets are as follows:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Capital Markets	$2,024,338	$2,352,404
Asset Management	274,724	271,513
	$2,299,062	$2,623,917

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

Note 18 Net Capital Requirements and Other Regulatory Matters

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

At September 30, 2015, net capital calculated under the SEC rule was $156.5 million, and exceeded the minimum net capital required under the SEC rule by $155.5 million.

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

Piper Jaffray Ltd., a broker dealer subsidiary registered in the United Kingdom, was subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of September 30, 2015, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At September 30, 2015, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

Note 19 Subsequent Events

On October 9, 2015, the Company completed the purchase of BMO Capital Markets GKST Inc. ("BMO GKST"), a municipal bond sales, trading and origination business of BMO Financial Corp. The purchase was completed pursuant to the Stock Purchase Agreement dated July 19, 2015. The terms of the transaction were not disclosed, however, the acquisition is not expected to have a material impact on the Company's consolidated financial statements. BMO GKST will expand the Company's fixed income institutional sales, trading and underwriting platforms.

The acquisition is being accounted for pursuant to ASC 805. The allocation of the purchase price will be finalized upon completion of the analysis of the fair values of the net assets acquired. Goodwill and identifiable intangible assets will be allocated to the Capital Markets segment upon completion of the purchase price allocation.

BMO GKST's results of operations will be included in the Company's consolidated financial statements prospectively from the date of acquisition.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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, 2014 and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Explanation of Non-GAAP Financial Measures

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

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, 2014 for a full description of our business.

On September 30, 2015, we acquired the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. The acquisition further strengthens our mergers and acquisitions leadership in the middle markets and adds investment banking resources dedicated to banks, thrifts, and depository institutions, building upon the recent expansion of our financial institutions group.

On July 19, 2015, we reached a definitive agreement with BMO Financial Corp. ("BMO") to acquire BMO Capital Markets GKST Inc. ("BMO GKST"), BMO's municipal bond sales, trading and origination business. The transaction closed on October 9, 2015. This acquisition expands our fixed income institutional sales, trading and underwriting platforms. Additionally, it strengthens our strategic analytic and advisory capabilities, and supports our growing financial institutions group with their coverage of bank clients.

BMO GKST's results of operations will be included in our consolidated financial statements prospectively from the date of acquisition.

We incurred $1.5 million of restructuring, integration and transaction costs in the third quarter of 2015 principally related to these acquisitions. Additionally, we expect to incur approximately $6.0 million to $7.0 million of restructuring and integration costs in the fourth quarter of 2015.

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Results for the three and nine months ended September 30, 2015

Net income applicable to Piper Jaffray Companies in the third quarter of 2015 was $4.8 million, or $0.32 per diluted common share, compared with $14.7 million, or $0.90 per diluted common share, for the prior-year period. Net revenues for the three months ended September 30, 2015 were $149.6 million, a decrease of 6.2 percent from $159.4 million reported in the year-ago period, due to lower advisory services and asset management revenues, as well as lower investment income. These decreases were partially offset by higher equity and debt financing revenues. For the three months ended September 30, 2015, non-compensation expenses were $46.7 million, up 27.7 percent compared with $36.6 million in the third quarter of 2014, due primarily to a $9.8 million charge related to a pending settlement of our multi-district class action antitrust litigation related to municipal derivatives. This litigation originated in 2006 and is described in greater detail in "Legal Proceedings" in Part II, Item 1 in this Quarterly Report on Form 10-Q.

For the three months ended September 30, 2015, adjusted net income applicable to Piper Jaffray Companies was $7.3 million(1), or $0.48(1) per diluted common share, compared with $16.9 million(1), or $1.03(1) per diluted common share, for the prior-year period. The current period includes the impact of the $9.8 million, pre-tax, or $0.39 per diluted common share, legal settlement charge discussed above. Adjusted net revenues for the three months ended September 30, 2015 were $148.4 million(1), a decrease of 4.8 percent from $155.9 million(1) reported in the year-ago period. For the three months ended September 30, 2015, adjusted non-compensation expenses were $42.6 million(1), up 28.7 percent from $33.1 million(1) for the three months ended September 30, 2014.

Net income applicable to Piper Jaffray Companies in the first nine months of 2015 was $38.8 million, or $2.46 per diluted common share, compared with $50.6 million, or $3.11 per diluted common share, for the prior-year period. For the twelve months ended September 30, 2015, we generated a rolling twelve month return on average common shareholders' equity of 6.3 percent, compared with 10.2 percent for the rolling twelve months ended September 30, 2014. Net revenues for the nine months ended September 30, 2015 were $475.6 million, down 4.4 percent from $497.6 million in the year-ago period, due to lower advisory services, fixed income institutional brokerage and asset management revenues, partially offset by higher debt financing revenues. For the nine months ended September 30, 2015, non-compensation expenses were $116.1 million, an increase of 7.5 percent compared with $108.0 million for the nine months ended September 30, 2014.

In the first nine months of 2015, adjusted net income applicable to Piper Jaffray Companies was $44.7 million(1), or $2.83(1) per diluted common share, compared with $57.4 million(1), or $3.52(1) per diluted common share, for the prior-year period. Adjusted net revenues for the nine months ended September 30, 2015 decreased 3.3 percent to $468.0 million(1), compared with $484.0 million(1) reported in the year-ago period. In the first nine months of 2015, adjusted non-compensation expenses were $106.2 million(1), up 9.3 percent from $97.2 million(1) for the nine months ended September 30, 2014.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Net revenues:				
Net revenues – U.S. GAAP basis	$149,617	$159,426	$475,554	$497,590
Adjustments:				
Revenue related to noncontrolling interests	(1,223)	(3,576)	(7,542)	(13,545)
Adjusted net revenues	$148,394	$155,850	$468,012	$484,045
Non-compensation expenses:				
Non-compensation expenses – U.S. GAAP basis	$46,697	$36,554	$116,072	$108,023
Adjustments:				
Non-compensation expenses related to noncontrolling interests	(839)	(1,148)	(3,010)	(3,824)
Restructuring and integration costs	(1,496)	—	(1,496)	—
Amortization of intangible assets related to acquisitions	(1,773)	(2,318)	(5,319)	(6,954)
Adjusted non-compensation expenses	$42,589	$33,088	$106,247	$97,245
Net income applicable to Piper Jaffray Companies:				
Net income applicable to Piper Jaffray Companies – U.S. GAAP basis	$4,831	$14,668	$38,802	$50,629
Adjustments:				
Compensation from acquisition-related agreements	422	801	1,738	2,454
Restructuring and integration costs	914	—	914	—
Amortization of intangible assets related to acquisitions	1,083	1,416	3,249	4,331
Adjusted net income applicable to Piper Jaffray Companies	$7,250	$16,885	$44,703	$57,414
Earnings per diluted common share:				
Earnings per diluted common share – U.S. GAAP basis	$0.32	$0.90	$2.46	$3.11
Adjustments:				
Compensation from acquisition-related agreements	0.03	0.05	0.11	0.15
Restructuring and integration costs	0.06	—	0.06	—
Amortization of intangible assets related to acquisitions	0.07	0.09	0.21	0.27
Adjusted earnings per diluted common share	$0.48	$1.03	$2.83	$3.52

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External Factors Impacting Our Business

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

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

Outlook for the remainder of 2015

We continue to encounter mixed signals relative to the strength of the recovery for the U.S. economy. Exogenous factors, like continued weakening in major economies internationally or significant geopolitical events or conflicts, could adversely impact the rate of growth in the U.S. and continue to inject volatility into the U.S. equity and debt markets. The Federal Reserve has signaled its intention to begin gradually raising short-term interest rates later in 2015; however, changes in the economic outlook and unanticipated developments, such as recent turmoil in the global economy, could impact the timing of this plan.

The decline in municipal debt underwriting activity in the third quarter of 2015 from elevated levels in the first half of 2015 was attributable to volatility in interest rates coupled with anxiety around the Federal Reserve's future actions. Although the level of municipal debt underwriting activity for 2015 has been robust, the uncertainty regarding interest rates may continue to impact volumes for the remainder of the year. A gradual and predictable increase in interest rates should be accommodative to our fixed income institutional brokerage business. We intend to maintain a conservative bias in managing our inventories and hedging strategies to mitigate market volatility and our exposure to interest rates.

For the remainder of 2015, we expect that the equity markets may include periods of heightened volatility. While the higher volatility would benefit our equity sales and trading business, a period of sustained market volatility or correction may be disruptive to our capital raising. We believe that our advisory services business will continue to perform well through the end of 2015.

Asset management revenues will continue to be dependent upon valuations and our investment performance, which can impact the amount of client inflows and outflows of assets under management. Our exposure to energy through a dedicated energy fund, our MLP strategies and energy holdings in our domestic strategies, adversely impacted our assets under management in the third quarter of 2015. Given the sharp drop-off in MLP valuations, we believe the market may have entered oversold territory and we may experience some recovery in valuations in the fourth quarter of 2015.

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Results of Operations

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

Financial Summary for the three months ended September 30, 2015 and September 30, 2014

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)	2015	2014	2015 v2014		2015		2014	
Revenues:								
Investment banking	$91,640	$94,911	(3.4	)%	61.2	%	59.5	%
Institutional brokerage	34,182	35,923	(4.8	)	22.8		22.5	
Asset management	18,951	21,595	(12.2	)	12.7		13.5	
Interest	9,128	10,828	(15.7	)	6.1		6.8	
Investment income	831	2,690	(69.1	)	0.6		1.7	
Total revenues	154,732	165,947	(6.8	)	103.4		104.1	
Interest expense	5,115	6,521	(21.6	)	3.4		4.1	
Net revenues	149,617	159,426	(6.2	)	100.0		100.0	
Non-interest expenses:								
Compensation and benefits	96,132	97,180	(1.1	)	64.3		61.0	
Outside services	9,316	9,155	1.8		6.2		5.7	
Occupancy and equipment	7,025	8,312	(15.5	)	4.7		5.2	
Communications	6,234	5,661	10.1		4.2		3.6	
Marketing and business development	6,965	6,827	2.0		4.7		4.3	
Trade execution and clearance	1,982	1,905	4.0		1.3		1.2	
Restructuring and integration costs	1,496	—	N/M		1.0		—	
Intangible asset amortization expense	1,773	2,318	(23.5	)	1.2		1.5	
Other operating expenses	11,906	2,376	401.1		8.0		1.5	
Total non-interest expenses	142,829	133,734	6.8		95.5		83.9	
Income before income tax expense	6,788	25,692	(73.6	)	4.5		16.1	
Income tax expense	1,573	8,596	(81.7	)	1.1		5.4	
Net income	5,215	17,096	(69.5	)	3.5		10.7	

Net income applicable to noncontrolling interests	384	2,428	(84.2)	0.3	1.5
Net income applicable to Piper Jaffray Companies	$4,831	$14,668	(67.1)%	3.2 %	9.2 %

N/M – Not meaningful

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For the three months ended September 30, 2015, we recorded net income applicable to Piper Jaffray Companies of $4.8 million. Net revenues for the three months ended September 30, 2015 were $149.6 million, a 6.2 percent decrease compared to $159.4 million in the year-ago period. In the third quarter of 2015, investment banking revenues were $91.6 million, compared with $94.9 million in the prior-year period, as lower advisory services revenues were partially offset by higher equity and debt financing revenues. For the three months ended September 30, 2015, institutional brokerage revenues decreased to $34.2 million, compared with $35.9 million in the third quarter of 2014, as lower fixed income institutional brokerage revenues were offset in part by higher equity institutional brokerage revenues. In the third quarter of 2015, asset management fees of $19.0 million were down 12.2 percent compared with $21.6 million in the third quarter of 2014 due primarily to lower management fees from our value equity product offerings resulting from decreased assets under management. For the three months ended September 30, 2015, net interest income was $4.0 million, compared with $4.3 million in the prior-year period. In the third quarter of 2015, investment income was $0.8 million, compared with $2.7 million in the prior-year period, as we recorded gains associated with our investment and the noncontrolling interests in the merchant banking fund that we manage, which were partially offset by losses on our investments in the registered funds that we manage. Non-interest expenses were $142.8 million for the three months ended September 30, 2015, up 6.8 percent compared to $133.7 million in the prior year, due to higher legal reserves resulting from a pending settlement of a legal matter during the quarter.

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.

For the three months ended September 30, 2015, compensation and benefits expenses decreased to $96.1 million, compared with $97.2 million in the corresponding period of 2014. Compensation and benefits expenses as a percentage of net revenues was 64.3 percent in the third quarter of 2015, compared with 61.0 percent in the third quarter of 2014. The increased compensation ratio was attributable to significant hiring efforts surrounding our financial institutions group as well as a change in our mix of revenues.

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 essentially flat at $9.3 million in the third quarter of 2015, compared with $9.2 million in the corresponding period of 2014. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses decreased 5.4 percent due primarily to lower legal and professional fees.

Occupancy and Equipment – For the three months ended September 30, 2015, occupancy and equipment expenses decreased 15.5 percent to $7.0 million, compared with $8.3 million for the three months ended September 30, 2014. In 2014, we incurred incremental occupancy expenses related to our office space in New York City, the majority of which were one-time in nature.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the three months ended September 30, 2015, communication expenses increased 10.1 percent to $6.2 million, compared with $5.7 million for the three months ended September 30, 2014, due to higher market data services, resulting in part from our financial institutions group expansion.

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, 2015, marketing and business development expenses were $7.0 million, compared with $6.8 million for the three months ended September 30, 2014.

Trade Execution and Clearance – For the three months ended September 30, 2015, trade execution and clearance expenses were essentially flat at $2.0 million, compared with the corresponding period of 2014.

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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. We expect to incur approximately $6.0 million to $7.0 million of additional restructuring and integration costs in the fourth quarter of 2015.

Intangible Asset Amortization Expense – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of customer relationships and non-competition agreements. For the three months ended September 30, 2015, intangible asset amortization expense was $1.8 million, compared with $2.3 million in the three months ended September 30, 2014. Beginning in the fourth quarter of 2015, we anticipate incurring additional intangible asset amortization expense related to the acquisitions of River Branch and BMO GKST.

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 $11.9 million in the third quarter of 2015, compared with $2.4 million in the third quarter of 2014. The increase was due primarily to a $9.8 million charge resulting from settlement of a legal matter during the quarter.

Income Taxes – For the three months ended September 30, 2015, our provision for income taxes was $1.6 million equating to an effective tax rate, excluding noncontrolling interests, of 24.6 percent, compared with $8.6 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 36.9 percent. The reduced effective tax rate 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.

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.

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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,							
	2015				2014			
		Adjustments (1)				Adjustments (1)		
	Total	Noncontrolling	Other	U.S.	Total	Noncontrolling	Other	U.S.
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP
Investment banking								
Financing								
Equities	$24,437	$—	$—	$24,437	$14,269	$—	$—	$14,269
Debt	20,476	—	—	20,476	14,435	—	—	14,435
Advisory services	46,958	—	—	46,958	66,320	—	—	66,320
Total investment banking	91,871	—	—	91,871	95,024	—	—	95,024
Institutional sales and trading								
Equities	20,026	—	—	20,026	16,711	—	—	16,711
Fixed income	18,259	—	—	18,259	22,737	—	—	22,737
Total institutional sales and trading	38,285	—	—	38,285	39,448	—	—	39,448
Management and performance fees	1,898	—	—	1,898	1,387	—	—	1,387
Investment income	6,051	1,223	—	7,274	1,648	3,576	—	5,224
Long-term financing expenses	(1,668)	—	—	(1,668)	(1,613)	—	—	(1,613)
Net revenues	136,437	1,223	—	137,660	135,894	3,576	—	139,470
Operating expenses	125,936	839	2,449	129,224	116,120	1,148	1,733	119,001

Segment pre-tax operating income	$10,501	$384	$(2,449)	$8,436	$19,774	$2,428	$(1,733)	$20,469
Segment pre-tax operating margin	7.7 %			6.1 %	14.6 %			14.7 %

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

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

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

	Three Months Ended September 30,	
(Dollars in thousands)	2015	2014
Compensation from acquisition-related agreements	$690	$990
Restructuring and integration costs	1,496	—
Amortization of intangible assets related to acquisitions	263	743
	$2,449	$1,733

Capital Markets adjusted net revenues were $136.4 million for the three months ended September 30, 2015, compared with $135.9 million in the prior-year period.

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

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In the third quarter of 2015, investment banking revenues decreased 3.3 percent to $91.9 million, compared with $95.0 million in the corresponding period of the prior year. For the three months ended September 30, 2015, equity financing revenues were $24.4 million, an increase of 71.3 percent compared with $14.3 million in the prior-year period, due to more completed transactions and higher revenue per transaction as equity capital raising in the growth sectors in which we compete was sluggish in the third quarter of 2014. During the third quarter of 2015, we completed 22 equity financings, raising $3.0 billion for our clients, compared with 15 equity financings, raising $3.5 billion for our clients in the comparable year-ago period. Equity financing revenues per transaction in the third quarter of 2015 were higher as the number of transactions for which we served as the book runner increased. In the third quarter of 2015, we were book runner on 77 percent of our transactions, compared to 40 percent of our transactions in the year-ago period. Debt financing revenues for the three months ended September 30, 2015 were $20.5 million, up 41.8 percent compared with $14.4 million in the year-ago period, due to higher public finance revenues from more completed transactions as municipal issuance volumes increased compared to the third quarter of 2014. We also realized market share gains attributable to our geographic expansion and other growth initiatives. During the third quarter of 2015, we completed 104 negotiated public finance issues with a total par value of $2.3 billion, compared with 85 negotiated public finance issues with a total par value of $1.8 billion during the prior-year period. For the three months ended September 30, 2015, advisory services revenues were $47.0 million, down 29.2 percent compared with a strong third quarter of 2014, due to lower revenue per transaction. We completed 21 transactions with an aggregate enterprise value of $6.9 billion in the third quarter of 2015, compared with 22 transactions with an aggregate enterprise value of $4.7 billion in the third quarter of 2014.

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

For the three months ended September 30, 2015, institutional brokerage revenues were $38.3 million, compared with $39.4 million in the prior-year period. Equity institutional brokerage revenues increased 19.8 percent to $20.0 million in the third quarter of 2015, compared with $16.7 million in the corresponding period of 2014, due to higher client trading volumes driven by market volatility, as well as additional activity from our financial institutions group expansion. For the three months ended September 30, 2015, fixed income institutional brokerage revenues were $18.3 million, down 19.7 percent compared with $22.7 million in the prior-year period, due to lower trading gains resulting from challenging market conditions across most asset classes. Volatility in treasury rates and uncertainty in the direction of interest rates resulted in decreased customer flows. Also, we continued to maintain our neutral stance and conservative bias towards interest rates which protected our downside risk, but also limited our upside potential.

Management and performance fees include the fees generated from our municipal bond and merchant banking funds. For the three months ended September 30, 2015, management and performance fees were $1.9 million, compared with $1.4 million in the prior-year period. In the second quarter of 2015, we notified third party investors of our intention to close the municipal bond fund and we completed liquidation of the fund in October 2015.

Adjusted investment income includes realized and unrealized gains and losses on our investments in the merchant banking fund and the municipal bond fund that we manage for third party investors, and other firm investments. For the three months ended September 30, 2015, adjusted investment income was $6.1 million, compared to $1.6 million in the corresponding period of 2014. In the third quarter of 2015, we recorded higher gains on our merchant banking activities.

Long-term financing expenses primarily represent interest paid on our variable rate senior notes. For the three months ended September 30, 2015, long-term financing expenses were $1.7 million, compared with $1.6 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for the three months ended September 30, 2015 was 7.7 percent, compared with 14.6 percent for the corresponding period of 2014. The decrease in adjusted pre-tax operating margin was primarily due to higher non-compensation costs resulting from a pending legal settlement, as well as additional expenses associated with our financial institutions group expansion.

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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,							
	2015				2014			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$8,997	$—	$—	$8,997	$11,356	$—	$—	$11,356
MLP	8,056	—	—	8,056	8,382	—	—	8,382
Total management fees	17,053	—	—	17,053	19,738	—	—	19,738
Performance fees								
Value equity	—	—	—	—	430	—	—	430
MLP	—	—	—	—	40	—	—	40
Total performance fees	—	—	—	—	470	—	—	470
Total management and performance fees	17,053	—	—	17,053	20,208	—	—	20,208
Investment loss	(5,096)	—	—	(5,096)	(252)	—	—	(252)
Total net revenues	11,957	—	—	11,957	19,956	—	—	19,956
Operating expenses	12,095	—	1,510	13,605	12,837	—	1,896	14,733
Segment pre-tax operating income/(loss)	$(138)	$—	$(1,510)	$(1,648)	$7,119	$—	$(1,896)	$5,223
Segment pre-tax operating margin	(1.2)%			(13.8)%	35.7%			26.2%

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

	Three Months Ended September 30,	
(Dollars in thousands)	2015	2014
Compensation from acquisition-related agreements	$—	$321
Amortization of intangible assets related to acquisitions	1,510	1,575
	$1,510	$1,896

Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Investment performance and client asset inflows and outflows have a direct effect on management and performance fee revenues. Management fees are generally based on the level of assets under management ("AUM") measured monthly or quarterly, and an increase or reduction in AUM, due to market price fluctuations or net client asset flows, will result in a corresponding increase or decrease in management fees. Fees vary with the type of assets managed and the vehicle in which they are managed. Performance fees are earned when the investment return on AUM exceeds certain benchmark targets or other performance targets over a specified measurement period. The level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in total AUM. The majority of performance fees, if earned, are generally recorded in the fourth quarter of the applicable year or upon withdrawal of client assets. At September 30, 2015, approximately three percent of our AUM was eligible to earn performance fees.

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For the three months ended September 30, 2015, management fees were $17.1 million, a decrease of 13.6 percent, compared with $19.7 million in the prior-year period, due primarily to lower management fees from our value equity product offerings. In the third quarter of 2015, management fees related to our value equity strategies were $9.0 million, down 20.8 percent compared to $11.4 million in the corresponding period of 2014. The decrease was due to lower AUM from net client outflows and market depreciation, as well as a lower average effective revenue yield. The average effective revenue yield for our value equity strategies was 67 basis points for the third quarter of 2015, compared with 76 basis points for the prior-year period. The decline in the average effective revenue yield was driven by large new investments from institutional investors, which have a lower fee structure. Management fees from our MLP strategies decreased 3.9 percent in the third quarter of 2015 to $8.1 million, compared with $8.4 million in the third quarter of 2014. The decline in management fees resulting from lower AUM, driven by a drop-off in MLP valuations, was offset in part by a higher average effective revenue yield. The average effective revenue yield for our MLP strategies was 64 basis points for the three months ended September 30, 2015, compared to 54 basis points for the corresponding period in the prior year. The increased average effective revenue yield was due to more assets from individual investors in open-ended funds, which earn higher fees.

Investment 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, 2015, investment loss was $5.1 million compared with a loss of $0.3 million for the prior-year period.

Adjusted segment pre-tax operating margin for the three months ended September 30, 2015 was a negative 1.2 percent, compared to 35.7 percent for the three months ended September 30, 2014. The decrease resulted from investment losses and lower management fees.

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

(Dollars in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Twelve Months Ended September 30, 2015
Value Equity			
Beginning of period	$5,757	$6,577	$5,999
Net outflows	(208)	(161)	(658)
Net market depreciation	(495)	(417)	(287)
End of period	$5,054	$5,999	$5,054
MLP			
Beginning of period	$5,626	$6,036	$6,171
Net inflows	154	83	489
Net market appreciation/(depreciation)	(1,471)	52	(2,351)
End of period	$4,309	$6,171	$4,309
Total			
Beginning of period	$11,383	$12,613	$12,170
Net outflows	(54)	(78)	(169)
Net market depreciation	(1,966)	(365)	(2,638)
End of period	$9,363	$12,170	$9,363

Total AUM was $9.4 billion at September 30, 2015. Value equity AUM declined to $5.1 billion at September 30, 2015, compared with $5.8 billion at June 30, 2015 as we experienced both net client outflows and net market depreciation during the quarter. MLP AUM decreased to $4.3 billion at September 30, 2015 due to net market depreciation of $1.5 billion as the MLP sector has been under pressure most of the year and price declines accelerated in the third quarter of 2015.

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Financial Summary for the nine months ended September 30, 2015 and September 30, 2014

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 September 30,			As a Percentage of Net Revenues for the Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015 v2014	2015	2014
Revenues:					
Investment banking	$284,786	$287,198	(0.8)%	59.9 %	57.7 %
Institutional brokerage	106,879	114,485	(6.6)	22.5	23.0
Asset management	58,730	64,820	(9.4)	12.3	13.0
Interest	32,755	36,935	(11.3)	6.9	7.4
Investment income	10,123	12,379	(18.2)	2.1	2.5
Total revenues	493,273	515,817	(4.4)	103.7	103.7
Interest expense	17,719	18,227	(2.8)	3.7	3.7
Net revenues	475,554	497,590	(4.4)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	295,543	300,745	(1.7)	62.1	60.4
Outside services	26,385	27,837	(5.2)	5.5	5.6
Occupancy and equipment	20,791	22,151	(6.1)	4.4	4.5
Communications	17,650	17,048	3.5	3.7	3.4
Marketing and business development	21,186	19,787	7.1	4.5	4.0
Trade execution and clearance	5,956	5,527	7.8	1.3	1.1
Restructuring and integration costs	1,496	—	N/M	0.3	—
Intangible asset amortization expense	5,319	6,954	(23.5)	1.1	1.4
Other operating expenses	17,289	8,719	98.3	3.6	1.8
Total non-interest expenses	411,615	408,768	0.7	86.6	82.1
Income before income tax expense	63,939	88,822	(28.0)	13.4	17.9
Income tax expense	20,605	28,472	(27.6)	4.3	5.7
Net income	43,334	60,350	(28.2)	9.1	12.1
Net income applicable to noncontrolling interests	4,532	9,721	(53.4)	1.0	2.0
Net income applicable to Piper Jaffray Companies	$38,802	$50,629	(23.4)%	8.2 %	10.2 %

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.

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For the nine months ended September 30, 2015, we recorded net income applicable to Piper Jaffray Companies of $38.8 million. Net revenues for the nine months ended September 30, 2015 were $475.6 million, a 4.4 percent decrease compared to $497.6 million in the year-ago period. In the first nine months of 2015, investment banking revenues were $284.8 million, down slightly compared with the prior-year period as lower advisory services revenues were offset in part by higher debt financing revenues. For the nine months ended September 30, 2015, institutional brokerage revenues decreased 6.6 percent to $106.9 million, compared with $114.5 million in the first nine months of 2014, due to lower fixed income institutional brokerage revenues. In the first nine months of 2015, asset management fees decreased 9.4 percent to $58.7 million, compared with $64.8 million in the first nine months of 2014, due to lower management fees from our value equity product offerings, as well as decreased performance fees. In the first nine months of 2015, net interest income decreased to $15.0 million, compared with $18.7 million in the prior-year period. The decrease primarily resulted from lower average inventory balances in mortgage-backed and municipal securities, as well as lower interest income attributable to a merchant banking debt investment that was repaid in the second quarter of 2014. For the nine months ended September 30, 2015, investment income was $10.1 million, compared with $12.4 million in the prior-year period. Non-interest expenses were $411.6 million for the nine months ended September 30, 2015, compared with $408.8 million in year-ago period as a decline in compensation and benefits expenses resulting from with lower revenues and profitability was more than offset by higher legal reserves associated with a pending legal settlement.

Consolidated Non-Interest Expenses

Outside Services – Outside services expenses decreased 5.2 percent to $26.4 million in the first nine months of 2015, compared with $27.8 million in the corresponding period of 2014. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses decreased 4.8 percent due primarily to lower legal and professional fees.

Income Taxes – For the nine months ended September 30, 2015, our provision for income taxes was $20.6 million equating to an effective tax rate, excluding noncontrolling interests, of 34.7 percent, compared with $28.5 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 36.0 percent.

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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:

	Nine Months Ended September 30,							
	2015				2014			
		Adjustments [1]				Adjustments [1]		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$96,681	$—	$—	$96,681	$93,628	$—	$—	$93,628
Debt	72,312	—	—	72,312	48,148	—	—	48,148
Advisory services	116,363	—	—	116,363	145,743	—	—	145,743
Total investment banking	285,356	—	—	285,356	287,519	—	—	287,519
Institutional sales and trading								
Equities	59,338	—	—	59,338	59,337	—	—	59,337
Fixed income	59,958	—	—	59,958	69,060	—	—	69,060
Total institutional sales and trading	119,296	—	—	119,296	128,397	—	—	128,397
Management and performance fees	3,926	—	—	3,926	4,512	—	—	4,512
Investment income	14,652	7,542	—	22,194	7,055	13,545	—	20,600
Long-term financing expenses	(4,781)	—	—	(4,781)	(5,058)	—	—	(5,058)
Net revenues	418,449	7,542	—	425,991	422,425	13,545	—	435,970

Operating expenses	361,188	3,010	4,916	369,114	355,516	3,824	5,282	364,622
Segment pre-tax operating income	$57,261	$4,532	$(4,916)	$56,877	$66,909	$9,721	$(5,282)	$71,348
Segment pre-tax operating margin	13.7 %			13.4 %	15.8 %			16.4 %

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

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

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

	Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014
Compensation from acquisition-related agreements	$2,631	$3,053
Restructuring and integration costs	1,496	—
Amortization of intangible assets related to acquisitions	789	2,229
	$4,916	$5,282

Capital Markets adjusted net revenues were $418.4 million for the nine months ended September 30, 2015, compared with $422.4 million in the prior-year period.

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In the first nine months of 2015, investment banking revenues decreased slightly to $285.4 million, compared with $287.5 million in the corresponding period of the prior year. For the nine months ended September 30, 2015, equity financing revenues were $96.7 million, an increase of 3.3 percent compared with $93.6 million in the prior-year period. During the first nine months of 2015, we completed 84 equity financings, raising $15.5 billion for our clients, compared with 79 equity financings, raising $18.0 billion for our clients in the year-ago period. Debt financing revenues for the nine months ended September 30, 2015 were $72.3 million, up 50.2 percent compared with $48.1 million in the year-ago period, due to higher public finance revenues driven by market-wide increases in the volume of municipal issuances in 2015, as well as gains in market share. During the first nine months of 2015, we completed 366 negotiated public finance issues with a total par value of $9.4 billion, compared with 259 negotiated public finance issues with a total par value of $5.7 billion during the prior-year period. For the nine months ended September 30, 2015, advisory services revenues decreased to $116.4 million, compared with $145.7 million in the first nine months of 2014, due to fewer completed transactions and lower revenue per transaction. We completed 50 transactions with an aggregate enterprise value of $11.9 billion in the first nine months of 2015, compared with 55 transactions with an aggregate enterprise value of $11.2 billion in the first nine months of 2014.

For the nine months ended September 30, 2015, institutional brokerage revenues decreased 7.1 percent to $119.3 million, compared with $128.4 million in the prior-year period, due to lower fixed income institutional brokerage revenues. Equity institutional brokerage revenues were $59.3 million in the first nine months of 2015, consistent with the corresponding period of 2014. For the nine months ended September 30, 2015, fixed income institutional brokerage revenues were $60.0 million, compared with $69.1 million in the prior-year period, due primarily to lower strategic trading gains resulting from challenging market conditions.

For the nine months ended September 30, 2015, management and performance fees were $3.9 million, compared with $4.5 million in the prior-year period, due to lower performance fees associated with our municipal bond fund, partially offset by increased management fees from our merchant banking fund.

For the nine months ended September 30, 2015, adjusted investment income was $14.7 million, compared to $7.1 million in the corresponding period of 2014. The increase resulted from higher gains on our merchant banking activities and other firm investments.

For the nine months ended September 30, 2015, long-term financing expenses decreased to $4.8 million, compared with $5.1 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for the nine months ended September 30, 2015 was 13.7 percent, compared with 15.8 percent for the corresponding period of 2014. The decrease in adjusted pre-tax operating margin was primarily due to higher non-compensation expenses resulting from a pending legal settlement as well as additional expenses associated with our financial institutions group expansion.

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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,							
	2015				2014			
		Adjustments (1)				Adjustments (1)		
	Total	Noncontrolling	Other	U.S.	Total	Noncontrolling	Other	U.S.
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP
Management fees								
Value equity	$29,404	$—	$—	$29,404	$37,148	$—	$—	$37,148
MLP	25,192	—	—	25,192	22,326	—	—	22,326
Total management fees	54,596	—	—	54,596	59,474	—	—	59,474
Performance fees								
Value equity	208	—	—	208	625	—	—	625
MLP	—	—	—	—	209	—	—	209
Total performance fees	208	—	—	208	834	—	—	834
Total management and performance fees	54,804	—	—	54,804	60,308	—	—	60,308
Investment income/(loss)	(5,241)	—	—	(5,241)	1,312	—	—	1,312
Total net revenues	49,563	—	—	49,563	61,620	—	—	61,620
Operating expenses	37,757	—	4,744	42,501	38,458	—	5,688	44,146
Segment pre-tax operating income	$11,806	$—	$(4,744)	$7,062	$23,162	$—	$(5,688)	$17,474
Segment pre-tax operating margin	23.8%			14.2%	37.6%			28.4%

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

	Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014
Compensation from acquisition-related agreements	$214	$963
Amortization of intangible assets related to acquisitions	4,530	4,725
	$4,744	$5,688

For the nine months ended September 30, 2015, management fees were $54.6 million, a decrease of 8.2 percent, compared with $59.5 million in the prior-year period, due to lower management fees from our value equity product offerings, offset in part by higher management fees from our MLP product offerings. In the first nine months of 2015, management fees related to our value equity strategies were $29.4 million, down 20.8 percent compared to $37.1 million in the corresponding period of 2014, due to lower AUM and lower average effective revenue yield. The average effective revenue yield for our value equity strategies was 70 basis points for the nine months ended September 30, 2015, down from 78 basis points for the nine months ended September 30, 2014. Management fees from our MLP strategies increased 12.8 percent in the first nine months of 2015 to $25.2 million, compared with $22.3 million in the first nine months of 2014, due to higher average effective revenue yields. Our average effective revenue yield for our MLP strategies was 60 basis points for the nine months ended September 30, 2015, compared to 52 basis points for the corresponding period in the prior year.

For the nine months ended September 30, 2015, performance fees were $0.2 million, compared to $0.8 million in the prior-year period.

In the first nine months of 2015, we recorded an investment loss of $5.2 million, compared with income of $1.3 million for the nine months ended September 30, 2014.

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Adjusted segment pre-tax operating margin for the nine months ended September 30, 2015 was 23.8 percent, compared to 37.6 percent for the nine months ended September 30, 2014.

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

(Dollars in millions)	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Twelve Months Ended September 30, 2015
Value Equity			
Beginning of period	$5,758	$6,683	$5,999
Net outflows	(366)	(687)	(658)
Net market appreciation/(depreciation)	(338)	3	(287)
End of period	$5,054	$5,999	$5,054
MLP			
Beginning of period	$5,711	$4,549	$6,171
Net inflows	389	619	489
Net market appreciation/(depreciation)	(1,791)	1,003	(2,351)
End of period	$4,309	$6,171	$4,309
Total			
Beginning of period	$11,469	$11,232	$12,170
Net inflows/(outflows)	23	(68)	(169)
Net market appreciation/(depreciation)	(2,129)	1,006	(2,638)
End of period	$9,363	$12,170	$9,363

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

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, 2014 for further information.

We anticipate completing our 2015 annual goodwill and intangible asset impairment testing in the fourth quarter of 2015. Impairment charges, if any, resulting from this valuation analysis could materially adversely affect our results of operations.

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Liquidity, Funding and Capital Resources

Liquidity is of critical importance to us given the nature of our business. Insufficient liquidity resulting from adverse circumstances contributes to, and may be the cause of, financial institution failure. Accordingly, we regularly monitor our liquidity position and maintain a liquidity strategy designed to enable our business to continue to operate even under adverse circumstances, although there can be no assurance that our strategy will be successful under all circumstances.

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

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

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

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

Effective October 1, 2014, our board of directors authorized the repurchase of up to $100 million in common shares through September 30, 2016. During the nine months ended September 30, 2015, the Company repurchased 1,804,886 shares of the Company's common stock at an average price of $51.06 per share for an aggregate purchase price of $92.1 million related to this authorization. The Company has $7.9 million remaining under this authorization.

Effective August 14, 2015, our board of directors authorized the repurchase of up to an additional $150 million in common shares through September 30, 2017. The Company did not repurchase any shares of the Company's outstanding common stock related to this additional 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 2015, we purchased 270,922 shares or $14.1 million of our common shares for this purpose.

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Leverage

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

(Dollars in thousands)	September 30, 2015	December 31, 2014
Total assets	$2,299,062	$2,623,917
Deduct: Goodwill and intangible assets	(246,362)	(242,536)
Deduct: Assets from noncontrolling interests	(164,667)	(308,910)
Adjusted assets	$1,888,033	$2,072,471
Total shareholders' equity	$832,595	$969,460
Deduct: Goodwill and intangible assets	(246,362)	(242,536)
Deduct: Noncontrolling interests	(37,210)	(149,548)
Tangible common shareholders' equity	$549,023	$577,376
Leverage ratio (1)	2.8	2.7
Adjusted leverage ratio (2)	3.4	3.6

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

Adjusted assets and tangible common shareholders' equity are non-GAAP financial measures. A non-GAAP financial measure is a numeric measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with GAAP, or for which there is no specific GAAP measure. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. Amounts attributed to noncontrolling interests are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as they represent assets and equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

Funding and Capital Resources

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

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Short-term financing

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

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co., issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The programs can issue with maturities of 27 to 270 days. CP Series III A includes a covenant that requires Piper Jaffray & Co. to maintain excess net capital of $120 million. The following table provides information about our commercial paper programs at September 30, 2015:

(Dollars in millions)	CP Series A	CP Series II A	CP Series III A
Maximum amount that may be issued	$300.0	$150.0	$125.0
Amount outstanding	153.5	29.8	92.6
Weighted average maturity, in days	58	80	6
Weighted average maturity at issuance, in days	135	142	30

Prime Broker Arrangement – We have established an arrangement to obtain overnight financing by a single prime broker related to our alternative asset management funds in municipal securities. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. Our prime broker financing activities are recorded net of receivables from trading activity. This funding is at the discretion of the prime broker and could be denied subject to a notice period. At September 30, 2015, we had $139.8 million of financing outstanding under this prime broker arrangement.

Committed Lines – Our committed line is a one-year $250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co. to maintain minimum net capital of $120 million, and the unpaid principal amount of all advances under the facility will be due on December 18, 2015. This credit facility has been in place since 2008 and we anticipate being able to renew the facility for another one-year term in the fourth quarter of 2015. At September 30, 2015, we had no advances against this line of credit.

Uncommitted Lines – We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total $185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under these secured lines. We also have an uncommitted unsecured facility with one of these banks. All of these uncommitted lines are discretionary and are not a commitment by the bank to provide an advance under the line. More specifically, these lines are subject to approval by the respective bank each time an advance is requested and advances may be denied, which may be particularly true during times of market stress or market perceptions of our exposures. We manage our relationships with the banks that provide these uncommitted facilities in order to have appropriate levels of funding for our business. At September 30, 2015, we had no advances against these lines of credit.

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

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

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

The average funding in the third quarter of 2015 decreased to $448.9 million, compared with $587.9 million during the second quarter of 2015. This decrease was the result of a decline in net inventory related to our alternative asset management funds which is financed through our prime broker arrangement. In the corresponding period of 2014, we used excess cash to reduce amounts due under our prime broker arrangement and outstanding repurchase agreements.

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

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

Variable rate senior notes

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

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

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

The Amended Note Purchase Agreement includes covenants that, among other things, require us to maintain a minimum consolidated tangible net worth and minimum regulatory net capital, limit our leverage ratio and require maintenance of a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of $120 million. At September 30, 2015, we were in compliance with all covenants.

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 new Class C Notes. The Class C Notes bear interest at an annual fixed rate of 5.06 percent and mature on October 9, 2018. Interest on the Class C Notes is payable semi-annually. The unpaid principal amount is due in full on the maturity date and may not be prepaid. The Second Amended and Restated Note Purchase Agreement includes customary events of default and covenants that coincide with the terms of the Amended Note Purchase Agreement.

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, 2014.

Capital Requirements

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At September 30, 2015, our net capital under the SEC's uniform net capital rule was $156.5 million, and exceeded the minimum net capital required under the SEC rule by $155.5 million.

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

At September 30, 2015, Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to, and was in compliance with, the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At September 30, 2015, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

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Off-Balance Sheet Arrangements

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

	Expiration Per Period at September 30, 2015						Total Contractual Amount	
	Remainder			2018	2020		September 30,	December 31,
(Dollars in thousands)	of 2015	2016	2017	- 2019	- 2021	Later	2015	2014
Customer matched-book derivative contracts (1) (2)	$63,110	$63,160	$40,950	$78,850	$59,421	$4,347,544	$4,653,035	$4,860,302
Trading securities derivative contracts (2)	142,100	70,000	—	—	—	29,750	241,850	297,250
Credit default swap index contracts (2)	—	—	—	—	78,100	27,438	105,538	267,796
Equity derivative contracts (2)	7,672	428	321	—	—	—	8,421	19,380
Investment commitments (3)	—	—	—	—	—	—	37,443	37,264

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of $187.9 million at September 30, 2015) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At September 30, 2015, we had $25.9 million of credit exposure with these counterparties, including $17.5 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At September 30, 2015 and December 31, 2014, the net fair value of these derivative contracts approximated $31.2 million and $37.0 million, respectively.

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

Derivatives

Derivatives’ notional or contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the fair value of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. For a complete discussion of our activities related to derivative products, see Note 3, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our unaudited consolidated financial statements.

Loan Commitments

We may commit to bridge loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at September 30, 2015.

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 $37.4 million of commitments outstanding at September 30, 2015, of which $26.9 million related to a commitment to an affiliated merchant banking fund and $10.0 million related to a commitment to an affiliated fund which provides financing for certain senior living facilities.

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Risk Management

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

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

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

Governance and Risk Management Structure

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

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

Market Risk

Market risk represents the risk of financial volatility that may result from the change in value of a financial instrument due to fluctuations in its market price. Our exposure to market risk is directly related to our role as a financial intermediary for our clients, to our market-making activities and our strategic trading activities. Market risks are inherent to both cash and derivative financial instruments. The scope of our market risk management policies and procedures includes all market-sensitive financial instruments.

Our different types of market risk include:

Interest Rate Risk — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (including client margin balances, investments, inventories, and resale agreements) and our funding sources (including client cash balances, short-term financing, variable rate senior notes and repurchase agreements), which finance these assets. Interest rate risk is managed by selling short U.S. government securities, agency securities, corporate debt securities and derivative contracts. See Note 3 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.

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Equity Price Risk — Equity price risk represents the potential loss in value due to adverse changes in the level or volatility of equity prices. We are exposed to equity price risk through our trading activities in the U.S. market, including our strategic trading activities in equity securities. 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, mortgage-backed securities and equity securities. A VaR model provides a common metric for assessing market risk across business lines and products. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes and individual securities.

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

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

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

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

(Dollars in thousands)	September 30, 2015	December 31, 2014
Interest Rate Risk	$576	$740
Equity Price Risk	171	235
Diversification Effect (1)	(86)	(129)
Total Value-at-Risk	$661	$846

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

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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, 2015 and the year ended December 31, 2014, respectively.

(Dollars in thousands)	High	Low	Average
For the Nine Months Ended September 30, 2015			
Interest Rate Risk	$853	$415	$583
Equity Price Risk	618	135	373
Diversification Effect (1)			(153)
Total Value-at-Risk	$1,128	$500	$803

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

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

Trading losses exceeded our one-day VaR on four occasions during the first nine months of 2015.

The aggregate VaR as of September 30, 2015 was lower than the reported VaR on December 31, 2014. The decrease in VaR is due to a decline in inventories for the nine months ended September 30, 2015.

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

Liquidity Risk

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

See the section entitled "Liquidity, Funding and Capital Resources" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this 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.

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

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a debt instrument issued by a AA-rated entity must produce over a risk-free alternative). Changes in credit spreads result from potential changes in an issuer's credit rating or the market's perception of the issuer's credit worthiness. We are exposed to credit spread risk with the debt instruments held in our trading inventory, including those held for strategic trading activites. We enter into transactions to hedge our exposure to credit spread risk through the use of derivatives and certain other financial instruments. These hedging strategies may not work in all market environments and as a result may not be effective in mitigating credit spread risk.

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

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

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

We have concentrated counterparty credit exposure with five non-publicly rated entities totaling $25.9 million at September 30, 2015. This counterparty credit exposure is part of our matched-book derivative program related to our public finance business, consisting primarily of interest rate swaps. One derivative counterparty represents 67.8 percent, or $17.5 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of the interest rate swap contracts and is monitored regularly by our financial risk committee. We attempt to minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Operational Risk

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

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

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

Legal, Regulatory and Compliance Risk

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

Effects of Inflation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information under the caption "Risk Management" in Item 2, "Management’s Discussion and Analysis of Financial Condition and Results of Operations," in this 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 Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) accumulated and communicated to our management, including our principal executive officer and principal financial officer to allow timely decisions regarding disclosure.

During the third quarter of our fiscal year ending December 31, 2015, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of

1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The following supplements and amends our discussion set forth under Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Municipal Derivatives Litigation

Several class action complaints were brought on behalf of a purported class of state, local and municipal government entities in connection with the bidding or sale of municipal investment contracts and municipal derivative products directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated into a single nationwide class action entitled In re Municipal Derivatives Antitrust Litigation, MDL No. 1950 (Master Docket No. 08-2516), allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. The consolidated complaint seeks unspecified treble damages under Section 1 of the Sherman Act. Several California municipalities also brought separate class action complaints in California federal court, and approximately eighteen California municipalities and two New York municipalities filed individual lawsuits that are not as part of class actions, all of which have since been transferred to the Southern District of New York and consolidated for pretrial purposes. All three sets of complaints assert similar claims under federal (and for the California and New York plaintiffs, state) antitrust claims. The plaintiffs in the consolidated class action and Piper Jaffray signed a term sheet for settlement of In re Municipal Derivatives Antitrust Litigation on September 15, 2015. The settlement is subject to execution of a final settlement agreement and court approval after notice to the class. If approved, Piper Jaffray will be required to pay $9.8 million to settle the MDL class action. Litigation in the separate California and New York cases is ongoing.

ITEM 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, 2014. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended September 30, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1)	
Month #1 (July 1, 2015 to July 31, 2015)	17,494	$41.15	—	$8	million
Month #2					

(August 1, 2015 to August 31, 2015)	4,272	$43.02	—	$158	million
Month #3 (September 1, 2015 to September 30, 2015)	—	$—	—	$158	million
Total	21,766	$41.52	—	$158	million

(1) Effective October 1, 2014, our board of directors authorized the repurchase of up to $100.0 million of common stock through September 30, 2016. Additionally, effective August 14, 2015, the Company's board of directors authorized the repurchase of up to an additional $150.0 million in common shares through September 30, 2017.

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ITEM 6. EXHIBITS.

Exhibit Number	Description	Method of Filing
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Section 1350 Certifications.	Filed herewith
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of September 30, 2015 and December 31, 2014, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014, (iv) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

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 30, 2015.

PIPER JAFFRAY COMPANIES

By	/s/ Andrew S. Duff
Its	Chairman and Chief Executive Officer
By	/s/ Debbra L. Schoneman
Its	Chief Financial Officer

Exhibit Index

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