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PIPER JAFFRAY COMPANIES  
Form 10-Q  
August 05, 2016

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

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

For the Quarterly Period Ended June 30, 2016  
OR

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

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

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact Name of Registrant as specified in its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation or Organization)

800 Nicollet Mall, Suite 1000

Minneapolis, Minnesota

(Address of Principal Executive Offices)

30-0168701

(IRS Employer Identification No.)

55402

(Zip Code)

(612) 303-6000

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of July 27, 2016, the registrant had 15,214,792 shares of Common Stock outstanding.



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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## Piper Jaffray Companies

## Consolidated Statements of Financial Condition

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
|  | (Unaudited)      |                      |
| (Amounts in thousands, except share data)  |                  |                      |
| Assets   |                  |                      |
| Cash and cash equivalents  | \$172,244        | \$ 189,910           |
| Cash and cash equivalents segregated for regulatory purposes   | 42,028           | 81,022               |
| Receivables:   |                  |                      |
| Customers  | 52,057           | 41,167               |
| Brokers, dealers and clearing organizations  | 100,638          | 147,949              |
| Securities purchased under agreements to resell  | 142,473          | 136,983              |
| Financial instruments and other inventory positions owned  | 337,852          | 283,579              |
| Financial instruments and other inventory positions owned and pledged as collateral                    | 630,364          | 707,355              |
| Total financial instruments and other inventory positions owned  | 968,216          | 990,934              |
| Fixed assets (net of accumulated depreciation and amortization of \$55,887 and \$51,874, respectively) | 21,941           | 18,984               |
| Goodwill   | 290,740          | 217,976              |
| Intangible assets (net of accumulated amortization of \$56,193 and \$48,803, respectively)             | 37,751           | 30,530               |
| Investments  | 163,320          | 163,861              |
| Other assets   | 129,896          | 119,202              |
| Total assets   | \$2,121,304      | \$2,138,518          |
| Liabilities and Shareholders' Equity   |                  |                      |
| Short-term financing   | \$501,846        | \$446,190            |
| Senior notes   | 175,000          | 175,000              |
| Payables:  |                  |                      |
| Customers  | 47,391           | 37,364               |
| Brokers, dealers and clearing organizations  | 132,268          | 48,131               |
| Securities sold under agreements to repurchase   | 33,731           | 45,319               |
| Financial instruments and other inventory positions sold, but not yet purchased                        | 211,012          | 239,155              |
| Accrued compensation   | 137,708          | 251,638              |
| Other liabilities and accrued expenses   | 55,089           | 62,901               |
| Total liabilities  | 1,294,045        | 1,305,698            |
| Shareholders' equity:  |                  |                      |
| Common stock, \$0.01 par value:  |                  |                      |
| Shares authorized: 100,000,000 at June 30, 2016 and December 31, 2015;                                 |                  |                      |
| Shares issued: 19,534,376 at June 30, 2016 and 19,510,858 at December 31, 2015;                        |                  |                      |
| Shares outstanding: 12,425,069 at June 30, 2016 and 13,311,016 at December 31, 2015                    | 195              | 195                  |
| Additional paid-in capital   | 775,632          | 752,066              |
| Retained earnings  | 283,515          | 279,140              |
|  | (282,886 )       | (247,553 )           |

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Less common stock held in treasury, at cost: 7,109,307 at June 30, 2016 and 6,199,842 shares at December 31, 2015

|  |             |   |             |   |
|--|-------------|---|-------------|---|
| Accumulated other comprehensive loss       | (1,445      | ) | (189        | ) |
| Total common shareholders' equity          | 775,011     |   | 783,659     |   |
| Noncontrolling interests                   | 52,248      |   | 49,161      |   |
| Total shareholders' equity                 | 827,259     |   | 832,820     |   |
| Total liabilities and shareholders' equity | \$2,121,304 |   | \$2,138,518 |   |

See Notes to the Consolidated Financial Statements

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Consolidated Statements of Operations  
(Unaudited)

|   | Three Months<br>Ended |           | Six Months Ended |           |
|---|-----------------------|-----------|------------------|-----------|
|   | June 30,<br>2016      | 2015      | June 30,<br>2016 | 2015      |
| (Amounts in thousands, except per share data)                         |                       |           |                  |           |
| Revenues:   |                       |           |                  |           |
| Investment banking  | \$97,414              | \$106,069 | \$201,352        | \$193,146 |
| Institutional brokerage   | 48,185                | 36,661    | 80,234           | 72,697    |
| Asset management  | 14,595                | 19,257    | 28,443           | 39,779    |
| Interest  | 7,922                 | 11,422    | 16,751           | 23,627    |
| Investment income/(loss)  | 8,276                 | (3,299)   | 9,213            | 9,292     |
| Total revenues  | 176,392               | 170,110   | 335,993          | 338,541   |
| Interest expense  | 5,909                 | 6,044     | 11,954           | 12,604    |
| Net revenues  | 170,483               | 164,066   | 324,039          | 325,937   |
| Non-interest expenses:  |                       |           |                  |           |
| Compensation and benefits   | 117,148               | 103,554   | 221,584          | 199,411   |
| Outside services  | 10,184                | 8,885     | 18,635           | 17,069    |
| Occupancy and equipment   | 8,850                 | 6,983     | 16,568           | 13,766    |
| Communications  | 7,294                 | 5,088     | 14,624           | 11,416    |
| Marketing and business development                                    | 9,171                 | 7,239     | 16,175           | 14,221    |
| Trade execution and clearance   | 1,916                 | 1,977     | 3,678            | 3,974     |
| Restructuring and integration costs                                   | 3,433                 | —         | 10,206           | —         |
| Intangible asset amortization expense                                 | 4,094                 | 1,773     | 7,390            | 3,546     |
| Other operating expenses  | 1,884                 | 2,708     | 5,228            | 5,383     |
| Total non-interest expenses   | 163,974               | 138,207   | 314,088          | 268,786   |
| Income before income tax expense                                      | 6,509                 | 25,859    | 9,951            | 57,151    |
| Income tax expense  | 1,996                 | 9,542     | 2,252            | 19,032    |
| Net income  | 4,513                 | 16,317    | 7,699            | 38,119    |
| Net income/(loss) applicable to noncontrolling interests              | 2,575                 | (682)     | 3,324            | 4,148     |
| Net income applicable to Piper Jaffray Companies                      | \$1,938               | \$16,999  | \$4,375          | \$33,971  |
| Net income applicable to Piper Jaffray Companies' common shareholders | \$1,577               | \$15,699  | \$3,685          | \$31,513  |
| Earnings per common share   |                       |           |                  |           |
| Basic   | \$0.12                | \$1.08    | \$0.28           | \$2.12    |
| Diluted   | \$0.12                | \$1.08    | \$0.28           | \$2.11    |

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Weighted average number of common shares outstanding

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 12,927 | 14,487 | 13,043 | 14,888 |
| Diluted | 12,942 | 14,513 | 13,056 | 14,920 |

See Notes to the Consolidated Financial Statements

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Piper Jaffray Companies

Consolidated Statements of Comprehensive Income

(Unaudited)

|  | Three Months<br>Ended<br>June 30, |          | Six Months<br>Ended<br>June 30, |          |
|--|-----------------------------------|----------|---------------------------------|----------|
| (Amounts in thousands)   | 2016                              | 2015     | 2016                            | 2015     |
| Net income   | \$4,513                           | \$16,317 | \$7,699                         | \$38,119 |
| Other comprehensive income/(loss), net of tax:                     |                                   |          |                                 |          |
| Foreign currency translation adjustment                            | (853                              | ) 501    | (1,256                          | ) 26     |
| Comprehensive income   | 3,660                             | 16,818   | 6,443                           | 38,145   |
| Comprehensive income/(loss) applicable to noncontrolling interests | 2,575                             | (682     | ) 3,324                         | 4,148    |
| Comprehensive income applicable to Piper Jaffray Companies         | \$1,085                           | \$17,500 | \$3,119                         | \$33,997 |

See Notes to the Consolidated Financial Statements



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Consolidated Statements of Cash Flows  
(Unaudited)

| (Dollars in thousands)  | Six Months Ended |           |
|---|------------------|-----------|
|   | June 30,<br>2016 | 2015      |
| Operating Activities:   |                  |           |
| Net income  | \$7,699          | \$38,119  |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: |                  |           |
| Depreciation and amortization of fixed assets   | 3,088            | 2,440     |
| Deferred income taxes   | 8,184            | 5,041     |
| Stock-based and deferred compensation   | 25,884           | 22,733    |
| Amortization of intangible assets   | 7,390            | 3,546     |
| Amortization of forgivable loans  | 4,567            | 2,663     |
| Decrease/(increase) in operating assets:  |                  |           |
| Cash and cash equivalents segregated for regulatory purposes                                | 38,994           | (7,016 )  |
| Receivables:  |                  |           |
| Customers   | (9,071 )         | (29,997 ) |
| Brokers, dealers and clearing organizations   | 47,311           | (5,602 )  |
| Securities purchased under agreements to resell   | (5,490 )         | 125,023   |
| Net financial instruments and other inventory positions owned                               | (5,425 )         | (97,495 ) |
| Investments   | (7,685 )         | (39,200 ) |
| Other assets  | (20,771)         | (23,546 ) |
| Increase/(decrease) in operating liabilities:   |                  |           |
| Payables:   |                  |           |
| Customers   | 10,027           | 18,060    |
| Brokers, dealers and clearing organizations   | 84,137           | 70,020    |
| Securities sold under agreements to repurchase  | (6,086 )         | —         |
| Accrued compensation  | (105,857)        | (82,669 ) |
| Other liabilities and accrued expenses  | (15,547)         | (2,315 )  |
| Net cash provided by/(used in) operating activities   | 61,349           | (195 )    |
| Investing Activities:   |                  |           |
| Business acquisitions, net of cash acquired   | (71,019)         | —         |
| Repayment of note receivable  | —                | 1,500     |
| Purchases of fixed assets, net  | (4,245 )         | (3,544 )  |
| Net cash used in investing activities   | (75,264)         | (2,044 )  |

Continued on next page

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Piper Jaffray Companies

Consolidated Statements of Cash Flows – Continued

(Unaudited)

| (Dollars in thousands)   | Six Months Ended |            |
|--|------------------|------------|
|  | June 30,<br>2016 | 2015       |
| Financing Activities:  |                  |            |
| Increase in short-term financing   | \$55,656         | \$122,646  |
| Decrease in securities sold under agreements to repurchase   | (5,502 )         | (34,510 )  |
| Increase in noncontrolling interests   | 9,178            | 10,329     |
| Repurchase of common stock   | (62,142 )        | (105,335 ) |
| Excess/(reduced) tax benefit from stock-based compensation   | (113 )           | 5,723      |
| Proceeds from stock option exercises   | 82               | 1,722      |
| Net cash provided by/(used in) financing activities  | (2,841 )         | 575        |
| Currency adjustment:   |                  |            |
| Effect of exchange rate changes on cash  | (910 )           | (106 )     |
| Net decrease in cash and cash equivalents  | (17,666 )        | (1,770 )   |
| Cash and cash equivalents at beginning of period   | 189,910          | 15,867     |
| Cash and cash equivalents at end of period   | \$172,244        | \$14,097   |
| Supplemental disclosure of cash flow information –   |                  |            |
| Cash paid during the period for:   |                  |            |
| Interest   | \$12,361         | \$13,907   |
| Income taxes   | \$21,559         | \$21,907   |
| Non-cash investing activities –  |                  |            |
| Issuance of common stock related to the acquisition of Simmons & Company International:<br>25,525 shares for the six months ended June 30, 2016                    | \$1,074          | \$—        |
| Non-cash financing activities –  |                  |            |
| Issuance of restricted common stock for annual equity award:<br>843,889 shares and 550,650 shares for the six months ended June 30, 2016 and 2015,<br>respectively | \$35,089         | \$30,429   |

See Notes to the Consolidated Financial Statements

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

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Basis of Presentation

Organization

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

Capital Markets

The Capital Markets segment provides institutional sales, trading and research services and investment banking services. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Investment banking services include management of and participation in underwritings, financial advisory services and public finance activities. Revenues are generated through the receipt of advisory and financing fees. Also, the Company generates revenue through strategic trading and investing activities, which focus on investments in municipal bonds, mortgage-backed securities, U.S. government agency securities, and merchant banking activities involving equity or debt investments in late stage private companies. The Company has created alternative asset management funds in energy, merchant banking and senior living in order to invest firm capital and to manage capital from outside investors. The Company receives management and performance fees for managing these funds.

Asset Management

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

Basis of Presentation

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

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in the Company's alternative asset management funds. All material intercompany balances have been eliminated.

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

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 2 Accounting Policies and Pronouncements

Summary of Significant Accounting Policies

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

Principles of Consolidation

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

VIEs are entities in which (i) the total equity investment at risk is not sufficient to enable the entity to finance its activities independently or (ii) the at-risk equity holders do not have the normal characteristics of a controlling financial interest. A controlling financial interest in a VIE is present when an enterprise has one or more variable interests that have both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The enterprise with a controlling financial interest is the primary beneficiary and consolidates the VIE.

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

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

Adoption of New Accounting Standards

Consolidation

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 makes several modifications to the consolidation guidance for VIEs and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. It was effective for the Company as of January 1, 2016. The adoption of ASU 2015-02 resulted in the deconsolidation of certain investment partnerships with assets (and the related noncontrolling interests) of approximately \$9.4 million. There was no impact to the Company's retained earnings upon adoption. In addition, certain entities previously consolidated as voting interest entities became consolidated VIEs under the amended guidance.



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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Future Adoption of New Applicable Accounting Standards

Revenue Recognition

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

Recognition and Measurement of Financial Assets and Financial Liabilities

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

Leases

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

Stock-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 makes targeted amendments to the accounting for share-based payments to employees. Under ASU 2016-09, entities will be required to recognize the income tax effects of awards in the income statement when the awards vest or are settled, rather than as additional paid-in capital. ASU 2016-09 also amends the guidance regarding the employer's statutory income tax withholding requirements and allows an entity to make an accounting policy election for forfeitures. The guidance is effective on a prospective basis for annual and interim periods beginning after December 15, 2016. As of June 30, 2016, the Company had \$6.9 million of excess tax benefits recorded as additional paid-in capital, which will remain in additional paid-in capital upon adoption. The adoption of ASU 2016-09 will impact the Company's 2017 results of operations as all income tax effects of awards that vest or are settled will be recognized in the income statement as



opposed to additional paid-in capital.

#### Financial Instruments – Credit Losses

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

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 3 Acquisitions

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

Simmons & Company International

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

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

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

The Company recorded \$72.8 million of goodwill on the consolidated statements of financial condition, of which \$62.6 million is expected to be deductible for income tax purposes. The final goodwill 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 operating expertise of Simmons.

Identifiable intangible assets purchased by the Company consisted of customer relationships and the Simmons trade name with acquisition-date fair values currently estimated to be \$13.8 million and \$0.8 million, respectively. The Company anticipates finalizing the fair value of Simmons intangible assets in the third quarter of 2016. Transaction costs of \$0.9 million were incurred for the six months ended June 30, 2016, and are included in restructuring and integration costs on the consolidated statements of operations.



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

(Dollars in thousands)

## Assets:

|                           |          |
|---------------------------|----------|
| Cash and cash equivalents | \$47,201 |
| Receivables:              |          |
| Customers                 | 1,812    |
| Fixed assets              | 1,868    |
| Goodwill                  | 72,778   |
| Intangible assets         | 14,597   |
| Investments               | 980      |
| Other assets              | 3,259    |
| Total assets acquired     | 142,495  |

## Liabilities:

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

Net assets acquired \$ 119,294

Simmons' results of operations have been included in the Company's consolidated financial statements prospectively beginning on the date of acquisition. The acquisition has been fully integrated with the Company's existing operations. Accordingly, post-acquisition revenues and net income are not discernible. The following unaudited pro forma financial data assumes the acquisition had occurred at the beginning of the comparable prior period presented. Pro forma results have been prepared by adjusting the Company's historical results to include Simmons' results of operations adjusted for the following changes: amortization expense was adjusted to account for the acquisition-date fair value of intangible assets; compensation and benefits expenses were adjusted to reflect such expenses based on the Company's compensation arrangements and the restricted stock issued as equity consideration; and the income tax effect of applying the Company's statutory tax rates to Simmons' results of operations. The consolidated Company's unaudited pro forma information presented does not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, does not contemplate anticipated operational efficiencies of the combined entities, nor does it indicate the results of operations in future periods.

| (Dollars in thousands)                           | Three<br>Months Ended |                  |                  |
|--|-----------------------|------------------|------------------|
|  | June 30,<br>2015      | June 30,<br>2016 | June 30,<br>2015 |
| Net revenues                                     | \$ 189,499            | \$ 331,836       | \$ 377,481       |
| Net income applicable to Piper Jaffray Companies | 16,581                | 1,716            | 32,071           |

River Branch Holdings LLC and BMO Capital Markets GKST Inc.

On September 30, 2015, the Company acquired the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. On October 9, 2015, the Company completed

the purchase of BMO Capital Markets GKST Inc. ("BMO GKST"), a municipal bond sales, trading and origination business of BMO Financial Corp. The Company recorded \$6.1 million of goodwill on the consolidated statements of financial condition related to these acquisitions and \$7.5 million of identifiable intangible assets consisting of customer relationships. In management's opinion, the goodwill represents the reputation and operating expertise of River Branch and BMO GKST.

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

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

| (Dollars in thousands)  | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| Financial instruments and other inventory positions owned:                            |                  |                      |
| Corporate securities:   |                  |                      |
| Equity securities   | \$5,329          | \$ 9,505             |
| Convertible securities  | 261              | 18,460               |
| Fixed income securities   | 27,449           | 48,654               |
| Municipal securities:   |                  |                      |
| Taxable securities  | 95,433           | 111,591              |
| Tax-exempt securities   | 529,245          | 416,966              |
| Short-term securities   | 55,488           | 33,068               |
| Mortgage-backed securities  | 58,042           | 121,794              |
| U.S. government agency securities   | 153,079          | 188,140              |
| U.S. government securities  | 4,158            | 7,729                |
| Derivative contracts  | 39,732           | 35,027               |
| Total financial instruments and other inventory positions owned                       | 968,216          | 990,934              |
| Less noncontrolling interests (1)   | (59,315 )        | (43,397 )            |
|   | \$908,901        | \$ 947,537           |
| Financial instruments and other inventory positions sold, but not yet purchased:      |                  |                      |
| Corporate securities:   |                  |                      |
| Equity securities   | \$1,562          | \$ 15,740            |
| Fixed income securities   | 26,112           | 39,909               |
| U.S. government agency securities   | 10,522           | 21,267               |
| U.S. government securities  | 165,668          | 159,037              |
| Derivative contracts  | 7,148            | 3,202                |
| Total financial instruments and other inventory positions sold, but not yet purchased | 211,012          | 239,155              |
| Less noncontrolling interests (2)   | (6,348 )         | (4,586 )             |
|   | \$204,664        | \$ 234,569           |

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of \$9.4 million and \$7.5 million of taxable municipal securities, \$48.8 million and \$35.1 million of tax-exempt municipal securities, and \$1.1 million and \$0.8 million of derivative contracts as of June 30, 2016 and December 31, 2015, respectively.

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

At June 30, 2016 and December 31, 2015, financial instruments and other inventory positions owned in the amount of \$630.4 million and \$707.4 million, respectively, had been pledged as collateral for short-term financings and repurchase agreements.

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

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## Derivative Contract Financial Instruments

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

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

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

Derivatives are reported on a net basis by counterparty (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in master netting agreements. Cash collateral received or paid is netted on a counterparty basis, provided a legal right of offset exists. The total absolute notional contract amount, representing the absolute value of the sum of gross long and short derivative contracts, provides an indication of the volume of the Company's derivative activity and does not represent gains and losses. The following table presents the gross fair market value and the total absolute notional contract amount of the Company's outstanding derivative instruments, prior to counterparty netting, by asset or liability position:

| (Dollars in thousands)     | June 30, 2016            |                               |                 | December 31, 2015        |                               |                 |
|----------------------------|--------------------------|-------------------------------|-----------------|--------------------------|-------------------------------|-----------------|
|                            | Derivative Assets<br>(1) | Derivative Liabilities<br>(2) | Notional Amount | Derivative Assets<br>(1) | Derivative Liabilities<br>(2) | Notional Amount |
| Derivative Category        |                          |                               |                 |                          |                               |                 |
| Interest rate              |                          |                               |                 |                          |                               |                 |
| Customer matched-book      | \$461,019                | \$441,088                     | \$3,802,430     | \$406,888                | \$386,284                     | \$4,392,440     |
| Trading securities         | 18                       | 16,701                        | 318,850         | —                        | 7,685                         | 290,600         |
| Credit default swap index  |                          |                               |                 |                          |                               |                 |
| Trading securities         | —                        | 1,024                         | 66,000          | 5,411                    | 530                           | 94,270          |
| Futures and equity options |                          |                               |                 |                          |                               |                 |
| Trading securities         | 61                       | —                             | 19,724          | 164                      | 149                           | 2,345,037       |
|                            | \$461,098                | \$458,813                     | \$4,207,004     | \$412,463                | \$394,648                     | \$7,122,347     |

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

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





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

| (Dollars in thousands) | Derivative Category                            | Operations Category     | Three Months Ended |          | Six Months Ended |          |
|------------------------|--|-------------------------|--------------------|----------|------------------|----------|
|                        |  |                         | June 30, 2016      | 2015     | June 30, 2016    | 2015     |
|                        | Interest rate derivative contract              | Investment banking      | \$(880 )           | \$(479 ) | \$(2,052)        | \$(999 ) |
|                        | Interest rate derivative contract              | Institutional brokerage | (9,363 )           | 11,877   | (7,619 )         | 12,556   |
|                        | Credit default swap index contract             | Institutional brokerage | 3,495              | 8,038    | 3,884            | 12,645   |
|                        | Futures and equity option derivative contracts | Institutional brokerage | 119                | 18       | 148              | 53       |
|                        |  |                         | \$(6,629)          | \$19,454 | \$(5,639)        | \$24,255 |

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 June 30, 2016, the Company had \$30.3 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$185.2 million), including \$22.0 million of uncollateralized credit exposure with one counterparty.

## Note 5 Fair Value of Financial Instruments

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

The Company employs specific control processes to determine the reasonableness of the fair value of its financial instruments. The Company's processes are designed to ensure that the internally-estimated fair values are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. Individuals outside of the trading departments perform independent pricing verification reviews as of each reporting date. The Company has established parameters which set forth when the fair value of securities are independently verified. The selection parameters are generally based upon the type of security, the level of estimation risk of a security, the materiality of the security to the Company's financial statements, changes in fair value from period to period, and other specific facts

and circumstances of the Company's securities portfolio. In evaluating the initial internally-estimated fair values made by the Company's traders, the nature and complexity of securities involved (e.g., term, coupon, collateral, and other key drivers of value), level of market activity for securities, and availability of market data are considered. The independent price verification procedures include, but are not limited to, analysis of trade data (both internal and external where available), corroboration to the valuation of positions with similar characteristics, risks and components, or comparison to an alternative pricing source, such as a discounted cash flow model. The Company's valuation committee, comprised of members of senior management and risk management, provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

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

Cash Equivalents

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

Financial Instruments and Other Inventory Positions Owned

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

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

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

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

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

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

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

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

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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 on spreads over U.S. treasury securities, or models based upon prepayment expectations. These securities are categorized as Level II.

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

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

Investments

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

Fair Value Option – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new

basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. Merchant banking and other equity investments of \$18.1 million and \$19.7 million, included within investments on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets at June 30, 2016 and December 31, 2015, respectively. The realized and unrealized net gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were \$0.2 million and \$0.5 million for the six months ended June 30, 2016 and 2015, respectively.

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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 June 30, 2016:

|  | Valuation<br>Technique | Unobservable Input                                     | Range         | Weighted<br>Average |
|--|------------------------|--|---------------|---------------------|
| Assets:  |                        |  |               |                     |
| Financial instruments and other inventory positions owned:   |                        |  |               |                     |
| Municipal securities:  |                        |  |               |                     |
| Tax-exempt securities  | Discounted cash flow   | Expected recovery rate (% of par) (2)                  | 5 - 60%       | 19.4%               |
| Short-term securities  | Discounted cash flow   | Expected recovery rate (% of par) (2)                  | 66 - 94%      | 91.0%               |
| Mortgage-backed securities:  |                        |  |               |                     |
| Collateralized by residential mortgages  | Discounted cash flow   | Credit default rates (3)                               | 1 - 7%        | 3.7%                |
|  |                        | Prepayment rates (4)                                   | 2 - 25%       | 9.3%                |
|  |                        | Loss severity (3)                                      | 0 - 90%       | 52.2%               |
|  |                        | Valuation yields (3)                                   | 2 - 8%        | 5.3%                |
| Derivative contracts:  |                        |  |               |                     |
| Interest rate locks  | Discounted cash flow   | Premium over the MMD curve in basis points ("bps") (1) | 16.8 bps      | 16.8 bps            |
| Investments at fair value:   |                        |  |               |                     |
| Equity securities in private companies   | Market approach        | Revenue multiple (2)                                   | 2 - 7 times   | 4.2 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)                         | 3 - 35 bps    | 16.4 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 June 30, 2016:

| (Dollars in thousands)  | Level I   | Level II    | Level III | Counterparty<br>and Cash<br>Collateral<br>Netting (1) | Total       |
|---|-----------|-------------|-----------|---|-------------|
| <b>Assets:</b>  |           |             |           |   |             |
| Financial instruments and other inventory positions owned:                            |           |             |           |   |             |
| Corporate securities:   |           |             |           |   |             |
| Equity securities   | \$3,553   | \$1,776     | \$—       | \$—   | \$5,329     |
| Convertible securities  | —         | 261         | —         | —   | 261         |
| Fixed income securities   | —         | 27,449      | —         | —   | 27,449      |
| Municipal securities:   |           |             |           |   |             |
| Taxable securities  | —         | 95,433      | —         | —   | 95,433      |
| Tax-exempt securities   | —         | 528,068     | 1,177     | —   | 529,245     |
| Short-term securities   | —         | 54,740      | 748       | —   | 55,488      |
| Mortgage-backed securities  | —         | 1,989       | 56,053    | —   | 58,042      |
| U.S. government agency securities   | —         | 153,079     | —         | —   | 153,079     |
| U.S. government securities  | 4,158     | —           | —         | —   | 4,158       |
| Derivative contracts  | 61        | 461,019     | 18        | (421,366 )  | 39,732      |
| Total financial instruments and other inventory positions owned                       | 7,772     | 1,323,814   | 57,996    | (421,366 )  | 968,216     |
| Cash equivalents  | 94,136    | —           | —         | —   | 94,136      |
| Investments at fair value   | 33,889    | —           | 116,405   | (2)—  | 150,294     |
| Total assets  | \$135,797 | \$1,323,814 | \$174,401 | \$(421,366 )  | \$1,212,646 |
| <b>Liabilities:</b>   |           |             |           |   |             |
| Financial instruments and other inventory positions sold, but not yet purchased:      |           |             |           |   |             |
| Corporate securities:   |           |             |           |   |             |
| Equity securities   | \$277     | \$1,285     | \$—       | \$—   | \$1,562     |
| Fixed income securities   | —         | 26,112      | —         | —   | 26,112      |
| U.S. government agency securities   | —         | 10,522      | —         | —   | 10,522      |
| U.S. government securities  | 165,668   | —           | —         | —   | 165,668     |
| Derivative contracts  | —         | 444,028     | 14,785    | (451,665 )  | 7,148       |
| Total financial instruments and other inventory positions sold, but not yet purchased | \$165,945 | \$481,947   | \$14,785  | \$(451,665 )  | \$211,012   |

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

(2) Noncontrolling interests of \$36.7 million are attributable to third party ownership in a consolidated merchant banking fund.



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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, 2015:

| (Dollars in thousands)  | Level I   | Level II    | Level III | Counterparty<br>and Cash<br>Collateral<br>Netting (1) | Total       |
|---|-----------|-------------|-----------|---|-------------|
| <b>Assets:</b>  |           |             |           |   |             |
| Financial instruments and other inventory positions owned:                            |           |             |           |   |             |
| Corporate securities:   |           |             |           |   |             |
| Equity securities   | \$7,569   | \$1,936     | \$—       | \$—   | \$9,505     |
| Convertible securities  | —         | 18,460      | —         | —   | 18,460      |
| Fixed income securities   | —         | 48,654      | —         | —   | 48,654      |
| Municipal securities:   |           |             |           |   |             |
| Taxable securities  | —         | 105,775     | 5,816     | —   | 111,591     |
| Tax-exempt securities   | —         | 415,789     | 1,177     | —   | 416,966     |
| Short-term securities   | —         | 32,348      | 720       | —   | 33,068      |
| Mortgage-backed securities  | —         | 670         | 121,124   | —   | 121,794     |
| U.S. government agency securities   | —         | 188,140     | —         | —   | 188,140     |
| U.S. government securities  | 7,729     | —           | —         | —   | 7,729       |
| Derivative contracts  | 164       | 412,299     | —         | (377,436)   | 35,027      |
| Total financial instruments and other inventory positions owned                       | 15,462    | 1,224,071   | 128,837   | (377,436)   | 990,934     |
| Cash equivalents  | 130,138   | —           | —         | —   | 130,138     |
| Investments at fair value   | 34,874    | —           | 107,907   | (2)—  | 142,781     |
| Total assets  | \$180,474 | \$1,224,071 | \$236,744 | \$(377,436)   | \$1,263,853 |
| <b>Liabilities:</b>   |           |             |           |   |             |
| Financial instruments and other inventory positions sold, but not yet purchased:      |           |             |           |   |             |
| Corporate securities:   |           |             |           |   |             |
| Equity securities   | \$13,489  | \$2,251     | \$—       | \$—   | \$15,740    |
| Fixed income securities   | —         | 39,909      | —         | —   | 39,909      |
| U.S. government agency securities   | —         | 21,267      | —         | —   | 21,267      |
| U.S. government securities  | 159,037   | —           | —         | —   | 159,037     |
| Derivative contracts  | 149       | 387,351     | 7,148     | (391,446)   | 3,202       |
| Total financial instruments and other inventory positions sold, but not yet purchased | \$172,675 | \$450,778   | \$7,148   | \$(391,446)   | \$239,155   |

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

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

The Company's Level III assets were \$174.4 million and \$236.7 million, or 14.4 percent and 18.7 percent of financial instruments measured at fair value at June 30, 2016 and December 31, 2015, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were \$14.3 million of transfers of financial assets out of Level III for the six months ended June 30, 2016, of which \$9.1 million primarily related to the deconsolidation of certain investment partnerships as discussed in Note 2, and \$5.2 million related to taxable municipal securities for which valuation inputs became observable. There were no other significant transfers between Level I, Level II or Level III for the three and six months ended June 30, 2016.

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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:

|   | Balance at March 31, 2016 |             | Purchases   | Sales | Transfers in | Transfers out | Realized gains/ (losses) | Unrealized gains/ (losses) | Balance at June 30, 2016 | Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2016 (1) |
|---|---------------------------|-------------|-------------|-------|--------------|---------------|--------------------------|----------------------------|--------------------------|--|
| (Dollars in thousands)  |                           |             |             |       |              |               |                          |                            |                          |  |
| Assets:   |                           |             |             |       |              |               |                          |                            |                          |  |
| Financial instruments and other inventory positions owned:                            |                           |             |             |       |              |               |                          |                            |                          |  |
| Municipal securities:   |                           |             |             |       |              |               |                          |                            |                          |  |
| Tax-exempt securities   | \$ 1,177                  | \$ —        | \$ —        | \$ —  | \$ —         | \$ —          | \$ —                     | \$ —                       | \$ 1,177                 | \$ —   |
| Short-term securities   | 748                       | —           | —           | —     | —            | —             | —                        | —                          | 748                      | —  |
| Mortgage-backed securities  | 117,891                   | —           | (62,693 )   | —     | —            | 778           | 77                       | 56,053                     | 253                      |  |
| Derivative contracts  | 5                         | 246         | —           | —     | —            | (246 )        | 13                       | 18                         | 18                       |  |
| Total financial instruments and other inventory positions owned                       | 119,821                   | 246         | (62,693 )   | —     | —            | 532           | 90                       | 57,996                     | 271                      |  |
| Investments at fair value   | 109,498                   | 2,521       | —           | —     | —            | —             | 4,386                    | 116,405                    | 4,386                    |  |
| Total assets  | \$ 229,319                | \$ 2,767    | \$ (62,693) | \$ —  | \$ —         | \$ 532        | \$ 4,476                 | \$ 174,401                 | \$ 4,657                 |  |
| Liabilities:  |                           |             |             |       |              |               |                          |                            |                          |  |
| Financial instruments and other inventory positions sold, but not yet purchased:      |                           |             |             |       |              |               |                          |                            |                          |  |
| Derivative contracts  | \$ 5,408                  | \$ (6,457 ) | \$ —        | \$ —  | \$ —         | \$ 6,457      | \$ 9,377                 | \$ 14,785                  | \$ 13,173                |  |
| Total financial instruments and other inventory positions sold, but not yet purchased | \$ 5,408                  | \$ (6,457 ) | \$ —        | \$ —  | \$ —         | \$ 6,457      | \$ 9,377                 | \$ 14,785                  | \$ 13,173                |  |

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

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

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|   | Balance<br>at<br>March 31,<br>2015 | Purchases  | Sales        | Transfers<br>in | Transfers<br>out | Realized<br>gains/<br>(losses) | Unrealized<br>gains/<br>(losses) | Balance<br>at<br>June 30,<br>2015 | Unrealized<br>gains/<br>(losses)<br>for<br>assets/<br>liabilities<br>held at<br>June 30,<br>2015 (1) |
|---|------------------------------------|------------|--------------|-----------------|------------------|--------------------------------|----------------------------------|-----------------------------------|--|
| (Dollars in thousands)  |                                    |            |              |                 |                  |                                |                                  |                                   |  |
| Assets:   |                                    |            |              |                 |                  |                                |                                  |                                   |  |
| Financial instruments and other inventory positions owned:                            |                                    |            |              |                 |                  |                                |                                  |                                   |  |
| Municipal securities:   |                                    |            |              |                 |                  |                                |                                  |                                   |  |
| Tax-exempt securities   | \$ 1,176                           | \$—        | \$—          | \$              | —\$              | —                              | \$ 10                            | \$ 1,186                          | \$ 10  |
| Short-term securities   | 720                                | —          | —            | —               | —                | —                              | —                                | 720                               | —  |
| Mortgage-backed securities  | 147,877                            | 99,944     | (120,354 )   | —               | —                | 1,464                          | 468                              | 129,399                           | 468  |
| Derivative contracts  | 1,222                              | —          | (2,947 )     | —               | —                | 2,947                          | 4,087                            | 5,309                             | 5,062  |
| Total financial instruments and other inventory positions owned                       | 150,995                            | 99,944     | (123,301 )   | —               | —                | 4,411                          | 4,565                            | 136,614                           | 5,540  |
| Investments at fair value   | 87,468                             | 7,900      | —            | —               | —                | —                              | (1,172 )                         | 94,196                            | (1,172 )   |
| Total assets  | \$ 238,463                         | \$ 107,844 | \$ (123,301) | \$              | —\$              | —\$ 4,411                      | \$ 3,393                         | \$ 230,810                        | \$ 4,368   |
| Liabilities:  |                                    |            |              |                 |                  |                                |                                  |                                   |  |
| Financial instruments and other inventory positions sold, but not yet purchased:      |                                    |            |              |                 |                  |                                |                                  |                                   |  |
| Derivative contracts  | \$ 8,226                           | \$(4,839 ) | \$ 535       | \$              | —\$              | —\$ 4,304                      | \$(7,791 )                       | \$ 435                            | \$ 435   |
| Total financial instruments and other inventory positions sold, but not yet purchased | \$ 8,226                           | \$(4,839 ) | \$ 535       | \$              | —\$              | —\$ 4,304                      | \$(7,791 )                       | \$ 435                            | \$ 435   |

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

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

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|   | Balance at   |            | Transfers   |    | Realized     | Unrealized   | Balance      | Unrealized |           |
|---|--------------|------------|-------------|----|--------------|--------------|--------------|------------|-----------|
| (Dollars in thousands)  | December 31, | Purchases  | Sales       | in | out          | gains/       | gains/       | at         |           |
|   | 2015         |            |             |    |              | (losses) (1) | (losses) (1) | June 30,   |           |
|   |              |            |             |    |              |              |              | 2016       |           |
|   |              |            |             |    |              |              |              | June 30,   |           |
|   |              |            |             |    |              |              |              | 2016 (1)   |           |
|   |              |            |             |    |              |              |              |            |           |
| Assets:   |              |            |             |    |              |              |              |            |           |
| Financial instruments and other inventory positions owned:                            |              |            |             |    |              |              |              |            |           |
| Municipal securities:   |              |            |             |    |              |              |              |            |           |
| Taxable securities  | \$ 5,816     | \$—        | \$(611 )    | \$ | -\$ (5,216 ) | \$ 11        | \$—          | \$—        | \$—       |
| Tax-exempt securities   | 1,177        | —          | —           | —  | —            | —            | —            | 1,177      | —         |
| Short-term securities   | 720          | —          | —           | —  | —            | —            | 28           | 748        | 28        |
| Mortgage-backed securities  | 121,124      | 26,519     | (89,907 )   | —  | —            | 1,845        | (3,528 )     | 56,053     | 153       |
| Derivative contracts  | —            | 246        | —           | —  | —            | (246 )       | 18           | 18         | 18        |
| Total financial instruments and other inventory positions owned                       | 128,837      | 26,765     | (90,518 )   | —  | (5,216 )     | 1,610        | (3,482 )     | 57,996     | 199       |
| Investments at fair value   | 107,907      | 10,842     | —           | —  | (9,088 )     | —            | 6,744        | 116,405    | 6,744     |
| Total assets  | \$ 236,744   | \$ 37,607  | \$ (90,518) | \$ | -\$ (14,304) | \$ 1,610     | \$ 3,262     | \$ 174,401 | \$ 6,943  |
| Liabilities:  |              |            |             |    |              |              |              |            |           |
| Financial instruments and other inventory positions sold, but not yet purchased:      |              |            |             |    |              |              |              |            |           |
| Derivative contracts  | \$ 7,148     | \$(15,599) | \$—         | \$ | -\$—         | \$ 15,599    | \$ 7,637     | \$ 14,785  | \$ 14,785 |
| Total financial instruments and other inventory positions sold, but not yet purchased | \$ 7,148     | \$(15,599) | \$—         | \$ | -\$—         | \$ 15,599    | \$ 7,637     | \$ 14,785  | \$ 14,785 |

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

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





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|   | Balance at   |             | Realized     |           | Unrealized |              | Balance      | Unrealized |             |
|---|--------------|-------------|--------------|-----------|------------|--------------|--------------|------------|-------------|
| (Dollars in thousands)  | December 31, | Purchases   | Sales        | Transfers | Transfers  | gains/       | gains/       | at         | gains/      |
|   | 2014         |             |              | in        | out        | (losses) (1) | (losses) (1) | June 30,   | for         |
|   |              |             |              |           |            |              |              | June 30,   | assets/     |
|   |              |             |              |           |            |              |              | 2015       | liabilities |
|   |              |             |              |           |            |              |              |            | held at     |
|   |              |             |              |           |            |              |              |            | June 30,    |
|   |              |             |              |           |            |              |              |            | 2015 (1)    |
| <b>Assets:</b>  |              |             |              |           |            |              |              |            |             |
| Financial instruments and other inventory positions owned:                            |              |             |              |           |            |              |              |            |             |
| Municipal securities:   |              |             |              |           |            |              |              |            |             |
| Tax-exempt securities   | \$ 1,186     | \$—         | \$—          | \$        | —\$        | —\$—         | \$—          | \$1,186    | \$—         |
| Short-term securities   | 720          | —           | —            | —         | —          | —            | —            | 720        | —           |
| Mortgage-backed securities  | 124,749      | 219,769     | (219,301 )   | —         | —          | 3,954        | 228          | 129,399    | 1,113       |
| Derivative contracts  | 140          | 520         | (2,947 )     | —         | —          | 2,427        | 5,169        | 5,309      | 5,309       |
| Total financial instruments and other inventory positions owned                       | 126,795      | 220,289     | (222,248 )   | —         | —          | 6,381        | 5,397        | 136,614    | 6,422       |
| Investments at fair value   | 74,165       | 7,900       | (182 )       | —         | —          | 182          | 12,131       | 94,196     | 12,131      |
| Total assets  | \$ 200,960   | \$ 228,189  | \$ (222,430) | \$        | —\$        | —\$ 6,563    | \$ 17,528    | \$ 230,810 | \$ 18,553   |
| <b>Liabilities:</b>   |              |             |              |           |            |              |              |            |             |
| Financial instruments and other inventory positions sold, but not yet purchased:      |              |             |              |           |            |              |              |            |             |
| Derivative contracts  | \$ 7,822     | \$(10,653 ) | \$ 535       | \$        | —\$        | —\$ 10,118   | \$(7,387 )   | \$ 435     | \$ 435      |
| Total financial instruments and other inventory positions sold, but not yet purchased | \$ 7,822     | \$(10,653 ) | \$ 535       | \$        | —\$        | —\$ 10,118   | \$(7,387 )   | \$ 435     | \$ 435      |

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

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

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



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## Note 6 Variable Interest Entities

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

VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the structure and nature of each entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance and how the entity is financed.

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Effective January 1, 2016, the Company adopted ASU 2015-02. Prior to the adoption of ASU 2015-02, the primary beneficiary analysis differed for entities which qualified for the deferral under previous consolidation guidance (i.e., asset managers and investment companies). For these entities, the Company was considered to be the primary beneficiary if it absorbed a majority of the VIE's expected losses, received a majority of the VIE's expected residual returns, or both.

## Consolidated VIEs

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

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

| (Dollars in thousands)  | Alternative<br>Asset<br>Management<br>Funds |
|---|---|
| Assets:   |   |
| Receivables from brokers, dealers and clearing organizations                        | \$ 13,594                                   |
| Financial instruments and other inventory positions owned and pledged as collateral | 383,697                                     |
| Investments   | 95,971                                      |
| Other assets  | 9,554                                       |

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|   |            |
|---|------------|
| Total assets  | \$ 502,816 |
| Liabilities:  |            |
| Short-term financing  | \$ 238,413 |
| Payables to brokers, dealers and clearing organizations                         | 63,621     |
| Financial instruments and other inventory positions sold, but not yet purchased | 41,064     |
| Other liabilities and accrued expenses  | 3,610      |
| Total liabilities   | \$ 346,708 |

The Company has investments in a grantor trust which was established as part of a nonqualified deferred compensation plan. The Company is the primary beneficiary of the grantor trust. Accordingly, the assets and liabilities of the grantor trust are consolidated by the Company on the consolidated statements of financial condition. See Note 17 for additional information on the nonqualified deferred compensation plan.

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## Nonconsolidated VIEs

The Company determined it is not the primary beneficiary of certain VIEs and accordingly does not consolidate them. These VIEs had net assets approximating \$0.9 billion and \$0.4 billion at June 30, 2016 and December 31, 2015, respectively. The Company's exposure to loss from these VIEs is \$9.6 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at June 30, 2016. The Company had no liabilities related to these VIEs at June 30, 2016 and December 31, 2015, respectively. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of June 30, 2016.

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

| (Dollars in thousands)   | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Receivable arising from unsettled securities transactions          | \$ 13,594        | \$ 62,105            |
| Deposits paid for securities borrowed                              | 26,446           | 47,508               |
| Receivable from clearing organizations                             | 8,074            | 3,155                |
| Deposits with clearing organizations                               | 43,143           | 27,019               |
| Securities failed to deliver                                       | 2,710            | 2,100                |
| Other  | 6,671            | 6,062                |
| Total receivables from brokers, dealers and clearing organizations | \$ 100,638       | \$ 147,949           |

| (Dollars in thousands)                                       | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Payable arising from unsettled securities transactions       | \$ 117,571       | \$ 34,445            |
| Payable to clearing organizations                            | 8,286            | 3,115                |
| Securities failed to receive                                 | 1,853            | 4,468                |
| Other  | 4,558            | 6,103                |
| Total payable to brokers, dealers and clearing organizations | \$ 132,268       | \$ 48,131            |

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

## Note 8 Collateralized Securities Transactions

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

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

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

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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 \$175.1 million and \$185.8 million at June 30, 2016 and December 31, 2015, respectively, of which \$163.2 million and \$175.8 million, respectively, had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

The following is a summary of the Company's securities sold under agreements to repurchase ("Repurchase Liabilities"), the fair market value of collateral pledged and the interest rate charged by the Company's counterparty, which is based on LIBOR plus an applicable margin, as of June 30, 2016:

| (Dollars in thousands)        | Repurchase<br>Liabilities | Fair<br>Market<br>Value | Interest Rate |
|-------------------------------|---------------------------|-------------------------|---------------|
| Term up to 30 day maturities: |                           |                         |               |
| Mortgage-backed securities    | \$ 21,767                 | \$31,291                | 2.21 - 2.48%  |
| On demand maturities:         |                           |                         |               |
| U.S. government securities    | 11,964                    | 11,724                  | 0.20%         |
|                               | \$ 33,731                 | \$43,015                |               |

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 June 30, 2016 and December 31, 2015, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of June 30, 2016 or December 31, 2015. See Note 4 for information related to the Company's offsetting of derivative contracts.

## Note 9 Investments

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

| (Dollars in thousands)                            | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| Investments at fair value                         | \$150,294        | \$ 142,781           |
| Investments at cost                               | 2,512            | 3,299                |
| Investments accounted for under the equity method | 10,514           | 17,781               |
| Total investments                                 | 163,320          | 163,861              |

|   |           |            |
|---|-----------|------------|
| Less investments attributable to noncontrolling interests (1) | (36,707 ) | (40,069 )  |
|   | \$126,613 | \$ 123,792 |

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

At June 30, 2016, investments carried on a cost basis had an estimated fair market value of \$4.4 million. Because valuation estimates were based upon management's judgment, investments carried at cost would be categorized as Level III assets in the fair value hierarchy, if they were carried at fair value.



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

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## Note 10 Other Assets

|                                | June 30,   | December 31, |
|--------------------------------|------------|--------------|
| (Dollars in thousands)         | 2016       | 2015         |
| Net deferred income tax assets | \$58,626   | \$ 66,810    |
| Fee receivables                | 16,711     | 18,362       |
| Accrued interest receivables   | 5,578      | 6,145        |
| Forgivable loans, net          | 11,698     | 10,234       |
| Income tax receivables         | 12,610     | —            |
| Prepaid expenses               | 6,609      | 6,161        |
| Other                          | 18,064     | 11,490       |
| Total other assets             | \$ 129,896 | \$ 119,202   |

## Note 11 Goodwill and Intangible Assets

|                                   | Capital  | Asset      |           |
|-----------------------------------|----------|------------|-----------|
| (Dollars in thousands)            | Markets  | Management | Total     |
| Goodwill                          |          |            |           |
| Balance at December 31, 2015      | \$21,132 | \$ 196,844 | \$217,976 |
| Goodwill acquired                 | 72,764   | —          | 72,764    |
| Balance at June 30, 2016          | \$93,896 | \$ 196,844 | \$290,740 |
| Intangible assets                 |          |            |           |
| Balance at December 31, 2015      | \$8,256  | \$ 22,274  | \$30,530  |
| Intangible assets acquired        | 14,611   | —          | 14,611    |
| Amortization of intangible assets | (4,616 ) | (2,774 )   | (7,390 )  |
| Balance at June 30, 2016          | \$18,251 | \$ 19,500  | \$37,751  |

The addition of goodwill and intangible assets during the six months ended June 30, 2016 related to the acquisition of Simmons, as discussed in Note 3. Management identified \$14.6 million of intangible assets, consisting of customer relationships (\$13.8 million) and the Simmons trade name (\$0.8 million), which will be amortized over a weighted average life of 2.0 years and 5.0 years, respectively.

The following table summarizes the future aggregate amortization expense of the Company's intangible assets with determinable lives for the years ended:

| (Dollars in thousands) |          |
|------------------------|----------|
| Remainder of 2016      | \$8,086  |
| 2017                   | 12,183   |
| 2018                   | 6,516    |
| 2019                   | 6,009    |
| 2020                   | 1,427    |
| Thereafter             | 670      |
| Total                  | \$34,891 |



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## Note 12 Short-Term Financing

|                            | Outstanding Balance |                   | Weighted Average Interest Rate |                   |
|----------------------------|---------------------|-------------------|--------------------------------|-------------------|
|                            | June 30, 2016       | December 31, 2015 | June 30, 2016                  | December 31, 2015 |
| (Dollars in thousands)     |                     |                   |                                |                   |
| Commercial paper (secured) | \$ 263,433          | \$ 276,894        | 1.99%                          | 1.74%             |
| Prime broker arrangement   | 238,413             | 169,296           | 1.21%                          | 1.07%             |
| Total short-term financing | \$ 501,846          | \$ 446,190        |                                |                   |

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes ("CP Notes") can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and are secured by different inventory classes. As of June 30, 2016, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 81 days, 29 days and 12 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 June 30, 2016 consisted of a one-year \$250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2015. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain minimum net capital of \$120 million, and the unpaid principal amount of all advances under this facility will be due on December 17, 2016. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At June 30, 2016, the Company had no advances against this line of credit.

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

## Note 13 Senior Notes

The Company has entered into variable and fixed rate senior notes with certain entities advised by Pacific Investment Management Company ("PIMCO"). The following table presents the outstanding balance by note class at June 30,

2016 and December 31, 2015, respectively.

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

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

The Second Amended and Restated Note Purchase Agreement includes customary events of default and covenants that, among other things, require the Company to maintain a minimum consolidated tangible net worth and regulatory net capital, limit the Company's leverage ratio and require the Company to maintain a minimum ratio of operating cash flow to fixed charges. 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 June 30, 2016, the Company was in compliance with all covenants.

The senior notes are recorded at amortized cost. As of June 30, 2016, the carrying value of the variable rate Class A Notes approximated fair value. As of June 30, 2016, the fair value of the fixed rate Class C Notes was approximately \$128.2 million.

Note 14 Contingencies and Commitments

Legal Contingencies

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

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

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

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

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. The complaints, which were consolidated into a single nationwide class action entitled *In re Municipal Derivatives Antitrust Litigation*, MDL No. 1950 (Master Docket No. 08-2516), alleged 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 sought unspecified treble damages under Section 1 of the Sherman Act. Piper Jaffray entered into a settlement agreement with respect to *In re Municipal Derivatives Antitrust Litigation* in the amount of \$9.8 million in the third quarter of 2015. This settlement received final court approval from the U.S. District Court for the Southern District of New York in the second quarter of 2016.

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## Operating Lease Commitments

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

(Dollars in thousands)

|                   |          |
|-------------------|----------|
| Remainder of 2016 | \$7,927  |
| 2017              | 14,206   |
| 2018              | 13,144   |
| 2019              | 11,495   |
| 2020              | 10,996   |
| Thereafter        | 26,707   |
|                   | \$84,475 |

## Note 15 Restructuring

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

|  | Three<br>Months<br>Ended<br>June 30,<br>2016 | Six<br>Months<br>Ended<br>June 30,<br>2016 |
|--|--|--|
| (Dollars in thousands)                     |  |  |
| Severance, benefits and outplacement costs | \$ 1,207                                     | \$ 6,608                                   |
| Vacated redundant leased office space      | 1,320  | 1,320                                      |
| Contract termination costs                 | 422  | 1,026                                      |
| Total pre-tax restructuring charges        | \$ 2,949                                     | \$ 8,954                                   |

## Note 16 Shareholders' Equity

## Share Repurchases

Effective August 14, 2015, the Company's board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2017. During the six months ended June 30, 2016, the Company repurchased 1,351,015 shares at an average price of \$38.76 per share for an aggregate purchase price of \$52.4 million related to this authorization. The Company has \$79.2 million remaining under this authorization.

The Company also purchases shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. The Company purchased 233,431 shares and 249,156 shares, or \$9.8 million and \$13.2 million of the Company's common stock for this purpose during the six months ended June 30, 2016 and 2015, respectively.

## Issuance of Shares

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



674,981 shares and 442,165 shares, respectively, related to these obligations.

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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 \$38.4 million, a municipal bond fund with employee investors of \$8.7 million and a senior living fund aggregating \$5.1 million as of June 30, 2016. As of December 31, 2015, noncontrolling interests included the minority equity holders' proportionate share of the equity in a merchant banking fund of \$31.8 million, a municipal bond fund with employee investors of \$7.0 million and private investment vehicles aggregating \$10.4 million.

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

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

|   | Common<br>Shares | Common<br>Shareholders' Equity | Noncontrolling<br>Interests | Total<br>Shareholders'<br>Equity |
|---|------------------|--------------------------------|-----------------------------|----------------------------------|
| (Amounts in thousands, except share amounts)                | Outstanding      | Equity                         | Interests                   | Equity                           |
| Balance at December 31, 2015                                | 13,311,016       | \$ 783,659                     | \$ 49,161                   | \$ 832,820                       |
| Net income  | —                | 4,375                          | 3,324                       | 7,699                            |
| Amortization/issuance of restricted stock (1)               | —                | 49,502                         | —                           | 49,502                           |
| Issuance of treasury shares for options exercised           | 2,000            | 82                             | —                           | 82                               |
| Issuance of treasury shares for restricted stock vestings   | 672,981          | —                              | —                           | —                                |
| Repurchase of common stock through share repurchase program | (1,351,015 )     | (52,370 )                      | —                           | (52,370 )                        |
| Repurchase of common stock for employee tax withholding     | (233,431 )       | (9,772 )                       | —                           | (9,772 )                         |
| Reduced tax benefit from stock-based compensation           | —                | (113 )                         | —                           | (113 )                           |
| Shares reserved/issued for director compensation            | 23,518           | 904                            | —                           | 904                              |
| Other comprehensive loss                                    | —                | (1,256 )                       | —                           | (1,256 )                         |
| Deconsolidation of investment partnerships (2)              | —                | —                              | (9,415 )                    | (9,415 )                         |
| Fund capital contributions, net                             | —                | —                              | 9,178                       | 9,178                            |
| Balance at June 30, 2016                                    | 12,425,069       | \$ 775,011                     | \$ 52,248                   | \$ 827,259                       |

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

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

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## Note 17 Compensation Plans

## Stock-Based Compensation Plans

The Company maintains two stock-based compensation plans, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Incentive Plan") and the 2016 Employment Inducement Award Plan (the "Inducement Plan"). The Company's equity awards are recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures.

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

|  |           |
|--|-----------|
| Incentive Plan                                 |           |
| Restricted Stock                               |           |
| Annual grants                                  | 1,327,891 |
| Sign-on grants                                 | 337,362   |
|  | 1,665,253 |
| Inducement Plan                                |           |
| Restricted Stock                               | 274,430   |
| Total restricted stock related to compensation | 1,939,683 |
| Simmons Deal Consideration (1)                 | 1,095,955 |
| Total restricted stock outstanding             | 3,035,638 |
| Incentive Plan                                 |           |
| Restricted Stock Units                         |           |
| Market condition leadership grants             | 374,460   |
| Incentive Plan                                 |           |
| Stock Options                                  | 132,788   |

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

## Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company's employees and directors for up to 8.2 million shares of common stock (0.8 million shares remained available for future issuance under the Incentive Plan as of June 30, 2016). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

## Restricted Stock Awards

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

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The Company's Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation – Stock Compensation" ("ASC 718"). Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal 2015 for its February 2016 Annual Grant. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as a reversal of compensation expense.

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

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

**Restricted Stock Units**

The Company grants restricted stock units to its leadership team ("Leadership Grants"). The units will vest and convert to shares of common stock at the end of each 36-month performance period only if the Company's stock performance satisfies predetermined market conditions over the performance period. Under the terms of the grants, the number of units that will vest and convert to shares will be based on the Company's stock performance achieving specified 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     | Expected Stock   |
|------------|---------------|------------------|
|            | Interest Rate | Price Volatility |
| 2016       | 0.98%         | 34.9%            |
| 2015       | 0.90%         | 29.8%            |
| 2014       | 0.82%         | 41.3%            |

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

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## Stock Options

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

## Inducement Plan

The Company established the Inducement Plan in conjunction with the acquisition of Simmons. The Company granted \$11.6 million (286,776 shares) in restricted stock under the Inducement Plan on May 15, 2016. These shares cliff vest in three years. Inducement Plan awards are amortized as compensation expense on a straight-line basis over the vesting period. Employees forfeit unvested Inducement Plan shares upon termination of employment and a reversal of compensation expense is recorded.

## Stock-Based Compensation Activity

The Company recorded compensation expense of \$13.7 million and \$8.5 million for the three months ended June 30, 2016 and 2015, respectively, and \$23.7 million and \$22.2 million for the six months ended June 30, 2016 and 2015, respectively, related to employee restricted stock and restricted stock unit awards. Forfeitures were \$0.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.2 million and \$0.3 million, for the six months ended June 30, 2016 and 2015, respectively. The tax benefit related to stock-based compensation costs totaled \$5.1 million and \$3.3 million for the three months ended June 30, 2016 and 2015, respectively, and \$8.8 million and \$8.7 million for the six months ended June 30, 2016 and 2015, respectively.

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

|                   | Unvested<br>Restricted<br>Stock<br>(in Shares) | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------|--|---|
| December 31, 2015 | 1,287,915                                      | \$ 46.20  |
| Granted           | 2,336,209                                      | 41.68   |
| Vested            | (546,701 )                                     | 45.90   |
| Canceled          | (41,785 )                                      | 44.15   |
| June 30, 2016     | 3,035,638                                      | \$ 42.80  |

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

| Unvested<br>Restricted<br>Stock Units | Weighted<br>Average<br>Grant Date<br>Fair Value |
|---------------------------------------|---|
|---------------------------------------|---|

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|                   |            |          |
|-------------------|------------|----------|
| December 31, 2015 | 356,242    | \$ 22.18 |
| Granted           | 135,483    | 19.93    |
| Vested            | (117,265 ) | 21.32    |
| Canceled          | —          | —        |
| June 30, 2016     | 374,460    | \$ 21.63 |

As of June 30, 2016, there was \$64.3 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.6 years.



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

|                                      | Options<br>Outstanding | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term<br>(in Years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------|------------------------|---------------------------------------|---|---------------------------------|
| December 31, 2015                    | 157,201                | \$ 50.35                              | 1.6   | \$ —                            |
| Granted                              | —                      | —                                     |   |                                 |
| Exercised                            | (2,000                 | ) 41.09                               |   |                                 |
| Canceled                             | —                      | —                                     |   |                                 |
| Expired                              | (22,413                | ) 59.83                               |   |                                 |
| June 30, 2016                        | 132,788                | \$ 48.88                              | 1.4   | \$ —                            |
| Options exercisable at June 30, 2016 | 132,788                | \$ 48.88                              | 1.4   | \$ —                            |

As of June 30, 2016, there was no unrecognized compensation cost related to stock options expected to be recognized over future years. The intrinsic value of options exercised and resulting tax benefit realized were immaterial for the six months ended June 30, 2016. The intrinsic value of options exercised was \$0.8 million, and the resulting tax benefit realized was \$0.3 million for the six months ended June 30, 2015.

## Deferred Compensation Plans

The Company maintains various deferred compensation arrangements for employees.

The nonqualified deferred compensation plan is an unfunded plan which allows certain highly compensated employees, at their election, to defer a percentage of their base salary, commissions and/or cash bonuses. The deferrals vest immediately and are non-forfeitable. The amounts deferred under this plan are held in a grantor trust. The Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan. Investments in the grantor trust, consisting of mutual funds, totaled \$23.0 million and \$14.6 million as of June 30, 2016 and December 31, 2015, respectively, and are included in investments on the consolidated statements of financial condition. The compensation deferred by the employees is expensed in the period earned. The deferred compensation liability was \$23.1 million and \$14.5 million as of June 30, 2016 and December 31, 2015, respectively. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

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

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

The Company recorded compensation expense of \$3.9 million and \$5.8 million for the three months ended June 30, 2016 and 2015, respectively, and \$7.2 million and \$13.9 million for the six months ended June 30, 2016 and 2015, respectively, related to employee MFRS Awards. Total compensation cost includes year-end compensation for MFRS Awards and the amortization of sign-on MFRS Awards, less forfeitures. Forfeitures were immaterial for the three and six months ended June 30, 2016 and 2015, respectively.

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## Note 18 Earnings Per Share

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

The computation of earnings per share is as follows:

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | June 30,           |          | June 30,         |          |
| (Amounts in thousands, except per share data)                             | 2016               | 2015     | 2016             | 2015     |
| Net income applicable to Piper Jaffray Companies                          | \$1,938            | \$16,999 | \$4,375          | \$33,971 |
| Earnings allocated to participating securities (1)                        | (361 )             | (1,300 ) | (690 )           | (2,458 ) |
| Net income applicable to Piper Jaffray Companies' common shareholders (2) | \$1,577            | \$15,699 | \$3,685          | \$31,513 |

Shares for basic and diluted calculations:

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Average shares used in basic computation   | 12,927 | 14,487 | 13,043 | 14,888 |
| Stock options                              | 15     | 26     | 13     | 32     |
| Average shares used in diluted computation | 12,942 | 14,513 | 13,056 | 14,920 |

Earnings per common share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | \$0.12 | \$1.08 | \$0.28 | \$2.12 |
| Diluted | \$0.12 | \$1.08 | \$0.28 | \$2.11 |

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

(1) Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 2,951,985 and 1,201,359 for the three months ended June 30, 2016 and 2015, respectively, and 2,445,372 and 1,164,338 for the six months ended June 30, 2016 and 2015, 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 six months ended June 30, 2016 and 2015, respectively.

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

## Note 19 Segment Reporting

## Basis for Presentation

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company's management organization. The Company evaluates performance and allocates resources based on segment pre-tax operating income or loss and segment pre-tax operating margin. Revenues and expenses directly associated with each respective segment are included in determining their operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, including each segment's respective net revenues, use of shared resources, headcount or other relevant measures. Segment assets are based on those directly associated with each segment, and include an allocation of certain assets based on the most relevant measures applicable, including headcount and other factors. The substantial majority of the Company's net revenues and long-lived assets are located in the U.S.

Reportable segment financial results are as follows:

| (Dollars in thousands)                | Three Months Ended |          | Six Months Ended |          |   |
|---------------------------------------|--------------------|----------|------------------|----------|---|
|                                       | June 30,<br>2016   | 2015     | June 30,<br>2016 | 2015     |   |
| Capital Markets                       |                    |          |                  |          |   |
| Investment banking                    |                    |          |                  |          |   |
| Financing                             |                    |          |                  |          |   |
| Equities                              | \$16,786           | \$34,324 | \$23,352         | \$70,331 |   |
| Debt                                  | 33,325             | 27,648   | 49,297           | 48,636   |   |
| Advisory services                     | 48,112             | 44,020   | 129,741          | 74,518   |   |
| Total investment banking              | 98,223             | 105,992  | 202,390          | 193,485  |   |
| Institutional sales and trading       |                    |          |                  |          |   |
| Equities                              | 22,612             | 20,407   | 42,281           | 39,312   |   |
| Fixed income                          | 28,952             | 20,482   | 46,006           | 41,699   |   |
| Total institutional sales and trading | 51,564             | 40,889   | 88,287           | 81,011   |   |
| Management and performance fees       | 1,794              | 621      | 2,759            | 2,028    |   |
| Investment income                     | 7,451              | 215      | 9,537            | 14,920   |   |
| Long-term financing expenses          | (2,293 )           | (1,553 ) | (4,585 )         | (3,113 ) |   |
| Net revenues                          | 156,739            | 146,164  | 298,388          | 288,331  |   |
| Operating expenses (1)                | 152,028            | 123,687  | 290,883          | 239,890  |   |
| Segment pre-tax operating income      | \$4,711            | \$22,477 | \$7,505          | \$48,441 |   |
| Segment pre-tax operating margin      | 3.0                | % 15.4   | % 2.5            | % 16.8   | % |

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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

| (Dollars in thousands)                | Three Months Ended |           | Six Months Ended |           |   |
|---------------------------------------|--------------------|-----------|------------------|-----------|---|
|                                       | June 30,<br>2016   | 2015      | June 30,<br>2016 | 2015      |   |
| Asset Management                      |                    |           |                  |           |   |
| Management and performance fees       |                    |           |                  |           |   |
| Management fees                       | \$12,801           | \$18,436  | \$25,684         | \$37,543  |   |
| Performance fees                      | —                  | 200       | —                | 208       |   |
| Total management and performance fees | 12,801             | 18,636    | 25,684           | 37,751    |   |
| Investment income/(loss)              | 943                | (734 )    | (33 )            | (145 )    |   |
| Net revenues                          | 13,744             | 17,902    | 25,651           | 37,606    |   |
| Operating expenses (1)                | 11,946             | 14,520    | 23,205           | 28,896    |   |
| Segment pre-tax operating income      | \$1,798            | \$3,382   | \$2,446          | \$8,710   |   |
| Segment pre-tax operating margin      | 13.1               | % 18.9    | % 9.5            | % 23.2    | % |
| Total                                 |                    |           |                  |           |   |
| Net revenues                          | \$170,483          | \$164,066 | \$324,039        | \$325,937 |   |
| Operating expenses (1)                | 163,974            | 138,207   | 314,088          | 268,786   |   |
| Pre-tax operating income              | \$6,509            | \$25,859  | \$9,951          | \$57,151  |   |
| Pre-tax operating margin              | 3.8                | % 15.8    | % 3.1            | % 17.5    | % |

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

| (Dollars in thousands)                      | Three Months              |         | Six Months                |         |
|---|---------------------------|---------|---------------------------|---------|
|   | Ended<br>June 30,<br>2016 | 2015    | Ended<br>June 30,<br>2016 | 2015    |
| Capital Markets                             | \$2,707                   | \$263   | \$4,616                   | \$526   |
| Asset Management                            | 1,387                     | 1,510   | 2,774                     | 3,020   |
| Total intangible asset amortization expense | \$4,094                   | \$1,773 | \$7,390                   | \$3,546 |

Reportable segment assets are as follows:

| (Dollars in thousands) | June 30,<br>2016 | December 31,<br>2015 |
|------------------------|------------------|----------------------|
| Capital Markets        | \$1,888,306      | \$1,870,272          |
| Asset Management       | 232,998          | 268,246              |
|                        | \$2,121,304      | \$2,138,518          |



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Piper Jaffray Companies

Notes to the Consolidated Financial Statements

(Unaudited)

Note 20 Net Capital Requirements and Other Regulatory Matters

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

At June 30, 2016, net capital calculated under the SEC rule was \$202.7 million, and exceeded the minimum net capital required under the SEC rule by \$201.6 million.

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

Piper Jaffray Ltd. and SCIL, broker dealer subsidiaries registered in the United Kingdom, are subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of June 30, 2016, Piper Jaffray Ltd. and SCIL were in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At June 30, 2016, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

Note 21 Income Taxes

For the three months ended June 30, 2016, the Company's effective income tax rate, excluding noncontrolling interests, was 50.7 percent, compared to 36.0 percent for the three months ended June 30, 2015. The effective income tax rate for the three months ended June 30, 2016 was unusually high because the Company recorded a 100 percent valuation allowance against tax benefits generated from net operating losses within SCIL.

The Company's effective income tax rate, excluding noncontrolling interests, for the six months ended June 30, 2016 was 34.0 percent, compared to 35.9 percent for the six months ended June 30, 2015.



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

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2015 and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at [www.piperjaffray.com](http://www.piperjaffray.com) and at the SEC Web site at [www.sec.gov](http://www.sec.gov). Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Explanation of Non-GAAP Financial Measures

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

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### Executive Overview

Our business principally consists of providing investment banking, institutional brokerage, asset management and related financial services to corporations, private equity groups, public entities, non-profit entities and institutional investors in the United States and Europe. We operate through two reportable business segments: Capital Markets and Asset Management. Refer to our Annual Report on Form 10-K for the year ended December 31, 2015 for a full description of our business.

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

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

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

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

On October 9, 2015, we completed the acquisition of BMO Capital Markets GKST Inc. ("BMO GKST"), a municipal bond sales, trading and origination business of BMO Financial Corp. This acquisition expanded our fixed income institutional sales, trading and underwriting platforms. Additionally, it strengthened our strategic analytic and advisory capabilities.

For more information on our acquisitions, see Note 3 of our accompanying unaudited consolidated financial statements included in this report. We incurred \$10.2 million of restructuring, integration and transaction costs for the six months ended June 30, 2016 principally related to the Simmons acquisition.

### Results for the three and six months ended June 30, 2016

Net income applicable to Piper Jaffray Companies in the second quarter of 2016 was \$1.9 million, or \$0.12 per diluted common share, compared with \$17.0 million, or \$1.08 per diluted common share, for the prior-year period. Net revenues for the three months ended June 30, 2016 were \$170.5 million, an increase of 3.9 percent from \$164.1 million reported in the year-ago period, as higher debt financing and fixed income institutional brokerage revenues and investment income were partially offset by declines in equity financing and asset management revenues. In the second quarter of 2016, compensation and benefits expenses were \$117.1 million, an increase of 13.1 percent compared with \$103.6 million in the prior-year period, due primarily to higher acquisition-related compensation costs. For the three months ended June 30, 2016, non-compensation expenses were \$46.8 million, up 35.1 percent compared with \$34.7 million in the second quarter of 2015. Non-compensation expenses in the second quarter of 2016 included restructuring and integration costs, intangible amortization expense and other incremental costs related to our recent acquisitions of Simmons, BMO GKST and River Branch.

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For the three months ended June 30, 2016, adjusted net income applicable to Piper Jaffray Companies was \$13.9 million<sup>(1)</sup>, or \$0.88<sup>(1)</sup> per diluted common share, compared with \$18.6 million<sup>(1)</sup>, or \$1.19<sup>(1)</sup> per diluted common share, for the prior-year period. Adjusted net revenues for the three months ended June 30, 2016 were \$167.2 million<sup>(1)</sup>, an increase of 2.0 percent from \$163.9 million<sup>(1)</sup> reported in the year-ago period. Adjusted compensation and benefits expenses were \$107.1 million<sup>(1)</sup> in the second quarter of 2016, an increase of 4.3 percent compared with \$102.7 million<sup>(1)</sup> in the prior-year period. For the three months ended June 30, 2016, adjusted non-compensation expenses were \$38.6 million<sup>(1)</sup>, up 20.5 percent from \$32.0 million<sup>(1)</sup> for the three months ended June 30, 2015.

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Net income applicable to Piper Jaffray Companies in the first half of 2016 was \$4.4 million, or \$0.28 per diluted common share, compared with \$34.0 million, or \$2.11 per diluted common share, for the prior-year period. For the twelve months ended June 30, 2016, we generated a rolling twelve month return on average common shareholders' equity of 2.8 percent, compared with 7.5 percent for the rolling twelve months ended June 30, 2015. Net revenues for the six months ended June 30, 2016 were \$324.0 million, down slightly from \$325.9 million in the year-ago period, as higher advisory services and institutional brokerage revenues were more than offset by lower equity financing and asset management revenues. Compensation and benefits expenses were \$221.6 million in the first half of 2016, up 11.1 percent from \$199.4 million in the year-ago period, due to additional compensation expenses associated with our recent acquisitions. For the six months ended June 30, 2016, non-compensation expenses were \$92.5 million, an increase of 33.3 percent compared with \$69.4 million for the six months ended June 30, 2015, due to higher acquisition-related expenses and higher costs as a result of business expansion.

In the first half of 2016, adjusted net income applicable to Piper Jaffray Companies was \$24.5 million<sup>(1)</sup>, or \$1.58<sup>(1)</sup> per diluted common share, compared with \$37.5 million<sup>(1)</sup>, or \$2.33<sup>(1)</sup> per diluted common share, for the prior-year period. For the twelve months ended June 30, 2016, we generated an adjusted rolling twelve month return on average common shareholders' equity of 6.7 percent<sup>(2)</sup>, compared with 8.5 percent<sup>(2)</sup> for rolling twelve months ended June 30, 2015. Adjusted net revenues for the six months ended June 30, 2016 were \$319.4 million<sup>(1)</sup>, consistent with \$319.6 million<sup>(1)</sup> reported in the year-ago period. Adjusted compensation and benefits expenses were \$208.2 million<sup>(1)</sup> for the six months ended June 30, 2016, and increase of 5.6 percent compared with \$197.3 million<sup>(1)</sup> in the year-ago period. In the first half of 2016, adjusted non-compensation expenses were \$73.6 million<sup>(1)</sup>, up 15.6 percent from \$63.7 million<sup>(1)</sup> for the six months ended June 30, 2015.

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

| (Amounts in thousands, except per share data)                      | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2016                           | 2015       | 2016                         | 2015       |
| Net revenues:  |                                |            |                              |            |
| Net revenues – U.S. GAAP basis                                     | \$ 170,483                     | \$ 164,066 | \$ 324,039                   | \$ 325,937 |
| Adjustments:   |                                |            |                              |            |
| Revenue related to noncontrolling interests                        | (3,295 )                       | (187 )     | (4,644 )                     | (6,319 )   |
| Adjusted net revenues  | \$ 167,188                     | \$ 163,879 | \$ 319,395                   | \$ 319,618 |
| Compensation and benefits:   |                                |            |                              |            |
| Compensation and benefits – U.S. GAAP basis                        | \$ 117,148                     | \$ 103,554 | \$ 221,584                   | \$ 199,411 |
| Adjustments:   |                                |            |                              |            |
| Compensation from acquisition-related agreements                   | (10,062 )                      | (904 )     | (13,368 )                    | (2,155 )   |
| Adjusted compensation and benefits                                 | \$ 107,086                     | \$ 102,650 | \$ 208,216                   | \$ 197,256 |
| Non-compensation expenses:   |                                |            |                              |            |
| Non-compensation expenses – U.S. GAAP basis                        | \$ 46,826                      | \$ 34,653  | \$ 92,504                    | \$ 69,375  |
| Adjustments:   |                                |            |                              |            |
| Non-compensation expenses related to noncontrolling interests      | (720 )                         | (869 )     | (1,320 )                     | (2,171 )   |
| Restructuring and integration costs                                | (3,433 )                       | —          | (10,206 )                    | —          |
| Amortization of intangible assets related to acquisitions          | (4,094 )                       | (1,773 )   | (7,390 )                     | (3,546 )   |
| Adjusted non-compensation expenses                                 | \$ 38,579                      | \$ 32,011  | \$ 73,588                    | \$ 63,658  |
| Net income applicable to Piper Jaffray Companies:                  |                                |            |                              |            |
| Net income applicable to Piper Jaffray Companies – U.S. GAAP basis | \$ 1,938                       | \$ 16,999  | \$ 4,375                     | \$ 33,971  |

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Adjustments:

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Compensation from acquisition-related agreements          | 6,623    | 552      | 8,643    | 1,316    |
| Restructuring and integration costs                       | 2,876    | —        | 7,014    | —        |
| Amortization of intangible assets related to acquisitions | 2,501    | 1,083    | 4,515    | 2,166    |
| Adjusted net income applicable to Piper Jaffray Companies | \$13,938 | \$18,634 | \$24,547 | \$37,453 |

Earnings per diluted common share:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Earnings per diluted common share – U.S. GAAP basis | \$0.12 | \$1.08 | \$0.28 | \$2.11 |
|---|--------|--------|--------|--------|

Adjustments:

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Compensation from acquisition-related agreements          | 0.42   | 0.04   | 0.56   | 0.08   |
| Restructuring and integration costs                       | 0.18   | —      | 0.45   | —      |
| Amortization of intangible assets related to acquisitions | 0.16   | 0.07   | 0.29   | 0.13   |
| Adjusted earnings per diluted common share                | \$0.88 | \$1.19 | \$1.58 | \$2.33 |

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

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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, often unpredictable and at times inherently volatile. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, changes in interest rates and credit spreads (especially rapid and extreme changes), overall market liquidity, the level and shape of various yield curves, the volume and value of trading in securities, overall equity valuations, and the demand for active asset management services.

Factors that differentiate our business within the financial services industry may also affect our financial results. For example, our capital markets business focuses on specific industry sectors while serving principally middle-market clientele. If the business environment for our focus sectors is impacted adversely, our business and results of operations will be negatively impacted. In addition, our business, with its specific areas of focus and investment, may not track overall market trends. Given the variability of the capital markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

### Outlook for the remainder of 2016

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

Fixed income market conditions were accommodative in the second quarter of 2016 as market-wide municipal issuance volumes were up sequentially from the first quarter of 2016 and our sales and trading volumes increased. Our geographic range and industry expertise drove our strong performance which exceeded the market-wide volume increases. We believe that municipal debt underwriting activity for the second half of 2016 will remain strong as the low interest rate environment is driving both new issue and refinancing activity. Fixed income client trading activity was healthier in the second quarter of 2016 driven by a broader trading platform and a more conducive trading environment; however, periods of interest rate uncertainty may reduce activity in our fixed income institutional brokerage business. We generally anticipate maintaining a conservative bias in managing our inventories and hedging strategies as we assess the quality and direction of the market on an ongoing basis.

The equity markets generally were more constructive in the second quarter of 2016 after a sluggish start to the year. While the level of equity capital raising remains at relatively modest levels, we believe these levels will steadily improve in the second half of the year, absent any episodes of heightened volatility. Higher volatility in the second quarter of 2016 following the Brexit vote benefited our equity sales and trading business; however, sustained market volatility or prolonged market correction may be disruptive to our capital raising activities. Although mergers and acquisition activity levels in our advisory services business subsided in the second quarter of 2016, we believe this business will continue to perform well through the end of 2016 on the strength of our market position and recent

investments. Advisory services revenues for any given quarter are impacted by the timing of the deals' closings, which can result in fluctuations in revenues period over period.

Asset management revenues will continue to be affected by broad market trends, in particular, the low interest rate environment. The impact on our asset management business is mixed. Persistently low interest rates attract broad and largely indiscriminate inflows into equities as investors search for yield. This can be seen in low dispersion in the performance of specific stocks as the market substantially is correlated to low rates versus the relative performance of specific stocks or sectors. This phenomenon favors passive investment strategies at the expense of active managers, particularly with respect to managers of U.S. portfolios, and has been challenging for our domestic value products. Conversely, the search for yield has benefited our yield oriented products or products with inherently more risk. While it appears that the current environment will continue to persist, we believe that the U.S. Federal Reserve has signaled its intent to move to a more normalized interest rate environment at the earliest possible opportunity, signals of which would include increasing inflation, faster growth or more stability in international markets. In addition, our investment performance, both absolute and relative, will influence both the total amount of assets under management and the level of net flows into our products.

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## Results of Operations

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

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

|  | Three Months Ended |               |                     | As a Percentage of Net Revenues for the Three Months Ended |               |  |
|--|--------------------|---------------|---------------------|--|---------------|--|
|  | June 30, 2016      | June 30, 2015 | June 30, 2016 v2015 | June 30, 2016  | June 30, 2015 |  |
| (Dollars in thousands)                                   |                    |               |                     |  |               |  |
| Revenues:  |                    |               |                     |  |               |  |
| Investment banking                                       | \$97,414           | \$106,069     | (8.2 )%             | 57.1 %   | 64.7 %        |  |
| Institutional brokerage                                  | 48,185             | 36,661        | 31.4                | 28.3   | 22.3          |  |
| Asset management   | 14,595             | 19,257        | (24.2 )             | 8.6  | 11.7          |  |
| Interest   | 7,922              | 11,422        | (30.6 )             | 4.6  | 7.0           |  |
| Investment income/(loss)                                 | 8,276              | (3,299 )      | (350.9)             | 4.9  | (2.0 )        |  |
| Total revenues   | 176,392            | 170,110       | 3.7                 | 103.5  | 103.7         |  |
| Interest expense   | 5,909              | 6,044         | (2.2 )              | 3.5  | 3.7           |  |
| Net revenues   | 170,483            | 164,066       | 3.9                 | 100.0  | 100.0         |  |
| Non-interest expenses:                                   |                    |               |                     |  |               |  |
| Compensation and benefits                                | 117,148            | 103,554       | 13.1                | 68.7   | 63.1          |  |
| Outside services   | 10,184             | 8,885         | 14.6                | 6.0  | 5.4           |  |
| Occupancy and equipment                                  | 8,850              | 6,983         | 26.7                | 5.2  | 4.3           |  |
| Communications   | 7,294              | 5,088         | 43.4                | 4.3  | 3.1           |  |
| Marketing and business development                       | 9,171              | 7,239         | 26.7                | 5.4  | 4.4           |  |
| Trade execution and clearance                            | 1,916              | 1,977         | (3.1 )              | 1.1  | 1.2           |  |
| Restructuring and integration costs                      | 3,433              | —             | N/M                 | 2.0  | —             |  |
| Intangible asset amortization expense                    | 4,094              | 1,773         | 130.9               | 2.4  | 1.1           |  |
| Other operating expenses                                 | 1,884              | 2,708         | (30.4 )             | 1.1  | 1.7           |  |
| Total non-interest expenses                              | 163,974            | 138,207       | 18.6                | 96.2   | 84.2          |  |
| Income before income tax expense                         | 6,509              | 25,859        | (74.8 )             | 3.8  | 15.8          |  |
| Income tax expense                                       | 1,996              | 9,542         | (79.1 )             | 1.2  | 5.8           |  |
| Net income   | 4,513              | 16,317        | (72.3 )             | 2.6  | 9.9           |  |
| Net income/(loss) applicable to noncontrolling interests | 2,575              | (682 )        | (477.6)             | 1.5  | (0.4 )        |  |
| Net income applicable to Piper Jaffray Companies         | \$1,938            | \$16,999      | (88.6 )%            | 1.1 %  | 10.4 %        |  |



N/M – Not meaningful

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For the three months ended June 30, 2016, we recorded net income applicable to Piper Jaffray Companies of \$1.9 million. Net revenues for the three months ended June 30, 2016 were \$170.5 million, a 3.9 percent increase compared to \$164.1 million in the year-ago period. In the second quarter of 2016, investment banking revenues were \$97.4 million, compared with \$106.1 million in the prior-year period, as higher debt financing and advisory services revenues were more than offset by lower equity financing revenues. For the three months ended June 30, 2016, institutional brokerage revenues increased 31.4 percent to \$48.2 million, compared with \$36.7 million in the second quarter of 2015, due to higher equity and fixed income institutional brokerage revenues. In the second quarter of 2016, asset management fees of \$14.6 million were down 24.2 percent compared with \$19.3 million in the second quarter of 2015 due primarily to lower management fees from both our value equity and master limited partnership ("MLP") product offerings resulting from decreased assets under management. For the three months ended June 30, 2016, net interest income was \$2.0 million, compared with \$5.4 million in the prior-year period. The decrease primarily resulted from the liquidation of our municipal bond fund with outside investors in the second half of 2015, and additional interest expense on our senior notes due to an increase in the amount of debt outstanding and a higher cost as we shifted from variable to fixed rate through our refinancing in late 2015. In the second quarter of 2016, investment income was \$8.3 million, compared with a loss of \$3.3 million in the prior-year period, as we recorded higher gains on our investment and the noncontrolling interests in the merchant banking fund that we manage, as well as gains on the investments in registered funds that we manage and our other firm investments. Non-interest expenses were \$164.0 million for the three months ended June 30, 2016, up 18.6 percent compared to \$138.2 million in the prior year. The second quarter of 2016 included incremental expenses from our expansion into the energy and financial institutions sectors over the past year, \$3.4 million of acquisition-related restructuring and integration costs, and an additional \$2.3 million of intangible amortization expense resulting from our recent acquisitions.

## Consolidated Non-Interest Expenses

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

For the three months ended June 30, 2016, compensation and benefits expenses increased to \$117.1 million, compared with \$103.6 million in the corresponding period of 2015. Compensation and benefits expenses as a percentage of net revenues was 68.7 percent in the second quarter of 2016, compared with 63.1 percent in the second quarter of 2015. The increased compensation ratio was attributable to increased acquisition-related compensation.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses were \$10.2 million in the second quarter of 2016, compared with \$8.9 million in the corresponding period of 2015. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 8.0 percent due primarily to higher professional fees.

Occupancy and Equipment – For the three months ended June 30, 2016, occupancy and equipment expenses increased 26.7 percent to \$8.9 million, compared with \$7.0 million for the three months ended June 30, 2015. The increase was primarily the result of incremental occupancy expenses from business expansion efforts associated with our acquisitions of River Branch and BMO GKST completed during the third and fourth quarters of 2015, respectively, and our acquisition of Simmons completed during the first quarter of 2016.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the three months ended June 30, 2016, communication expenses increased 43.4 percent to \$7.3 million, compared with \$5.1 million for the three months ended June 30, 2015, due to higher market data services, resulting in part from our financial institutions sector expansion, and additional headcount associated with our acquisitions of River Branch, BMO GKST, and Simmons.

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**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 June 30, 2016, marketing and business development expenses increased 26.7 percent to \$9.2 million, compared with \$7.2 million in the corresponding period of 2015. The increase was driven by higher travel expenses.

**Trade Execution and Clearance** – For the three months ended June 30, 2016, trade execution and clearance expenses were \$1.9 million, essentially flat compared with the corresponding period of 2015.

**Restructuring and Integration Costs** – In the second quarter of 2016, we recorded restructuring and acquisition integration costs of \$3.4 million primarily related to the acquisition of Simmons. The expenses consisted of \$1.3 million for vacated redundant leased office space, \$1.2 million of severance, benefits and outplacement costs, \$0.5 million of transaction costs, and \$0.4 million of contract termination costs.

**Intangible Asset Amortization Expense** – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of customer relationships and the Simmons trade name. For the three months ended June 30, 2016, intangible asset amortization expense was \$4.1 million, compared with \$1.8 million in the three months ended June 30, 2015. The increase was due to incremental intangible amortization expense for the acquisitions of River Branch, BMO GKST, and Simmons.

**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 \$1.9 million in the second quarter of 2016, compared with \$2.7 million in the second quarter of 2015. The decrease was primarily due to lower expense related to our charitable giving program driven by our decline in profitability, as well as foreign currency gains recorded in the second quarter of 2016 from our foreign cash accounts.

**Income Taxes** – For the three months ended June 30, 2016, our provision for income taxes was \$2.0 million equating to an effective tax rate, excluding noncontrolling interests, of 50.7 percent, compared with \$9.5 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 36.0 percent. The increased effective tax rate was unusually high because we recorded a 100 percent valuation allowance against tax benefits generated from net operating losses within Simmons & Company International Limited ("SCIL").

## 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 June 30, |                 |             |          | 2015     |                 |             |          |
|---------------------------------------|-----------------------------|-----------------|-------------|----------|----------|-----------------|-------------|----------|
|                                       | 2016                        | Adjustments (1) |             | U.S.     | 2015     | Adjustments (1) |             | U.S.     |
| (Dollars in thousands)                | Total                       | Noncontrolling  | Other       | GAAP     | Total    | Noncontrolling  | Other       | GAAP     |
|                                       | Adjusted                    | Interests       | Adjustments |          | Adjusted | Interests       | Adjustments |          |
| Investment banking                    |                             |                 |             |          |          |                 |             |          |
| Financing                             |                             |                 |             |          |          |                 |             |          |
| Equities                              | \$16,786                    | \$—             | \$—         | \$16,786 | \$34,324 | \$—             | \$—         | \$34,324 |
| Debt                                  | 33,325                      | —               | —           | 33,325   | 27,648   | —               | —           | 27,648   |
| Advisory services                     | 48,112                      | —               | —           | 48,112   | 44,020   | —               | —           | 44,020   |
| Total investment banking              | 98,223                      | —               | —           | 98,223   | 105,992  | —               | —           | 105,992  |
| Institutional sales and trading       |                             |                 |             |          |          |                 |             |          |
| Equities                              | 22,612                      | —               | —           | 22,612   | 20,407   | —               | —           | 20,407   |
| Fixed income                          | 28,212                      | 740             | —           | 28,952   | 20,482   | —               | —           | 20,482   |
| Total institutional sales and trading | 50,824                      | 740             | —           | 51,564   | 40,889   | —               | —           | 40,889   |
| Management and performance fees       | 1,794                       | —               | —           | 1,794    | 621      | —               | —           | 621      |
| Investment income                     | 4,896                       | 2,555           | —           | 7,451    | 28       | 187             | —           | 215      |
| Long-term financing expenses          | (2,293 )                    | —               | —           | (2,293 ) | (1,553 ) | —               | —           | (1,553 ) |
| Net revenues                          | 153,444                     | 3,295           | —           | 156,739  | 145,977  | 187             | —           | 146,164  |
| Operating expenses                    | 135,106                     | 720             | 16,202      | 152,028  | 121,651  | 869             | 1,167       | 123,687  |
| Segment pre-tax operating income      | \$18,338                    | \$2,575         | \$(16,202 ) | \$4,711  | \$24,326 | \$(682)         | \$(1,167 )  | \$22,477 |
| Segment pre-tax operating margin      | 12.0 %                      |                 |             | 3.0 %    | 16.7 %   |                 |             | 15.4 %   |

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

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

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

| (Dollars in thousands)                                    | Three Months   |         |
|---|----------------|---------|
|   | Ended June 30, |         |
|   | 2016           | 2015    |
| Compensation from acquisition-related agreements          | \$10,062       | \$904   |
| Restructuring and integration costs                       | 3,433          | —       |
| Amortization of intangible assets related to acquisitions | 2,707          | 263     |
|   | \$16,202       | \$1,167 |

Capital Markets net revenues on a U.S. GAAP basis were \$156.7 million for the three months ended June 30, 2016, compared with \$146.2 million in the prior-year period. For the three months ended June 30, 2016, adjusted net revenues were \$153.4 million, compared with \$146.0 million in the second quarter of 2015. The variance explanations for net revenues on a U.S. GAAP basis are consistent with those on a non-GAAP basis.

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

In the second quarter of 2016, investment banking revenues decreased 7.3 percent to \$98.2 million, compared with \$106.0 million in the corresponding period of the prior year. For the three months ended June 30, 2016, equity financing revenues were \$16.8 million, a decrease of 51.1 percent compared with \$34.3 million in the prior-year period, due to fewer completed transactions and lower revenue per transaction. Although the equity capital raising markets have gradually improved from the first quarter of 2016, the level of activity remains significantly below year ago levels. During the second quarter of 2016, we completed 16 equity financings, raising \$3.5 billion for our clients, compared with 26 equity financings, raising \$6.0 billion for our clients in the comparable year-ago period. Debt financing revenues for the three months ended June 30, 2016 were \$33.3 million, up 20.5 percent compared with \$27.6 million in the year-ago period, due to higher public finance revenues which resulted from increased market share attributable to our geographic expansion and other investments in the business, coupled with robust market conditions as low interest rates drove new issuances and refinancings. During the second quarter of 2016, we completed 192 negotiated municipal issues with a total par value of \$5.0 billion, compared with 226 negotiated municipal issues with a total par value of \$4.6 billion during the prior-year period. For the three months ended June 30, 2016, advisory services revenues were \$48.1 million, up 9.3 percent compared to \$44.0 million in the second quarter of 2015. The increase reflects our long-term effort to grow our advisory services business, including expansion into the energy and financial institutions sectors over the past year. We completed 22 transactions with an aggregate enterprise value of \$2.4 billion in the second quarter of 2016, compared with 18 transactions with an aggregate enterprise value of \$4.2 billion in the second quarter of 2015.

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

For the three months ended June 30, 2016, institutional brokerage revenues were \$51.6 million, compared with \$40.9 million in the prior-year period, due to higher equity and fixed income institutional brokerage revenues. Equity institutional brokerage revenues increased 10.8 percent to \$22.6 million in the second quarter of 2016, compared with \$20.4 million in the corresponding period of 2015, due to higher client trading volumes resulting from our expansion into the energy sector through the acquisition of Simmons. For the three months ended June 30, 2016, fixed income institutional brokerage revenues were \$29.0 million, up 41.4 percent compared with \$20.5 million in the prior-year period, due to higher trading gains and increased customer flow activity resulting from our acquisition of BMO GKST in the fourth quarter of 2015.

Management and performance fees include the fees generated from our energy, municipal bond, merchant banking and senior living funds with outside investors. For the three months ended June 30, 2016, management and performance fees were \$1.8 million, compared with \$0.6 million in the prior-year period, due to higher performance fees from our merchant banking fund, as well as incremental management fees generated from the energy funds, which we acquired with the Simmons acquisition. The increase was partially offset by lower management fees from a municipal bond fund, which we closed in the third quarter of 2015. We completed the liquidation of this fund in October 2015.



Investment income includes realized and unrealized gains and losses on investments and amounts attributable to noncontrolling interests in our merchant banking fund, municipal bond fund, and other firm investments. For the three months ended June 30, 2016, investment income was \$7.5 million, compared to \$0.2 million in the corresponding period of 2015. In the second quarter of 2016, we recorded higher gains on our investment and the noncontrolling interests in the merchant banking fund that we manage, as well as higher gains on other firm investments. Excluding the impact of noncontrolling interests, adjusted investment income was \$4.9 million for the three months ended June 30, 2016.

Long-term financing expenses primarily represent interest paid on our senior notes. For the three months ended June 30, 2016, long-term financing expenses were \$2.3 million, compared with \$1.6 million in the prior-year period, as we increased the amount of outstanding principal on our senior notes in the fourth quarter of 2015 from \$125 million to \$175 million.

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Capital Markets segment pre-tax operating margin for the three months ended June 30, 2016 was 3.0 percent, compared with 15.4 percent for the corresponding period of 2015. Pre-tax operating margin was lower compared to the prior-year period due to higher compensation expenses resulting from acquisition-related compensation. Additionally, higher non-compensation expenses from our business expansion, as well as restructuring and integration costs principally related to our acquisition of Simmons, drove the lower margin compared to the year-ago period. Adjusted segment pre-tax operating margin for the three months ended June 30, 2016 was 12.0 percent, compared with 16.7 percent for the corresponding period of 2015. The decline in adjusted pre-tax operating margin was primarily due to additional expenses associated with our financial institutions sector expansion and recent acquisitions. Revenue production from these growth initiatives often takes time to ramp to full productivity, which negatively impacts operating margin.

## 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 June 30,<br>2016 |  |              | 2015              |  |              |
|---|-------------------------------------|--|--------------|-------------------|--|--------------|
|   | Total<br>Adjusted                   | Adjustments<br>(1)<br>Non-Controlling<br>Interests | U.S.<br>GAAP | Total<br>Adjusted | Adjustments<br>(1)<br>Non-Controlling<br>Interests | U.S.<br>GAAP |
| (Dollars in thousands)  |                                     |  |              |                   |  |              |
| Management fees   |                                     |  |              |                   |  |              |
| Value equity  | \$6,588                             | \$—  | \$6,588      | \$9,548           | \$—  | \$9,548      |
| MLP   | 6,213                               | —  | 6,213        | 8,888             | —  | 8,888        |
| Total management fees   | 12,801                              | —  | 12,801       | 18,436            | —  | 18,436       |
| Performance fees  |                                     |  |              |                   |  |              |
| Value equity  | —                                   | —  | —            | 200               | —  | 200          |
| MLP   | —                                   | —  | —            | —                 | —  | —            |
| Total performance fees  | —                                   | —  | —            | 200               | —  | 200          |
| Total management and performance fees   | 12,801                              | —  | 12,801       | 18,636            | —  | 18,636       |
| Investment income/(loss)  | 943                                 | —  | 943          | (734 )            | —  | (734 )       |
| Total net revenues  | 13,744                              | —  | 13,744       | 17,902            | —  | 17,902       |
| Operating expenses  | 10,559                              | — 1,387  | 11,946       | 13,010            | — 1,510  | 14,520       |
| Segment pre-tax operating income/(loss)   | \$3,185                             | \$—(1,387 )  | \$1,798      | \$4,892           | \$—(1,510 )  | \$3,382      |
| Segment pre-tax operating margin  | 23.2 %                              |  | 13.1 %       | 27.3 %            |  | 18.9 %       |
| Adjusted segment pre-tax operating margin<br>excluding investment income/(loss) (2) | 17.5 %                              |  |              | 30.2 %            |  |              |

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

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

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

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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 June 30, 2016, approximately five percent of our AUM was eligible to earn performance fees.

For the three months ended June 30, 2016, management fees were \$12.8 million, a decrease of 30.6 percent, compared with \$18.4 million in the prior-year period, due to lower management fees from both our value equity and MLP product offerings. In the second quarter of 2016, management fees related to our value equity strategies were \$6.6 million, down 31.0 percent compared to \$9.5 million in the corresponding period of 2015. The decrease was driven by lower AUM resulting from net client outflows and market depreciation as market conditions remained challenging for actively managed strategies, particularly domestic equities. Management fees from our MLP strategies decreased 30.1 percent in the second quarter of 2016 to \$6.2 million, compared with \$8.9 million in the second quarter of 2015. The decline in management fees resulted from lower average AUM, driven by a decline in MLP valuations in the second half of 2015, and early 2016.

Investment income/(loss) includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. For the three months ended June 30, 2016, investment income was \$0.9 million compared with a loss of \$0.7 million for the prior-year period.

Segment pre-tax operating margin for the three months ended June 30, 2016 was 13.1 percent, compared to 18.9 percent for the three months ended June 30, 2015. Excluding investment income/(loss) on firm capital invested in our strategies, adjusted operating margin declined from 30.2 percent in the second quarter of 2015 to 17.5 percent in the second quarter of 2016, due to lower management fees.

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

|  | Three Months<br>Ended<br>June 30, |          | Twelve<br>Months<br>Ended<br>June 30, |
|--|-----------------------------------|----------|---------------------------------------|
| (Dollars in millions)                  | 2016                              | 2015     | 2016                                  |
| <b>Value Equity</b>                    |                                   |          |                                       |
| Beginning of period                    | \$3,983                           | \$5,636  | \$5,757                               |
| Net inflows/(outflows)                 | (375 )                            | 153      | (1,690 )                              |
| Net market appreciation/(depreciation) | 73                                | (32 )    | (386 )                                |
| End of period                          | \$3,681                           | \$5,757  | \$3,681                               |
| <b>MLP</b>                             |                                   |          |                                       |
| Beginning of period                    | \$3,522                           | \$5,777  | \$5,626                               |
| Net inflows                            | 66                                | 53       | 128                                   |
| Net market appreciation/(depreciation) | 822                               | (204 )   | (1,344 )                              |
| End of period                          | \$4,410                           | \$5,626  | \$4,410                               |
| <b>Total</b>                           |                                   |          |                                       |
| Beginning of period                    | \$7,505                           | \$11,413 | \$11,383                              |
| Net inflows/(outflows)                 | (309 )                            | 206      | (1,562 )                              |
| Net market appreciation/(depreciation) | 895                               | (236 )   | (1,730 )                              |
| End of period                          | \$8,091                           | \$11,383 | \$8,091                               |

Total AUM was \$8.1 billion at June 30, 2016. Value equity AUM declined to \$3.7 billion at June 30, 2016, compared with \$4.0 billion at March 31, 2016 due to net client outflows of \$0.4 billion during the quarter. We have continued to experience net client outflows in our value equity product offerings as performance in our small/mid-cap and all-cap value strategies has lagged their respective benchmarks. MLP AUM increased to \$4.4 billion at June 30, 2016 as we experienced net market appreciation of \$0.8 billion during the quarter.

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Financial Summary for the six months ended June 30, 2016 and June 30, 2015

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

|   | Six Months Ended |               |            | As a Percentage of Net Revenues for the Six Months Ended |               |
|---|------------------|---------------|------------|--|---------------|
|   | June 30, 2016    | June 30, 2015 | 2016 v2015 | June 30, 2016  | June 30, 2015 |
| (Dollars in thousands)                            |                  |               |            |  |               |
| Revenues:   |                  |               |            |  |               |
| Investment banking                                | \$201,352        | \$193,146     | 4.2 %      | 62.1 %   | 59.3 %        |
| Institutional brokerage                           | 80,234           | 72,697        | 10.4       | 24.8   | 22.3          |
| Asset management                                  | 28,443           | 39,779        | (28.5)     | 8.8  | 12.2          |
| Interest  | 16,751           | 23,627        | (29.1)     | 5.2  | 7.2           |
| Investment income                                 | 9,213            | 9,292         | (0.9)      | 2.8  | 2.9           |
| Total revenues                                    | 335,993          | 338,541       | (0.8)      | 103.7  | 103.9         |
| Interest expense                                  | 11,954           | 12,604        | (5.2)      | 3.7  | 3.9           |
| Net revenues                                      | 324,039          | 325,937       | (0.6)      | 100.0  | 100.0         |
| Non-interest expenses:                            |                  |               |            |  |               |
| Compensation and benefits                         | 221,584          | 199,411       | 11.1       | 68.4   | 61.2          |
| Outside services                                  | 18,635           | 17,069        | 9.2        | 5.8  | 5.2           |
| Occupancy and equipment                           | 16,568           | 13,766        | 20.4       | 5.1  | 4.2           |
| Communications                                    | 14,624           | 11,416        | 28.1       | 4.5  | 3.5           |
| Marketing and business development                | 16,175           | 14,221        | 13.7       | 5.0  | 4.4           |
| Trade execution and clearance                     | 3,678            | 3,974         | (7.4)      | 1.1  | 1.2           |
| Restructuring and integration costs               | 10,206           | —             | N/M        | 3.1  | —             |
| Intangible asset amortization expense             | 7,390            | 3,546         | 108.4      | 2.3  | 1.1           |
| Other operating expenses                          | 5,228            | 5,383         | (2.9)      | 1.6  | 1.7           |
| Total non-interest expenses                       | 314,088          | 268,786       | 16.9       | 96.9   | 82.5          |
| Income before income tax expense                  | 9,951            | 57,151        | (82.6)     | 3.1  | 17.5          |
| Income tax expense                                | 2,252            | 19,032        | (88.2)     | 0.7  | 5.8           |
| Net income  | 7,699            | 38,119        | (79.8)     | 2.4  | 11.7          |
| Net income applicable to noncontrolling interests | 3,324            | 4,148         | (19.9)     | 1.0  | 1.3           |
| Net income applicable to Piper Jaffray Companies  | \$4,375          | \$33,971      | (87.1)%    | 1.4 %  | 10.4 %        |
| N/M – Not meaningful                              |                  |               |            |  |               |

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 six months ended June 30, 2016, we recorded net income applicable to Piper Jaffray Companies of \$4.4 million. Net revenues for the six months ended June 30, 2016 were \$324.0 million, compared to \$325.9 million in the year-ago period. In the first half of 2016, investment banking revenues were \$201.4 million, up 4.2 percent compared with \$193.1 million in the prior-year period as higher advisory services revenues were partially offset by lower equity financing revenues. For the six months ended June 30, 2016, institutional brokerage revenues increased 10.4 percent to \$80.2 million, compared with \$72.7 million in the first half of 2015, due to higher equity and fixed income institutional brokerage revenues driven by business expansion. In the first half of 2016, asset management fees decreased 28.5 percent to \$28.4 million, compared with \$39.8 million in the first half of 2015, due to lower management fees from our value equity and MLP product offerings. In the first six months of 2016, net interest income decreased to \$4.8 million, compared with \$11.0 million in the prior-year period. The decrease primarily resulted from the liquidation of our municipal bond fund with outside investors in the second half of 2015, and additional interest expense on our senior notes. In addition, we had lower interest income earned on mortgage-backed and convertible securities as a result of lower inventory balances. For the six months ended June 30, 2016, investment income was \$9.2 million, consistent with \$9.3 million in the prior-year period. Non-interest expenses were \$314.1 million for the six months ended June 30, 2016, compared with \$268.8 million in year-ago period. The increase was primarily due to higher expenses resulting from our recent acquisitions and business expansion.

Consolidated Non-Interest Expenses

Income Taxes – For the six months ended June 30, 2016, our provision for income taxes was \$2.3 million equating to an effective tax rate, excluding noncontrolling interests, of 34.0 percent, compared with \$19.0 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 35.9 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:

|                                       | Six Months Ended June 30,<br>2016 |  |                      |              | 2015              |  |                      |              |
|---------------------------------------|-----------------------------------|--|----------------------|--------------|-------------------|--|----------------------|--------------|
|                                       | Total<br>Adjusted                 | Adjustments (1)<br>Noncontrolling<br>Interests | Other<br>Adjustments | U.S.<br>GAAP | Total<br>Adjusted | Adjustments (1)<br>Noncontrolling<br>Interests | Other<br>Adjustments | U.S.<br>GAAP |
| (Dollars in thousands)                |                                   |  |                      |              |                   |  |                      |              |
| Investment banking                    |                                   |  |                      |              |                   |  |                      |              |
| Financing                             |                                   |  |                      |              |                   |  |                      |              |
| Equities                              | \$23,352                          | \$—  | \$—                  | \$23,352     | \$70,331          | \$—  | \$—                  | \$70,331     |
| Debt                                  | 49,297                            | —  | —                    | 49,297       | 48,636            | —  | —                    | 48,636       |
| Advisory services                     | 129,741                           | —  | —                    | 129,741      | 74,518            | —  | —                    | 74,518       |
| Total investment banking              | 202,390                           | —  | —                    | 202,390      | 193,485           | —  | —                    | 193,485      |
| Institutional sales and trading       |                                   |  |                      |              |                   |  |                      |              |
| Equities                              | 42,281                            | —  | —                    | 42,281       | 39,312            | —  | —                    | 39,312       |
| Fixed income                          | 45,266                            | 740  | —                    | 46,006       | 41,699            | —  | —                    | 41,699       |
| Total institutional sales and trading | 87,547                            | 740  | —                    | 88,287       | 81,011            | —  | —                    | 81,011       |
| Management and performance fees       | 2,759                             | —  | —                    | 2,759        | 2,028             | —  | —                    | 2,028        |
| Investment income                     | 5,633                             | 3,904  | —                    | 9,537        | 8,601             | 6,319  | —                    | 14,920       |
| Long-term financing expenses          | (4,585 )                          | —  | —                    | (4,585 )     | (3,113 )          | —  | —                    | (3,113 )     |
| Net revenues                          | 293,744                           | 4,644  | —                    | 298,388      | 282,012           | 6,319  | —                    | 288,331      |
| Operating expenses                    | 261,382                           | 1,320  | 28,181               | 290,883      | 235,252           | 2,171  | 2,467                | 239,890      |
| Segment pre-tax operating income      | \$32,362                          | \$3,324  | \$(28,181 )          | \$7,505      | \$46,760          | \$4,148  | \$(2,467 )           | \$48,441     |
| Segment pre-tax operating margin      | 11.0 %                            |  |                      | 2.5 %        | 16.6 %            |  |                      | 16.8 %       |

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

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

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

| (Dollars in thousands)                                    | Six Months     |         |
|---|----------------|---------|
|   | Ended June 30, |         |
|   | 2016           | 2015    |
| Compensation from acquisition-related agreements          | \$13,368       | \$1,941 |
| Restructuring and integration costs                       | 10,197         | —       |
| Amortization of intangible assets related to acquisitions | 4,616          | 526     |
|   | \$28,181       | \$2,467 |

Capital Markets net revenues on a U.S. GAAP basis were \$298.4 million for the six months ended June 30, 2016, compared with \$288.3 million in the prior-year period. In the first half of 2016, Capital Markets adjusted net revenues were \$293.7 million, compared with \$282.0 million in the first half of 2015. The variance explanations for net revenues on a U.S. GAAP basis are consistent with those on a non-GAAP basis.

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In the first half of 2016, investment banking revenues increased to \$202.4 million, compared with \$193.5 million in the corresponding period of the prior year. For the six months ended June 30, 2016, equity financing revenues were \$23.4 million, a decrease of 66.8 percent compared with \$70.3 million in the prior-year period, due to fewer completed transactions and lower revenue per transaction. During the first half of 2016, we completed 23 equity financings, raising \$4.8 billion for our clients, compared with 61 equity financings, raising \$12.5 billion for our clients in the year-ago period. Debt financing revenues for the six months ended June 30, 2016 were \$49.3 million, compared with \$48.6 million in the year-ago period. During the first half of 2016, we completed 321 negotiated municipal issues with a total par value of \$7.8 billion, compared with 368 negotiated municipal issues with a total par value of \$8.3 billion during the prior-year period. For the six months ended June 30, 2016, advisory services revenues increased 74.1 percent to \$129.7 million, compared with \$74.5 million in the first half of 2015, due to more completed transactions and higher revenue per transaction. We completed 58 transactions with an aggregate enterprise value of \$8.3 billion in the first half of 2016, compared with 34 transactions with an aggregate enterprise value of \$6.0 billion in the first half of 2015.

For the six months ended June 30, 2016, institutional brokerage revenues increased 9.0 percent to \$88.3 million, compared with \$81.0 million in the prior-year period. Equity institutional brokerage revenues were \$42.3 million in the first half of 2016, up 7.6 percent compared with \$39.3 million in the corresponding period of 2015, due to higher client trading volumes from our expansion into the energy sector. For the six months ended June 30, 2016, fixed income institutional brokerage revenues were \$46.0 million, up 10.3 percent compared with \$41.7 million in the prior-year period, due primarily to higher trading gains driven by increased customer flow activity and favorable market conditions in the second quarter of 2016.

For the six months ended June 30, 2016, management and performance fees were \$2.8 million, compared with \$2.0 million in the prior-year period, due primarily to incremental management fees associated with our energy funds.

For the six months ended June 30, 2016, investment income was \$9.5 million, compared to \$14.9 million in the corresponding period of 2015. In the first half of 2015, we recored higher gains on our investment and the noncontrolling interests in the merchant banking fund.

For the six months ended June 30, 2016, long-term financing expenses increased to \$4.6 million, compared with \$3.1 million in the prior-year period, due an increase in the amount of outstanding principal on our senior notes in the fourth quarter of 2015.

Capital Markets segment pre-tax operating margin for the six months ended June 30, 2016 was 2.5 percent, compared with 16.8 percent for the corresponding period of 2015. The decrease in pre-tax operating margin was primarily due to higher acquisition-related expenses. Adjusted segment pre-tax operating margin for the six months ended June 30, 2016 was 11.0 percent, compared with 16.6 percent for the corresponding period of 2015. The decrease in adjusted pre-tax operating margin was primarily attributable to an increase in compensation and non-compensation expenses relative to revenues. Revenue production from these growth initiatives often takes time to ramp to full productivity, which negatively impacts operating margin.

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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:

|   | Six Months Ended June 30,<br>2016 |   |              | 2015              |   |              |
|---|-----------------------------------|---|--------------|-------------------|---|--------------|
|   | Total<br>Adjusted                 | Adjustments<br>(1)<br>Non-Controlling U.S.<br>Other Adjustments | U.S.<br>GAAP | Total<br>Adjusted | Adjustments<br>(1)<br>Non-Controlling U.S.<br>Other Adjustments | U.S.<br>GAAP |
| (Dollars in thousands)  |                                   |   |              |                   |   |              |
| Management fees   |                                   |   |              |                   |   |              |
| Value equity  | \$ 14,301                         | \$ —  | \$ 14,301    | \$ 20,407         | \$ —  | \$ 20,407    |
| MLP   | 11,383                            | —   | 11,383       | 17,136            | —   | 17,136       |
| Total management fees   | 25,684                            | —   | 25,684       | 37,543            | —   | 37,543       |
| Performance fees  |                                   |   |              |                   |   |              |
| Value equity  | —                                 | —   | —            | 208               | —   | 208          |
| MLP   | —                                 | —   | —            | —                 | —   | —            |
| Total performance fees  | —                                 | —   | —            | 208               | —   | 208          |
| Total management and performance fees                                   | 25,684                            | —   | 25,684       | 37,751            | —   | 37,751       |
| Investment loss   | (33 )                             | —   | (33 )        | (145 )            | —   | (145 )       |
| Total net revenues  | 25,651                            | —   | 25,651       | 37,606            | —   | 37,606       |
| Operating expenses  | 20,422                            | — 2,783   | 23,205       | 25,662            | — 3,234   | 28,896       |
| Segment pre-tax operating income  | \$ 5,229                          | \$ —( 2,783 )   | \$ 2,446     | \$ 11,944         | \$ —( 3,234 )   | \$ 8,710     |
| Segment pre-tax operating margin  | 20.4 %                            |   | 9.5 %        | 31.8 %            |   | 23.2 %       |
| Adjusted segment pre-tax operating margin excluding investment loss (2) | 20.5 %                            |   |              | 32.0 %            |   |              |

(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:

|   | Six Months<br>Ended June 30, |          |
|---|------------------------------|----------|
|   | 2016                         | 2015     |
| (Dollars in thousands)                                    |                              |          |
| Compensation from acquisition-related agreements          | \$ —                         | \$ 214   |
| Restructuring and integration costs                       | 9                            | —        |
| Amortization of intangible assets related to acquisitions | 2,774                        | 3,020    |
|   | \$ 2,783                     | \$ 3,234 |

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

For the six months ended June 30, 2016, management fees were \$25.7 million, a decrease of 31.6 percent, compared with \$37.5 million in the prior-year period, due to lower management fees from both our value equity and MLP product offerings. In the first half of 2016, management fees related to our value equity strategies were \$14.3 million, down 29.9 percent compared to \$20.4 million in the corresponding period of 2015, due to lower AUM. Management fees from our MLP strategies decreased 33.6 percent in the first half of 2016 to \$11.4 million, compared with \$17.1 million in the first half of 2015, due to lower average AUM, partially offset by a slightly higher average effective revenue yield. Our average effective revenue yield for our MLP strategies was 61 basis points for the six months ended June 30, 2016, compared to 59 basis points for the corresponding period in the prior year.

Segment pre-tax operating margin for the six months ended June 30, 2016 was 9.5 percent, compared to 23.2 percent for the six months ended June 30, 2015. Excluding investment loss on firm capital invested in our strategies, adjusted operating margin declined from 32.0 percent in the first half of 2015 to 20.5 percent in the first half of 2016, due to lower management fees.

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

| (Dollars in millions)                  | Six Months Ended |          | Twelve                              |
|--|------------------|----------|-------------------------------------|
|  | June 30,<br>2016 | 2015     | Months<br>Ended<br>June 30,<br>2016 |
| <b>Value Equity</b>                    |                  |          |                                     |
| Beginning of period                    | \$4,954          | \$5,758  | \$5,757                             |
| Net outflows                           | (1,276 )         | (158 )   | (1,690 )                            |
| Net market appreciation/(depreciation) | 3                | 157      | (386 )                              |
| End of period                          | \$3,681          | \$5,757  | \$3,681                             |
| <b>MLP</b>                             |                  |          |                                     |
| Beginning of period                    | \$3,924          | \$5,711  | \$5,626                             |
| Net inflows/(outflows)                 | (71 )            | 235      | 128                                 |
| Net market appreciation/(depreciation) | 557              | (320 )   | (1,344 )                            |
| End of period                          | \$4,410          | \$5,626  | \$4,410                             |
| <b>Total</b>                           |                  |          |                                     |
| Beginning of period                    | \$8,878          | \$11,469 | \$11,383                            |
| Net inflows/(outflows)                 | (1,347 )         | 77       | (1,562 )                            |
| Net market appreciation/(depreciation) | 560              | (163 )   | (1,730 )                            |
| End of period                          | \$8,091          | \$11,383 | \$8,091                             |

Total AUM decreased \$0.8 billion to \$8.1 billion in the first six months of 2016. Value equity AUM was \$3.7 billion at June 30, 2016, compared with \$5.0 billion at December 31, 2015 due to net client outflows of \$1.3 billion during the period. The asset management industry has experienced an ongoing trend of investors favoring passive investment vehicles over active management. Our AUM outflows in the first half of 2016 reflected the impact of this trend as a large investor in our all-cap product shifted to a passive investment. In addition, performance in our small/mid-cap and all-cap value strategies has lagged the relative benchmarks which has contributed to client outflows. MLP AUM increased to \$4.4 billion in the first six months of 2016 as we experienced net market appreciation of \$0.6 billion during the period.

**Recent Accounting Pronouncements**

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

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### Critical Accounting Policies

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

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

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

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

### 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 August 14, 2015, our board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2017. During the six months ended June 30, 2016, we repurchased 1,351,015 shares of our common stock at an average price of \$38.76 per share for an aggregate purchase price of \$52.4 million related to this authorization. We have \$79.2 million remaining under this authorization.



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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 half of 2016, we purchased 233,431 shares or \$9.8 million of our common shares for this purpose.

## Leverage

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

|  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| (Dollars in thousands)                       |                  |                      |
| Total assets                                 | \$2,121,304      | \$2,138,518          |
| Deduct: Goodwill and intangible assets       | (328,491 )       | (248,506 )           |
| Deduct: Assets from noncontrolling interests | (106,625 )       | (88,590 )            |
| Adjusted assets                              | \$1,686,188      | \$1,801,422          |
| <br>   |                  |                      |
| Total shareholders' equity                   | \$827,259        | \$832,820            |
| Deduct: Goodwill and intangible assets       | (328,491 )       | (248,506 )           |
| Deduct: Noncontrolling interests             | (52,248 )        | (49,161 )            |
| Tangible common shareholders' equity         | \$446,520        | \$535,153            |
| <br>   |                  |                      |
| Leverage ratio (1)                           | 2.6              | 2.6                  |
| <br>   |                  |                      |
| Adjusted leverage ratio (2)                  | 3.8              | 3.4                  |

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

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

Adjusted assets and tangible common shareholders' equity are non-GAAP financial measures. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. Amounts attributed to noncontrolling interests are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as they represent assets and equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies. Our adjusted leverage ratio has increased in 2016 primarily as a result of an increase in goodwill and intangible assets related to our acquisition of Simmons.

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

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co., issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The programs can issue with maturities of 27 to 270 days. CP Series III A includes a covenant that requires Piper Jaffray & Co. to maintain excess net capital of \$120 million. The following table provides information about our commercial paper programs at June 30, 2016:

| (Dollars in millions)                          | CP<br>Series<br>A | CP<br>Series<br>II A | CP<br>Series<br>III A |
|--|-------------------|----------------------|-----------------------|
| Maximum amount that may be issued              | \$300.0           | \$150.0              | \$125.0               |
| Amount outstanding                             | 140.9             | 29.9                 | 92.6                  |
| Weighted average maturity, in days             | 81                | 29                   | 12                    |
| Weighted average maturity at issuance, in days | 142               | 95                   | 34                    |

Prime Broker Arrangement – Our municipal securities strategic trading activities are principally operated in a fund structure vehicle. We also previously managed a municipal bond fund with third party investors, which was liquidated in the second half of 2015. We have established an arrangement to obtain overnight financing by a single prime broker related to our strategic trading activities in municipal securities and the alternative asset management fund that we previously managed with outside investors. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. Our prime broker financing activities are recorded net of receivables from trading activity. This funding is at the discretion of the prime broker and could be denied subject to a notice period. At June 30, 2016, we had \$238.4 million of financing outstanding under this prime broker arrangement.

Committed Lines – Our committed line is a one-year \$250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co. to maintain minimum net capital of \$120 million, and the unpaid principal amount of all advances under the facility will be due on December 17, 2016. This credit facility has been in place since 2008 and we renewed the facility for another one-year term in the fourth quarter of 2015. At June 30, 2016, 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 June 30, 2016, 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 2016 and 2015, respectively.

|                          | Average<br>Balance for the<br>Three Months<br>Ended |               |              |              |
|--------------------------|---|---------------|--------------|--------------|
| (Dollars in millions)    | June<br>2016  | Mar.<br>2016  |              |              |
| Funding source:          |   |               |              |              |
| Repurchase agreements    | \$28.9  | \$30.5        |              |              |
| Commercial paper         | 279.7   | 279.2         |              |              |
| Prime broker arrangement | 169.2   | 159.0         |              |              |
| Short-term bank loans    | 6.4   | 0.8           |              |              |
| Total                    | \$484.2   | \$469.5       |              |              |
|                          | Average Balance for the Three<br>Months Ended       |               |              |              |
| (Dollars in millions)    | Dec.<br>2015  | Sept.<br>2015 | June<br>2015 | Mar.<br>2015 |
| Funding source:          |   |               |              |              |
| Repurchase agreements    | \$25.5  | \$32.1        | \$76.9       | \$66.4       |
| Commercial paper         | 277.5   | 276.8         | 256.3        | 245.1        |
| Prime broker arrangement | 109.4   | 139.8         | 242.8        | 167.1        |
| Short-term bank loans    | 0.3   | 0.2           | 11.9         | 28.4         |
| Total                    | \$412.7   | \$448.9       | \$587.9      | \$507.0      |

The average funding in the second quarter of 2016 increased to \$484.2 million, compared with \$469.5 million during the first quarter of 2016. The reduction in average funding compared to the corresponding period of 2015 was due to a decrease in average inventory balances, especially our municipal securities inventory which is principally financed through our prime broker arrangement.

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

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

## Senior Notes

We have entered into variable and fixed rate senior notes with certain entities advised by Pacific Investment Management Company ("PIMCO"). The following table presents the outstanding balance by note class at June 30, 2016 and December 31, 2015, respectively.

|                        | Outstanding Balance |                      |
|------------------------|---------------------|----------------------|
| (Dollars in thousands) | June 30,<br>2016    | December 31,<br>2015 |
| Class A Notes          | \$50,000            | \$ 50,000            |

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|                    |           |            |
|--------------------|-----------|------------|
| Class C Notes      | 125,000   | 125,000    |
| Total senior notes | \$175,000 | \$ 175,000 |

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

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The Second Amended and Restated Note Purchase Agreement includes customary events of default and covenants that, among other things, require us to maintain a minimum consolidated tangible net worth and minimum regulatory net capital, limit our leverage ratio and require maintenance of a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of \$120 million. At June 30, 2016, we were in compliance with all covenants.

## Contractual Obligations

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

|                             | Remainder<br>of | 2017      | 2019      | 2021 and   |        |
|-----------------------------|-----------------|-----------|-----------|------------|--------|
| (Dollars in millions)       | 2016            | -<br>2018 | -<br>2020 | thereafter | Total  |
| Operating lease obligations | \$ 7.9          | \$27.4    | \$22.5    | \$ 26.7    | \$84.5 |

## Capital Requirements

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority (“FINRA”), our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of \$1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain approvals, notifications and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. At June 30, 2016, our net capital under the SEC’s uniform net capital rule was \$202.7 million, and exceeded the minimum net capital required under the SEC rule by \$201.6 million.

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

At June 30, 2016, Piper Jaffray Ltd. and SCIL, our broker dealer subsidiaries registered in the United Kingdom, were subject to, and were in compliance with, the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At June 30, 2016, 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:

| (Dollars in thousands)                             | Expiration Per Period at December 31, |          |               |             |             | Total Contractual Amount |                   |
|--|---------------------------------------|----------|---------------|-------------|-------------|--------------------------|-------------------|
|  | 2016                                  | 2017     | 2018 - 2020   | 2021 - 2022 | Later       | June 30, 2016            | December 31, 2015 |
| Customer matched-book derivative contracts (1) (2) | \$22,163                              | \$40,950 | \$ - \$67,461 | \$67,690    | \$3,604,166 | \$3,802,430              | \$4,392,440       |
| Trading securities derivative contracts (2)        | 239,100                               | 50,000   | —             | —           | 29,750      | 318,850                  | 290,600           |
| Credit default swap index contracts (2)            | —                                     | —        | —             | 53,000      | 13,000      | 66,000                   | 94,270            |
| Futures and equity option derivative contracts (2) | 19,724                                | —        | —             | —           | —           | 19,724                   | 2,345,037         |
| Investment commitments (3)                         | —                                     | —        | —             | —           | —           | 28,575                   | 32,819            |

(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 \$185.2 million at June 30, 2016) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At June 30, 2016, we had \$30.3 million of credit exposure with these counterparties, including \$22.0 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 June 30, 2016 and December 31, 2015, the net fair value of these derivative contracts approximated \$32.6 million and \$31.8 million, respectively.

(3) The investment commitments have no specified call dates. The timing of capital calls is based on market conditions and investment opportunities.

## Derivatives

Derivatives' notional or contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the fair value of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. For a complete discussion of our activities related to derivative products, see Note 4, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our unaudited consolidated financial statements.

## Loan Commitments

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

## Investment Commitments

Our private equity and principal investments, including those made as part of our merchant banking activities, are made through investments in limited partnerships or limited liability companies that provide financing or make investments in private equity funds. We commit capital or act as the managing partner of these entities.



We have committed capital to certain entities and these commitments generally have no specified call dates. We had \$28.6 million of commitments outstanding at June 30, 2016, of which \$16.1 million relate to an affiliated merchant banking fund and \$8.5 million relate to an affiliated fund, which provides financing for senior living facilities.

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### Risk Management

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

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

We use internal financial risk committees to assist in governing risk and ensure that our business activities are properly assessed, monitored and managed. Our financial risk committees oversee risk management practices, including defining acceptable risk tolerances and approving risk management policies. Membership is comprised of senior leadership, including but not limited to, our Chief Executive Officer, Chief Financial Officer, General Counsel, Treasurer, Head of Market and Credit Risk, Head of Public Finance, Head of Fixed Income Services and Firm Investments and Trading, and Head of Equities. Other committees that help evaluate and monitor risk include underwriting, leadership team and operating committees. These committees help manage risk by ensuring that business activities are properly managed and within a defined scope of activity. Our valuation committee, comprised of members of senior management and risk management, provide oversight and overall responsibility for the internal control processes and procedures related to fair value measurements. Additionally, our operational risk committees address and monitor risk related to information systems and security, legal, regulatory and compliance matters, and third parties such as vendors and service providers.

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

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

### Strategic Risk

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

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

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### Market Risk

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

Our different types of market risk include:

**Interest Rate Risk** — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (including client margin balances, investments, inventories, and resale agreements) and our funding sources (including client cash balances, short-term financing, senior notes and repurchase agreements), which finance these assets. Interest rate risk is managed by selling short U.S. government securities, agency securities, corporate debt securities and derivative contracts. See Note 4 of our accompanying unaudited consolidated financial statements for additional information on our derivative contracts. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

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

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

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

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

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

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

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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.

|                                 | June 30, December 31, |        |
|---------------------------------|-----------------------|--------|
| (Dollars in thousands)          | 2016                  | 2015   |
| Interest Rate Risk              | \$ 392                | \$ 608 |
| Equity Price Risk               | 9                     | 119    |
| Diversification Effect (1) (5 ) | (66                   | )      |
| Total Value-at-Risk             | \$ 396                | \$ 661 |

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

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average VaR calculated for each component of market risk during the six months ended June 30, 2016 and the year ended December 31, 2015, respectively.

| (Dollars in thousands)                 | High    | Low   | Average |
|--|---------|-------|---------|
| For the Six Months Ended June 30, 2016 |         |       |         |
| Interest Rate Risk                     | \$722   | \$329 | \$ 524  |
| Equity Price Risk                      | 283     | 6     | 139     |
| Diversification Effect (1)             |         |       | (63 )   |
| Total Value-at-Risk                    | \$790   | \$377 | \$ 600  |
| (Dollars in thousands)                 | High    | Low   | Average |
| For the Year Ended December 31, 2015   |         |       |         |
| Interest Rate Risk                     | \$853   | \$415 | \$ 582  |
| Equity Price Risk                      | 618     | 31    | 314     |
| Diversification Effect (1)             |         |       | (133 )  |
| Total Value-at-Risk                    | \$1,128 | \$487 | \$ 763  |

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

Trading losses exceeded our one-day VaR on nine occasions during the first half of 2016.

The aggregate VaR as of June 30, 2016 was lower than the reported VaR on December 31, 2015. The decrease in VaR resulted from a decrease in overall inventories and increased hedging activities due to the uncertainty of international events at the end of the second quarter of 2016.

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.

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

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

### Credit Risk

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

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

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

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

We are subject to concentration risk if we hold large individual securities positions, execute large transactions with individual counterparties or groups of related counterparties, extend large loans to individual borrowers or make substantial underwriting commitments. Concentration risk can occur by industry, geographic area or type of client. Securities purchased under agreements to resell consist primarily of securities issued by the U.S. government or its agencies. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial institutions. Inventory and investment positions taken and commitments made, including



underwritings, may result in exposure to individual issuers and businesses. Potential concentration risk is carefully monitored through review of counterparties and borrowers and is managed through the use of policies and limits established by senior management.

We have concentrated counterparty credit exposure with five non-publicly rated entities totaling \$30.3 million at June 30, 2016. This counterparty credit exposure is part of our matched-book derivative program related to our public finance business, consisting primarily of interest rate swaps. One derivative counterparty represents 72.4 percent, or \$22.0 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.

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### Operational Risk

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

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

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

### Human Capital Risk

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

### Legal, Regulatory and Compliance Risk

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

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

#### Effects of Inflation

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The 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, 2015.

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. The complaints, which were consolidated into a single nationwide class action entitled In re Municipal Derivatives Antitrust Litigation, MDL No. 1950 (Master Docket No. 08-2516), alleged 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 sought unspecified treble damages under Section 1 of the Sherman Act. Piper Jaffray entered into a settlement agreement with respect to In re Municipal Derivatives Antitrust Litigation in the amount of \$9.8 million in the third quarter of 2015. This settlement received final court approval from the U.S. District Court for the Southern District of New York in the second quarter of 2016.

ITEM 1A. RISK FACTORS.

The discussion of our business and operations should be read together with the risk factors contained in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. 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.



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## 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 June 30, 2016.

| Period  | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares   | Approximate<br>Dollar   |
|---|---|---------------------------------------|--|---|
|   |   |                                       | Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Value of<br>Shares Yet<br>to be<br>Purchased<br>Under the<br>Plans or<br>Programs (1) |
| Month #1<br>(April 1, 2016 to April 30, 2016) | 50,734                                    | (2) \$ 41.27                          | 50,291   | \$ 117 million  |
| Month #2<br>(May 1, 2016 to May 31, 2016)     | 689,931                                   | (3) \$ 40.63                          | 626,225  | \$92 million  |
| Month #3<br>(June 1, 2016 to June 30, 2016)   | 322,708                                   | \$ 38.95                              | 322,708  | \$79 million  |
| Total   | 1,063,373                                 | \$ 40.15                              | 999,224  | \$79 million  |

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

(2) Consists of 50,291 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price of \$41.21 per share, and 443 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of \$48.36.

(3) Consists of 626,225 shares of common stock repurchased on the open market pursuant to a 10b5-1 plan established with an independent agent at an average price of \$40.50 per share, and 63,706 shares of common stock withheld from recipients of restricted stock to pay taxes upon the vesting of the restricted stock at an average price per share of \$41.90.

## ITEM 6. EXHIBITS.

| Exhibit<br>Number | Description   | Method<br>of Filing |
|-------------------|---|---------------------|
| 10.1              | Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors, as amended and restated effective May 4, 2016. †   | Filed<br>herewith   |
| 31.1              | Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.   | Filed<br>herewith   |
| 31.2              | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.  | Filed<br>herewith   |
| 32.1              | Section 1350 Certifications.  | Filed<br>herewith   |
| 101               | Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition as of June 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015, (iii) the | Filed<br>herewith   |

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Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 and (v) the notes to the Consolidated Financial Statements.

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This exhibit is a management contract or compensatory plan or agreement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on August 5, 2016.

PIPER JAFFRAY COMPANIES

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

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



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Exhibit Index

| Exhibit Number | Description   | Method of Filing |
|----------------|---|------------------|
| 10.1           | Piper Jaffray Companies Deferred Compensation Plan for Non-Employee Directors, as amended and restated effective May 4, 2016. †   | Filed herewith   |
| 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 June 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015, (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 and (v) the notes to the Consolidated Financial Statements. | Filed herewith   |

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†This exhibit is a management contract or compensatory plan or agreement.