PIPER JAFFRAY COMPANIES
Form 10-Q
May 03, 2013

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

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the transition period from to

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES
(Exact Name of Registrant as specified in its Charter)

DELAWARE	30-0168701
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
800 Nicollet Mall, Suite 800 Minneapolis, Minnesota	55402
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

As of April 26, 2013, the registrant had 17,259,281 shares of Common Stock outstanding.

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

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$22,515	$105,371
Cash and cash equivalents segregated for regulatory purposes	45,012	31,007
Receivables:		
Customers	17,503	13,795
Brokers, dealers and clearing organizations	165,565	148,117
Securities purchased under agreements to resell	95,939	145,433
Financial instruments and other inventory positions owned	465,065	384,789
Financial instruments and other inventory positions owned and pledged as collateral	1,090,563	826,806
Total financial instruments and other inventory positions owned	1,555,628	1,211,595
Fixed assets (net of accumulated depreciation and amortization of $62,350 and $61,032, respectively)	13,802	15,089
Goodwill	196,844	196,844
Intangible assets (net of accumulated amortization of $25,537 and $23,876, respectively)	39,597	41,258
Other receivables	39,211	44,874
Other assets	132,326	129,697
Assets held for sale	5,936	4,653
Total assets	$2,329,878	$2,087,733
Liabilities and Shareholders' Equity		
Short-term financing	$409,018	$477,014
Variable rate senior notes	125,000	125,000
Payables:		
Customers	75,339	42,007
Brokers, dealers and clearing organizations	104,269	60,155
Securities sold under agreements to repurchase	83,040	50,000
Financial instruments and other inventory positions sold, but not yet purchased	592,797	357,201
Accrued compensation	35,517	132,124
Other liabilities and accrued expenses	42,939	53,193
Liabilities held for sale	179	864
Total liabilities	1,468,098	1,297,558
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at March 31, 2013 and December 31, 2012;		
Shares issued: 19,531,823 at March 31, 2013 and 19,530,359 at December 31, 2012;		
	195	195

Shares outstanding: 16,000,677 at March 31, 2013 and 15,213,796 at December 31, 2012		
Additional paid-in capital	741,290	754,566
Retained earnings	128,949	118,803
Less common stock held in treasury, at cost: 3,531,146 shares at March 31, 2013 and 4,316,563 shares at December 31, 2012	(118,519)	(140,939)
Accumulated other comprehensive income	519	667
Total common shareholders' equity	752,434	733,292
Noncontrolling interests	109,346	56,883
Total shareholders' equity	861,780	790,175
Total liabilities and shareholders' equity	$2,329,878	$2,087,733

See Notes to the Consolidated Financial Statements

Table of Contents

Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
(Amounts in thousands, except per share data)	2013	2012
Revenues:		
Investment banking	$40,362	$48,085
Institutional brokerage	43,260	44,080
Asset management	18,211	16,533
Interest	13,363	11,146
Other income	2,953	28
Total revenues	118,149	119,872
Interest expense	8,616	6,434
Net revenues	109,533	113,438
Non-interest expenses:		
Compensation and benefits	66,105	68,796
Occupancy and equipment	5,817	6,862
Communications	5,232	5,897
Floor brokerage and clearance	2,150	2,107
Marketing and business development	4,980	4,878
Outside services	7,214	5,838
Intangible asset amortization expense	1,661	1,736
Other operating expenses	(1,794)	2,102
Total non-interest expenses	91,365	98,216
Income from continuing operations before income tax expense	18,168	15,222
Income tax expense	5,600	7,553
Income from continuing operations	12,568	7,669
Discontinued operations:		
Loss from discontinued operations, net of tax	(521)	(3,303)
Net income	12,047	4,366
Net income applicable to noncontrolling interests	1,901	1,437
Net income applicable to Piper Jaffray Companies	$10,146	$2,929
Net income applicable to Piper Jaffray Companies’ common shareholders	$8,966	$2,480

Amounts applicable to Piper Jaffray Companies		
Income from continuing operations	$10,667	$6,232
Loss from discontinued operations, net of tax	(521)	(3,303)
Net income applicable to Piper Jaffray Companies	$10,146	$2,929
Earnings/(loss) per basic common share		
Income from continuing operations	$0.60	$0.33
Loss from discontinued operations	(0.03)	(0.17)
Earnings per basic common share	$0.58	$0.15
Earnings/(loss) per diluted common share		
Income from continuing operations	$0.60	$0.33
Loss from discontinued operations	(0.03)	(0.17)
Earnings per diluted common share	$0.57	$0.15
Weighted average number of common shares outstanding		
Basic	15,582	16,072
Diluted	15,610	16,072

See Notes to the Consolidated Financial Statements

4

Table of Contents

Piper Jaffray Companies
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,	
(Amounts in thousands)	2013	2012
Net income	$12,047	$4,366
Other comprehensive income/(loss), net of tax:		
Foreign currency translation adjustment	(148)	88
Comprehensive income	11,899	4,454
Comprehensive income applicable to noncontrolling interests	1,901	1,437
Comprehensive income applicable to Piper Jaffray Companies	$9,998	$3,017

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Operating Activities:		
Net income	$12,047	$4,366
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization of fixed assets	1,426	1,894
Deferred income taxes	12,070	8,983
Share-based and deferred compensation	795	(162)
Amortization of intangible assets	1,661	1,917
Amortization of forgivable loans	1,725	1,945
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	(14,005)	9,002
Receivables:		
Customers	(3,708)	(33,978)
Brokers, dealers and clearing organizations	(17,448)	(21,929)
Securities purchased under agreements to resell	(49,763)	(19,605)
Net financial instruments and other inventory positions owned	(108,437)	(214,090)
Other receivables	3,930	(8,111)
Other assets	(14,822)	(512)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	33,332	5,575
Brokers, dealers and clearing organizations	44,114	103,955
Securities sold under agreements to repurchase	—	7,852
Accrued compensation	(74,265)	(52,518)
Other liabilities and accrued expenses	(10,211)	1,594
Assets held for sale	(1,283)	(982)
Liabilities held for sale	(685)	(677)
Net cash used in operating activities	(183,527)	(205,481)
Investing Activities:		
Purchases of fixed assets, net	(230)	(2,076)
Net cash used in investing activities	(230)	(2,076)
Financing Activities:		
Increase/(decrease) in short-term financing	(67,996)	173,976
Decrease in bank syndicated financing	—	(6,250)
Increase in securities sold under agreements to repurchase	132,297	20,167
Increase in noncontrolling interests	50,562	2,296
Repurchase of common stock	(13,929)	(15,404)
Excess tax benefit from share-based compensation	55	—

Net cash provided by financing activities	100,989	174,785
Currency adjustment:		
Effect of exchange rate changes on cash	(88)	(3)
Net decrease in cash and cash equivalents	(82,856)	(32,775)
Cash and cash equivalents at beginning of period	105,371	85,024
Cash and cash equivalents at end of period	$22,515	$52,249
Supplemental disclosure of cash flow information -		
Cash paid/(received) during the period for:		
Interest	$8,302	$7,043
Income taxes	$596	$(1,365)
Non-cash financing activities -		
Issuance of common stock for retirement plan obligations:		
96,049 shares and 165,241 shares for the three months ended March 31, 2013 and 2012, respectively	$3,939	$3,814
Issuance of restricted common stock for annual equity award:		
431,582 shares and 487,181 shares for the three months ended March 31, 2013 and 2012, respectively	$17,699	$11,244

See Notes to the Consolidated Financial Statements

6

Table of Contents

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

Index

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

Note 1 Organization and Basis of Presentation

Organization

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

Capital Markets

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

As discussed in Note 4, the Company discontinued its Hong Kong capital markets business in 2012.

Asset Management

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

As discussed in Note 4, the Company's FAMCO subsidiary has been held for sale since December 31, 2012.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries, and all other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a municipal bond fund, merchant banking fund and private equity investment vehicles. All material intercompany balances have been eliminated.

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

Reclassification

In 2012, the Company reclassified the value of restricted stock forfeitures from other income to a reduction of compensation and benefits expense within the consolidated statements of operations to be consistent with the reporting of forfeitures for the Piper Jaffray Companies Mutual Fund Restricted Share Investment Plan and to more accurately reflect compensation expense. The prior period amount has been reclassified in the accompanying financial statements to conform to current period presentation. The reclassified amount within continuing operations was $0.8 million for the three months ended March 31, 2012. This change had no effect on shareholders’ equity, net income or cash flows for the period presented.

Note 2 Summary of Significant Accounting Policies

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 for a full description of the Company's significant accounting policies.

Note 3 Recent Accounting Pronouncements

Adoption of New Accounting Standards

Disclosures about Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-11, “Disclosures about Offsetting Assets and Liabilities,” (“ASU 2011-11”) amending FASB Accounting Standards Codification Topic 210, “Balance Sheet.” The amended guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB issued ASU No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,” (“ASU 2013-01”) to limit the scope of ASU 2011-11 to derivatives, repurchase agreements, and securities lending arrangements. ASU 2011-11 and ASU 2013-01 were effective for the Company as of January 1, 2013. The adoption of ASU 2011-11 and ASU 2013-01 did not impact the Company’s results of operations or financial position, but did impact the Company’s disclosures about the offsetting of certain assets and liabilities, and related arrangements.

Indefinite-Lived Intangible Assets

In July 2012, the FASB issued ASU No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment,” (“ASU 2012-02”) amending FASB Accounting Standards Codification Topic 350, “Intangibles - Goodwill and Other.” The amended guidance permits companies to first assess qualitative factors in determining whether the fair value of an indefinite-lived intangible asset is less than its carrying amount. ASU 2012-02 was effective for annual and interim indefinite-lived intangible asset impairment tests performed by the Company for the fiscal year beginning as of January 1, 2013. The adoption of ASU 2012-02 did not impact the Company's results of operations or financial position.

Note 4 Discontinued Operations

The Company's Hong Kong capital markets business ceased operations as of September 30, 2012. In accordance with the provisions of FASB Accounting Standards Codification Topic 205-20, “Discontinued Operations,” the results from this business, previously reported in the Capital Markets segment, have been classified as discontinued operations for all periods presented.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Net revenues	$—	$2,055
Total non-interest expenses	397	4,940
Loss from discontinued operations before income tax expense/(benefit)	(397)	(2,885)
Income tax expense/(benefit)	(73)	36
Loss from discontinued operations, net of tax	$(324)	$(2,921)

On March 8, 2013, the Company signed a definitive agreement to sell FAMCO and the transaction closed on April 30, 2013 for consideration of $4.0 million. FAMCO's results, previously reported in the Asset Management segment, have been presented as discontinued operations for all periods presented and the related assets and liabilities have been classified as held for sale. The disposal group primarily consists of intangible assets, other receivables and accrued compensation at March 31, 2013 and December 31, 2012, respectively.

The components of discontinued operations for FAMCO are as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Net revenues	$1,276	$1,372
Total non-interest expenses	1,583	1,338
Income/(loss) from discontinued operations before income tax expense/(benefit)	(307)	34
Income tax expense/(benefit)	(110)	416
Loss from discontinued operations, net of tax	$(197)	$(382)

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

Note 5 Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased

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

(Dollars in thousands)	March 31, 2013	December 31, 2012
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	$28,398	$16,478
Convertible securities	47,858	44,978
Fixed income securities	52,041	33,668
Municipal securities:		
Taxable securities	372,987	164,059
Tax-exempt securities	398,650	418,189
Short-term securities	150,461	68,328
Asset-backed securities	107,681	116,195
U.S. government agency securities	359,137	304,259
U.S. government securities	625	4,966
Derivative contracts	37,790	40,475
	$1,555,628	$1,211,595
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	$32,992	$27,090
Convertible securities	1,443	1,015
Fixed income securities	12,493	19,314
Municipal securities:		
Short-term securities	—	60
U.S. government agency securities	124,171	73,724
U.S. government securities	415,906	231,043
Derivative contracts	5,792	4,955
	$592,797	$357,201

At March 31, 2013 and December 31, 2012, financial instruments and other inventory positions owned in the amount of $1.1 billion and $826.8 million, respectively, had been pledged as collateral for repurchase agreements, short-term financings and to the prime broker of the Company's municipal bond funds.

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

Derivative Contract Financial Instruments

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

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

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

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

(Dollars in thousands)			
Transaction Type or Hedged Security	Derivative Category	March 31, 2013	December 31, 2012
Customer matched-book	Interest rate derivative contract	$5,457,237	$5,569,096
Trading securities	Interest rate derivative contract	219,000	244,250
Trading securities	Credit default swap index contract	344,552	230,650
		$6,020,789	$6,043,996

The Company’s interest rate derivative contracts and credit default swap index contracts do not qualify for hedge accounting, therefore, unrealized gains and losses are recorded on the consolidated statements of operations. The following table presents the Company’s unrealized gains/(losses) on derivative instruments:

(Dollars in thousands)		Three Months Ended March 31,	
Derivative Category	Operations Category	2013	2012
Interest rate derivative contract	Investment banking	$(538)	$(741)
Interest rate derivative contract	Institutional brokerage	5,935	2,145
Credit default swap index contract	Institutional brokerage	(1,874)	(911)
		$3,523	$493

The gross fair market value of all derivative instruments and their location on the Company’s consolidated statements of financial condition prior to counterparty netting are shown below by asset or liability position (1):

(Dollars in thousands)		Asset Value at		Liability Value at
Derivative Category	Financial Condition Location	March 31, 2013	Financial Condition Location	March 31, 2013
Interest rate derivative contract	Financial instruments and other inventory positions owned	$538,872	Financial instruments and other inventory positions sold, but not yet purchased	$510,776
Credit default	Financial instruments and other inventory positions owned	9,406	Financial instruments and other inventory positions sold, but not yet purchased	7,026

swap index contract		
	$548,278	$517,802

(1) Amounts are disclosed at gross fair value in accordance with the requirements of FASB Accounting Standards Codification Topic 815, "Derivatives and Hedging" ("ASC 815").

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

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of March 31, 2013, the Company had $29.1 million of uncollateralized credit exposure with these counterparties (notional contract amount of $202.8 million), including $16.0 million of uncollateralized credit exposure with one counterparty.

Note 6 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, provides oversight and overall responsibility for the internal control processes and procedures related to fair value measurements.

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

Cash Equivalents

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

Financial Instruments and Other Inventory Positions Owned

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

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

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

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

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

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

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

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

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation (“CMO”) securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 65-105 basis points (“bps”) on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 350-450 Public Securities Association (“PSA”) prepayment levels. These securities are categorized as Level II.

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

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

Table of Contents

Investments

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

Fair Value Option – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. At March 31, 2013, $19.1 million in merchant banking and other equity investments, included within other assets on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets. The gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were $3.2 million for the three months ended March 31, 2013.

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 March 31, 2013:

	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:				
Financial instruments and other inventory positions owned:				
Municipal securities:				
Tax-exempt securities	Discounted cash flow	Debt service coverage ratio (2)	5 - 69%	24.7%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	77 - 80%	79.6%
Asset-backed securities:				
Collateralized by residential mortgages	Discounted cash flow	Credit default rates (3)	1 - 12%	4.9%
		Prepayment rates (4)	2 - 11%	5.8%
		Loss severity (3)	50 - 100%	58.7%
		Valuation yields (3)	4 - 8%	5.4%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	3 - 58 bps	27.2 bps
Investments:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	34.1%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	38 - 144%	44.6%
Equity securities in private companies	Discounted cash flow/ Market approach	Revenue multiple (2)	2 - 4 times	2.8 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)	15 - 62 bps	24.9 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.

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

The following table summarizes the valuation of the Company’s financial instruments by pricing observability levels defined in FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820") as of March 31, 2013:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$6,703	$21,695	$—	$—	$28,398
Convertible securities	—	47,858	—	—	47,858
Fixed income securities	—	52,041	—	—	52,041
Municipal securities:					
Taxable securities	—	372,987	—	—	372,987
Tax-exempt securities	—	397,219	1,431	—	398,650
Short-term securities	—	149,805	656	—	150,461
Asset-backed securities	—	27	107,654	—	107,681
U.S. government agency securities	—	359,137	—	—	359,137
U.S. government securities	625	—	—	—	625
Derivative contracts	—	545,906	2,372	(510,488)	37,790
Total financial instruments and other inventory positions owned:	7,328	1,946,675	112,113	(510,488)	1,555,628
Cash equivalents	774	—	—	—	774
Investments	6,391	—	41,653	—	48,044
Total assets	$14,493	$1,946,675	$153,766	$(510,488)	$1,604,446
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$32,992	$—	$—	$—	$32,992
Convertible securities	—	1,443	—	—	1,443
Fixed income securities	—	12,493	—	—	12,493
U.S. government agency securities	—	124,171	—	—	124,171
U.S. government securities	415,906	—	—	—	415,906
Derivative contracts	—	517,403	399	(512,010)	5,792
Total financial instruments and other inventory positions sold, but not yet purchased:	$448,898	$655,510	$399	$(512,010)	$592,797

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

The following table summarizes the valuation of the Company’s financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2012:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$3,180	$13,298	$—	$—	$16,478
Convertible securities	—	44,978	—	—	44,978
Fixed income securities	—	33,668	—	—	33,668
Municipal securities:					
Taxable securities	—	164,059	—	—	164,059
Tax-exempt securities	—	416,760	1,429	—	418,189
Short-term securities	—	67,672	656	—	68,328
Asset-backed securities	—	24	116,171	—	116,195
U.S. government agency securities	—	304,259	—	—	304,259
U.S. government securities	4,966	—	—	—	4,966
Derivative contracts	—	595,486	827	(555,838)	40,475
Total financial instruments and other inventory positions owned:	8,146	1,640,204	119,083	(555,838)	1,211,595
Cash equivalents	51,346	—	—	—	51,346
Investments	5,810	—	33,245	—	39,055
Total assets	$65,302	$1,640,204	$152,328	$(555,838)	$1,301,996
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$25,362	$1,728	$—	$—	$27,090
Convertible securities	—	1,015	—	—	1,015
Fixed income securities	—	19,314	—	—	19,314
Municipal securities:					
Short-term securities	—	60	—	—	60
U.S. government agency securities	—	73,724	—	—	73,724
U.S. government securities	231,043	—	—	—	231,043
Derivative contracts	—	569,764	5,218	(570,027)	4,955
Total financial instruments and other inventory positions sold, but not yet purchased:	$256,405	$665,605	$5,218	$(570,027)	$357,201

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

The Company's Level III assets were $153.8 million and $152.3 million, or 9.6 percent and 11.7 percent of financial instruments measured at fair value at March 31, 2013 and December 31, 2012, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were no significant transfers between Level I, Level II or Level III for the three months ended March 31, 2013.

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

The following tables summarize the changes in fair value associated with Level III financial instruments during the three months ended March 31, 2013 and 2012:

(Dollars in thousands)	Balance at December 31, 2012	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at March 31, 2013
Assets:								
Financial instruments and other inventory positions owned:								
Municipal securities:								
Tax-exempt securities	$ 1,429	$1	$—	$—	$—	$ (266)	$ 267	$1,431
Short-term securities	656	—	—	—	—	—	—	656
Asset-backed securities	116,171	185,659	(203,606)	—	—	15,265	(5,835)	107,654
Derivative contracts	827	—	(13)	—	—	—	1,558	2,372
Total financial instruments and other inventory positions owned:	119,083	185,660	(203,619)	—	—	14,999	(4,010)	112,113
Investments	33,245	5,362	—	—	—	4	3,042	41,653
Total assets	$ 152,328	$191,022	$(203,619)	$—	$—	$ 15,003	$ (968)	$153,766
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Derivative contracts	$ 5,218	$(5,650)	$—	$—	$—	$ 5,637	$ (4,806)	$399
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 5,218	$(5,650)	$—	$—	$—	$ 5,637	$ (4,806)	$399

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

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

(Dollars in thousands)	Balance at December 31, 2011	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at March 31, 2012
Assets:								
Financial instruments and other inventory positions owned:								
Corporate securities:								
Convertible securities	$ —	$—	$—	$2,250	$—	$ —	$ 346	$2,596
Fixed income securities	2,815	38,433	(37,138)	226	—	50	(111)	4,275
Municipal securities:								
Tax-exempt securities	3,135	1,550	(1,340)	—	—	(381)	75	3,039
Short-term securities	175	2,700	—	—	—	—	(945)	1,930
Asset-backed securities	53,088	99,232	(83,941)	—	—	(357)	1,725	69,747
Derivative contracts	—	—	—	—	—	—	2,046	2,046
Total financial instruments and other inventory positions owned:	59,213	141,915	(122,419)	2,476	—	(688)	3,136	83,633
Investments	21,341	—	(3)	—	—	3	(654)	20,687
Total assets	$ 80,554	$141,915	$(122,422)	$2,476	$—	$ (685)	$ 2,482	$104,320
Liabilities:								
Financial instruments and other inventory positions sold, but not yet purchased:								
Corporate securities:								
Convertible securities	$ 1,171	$—	$—	$—	$(1,171)	$ —	$ —	$—
Fixed income securities	900	(897)	—	—	—	(49)	46	—
Derivative contracts	3,594	(2,911)	—	—	—	2,911	(99)	3,495
Total financial instruments and other inventory positions sold, but not yet purchased:	$ 5,665	$(3,808)	$—	$—	$(1,171)	$ 2,862	$ (53)	$3,495

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

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

Note 7 Variable Interest Entities

In the normal course of business, the Company periodically creates or transacts with entities that are investment vehicles organized as partnerships or limited liability companies. These entities were established for the purpose of investing in securities of public or private companies, or municipal debt obligations and were initially financed through the capital commitments of the members. The Company has investments in and/or acts as the managing partner of these entities. In certain instances, the Company provides management and investment advisory services for which it earns fees generally based upon the market value of assets under management and may include incentive fees based upon performance. The Company’s aggregate investments in these investment vehicles totaled $107.4 million and $96.9 million at March 31, 2013 and December 31, 2012, respectively, and are recorded in other assets on the consolidated statements of financial condition. The Company’s remaining capital commitments to these entities was $41.3 million at March 31, 2013.

Variable interest entities (“VIEs”) are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the amount and nature of the members’ equity investment in the entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity’s economic performance. For those entities that meet the deferral provisions defined by FASB ASU No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10"), the Company considers characteristics such as the ability to influence the decision making about the entity's activities and how the entity is financed. The Company has identified certain of the entities described above as VIEs. These VIEs had net assets approximating $0.7 billion and $0.8 billion at March 31, 2013 and December 31, 2012, respectively. The Company's exposure to loss from these VIEs is $5.9 million, which is the carrying value of its capital contributions recorded in other assets on the consolidated statements of financial condition at March 31, 2013. The Company had no liabilities related to these VIEs at March 31, 2013 and December 31, 2012.

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For those entities that meet the deferral provisions defined by ASU 2010-10, the determination as to whether the Company is considered to be the primary beneficiary differs in that it is based on whether the Company will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The Company determined it is not the primary beneficiary of these VIEs and accordingly does not consolidate them. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of March 31, 2013.

Note 8 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations included:

(Dollars in thousands)	March 31, 2013	December 31, 2012
Receivable arising from unsettled securities transactions	$45,992	$66,426
Deposits paid for securities borrowed	28,845	32,163
Receivable from clearing organizations	12,542	17,655
Deposits with clearing organizations	40,318	24,717
Securities failed to deliver	10,086	5,440
Other	27,782	1,716
	$165,565	$148,117

Amounts payable to brokers, dealers and clearing organizations included:

(Dollars in thousands)	March 31, 2013	December 31, 2012
Payable arising from unsettled securities transactions	$83,695	$24,643
Payable to clearing organizations	5,087	5,763
Securities failed to receive	2,603	7,459
Other	12,884	22,290
	$104,269	$60,155

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

Note 9 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 will also use an unaffiliated third party custodian to administer the underlying collateral for certain of its repurchase agreements and short-term financing to mitigate risk.

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

In 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 $230.2 million and $186.1 million at March 31, 2013 and December 31, 2012, respectively, of which $217.9 million and $174.4 million, respectively, had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

The following is a summary of the Company's securities sold under agreements to repurchase ("Repurchase Liabilities"), the fair market value of related collateral pledged and the interest rate charged by the Company's counterparty, which is based on LIBOR plus an applicable margin, as of March 31, 2013:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
On demand maturities:			
U.S. government agency securities	$182,297	$194,138	0.30 - 0.45%

Securities purchased under agreements to resell (reverse repurchase agreements), securities sold under agreements to repurchase (repurchase agreements) and securities borrowed and loaned are reported on a net basis by counterparty when a legal right of offset exists.

The following tables provide information on the gross and net amounts of recognized assets and liabilities for the Company's reverse repurchase agreements, securities borrowed and repurchase agreements, and items not offset on the consolidated statements of financial condition but available for offset in the event of default or termination of any one contract at March 31, 2013:

(Dollars in thousands)	Gross Recognized	Gross Amounts Offset on the Consolidated Statements of Financial Condition	Net Amounts Presented on the Consolidated Statements of Financial Condition	Gross Amounts Not Offset on the Consolidated Statements of Financial Condition		
				Financial	Collateral	
Description	Assets			Instruments	Received (1)	Net Amount
Reverse repurchase agreements	$195,196	$(99,257)	$95,939	$—	$(95,939)	$—
Securities borrowing (3)	28,845	—	28,845	—	(28,845)	—

(Dollars in thousands)	Gross Recognized	Gross Amounts Offset on the Consolidated Statements of Financial Condition	Net Amounts Presented on the Consolidated Statements of Financial Condition	Gross Amounts Not Offset on the Consolidated Statements of Financial Condition		
				Financial	Collateral	
Description	Liabilities			Instruments	Pledged (2)	Net Amount
Repurchase agreements (1)	$182,297	$(99,257)	$83,040	$—	$(83,040)	$—

Includes securities received by the Company from the counterparty. These securities are not included on the consolidated statements of financial condition unless there is an event of default.

(2) Includes the fair value of securities pledged by the Company to the counterparty. These securities are included on the consolidated statements of financial condition unless the Company defaults.

(3) Securities borrowing transactions are included in receivables from brokers, dealers and clearing organizations on the consolidated statements of financial condition. See Note 8 for additional information on receivables from brokers, dealers and clearing organizations.

There were no gross amounts offset on the consolidated statements of financial condition for reverse repurchase agreements, securities borrowing or repurchase agreements at December 31, 2012 as a legal right of offset did not exist. There were also no amounts outstanding related to securities lending arrangements at March 31, 2013 and December 31, 2012, respectively. See Note 5 for information regarding the gross and net amounts of recognized assets and liabilities for the Company's derivative contracts.

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

Note 10 Other Assets

Other assets include net deferred income tax assets, proprietary investments, income tax receivables and prepaid expenses. The Company's investments include investments in private companies and partnerships, warrants of public and private companies and private company debt. Other assets included:

(Dollars in thousands)	March 31, 2013	December 31, 2012
Net deferred income tax assets	$21,552	$33,622
Investments at fair value	48,044	39,055
Investments at cost	25,132	26,364
Investments accounted for under the equity method	19,978	20,353
Income tax receivables	12,679	5,448
Prepaid expenses	3,694	3,840
Other	1,247	1,015
Total other assets	$132,326	$129,697

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

At March 31, 2013, investments carried on a cost basis had an estimated fair market value of $41.8 million. The estimated fair value of these investments was measured using discounted cash flow models that utilize market data for comparable companies (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA")). Because valuation adjustments, based upon management's judgment, were made to account for differences between the measured security and comparable securities, investments carried at cost would be categorized as Level III assets in the fair value hierarchy, if they were carried at fair value.

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

Note 11 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets from continuing operations for the three months ended March 31, 2013:

(Dollars in thousands)	Asset Management
Goodwill	
Balance at December 31, 2012	$196,844
Goodwill acquired	—
Impairment charge	—
Balance at March 31, 2013	$196,844

Intangible assets	
Balance at December 31, 2012	$41,258
Amortization of intangible assets	(1,661)
Balance at March 31, 2013	$39,597

Note 12 Short-Term Financing

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

	Outstanding Balance		Weighted Average Interest Rate	
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Commercial paper (secured)	$264,099	$304,439	1.51%	1.65%
Prime broker arrangement	75,919	172,575	0.97%	0.98%
Bank lines (secured)	69,000	—	1.50%	N/A
Total short-term financing	$409,018	$477,014		

The Company issues secured commercial paper to fund a portion of its securities inventory. The secured commercial paper notes (“CP Notes”) are issued with maturities of 28 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, CP Series A and CP Series II A, and are secured by different inventory classes. As of March 31, 2013, the weighted average maturity of CP Series A and CP Series II A was 102 days and 99 days, respectively. The CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin.

The Company has established an arrangement to obtain financing with a prime broker related to its municipal bond funds. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. The funding is at the discretion of the prime broker.

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

The Company’s committed short-term bank line financing at March 31, 2013 consisted of a one-year $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2012. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company’s U.S. broker dealer subsidiary to maintain a minimum net capital of $120 million, and the unpaid principal amount of all advances under this facility will be due on December 28, 2013. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At March 31, 2013, the Company had no advances against this line of credit.

The Company’s uncommitted secured lines at March 31, 2013 totaled $175 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 March 31, 2013, the Company had $69.0 million in advances against these lines of credit.

Note 13 Variable Rate Senior Notes

On November 30, 2012, the Company entered into a note purchase agreement ("Note Purchase Agreement") under which the Company issued unsecured variable rate senior notes ("Notes") in the amount of $125 million. The initial holders of the Notes are certain entities advised by PIMCO. The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of $50 million and $75 million, respectively. The Class A Notes bear interest at a rate equal to three-month LIBOR plus 4.00 percent and mature on May 31, 2014. The Class B Notes bear interest at a rate equal to three-month LIBOR plus 4.50 percent and mature on November 30, 2015. Interest on the Notes is adjustable and payable quarterly. The unpaid principal amounts are due in full on the respective maturity dates and are not subject to prepayment at the Company's discretion. The proceeds from the Notes were used to repay the outstanding balance under the bank syndicated credit agreement ("Credit Agreement") discussed in Note 14. The remaining proceeds are being used for general corporate purposes.

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

Purchase Agreement, the noteholders may declare the entire principal and any accrued interest on the Notes to be due and payable and exercise other customary remedies.

The Note Purchase Agreement includes covenants that, among other things, require the Company to maintain a minimum consolidated tangible net worth and regulatory net capital, limit the Company's leverage ratio and require the Company to maintain a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, the Company's U.S. broker dealer subsidiary is required to maintain minimum net capital of $120 million. At March 31, 2013, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of March 31, 2013, the carrying value of the Notes approximates fair value.

Note 14 Bank Syndicated Financing

On December 29, 2010, the Company entered into a three-year Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. SunTrust Bank was the administrative agent (“Agent”) for the lenders. The interest rate for borrowing under the Credit Agreement was, at the option of the Company, equal to LIBOR or a base rate, plus an applicable margin, adjustable and payable quarterly at a minimum. The base rate was defined as the highest of the Agent’s prime lending rate, the Federal Funds Rate plus 0.50 percent or one-month LIBOR plus 1.00 percent. The applicable margin varied from 1.50 percent to 3.00 percent and was based on the Company’s leverage ratio. In addition, the Company also paid a nonrefundable commitment fee of 0.50 percent on the unused portion of the revolving credit facility on a quarterly basis. The outstanding balance and unpaid interest on the Credit Agreement was repaid on November 30, 2012 from the proceeds of the Notes discussed in Note 13.

Note 15 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 and except for the legal proceeding described below, as to which management believes a material loss is reasonably possible, 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.

The Company has a contingency as to which management of the Company believes that a material loss is reasonably possible. The U.S. Department of Justice Antitrust Division, the SEC and various state attorneys general are conducting broad investigations of numerous firms, including the Company, for possible antitrust and securities violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers from the early 1990s to date. These investigations commenced in November 2006. In addition, several class action complaints were brought on behalf of a proposed class of government entities that purchased municipal derivatives. The complaints, which have been consolidated into a single class action, allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. Several California municipalities also brought separate class action complaints in California federal court, and approximately 18 California municipalities and two New York municipalities filed individual lawsuits that are not part of class actions, all of which have been transferred to the Southern District of New York and consolidated for pretrial purposes. No loss contingency has been reflected in the Company's consolidated financial statements as this contingency is neither probable nor reasonably estimable at this time. Management is currently unable to estimate a range of reasonably possible loss for these matters because alleged damages have not been specified, the proceedings remain in the early stages, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual issues to be resolved.

Note 16 Shareholders' Equity

Share Repurchases

In the third quarter of 2012, the Company's board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2014. This share repurchase authorization became effective on October 1, 2012. During the three months ended March 31, 2013, the Company did not repurchase any shares of the Company's common stock related to this authorization. The Company has $95.4 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 340,789 shares or $13.9 million of the Company's common stock for this purpose during the three months ended March 31, 2013.

Issuance of Shares

During the three months ended March 31, 2013, the Company issued 96,049 common shares out of treasury stock in fulfillment of $3.9 million in obligations under the Piper Jaffray Companies Retirement Plan (the "Retirement Plan") and issued 669,221 common shares out of treasury stock as a result of employee vesting and exercise transactions. During the three months ended March 31, 2012, the Company issued 165,241 common shares out of treasury stock in fulfillment of $3.8 million in obligations under the Retirement Plan and issued 724,857 common shares out of treasury stock as a result of employee vesting.

Note 17 Noncontrolling Interests

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a municipal bond fund of $93.1 million, a merchant banking fund of $8.7 million and private equity investment vehicles aggregating $7.5 million as of March 31, 2013. As of December 31, 2012, noncontrolling interests included the minority equity holders' proportionate share of the equity in a municipal bond fund of $43.7 million, a merchant banking fund of $6.4 million and private equity investment vehicles aggregating $6.8 million.

Ownership interests in entities held by parties other than the Company's common shareholders are presented as noncontrolling interests within shareholders' equity, separate from the Company's own equity. Revenues, expenses and net income or loss are reported on the consolidated statements of operations on a consolidated basis, which includes amounts attributable to both the Company's common shareholders and noncontrolling interests. Net income or loss is then allocated between the Company and noncontrolling interests based upon their relative ownership interests. Net income applicable to noncontrolling interests is deducted from consolidated net income to determine net income applicable to the Company. There was no other comprehensive income or loss attributed to noncontrolling interests for the three months ended March 31, 2013 and 2012, respectively.

(Dollars in thousands)	Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2012	$733,292	$56,883	$790,175
Net income	10,146	1,901	12,047
Amortization/issuance of restricted stock	19,074	—	19,074
Repurchase of common stock for employee tax withholding	(13,929)	—	(13,929)
Issuance of treasury shares for 401k match	3,939	—	3,939
Shares reserved to meet deferred compensation obligations	60	—	60
Other comprehensive loss	(148)	—	(148)
Fund capital contributions	—	50,562	50,562
Balance at March 31, 2013	$752,434	$109,346	$861,780

Note 18 Compensation Plans

Stock-Based Compensation Plans

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

The following table provides a summary of the Company's outstanding equity awards (in shares or units) as of March 31, 2013:

Incentive Plan	
Restricted Stock Shares	
Annual grants	901,274
Sign-on grants	284,438
Retention grants	45,032
Performance grants	217,457
	1,448,201
Inducement Plan	
Restricted Stock Shares	58,310
Total restricted stock shares related to compensation	1,506,511
ARI deal consideration (1)	220,456
Total restricted stock shares outstanding	1,726,967
Incentive Plan	
Restricted Stock Units	
Leadership grants	173,271
Incentive Plan	
Stock options outstanding	479,726

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

Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company's employees and directors for up to 7.0 million shares of common stock (1.2 million shares remained available for future issuance under the Incentive Plan as of March 31, 2013). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

Restricted Stock Awards

Restricted stock grants are valued at the market price of the Company's common stock on the date of grant and are amortized over the related requisite service period. The Company grants shares of restricted stock to current employees as part of year-end compensation ("Annual Grants") and as a retention tool. Employees may receive restricted stock upon initial hiring or as a retention award ("Sign-on Grants"). The Company has also granted incremental restricted stock awards with service conditions to key employees ("Retention Grants") and restricted stock with performance conditions to members of senior management ("Performance Grants").

The Company’s Annual Grants are made each year in February. Prior to 2011, Annual Grants had three-year cliff vesting periods. Beginning in 2011, 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 2012 for its February 2013 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. The Company recorded \$0.3 million and \$0.8 million of forfeitures through compensation and benefits expense within continuing operations for the three months ended March 31, 2013 and 2012, respectively.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. The majority of these awards have three-year cliff vesting terms and 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. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Retention Grants are subject to ratable vesting based upon a five-year service requirement and are amortized as compensation expense on a straight-line basis from the 2008 grant date over the requisite service period, which ends May 2013. Employees forfeit unvested retention shares upon termination of employment and a reversal of compensation expense is recorded.

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period the Company expects the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense. In 2010, the Company deemed it improbable that the performance condition related to the Performance Grants would be met. As a result, the Company recorded a \$6.6 million cumulative effect compensation expense reversal within continuing operations in the third quarter of 2010. As of March 31, 2013, management continues to believe it is improbable that the performance condition will be met prior to the expiration of the award.

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

On May 15, 2012, the Company granted restricted stock units to its leadership team (“Leadership Grants”). The units will vest and convert to shares of common stock at the end of the 36-month performance period only if the Company satisfies predetermined market conditions over the performance period that began on May 15, 2012 and ends on May 14, 2015. Under the terms of the grant, the number of units that will vest and convert to shares will be based on the Company achieving specified market conditions during the 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 award on the grant date was determined using a Monte Carlo simulation, which assumed a risk-free interest rate of 0.38 percent and expected stock price volatility of 47.6 percent. 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 rate was determined based on three-year U.S. Treasury bond yields.

Stock Options

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

Inducement Plan

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

Stock-Based Compensation Activity

The Company recorded total compensation expense within continuing operations of $0.9 million and $0.8 million for the three months ended March 31, 2013 and 2012, respectively, related to employee restricted stock and restricted stock unit awards. Total compensation cost includes year-end compensation for Annual Grants and the amortization of Sign-on, Retention and Leadership Grants, less forfeitures. The tax benefit related to stock-based compensation costs totaled $0.4 million and $0.3 million for the three months ended March 31, 2013 and 2012, respectively.

The following table summarizes the changes in the Company's unvested restricted stock (including the unvested restricted stock issued as part of the deal consideration for ARI) under the Incentive Plan and Inducement Plan for the three months ended March 31, 2013:

	Unvested Restricted Stock (in Shares)		Weighted Average Grant Date Fair Value
December 31, 2012	2,322,438		$37.01
Granted	438,411		41.01
Vested	(1,030,038	)	40.70
Cancelled	(3,844	)	36.07
March 31, 2013	1,726,967		$35.77

The following summarizes the changes in the Company's unvested restricted stock units under the Incentive Plan for the three months ended March 31, 2013:

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value

December 31, 2012	173,271	$12.12
Granted	—	—
Vested	—	—
Cancelled	—	—
March 31, 2013	173,271	$12.12

As of March 31, 2013, there was $7.6 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 1.74 years.

The following table summarizes the changes in the Company’s outstanding stock options for the three months ended March 31, 2013:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2012	486,563	$ 44.76	2.9	$94,150
Granted	—	—		
Exercised	—	—		
Cancelled	(6,837)	41.83		
March 31, 2013	479,726	$ 44.80	2.7	$147,340
Options exercisable at March 31, 2013	479,726	$ 44.80	2.7	$147,340

As of March 31, 2013, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

The fair value of options exercised, cash received from option exercises and the resulting tax benefit realized for the tax deductions from option exercises were immaterial for the three months ended March 31, 2013 and 2012, respectively.

Deferred Compensation Plan

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

Note 19 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 applicable to Piper Jaffray Companies' common shareholders by the weighted average number of common shares outstanding for the period. Net income applicable to Piper Jaffray Companies' common shareholders represents net income 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 March 31,	
(Amounts in thousands, except per share data)	2013	2012
Income from continuing operations applicable to Piper Jaffray Companies	$10,667	$6,232
Loss from discontinued operations, net of tax	(521)	(3,303)
Net income applicable to Piper Jaffray Companies	10,146	2,929
Earnings allocated to participating securities (1)	(1,180)	(449)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	$8,966	$2,480
Shares for basic and diluted calculations:		
Average shares used in basic computation	15,582	16,072
Stock options	28	—
Average shares used in diluted computation	15,610	16,072
Earnings/(loss) per basic common share:		
Income from continuing operations	$0.60	$0.33
Loss from discontinued operations	(0.03)	(0.17)
Earnings per basic common share	$0.58	$0.15
Earnings/(loss) per diluted common share:		
Income from continuing operations	$0.60	$0.33
Loss from discontinued operations	(0.03)	(0.17)
Earnings per diluted common share	$0.57	$0.15

(1) Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 2,055,679 and 2,910,808 for the three months ended March 31, 2013 and 2012, respectively.

(2) Net income 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 three months ended March 31, 2013 and 2012.

Note 20 Segment Reporting

Basis for Presentation

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

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

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

Reportable segment financial results from continuing operations are as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Capital Markets		
Investment banking		
Financing		
Equities	$14,303	$23,228
Debt	17,032	14,769
Advisory services	9,556	10,722
Total investment banking	40,891	48,719
Institutional sales and trading		
Equities	20,735	20,980
Fixed income	28,043	28,463
Total institutional sales and trading	48,778	49,443
Other income/(loss)	1,540	(1,367)
Net revenues	91,209	96,795
Operating expenses	78,458	86,055
Segment pre-tax operating income	$12,751	$10,740
Segment pre-tax operating margin	14.0 %	11.1 %
Asset Management		
Management and performance fees		
Management fees	$17,098	$15,849
Performance fees	351	424
Total management and performance fees	17,449	16,273
Other income	875	370
Net revenues	18,324	16,643
Operating expenses (1)	12,907	12,161
Segment pre-tax operating income	$5,417	$4,482
Segment pre-tax operating margin	29.6 %	26.9 %

Total		
Net revenues	$109,533	$113,438
Operating expenses (1)	91,365	98,216
Total segment pre-tax operating income	$18,168	$15,222
Pre-tax operating margin	16.6 %	13.4 %

(1) Operating expenses include intangible asset amortization expense of $1.7 million for the three months ended March 31, 2013 and 2012, respectively.

Geographic Areas

The Company operates in both U.S. and non-U.S. markets. The Company's non-U.S. business activities are conducted through European and Asian locations. Net revenues disclosed in the following table reflect the regional view, with financing revenues allocated to geographic locations based upon the location of the capital market, advisory revenues allocated based upon the location of the investment banking team and net institutional sales and trading revenues allocated based upon the location of the client. Asset management revenues are allocated to the U.S. based upon the geographic location of the Company's asset management team. Net revenues exclude discontinued operations for all periods presented.

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Net revenues:		
United States	$105,726	$111,234
Europe	3,807	2,204
Consolidated	$109,533	$113,438

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

(Dollars in thousands)	March 31, 2013	December 31, 2012
Long-lived assets:		
United States	$270,882	$285,682
Europe	913	1,131
Consolidated	$271,795	$286,813

Note 21 Net Capital Requirements and Other Regulatory Matters

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

At March 31, 2013, net capital calculated under the SEC rule was $170.2 million, and exceeded the minimum net capital required under the SEC rule by $169.2 million.

The Company's short-term committed credit facility of $250 million and its variable rate senior notes include covenants requiring Piper Jaffray to maintain minimum net capital of $120 million.

Piper Jaffray Ltd., which is a registered United Kingdom broker dealer, was subject to the capital requirements of the U.K. Financial Services Authority ("FSA") until April 1, 2013, when the FSA was replaced by the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012. As of March 31, 2013, Piper Jaffray Ltd. was in compliance with the capital requirements of the FSA.

Piper Jaffray Asia operates entities licensed by the Hong Kong Securities and Futures Commission, which are subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rules promulgated under the Securities and Futures Ordinance. As of March 31, 2013, Piper Jaffray Asia regulated entities were in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Ordinance.

Table of Contents

Note 22 Income Taxes

For the three months ended March 31, 2013, the Company’s effective income tax rate from continuing operations, excluding noncontrolling interests, was 34.4 percent, compared to 54.8 percent for the three months ended March 31, 2012. The provision for income taxes for the three months ended March 31, 2012 was unusually high due to a $3.4 million write-off of a deferred tax asset related to equity grants that were forfeited or vested at a share price lower than the grant date share price.

Note 23 Subsequent Events

On April 16, 2013, the Company entered into a definitive agreement to purchase Seattle-Northwest Securities Corporation (“Seattle-Northwest”) in a transaction valued at approximately $21.0 million. Upon closing, the tangible book value of Seattle-Northwest is estimated to be $13.2 million. The transaction is expected to close in the third quarter of 2013, subject to approval by Seattle-Northwest's shareholders, regulatory approvals and other customary closing conditions.

On April 30, 2013, the Company announced it had completed the sale of FAMCO for consideration of $4.0 million.

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

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2012 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, 2012, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Executive Overview

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

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

On April 16, 2013 we entered into a definitive agreement to purchase Seattle-Northwest Securities Corporation ("Seattle-Northwest") in a transaction valued at approximately $21.0 million. Upon closing, the tangible book value of Seattle-Northwest is estimated to be $13.2 million. The transaction is expected to close in the third quarter of 2013, subject to approval by Seattle-Northwest's shareholders, regulatory approvals and other customary closing conditions.

Asset Management – The Asset Management segment provides traditional asset management services with product offerings in equity and master limited partnership ("MLP") securities 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 we manage.

Discontinued Operations – Our discontinued operations for all periods presented include the operating results of our Hong Kong capital markets business and Fiduciary Asset Management, LLC (“FAMCO”), a division of our asset management segment. As of September 30, 2012, we ceased operations related to our Hong Kong capital markets business. The results of the Hong Kong capital markets business were previously reported in our Capital Markets segment. On March 8, 2013, we signed a definitive agreement to sell FAMCO. The transaction, valued at $4.0 million, is subject to customary closing conditions and is expected to close during the second quarter of 2013. FAMCO is classified as held for sale and reported in discontinued operations for all periods presented. The results of FAMCO were previously reported in our Asset Management segment. See Note 4 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

Our business is a human capital business. Accordingly, compensation and benefits comprise the largest component of our expenses, and our performance is dependent upon our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality of service and guidance to our clients.

Results for the three months ended March 31, 2013

For the three months ended March 31, 2013, net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, was $10.1 million, or $0.57 per diluted common share. Net income applicable to Piper Jaffray Companies from continuing operations in the first quarter of 2013 was $10.7 million, or $0.60 per diluted common share, compared with net income applicable to Piper Jaffray Companies from continuing operations of $6.2 million, or $0.33 per diluted common share, for the prior-year period. Net revenues from continuing operations for the three months ended March 31, 2013 were $109.5 million, down 3.4 percent from the $113.4 million reported in the year-ago period due primarily to lower equity financing revenues. For the three months ended March 31, 2013, non-compensation expenses from continuing operations were $25.3 million, compared with $29.4 million for the three months ended March 31, 2012. Non-compensation expenses from continuing operations were reduced in the first quarter of 2013 by the receipt of insurance proceeds for reimbursement of prior legal settlements.

External Factors Impacting Our Business

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

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

As a participant in the financial services industry, we are subject to complex and extensive regulation of our business. In recent years and following the credit crisis of 2008, legislators and regulators increased their focus on the regulation of the financial services industry, resulting in fundamental changes to the manner in which the industry is regulated and increased regulation in a number of areas. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted in 2010 bringing sweeping change to financial services regulation in the U.S. Changes in the regulatory environment in which we operate could affect our business and the competitive environment, potentially adversely.

Outlook for the remainder of 2013

We believe a gradual U.S. economic recovery will continue in 2013 with the potential to benefit several of our businesses. We are mindful, however, that certain factors could cause a more challenging economic environment to emerge in 2013. The impact of recent tax increases and spending cuts may have a negative impact on economic growth. In addition, the ongoing political debate related to the U.S. debt ceiling limit, the federal budget, and the level of federal deficit spending continues to pose downside risk to the economic recovery. As we have seen in recent years, global issues like the European debt crisis also can impact the U.S. economy and our businesses. Throughout the first quarter of 2013, equity market volatility remained near a five-year low and the equity market reached record levels. While volatility has increased somewhat into the second quarter of 2013, we believe that the environment for U.S. capital markets activity will be positive in 2013 if the key economic metrics remain strong. However, this can change rapidly as economic and market indicators fluctuate. In the fourth quarter of 2012, we recorded strong advisory services revenues attributed to sellers' desire to complete deals prior to year-end and pending tax increases. Advisory services activity declined in the first quarter of 2013 with fewer completed transactions, but we expect the level of activity to improve in the second half of 2013. We anticipate that interest rates will remain at low levels throughout 2013, however, increasing uncertainty over the timing of rising interest rates has resulted in headwinds in the fixed income markets, which may negatively impact our client flow business. We generated solid strategic trading results in the first quarter of 2013. These revenues will continue to vary from period to period based on market opportunities and other economic factors. Our asset management performance in 2013 will continue to be dependent upon equity valuations and our investment performance, which can impact the amount of client inflows and outflows of assets under management. Lastly, over the past few years, there has been a market trend of assets flowing out of equities into fixed income or alternative asset classes. In the first quarter of 2013, equity markets registered net inflows. If this trend continues, it will result in a more favorable environment for our cash equities and asset management businesses.

Table of Contents

Results of Operations

Financial Summary for the three months ended March 31, 2013 and March 31, 2012

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

	Three Months Ended March 31,			As a Percentage of Net Revenues for the Three Months Ended March 31,	
(Dollars in thousands)	2013	2012	2013 v2012	2013	2012
Revenues:					
Investment banking	$40,362	$48,085	(16.1)%	36.8 %	42.4 %
Institutional brokerage	43,260	44,080	(1.9)	39.5	38.9
Asset management	18,211	16,533	10.1	16.6	14.6
Interest	13,363	11,146	19.9	12.2	9.8
Other income	2,953	28	N/M	2.7	—
Total revenues	118,149	119,872	(1.4)	107.9	105.7
Interest expense	8,616	6,434	33.9	7.9	5.7
Net revenues	109,533	113,438	(3.4)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	66,105	68,796	(3.9)	60.4	60.6
Occupancy and equipment	5,817	6,862	(15.2)	5.3	6.0
Communications	5,232	5,897	(11.3)	4.8	5.2
Floor brokerage and clearance	2,150	2,107	2.0	2.0	1.9
Marketing and business development	4,980	4,878	2.1	4.5	4.3
Outside services	7,214	5,838	23.6	6.6	5.1
Intangible asset amortization expense	1,661	1,736	(4.3)	1.5	1.5
Other operating expenses	(1,794)	2,102	N/M	(1.6)	1.9
Total non-interest expenses	91,365	98,216	(7.0)	83.4	86.6
Income from continuing operations before income tax expense	18,168	15,222	19.4	16.6	13.4
Income tax expense	5,600	7,553	(25.9)	5.1	6.7
Income from continuing operations	12,568	7,669	63.9	11.5	6.8
Discontinued operations:					
Loss from discontinued operations, net of tax	(521)	(3,303)	(84.2)	(0.5)	(2.9)

Net income	12,047	4,366	175.9	11.0	3.8
Net income applicable to noncontrolling interests	1,901	1,437	32.3	1.7	1.3
Net income applicable to Piper Jaffray Companies	$10,146	$2,929	246.4 %	9.3 %	2.6 %

N/M – Not meaningful

For the three months ended March 31, 2013, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $10.1 million. Net revenues from continuing operations for the three months ended March 31, 2013 were $109.5 million, a 3.4 percent decrease from the year-ago period. In the first quarter of 2013, investment banking revenues were $40.4 million, compared with $48.1 million in prior-year period due to a decline in equity financing revenues. For the three months ended March 31, 2013, institutional brokerage revenues were $43.3 million, essentially flat to the corresponding period of the prior year. In the first quarter of 2013, asset management fees increased 10.1 percent to $18.2 million, compared with $16.5 million in the first quarter of 2012, driven by higher management fees from increased assets under management. Net interest income in the first three months of 2013 was $4.7 million, flat compared to the prior-year period. For the three months ended March 31, 2013, other income was $3.0 million, compared with a minimal gain in the prior-year period as we recorded higher investment gains associated with our merchant banking activities and firm investments. Non-interest expenses from continuing operations decreased 7.0 percent to $91.4 million for the three months ended March 31, 2013, from $98.2 million in the corresponding period in the prior year. This decrease was primarily attributable to the receipt of insurance proceeds for the reimbursement of prior legal settlements and lower compensation and benefits expenses.

Table of Contents

Consolidated Non-Interest Expenses from Continuing Operations

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

For the three months ended March 31, 2013, compensation and benefits expenses decreased 3.9 percent to $66.1 million from $68.8 million in the corresponding period in 2012, due to lower financial results. Compensation and benefits expenses as a percentage of net revenues was 60.4 percent in the first three months of 2013, consistent with 60.6 percent in the first three months of 2012.

Occupancy and Equipment – For the three months ended March 31, 2013, occupancy and equipment expenses decreased 15.2 percent to $5.8 million, compared with $6.9 million in the corresponding period in 2012. The decrease was primarily the result of lower occupancy costs associated with our headquarters office space and lower software maintenance costs.

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 March 31, 2013, communication expenses decreased 11.3 percent to $5.2 million, compared with $5.9 million in the three months ended March 31, 2012. The decrease was primarily attributable to lower market data service expenses.

Floor Brokerage and Clearance – For the three months ended March 31, 2013, floor brokerage and clearance expenses were $2.2 million, essentially flat compared with the three months ended March 31, 2012.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In the first quarter of 2013, marketing and business development expenses were $5.0 million, essentially flat compared with the three months ended March 31, 2012.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses increased 23.6 percent to $7.2 million in the first quarter of 2013, compared with $5.8 million in the corresponding period in 2012. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 13.2 percent due primarily to increased professional fees.

Intangible Asset Amortization Expense – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of asset management contractual relationships. For the three months ended March 31, 2013, intangible asset amortization expense was $1.7 million, essentially flat compared with the corresponding period in 2012.

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 represented income of $1.8 million in the first quarter of 2013, compared with expenses of $2.1 million in the first quarter of 2012. The reduction in other operating expenses was due to receipt of insurance proceeds for the reimbursement of prior legal settlements.

Income Taxes – For the three months ended March 31, 2013, our provision for income taxes was $5.6 million equating to an effective tax rate, excluding noncontrolling interests, of 34.4 percent, compared with $7.6 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 54.8 percent. Income tax expense recorded in the first quarter of 2012 was high compared to pre-tax income because of a $3.4 million write-off of deferred tax assets related to equity grants that were forfeited or vested at share prices lower than the grant date share price.

Table of Contents

Segment Performance from Continuing Operations

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

The following table provides our segment performance for the periods presented:

	Three Months Ended March 31,		
(Dollars in thousands)	2013	2012	2013 v2012
Net revenues			
Capital Markets	$91,209	$96,795	(5.8)%
Asset Management	18,324	16,643	10.1
Total net revenues	$109,533	$113,438	(3.4)%
Pre-tax operating income			
Capital Markets	$12,751	$10,740	18.7 %
Asset Management	5,417	4,482	20.9
Total pre-tax operating income	$18,168	$15,222	19.4 %
Pre-tax operating margin			
Capital Markets	14.0 %	11.1 %	
Asset Management	29.6 %	26.9 %	
Total pre-tax operating margin	16.6 %	13.4 %	

Capital Markets

	Three Months Ended March 31,		
(Dollars in thousands)	2013	2012	2013 v2012
Net revenues:			
Investment banking			
Financing			
Equities	$14,303	$23,228	(38.4)%
Debt	17,032	14,769	15.3
Advisory services	9,556	10,722	(10.9)
Total investment banking	40,891	48,719	(16.1)
Institutional sales and trading			
Equities	20,735	20,980	(1.2)
Fixed income	28,043	28,463	(1.5)
Total institutional sales and trading	48,778	49,443	(1.3)

Other income/(loss)	1,540	(1,367)	N/M
Total net revenues	$91,209	$96,795	(5.8)%
Pre-tax operating income	$12,751	$10,740	18.7%
Pre-tax operating margin	14.0%	11.1%	

N/M – Not meaningful

40

Table of Contents

Investment banking revenues comprise all the revenues generated through financing and advisory services activities, including derivative activities related to our public finance business. 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 first quarter of 2013, investment banking revenues decreased 16.1 percent to $40.9 million compared with $48.7 million in the corresponding period of the prior year, due primarily to lower equity financing revenues. For the three months ended March 31, 2013, equity financing revenues were $14.3 million, compared with $23.2 million in the prior-year period, due to fewer completed transactions and lower revenue per transaction. During the first quarter of 2013, we completed 17 equity financings, raising $6.2 billion for our clients, compared with 22 equity financings, raising $3.4 billion in the first quarter of 2012. Equity financing revenues per transaction were lower as revenue from book run deals represented 52 percent of our fees in the first quarter of 2013, versus 66 percent in the first quarter of 2012. Debt financing revenues in the three months ended March 31, 2013 increased 15.3 percent to $17.0 million, compared with $14.8 million in the three months ended March 31, 2012, due to an increase in public finance revenues. Throughout 2012, we made investments in our public finance business to expand geographically. In the first quarter of 2013, we realized market share gains attributed to this geographic expansion. During the first quarter of 2013, we completed 152 public finance issues with a total par value of $2.5 billion, compared with 139 public finance issues with a total par value of $2.3 billion during the prior-year period. For the three months ended March 31, 2013, advisory services revenues decreased 10.9 percent to $9.6 million due to lower U.S. advisory services revenue, partially offset by increased European advisory services revenue. In the U.S., we experienced very strong advisory services revenue in the fourth quarter of 2012 as sellers were motivated to complete transactions prior to year-end and pending tax increases. This resulted in fewer transactions in the first quarter of 2013.

Institutional sales and trading revenues comprise all of the revenues generated through trading activities, which consist of facilitating customer trades and our strategic trading activities in municipal and structured mortgage securities. Also, it includes gains and losses on our investments in the municipal bond funds that we manage. 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 March 31, 2013, institutional brokerage revenues decreased slightly to $48.8 million, compared with $49.4 million in the prior-year period. Equity institutional brokerage revenues were $20.7 million in the first quarter of 2013, essentially flat compared with the corresponding period in 2012. For the three months ended March 31, 2013, fixed income institutional brokerage revenues were $28.0 million, compared with $28.5 million in the prior-year period. The investments made throughout 2012 in our middle market resources and solid strategic trading results offset the weakness in our client flow business during the quarter.

Other income/loss includes gains and losses from our merchant banking investments and other firm investments, performance and management fees on municipal bond and merchant banking funds, interest expense related to long-term funding and a commitment fee on a bank line of credit. For the three months ended March 31, 2013, other income/loss was income of $1.5 million due to gains on our merchant banking and firm investments, compared to a loss of $1.4 million in the corresponding period in 2012.

Capital Markets segment pre-tax operating margin for the three months ended March 31, 2013 increased to 14.0 percent, compared with 11.1 percent for the corresponding period in 2012, due to lower non-compensation expenses.

Table of Contents

Asset Management

(Dollars in thousands)	Three Months Ended March 31, 2013	2012	2013 v2012
Net revenues:			
Management fees			
Value equity	$12,428	$12,476	(0.4)%
MLP	4,670	3,373	38.5
Total management fees	17,098	15,849	7.9
Performance fees			
Value equity	152	424	(64.2)
MLP	199	—	N/M
Total performance fees	351	424	(17.2)
Total management and performance fees	17,449	16,273	7.2
Other income	875	370	136.5
Total net revenues	$18,324	$16,643	10.1%
Pre-tax operating income	$5,417	$4,482	20.9%
Pre-tax operating margin	29.6%	26.9%	

N/M – Not meaningful

Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Fluctuations in financial markets and client asset inflows and outflows have a direct effect on management and performance fee revenues. Management fees are generally based on the level of assets under management ("AUM") measured monthly or quarterly, and an increase or reduction in assets under management, due to market price fluctuations or net client asset flows, will result in a corresponding increase or decrease in management fees. Fees vary with the type of assets managed and the vehicle in which they are managed. Performance fees are earned when the investment return on assets under management exceeds certain benchmark targets or other performance targets over a specified measurement period. The level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in total assets under management. Performance fees, if earned, are recorded in the applicable quarterly or annual measurement period or upon withdrawal of client assets. At March 31, 2013, approximately 2 percent of our AUM was eligible to earn performance fees.

For the three months ended March 31, 2013, management fees were $17.1 million, an increase of 7.9 percent, compared with $15.8 million in the prior-year period, due to increased management fees from our MLP product offerings. In the first quarter of 2013, management fees related to our value equity strategies were $12.4 million, essentially flat with the corresponding period in 2012. Our average effective revenue yield for our value equity strategies was 80 basis points for both the first quarter of 2013 and 2012, respectively. Management fees associated with our MLP strategy increased 38.5 percent in the first quarter of 2013 to $4.7 million, compared with $3.4 million in the first quarter of 2012, due to increased average AUM. Our average effective revenue yield for our MLP strategies was 48 basis points for the three months ended March 31, 2013, compared with 47 basis points in the prior-year period.

For the three months ended March 31, 2013, performance fees were $0.4 million, essentially flat compared with the prior year period.

Other 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 March 31, 2013, other income/loss was income of $0.9 million compared with $0.4 million for the prior-year period.

Segment pre-tax operating margin for the three months ended March 31, 2013 was 29.6 percent, compared to 26.9 percent for the three months ended March 31, 2012. The increase was due to higher management fees driven by increased AUM.

Table of Contents

The following table summarizes the changes in our assets under management for the three months ended March 31, 2013:

(Dollars in millions)	Value Equity	MLP	Total
Assets under management:			
Balance at December 31, 2012	$5,865	$3,186	$9,051
Net inflows/(outflows)	(225)	172	(53)
Net market appreciation	582	571	1,153
Balance at March 31, 2013	$6,222	$3,929	$10,151

Total assets under management increased $1.1 billion to $10.2 billion in the first three months of 2013 due to market appreciation in both our value equity and MLP product offerings. Value equity AUM was $6.2 billion at March 31, 2013, compared to $5.9 billion at December 31, 2012 as net market appreciation of $0.6 billion was offset by client outflows of $0.2 billion during the quarter. MLP AUM increased $0.7 billion to $3.9 billion in the first quarter of 2013 as we experienced market appreciation of $0.6 billion and net inflows of $0.2 billion.

Discontinued Operations

Discontinued operations include the operating results of our Hong Kong capital markets business, which ceased operations as of September 30, 2012, and our FAMCO subsidiary, which has been held for sale since December 31, 2012. We signed a definitive agreement on March 8, 2013 to sell FAMCO and the transaction closed on April 30, 2013 for consideration of $4.0 million. The results of these businesses are presented as discontinued operations for all periods presented. For the three months ended March 31, 2013, we recorded a loss from discontinued operations, net of tax, of $0.5 million, compared with a loss of $3.3 million for the three months ended March 31, 2012.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Net revenues	$—	$2,055
Total non-interest expenses	397	4,940
Loss from discontinued operations before income tax expense/(benefit)	(397)	(2,885)
Income tax expense/(benefit)	(73)	36
Loss from discontinued operations, net of tax	$(324)	$(2,921)

The $0.4 million of non-interest expenses recorded in the first quarter of 2013 consisted of residual costs incurred in closing the Hong Kong capital markets business.

The components of discontinued operations for FAMCO are as follows:

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Net revenues	$1,276	$1,372

Total non-interest expenses	1,583	1,338
Income/(loss) from discontinued operations before income tax expense/(benefit)	(307)	34
Income tax expense/(benefit)	(110)	416
Loss from discontinued operations, net of tax	$(197)	$(382)

See Note 4 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

Table of Contents

Recent Accounting Pronouncements

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

Critical Accounting Policies

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

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012. We believe that of our significant accounting policies, the following are our critical accounting policies.

Valuation of Financial Instruments

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

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants. Based on the nature of our business and our role as a “dealer” in the securities industry or our role as a manager of alternative asset management funds, the fair values of our financial instruments are determined internally. Our processes are designed to ensure that the fair values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, unobservable inputs are developed based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations, and other security-specific information. Valuation adjustments related to illiquidity or counterparty credit risk are also considered. In estimating fair value, we may use information provided by third-party pricing vendors to corroborate internally-developed fair value estimates.

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

Results from valuation models and other valuation techniques in one period may not be indicative of the future period fair value measurement.

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

Table of Contents

such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the current estimated fair value.

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

Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 820, "Fair Value Measurement," establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to inputs with little or no pricing observability (Level III measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table reflects the composition of our Level III assets and Level III liabilities by asset class:

	Level III	
(Dollars in thousands)	March 31, 2013	December 31, 2012
Assets:		
Financial instruments and other inventory positions owned:		
Municipal securities:		
Tax-exempt securities	$1,431	$1,429
Short-term securities	656	656
Asset-backed securities	107,654	116,171
Derivative contracts	2,372	827
Total financial instruments and other inventory positions owned:	112,113	119,083
Investments	41,653	33,245
Total assets	$153,766	$152,328
Liabilities:		
Financial instruments and other inventory positions sold, but not yet purchased:		
Derivative contracts	$399	$5,218
Total financial instruments and other inventory positions sold, but not yet purchased:	$399	$5,218

The following table reflects activity with respect to our Level III assets and liabilities:

	Three Months Ended March 31,	
(Dollars in thousands)	2013	2012
Assets:		
Purchases	$191,022	$141,915
Sales	(203,619)	(122,422)
Transfers in	—	2,476

Realized gains/(losses)	15,003	(685)
Unrealized gains/(losses)	(968)	2,482
Liabilities:		
Purchases	$(5,650)	$(3,808)
Transfers out	—	(1,171)
Realized losses	5,637	2,862
Unrealized gains	(4,806)	(53)

See Note 6 to our consolidated financial statements for additional discussion of Level III assets and liabilities.

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

Goodwill and Intangible Assets

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At March 31, 2013, we had goodwill of $196.8 million, all of which relates to our asset management segment.

Under FASB Accounting Standards Codification Topic 350, "Intangibles – Goodwill and Other," ("ASC 350") we are required to perform impairment tests of our goodwill and indefinite-life intangible assets annually and on an interim basis when certain events or circumstances exist that could indicate possible impairment. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if we conclude otherwise, then we are required to perform the two-step impairment test, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting units based on the following factors: our market capitalization, a discounted cash flow model using revenue and profit forecasts, public market comparables and multiples of recent mergers and acquisitions of similar businesses. Valuation multiples may be based on revenues, earnings before interest, taxes, depreciation and amortization (EBITDA), price-to-earnings or cash flows of comparable public companies and business segments. These multiples may be adjusted to consider competitive differences including size, operating leverage and other factors. The estimated fair values of our reporting units are compared with their carrying values, which includes the allocated goodwill. If the estimated fair values are less than the carrying values, a second step is performed to compute the amount of the impairment by determining an “implied fair value” of goodwill. The determination of a reporting unit’s “implied fair value” of goodwill requires us to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the “implied fair value” of goodwill, which is compared to its corresponding carrying value.

Beginning in 2013, we have the option to first assess qualitative factors in determining whether the fair value of an indefinite-lived intangible asset is less than its carrying amount. Further quantitative analysis is required if we determine, based on an evaluation of all relevant qualitative factors, that the fair value of an indefinite-lived intangible asset is less than its carrying amount.

As noted above, the initial recognition of goodwill and other intangible assets and the subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired assets or businesses will perform in the future using valuation methods including discounted cash flow analysis. Our estimated cash flows typically extend for five years and, by their nature, are difficult to determine over an extended time period. Events and factors that may significantly affect the estimates include, among others, competitive forces and changes in revenue growth trends, cost structures, technology, discount rates and market conditions. To assess the reasonableness of cash flow estimates and validate assumptions used in our estimates, we review historical performance of the underlying assets or similar assets. In assessing the fair value of our reporting units, the volatile nature of the securities markets and our industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows.

In the first quarter of 2012, we reorganized our FAMCO and Advisory Research, Inc. (“ARI”) reporting units, resulting in FAMCO's MLP business becoming part of ARI. In accordance with ASC 350, $44.6 million of the $50.1 million in goodwill attributable to our 2007 acquisition of FAMCO was reallocated to the ARI reporting unit.

We completed our 2012 annual goodwill impairment testing as of November 30, 2012, and concluded there was no goodwill impairment from continuing operations, which consists of our ARI reporting unit. We recorded a non-cash goodwill impairment charge of $5.5 million related to our FAMCO reporting unit reported within discontinued operations. The amount represented the full value of goodwill attributable to the FAMCO reporting unit. We estimated the fair value of our FAMCO reporting unit using a discounted cash flow model and the anticipated sales price for FAMCO, which is classified as held for sale. We also tested the intangible assets (indefinite and definite-lived) and concluded there was no impairment.

Compensation Plans

Stock-Based Compensation Plans

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock, restricted stock units and stock options. The Company accounts for equity awards in accordance with FASB Accounting Standards Codification Topic 718, “Compensation – Stock Compensation,” (“ASC 718”), which requires all share-based payments to employees, including grants of employee stock options, to be recognized on the consolidated statements of operations at grant date fair value over the service period of the award, net of estimated forfeitures. We grant shares of restricted stock to current employees as part of year-end compensation (“Annual Grants”) as a retention tool. Employees may receive restricted stock with service conditions upon initial hiring or as a retention award (“Sign-on Grants”). We have also granted incremental restricted stock awards with service conditions to key employees (“Retention Grants”), as well as restricted stock awards with performance conditions to members of senior management (“Performance Grants”). In 2012, we granted restricted stock units with market conditions to our leadership team (“Leadership Grants”). Upon closing of the ARI acquisition in March 2010, we granted restricted stock with service conditions to ARI employees (“Inducement Grants”).

Annual Grants are made each February for the prior fiscal year performance and constitute a portion of an employee’s annual incentive for the prior year. We recognize the compensation expense prior to the grant date of the award as we determined that the service inception date precedes the grant date. These grants are not subject to service requirements that employees must fulfill in exchange for the right to these awards, as the grants continue to vest after termination of employment, so long as the employee does not violate certain post-termination restrictions as set forth in the award agreements or any agreements entered into upon termination. Prior to 2011, Annual Grants were subject to three-year cliff vesting. Beginning in 2011, Annual Grants are subject to annual ratable vesting over a three-year period. Unvested shares are subject to post-termination restrictions. These post-termination restrictions do not meet the criteria for an in-substance service condition as defined by ASC 718. Accordingly, such shares of restricted stock comprising Annual Grants are expensed in the period to which those awards are deemed to be earned, which is the calendar year preceding the February grant date. If any of these awards are forfeited, the lower of the fair value at grant date or the fair value at the date of forfeiture is recorded within the consolidated statements of operations as a reduction of compensation and benefits expense.

Sign-on Grants are used as a recruiting tool for new employees and are issued to current employees as a retention tool. The majority of these awards have three-year cliff vesting terms and 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. Employees forfeit unvested shares upon termination of employment and a reversal of compensation expense is recorded.

Retention Grants and Inducement Grants are subject to ratable vesting based upon a five-year service requirement and are amortized as compensation expense on a straight-line basis from the grant date over the requisite service period. Employees forfeit unvested retention shares upon termination of employment and a reversal of compensation expense is recorded.

Performance-based restricted stock awards granted in 2008 and 2009 cliff vest upon meeting a specific performance-based metric prior to May 2013. Performance Grants are amortized on a straight-line basis over the period we expect the performance target to be met. The performance condition must be met for the awards to vest and total compensation cost will be recognized only if the performance condition is satisfied. The probability that the performance conditions will be achieved and that the awards will vest is reevaluated each reporting period with changes in actual or estimated outcomes accounted for using a cumulative effect adjustment to compensation expense.

The Leadership Grants will vest and convert to shares of common stock at the end of the 36-month performance period only if the Company satisfies predetermined market conditions over the performance period that began on May 15, 2012 and ends on May 14, 2015. Under the terms of the grant, the number of units that will vest and convert to shares will be based on the achievement of certain levels of absolute and relative shareholder return during the performance period. 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 conditions must be met for the awards to vest and compensation cost will be recognized regardless if the market conditions

Table of Contents

are satisfied. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense.

Stock-based compensation granted to our non-employee directors is in the form of unrestricted common shares of Piper Jaffray Companies stock. The stock-based compensation paid to non-employee directors is expensed on the grant date and included in our results of operations as outside services expense.

We granted stock options in fiscal years 2004 through 2008. The options were expensed on a straight-line basis over the required service period, based on the estimated fair value of the award on the grant date using a Black-Scholes option-pricing model. This model required management to exercise judgment with respect to certain assumptions, including the expected dividend yield, the expected volatility, and the expected life of the options. As described above pertaining to our Annual Grants of restricted shares, stock options granted to employees were expensed in the calendar year preceding the annual February grant. Stock options have a ten year life and will begin expiring in 2014.

Deferred Compensation Plan

We established a deferred compensation plan in 2012, which allows eligible employees to elect to receive a portion of the incentive compensation they would otherwise receive in the form of restricted stock or other equity, instead in restricted mutual fund shares (“MFRS Awards”) of registered funds managed by our asset management business. MFRS Awards are awarded to qualifying employees in February of each year, and represent a portion of their compensation for performance in the preceding year similar to our 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 expenses within the consolidated statements of operations.

Contingencies

We are involved in various pending and potential legal proceedings related to our business, including litigation, arbitration and regulatory proceedings. Some of these matters involve claims for substantial amounts, including claims for punitive and other special damages. We have, after consultation with outside legal counsel and consideration of facts currently known by management, established reserves for potential losses in accordance with FASB Accounting Standards Codification Topic 450, “Contingencies,” to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of these reserve amounts requires significant judgment on the part of management. In making these determinations, we consider many factors, including, but not limited to, the loss and damages sought by the plaintiff or claimant, the basis and validity of the claim, the likelihood of a successful defense against the claim, and the potential for, and magnitude of, damages or settlements from such pending and potential litigation and arbitration proceedings, and fines and penalties or orders from regulatory agencies. Given the uncertainties regarding timing, size, volume and outcome of pending and potential legal proceedings and other factors, the amounts of reserves are difficult to determine and of necessity subject to future revision.

Income Taxes

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally, amortization of share-based compensation. The realization of deferred tax assets is assessed and a valuation allowance is recognized to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our U.S. deferred tax assets. However, if our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is necessary, which would impact our results of operations in that period. As of March 31, 2013, we have a deferred tax asset valuation allowance of $4.7 million related to our U.K. subsidiary’s net operating loss carryforwards, which represents all but $1.1 million of the U.K. subsidiary’s deferred tax asset. We anticipate being able to reverse the full amount of our U.K. subsidiary's valuation allowance in the fourth quarter of 2013, based upon achieving three years of profitability and projected future earnings. This will result in a tax benefit to our results of operations.

Table of Contents

We record deferred tax benefits for future tax deductions expected upon the vesting of share-based compensation. If deductions reported on our tax return for share-based compensation (i.e., the value of the share-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as additional paid-in capital. Conversely, if deductions reported on our tax return for share-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, we offset the deficiency first to any previously recognized excess tax benefits recorded as additional paid-in capital and any remaining deficiency is recorded as income tax expense. Approximately 895,000 shares vested in the first quarter of 2013 at values greater than the grant date fair value, resulting in $0.1 million of excess tax benefits recorded as additional paid-in capital in the first quarter of 2013.

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

Liquidity, Funding and Capital Resources

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

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

The following are financial instruments that are cash and cash equivalents, or are deemed by management to be generally readily convertible into cash or accessible for liquidity purposes within a short period of time:

			Average Balance for the Three Months Ended		
(Dollars in thousands)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2012
Cash and cash equivalents:					
Cash in banks	$21,741	$54,025	$47,698	$43,212	$30,872
Cash in banks reserved for Credit Agreement repayment	—	—	—	12,488	14,246
Money market investments	774	51,346	91,459	68,723	39,092

Total cash and cash equivalents	$22,515	$105,371	$139,157	(1)	$124,423	(1)	$84,210	(1)

(1) Average balance calculated based upon ending daily balances.

In addition, we had cash and cash equivalents segregated of $45.0 million and $31.0 million that was available exclusively for customer liabilities included on our balance sheet as of March 31, 2013 and December 31, 2012, respectively. Cash and cash equivalents segregated consist of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Piper Jaffray & Co., our U.S. broker dealer subsidiary carrying client accounts, to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients.

A portion of these financial instruments are held within our regulated entities and our ability to transfer these financial instruments out of our regulated entities is limited by net capital requirements that apply to those entities only. Our regulated entities could seek regulatory approval to dividend these financial instruments to the parent for liquidity purposes; however, this could curtail our revenue producing activities within our regulated entities if it reduced our net capital.

Table of Contents

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

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

We currently do not pay cash dividends on our common stock and do not plan to in the foreseeable future.

In the third quarter of 2012, our board of directors approved a new share repurchase authorization of up to $100 million in common shares through September 30, 2014. This authorization became effective October 1, 2012. During the first quarter of 2013, we did not repurchase any shares of our common stock related to this authorization. We also purchase shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. During the first quarter of 2013, we purchased 340,789 shares or $13.9 million of our common shares for this purpose.

Leverage

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

(Dollars in thousands)	March 31, 2013	December 31, 2012
Total assets	$2,329,878	$2,087,733
Deduct: Goodwill and intangible assets	(238,819)	(240,480)
Adjusted assets	$2,091,059	$1,847,253
Total shareholders' equity	$861,780	$790,175
Deduct: Goodwill and intangible assets	(238,819)	(240,480)
Tangible shareholders' equity	$622,961	$549,695
Leverage ratio (1)	2.7	2.6
Adjusted leverage ratio (2)	3.4	3.4

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

Adjusted assets and tangible shareholders' equity are non-GAAP financial measures. A non-GAAP financial measure is a numeric measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with GAAP, or for which there is no specific GAAP measure. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. 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 leverage ratio increased from December 31, 2012 to March 31, 2013 as a result of higher inventory balances.

Our alternative asset management funds in municipal securities use leverage on a daily basis, generally through borrowings from their prime broker to purchase financial instruments and interest rate swaps. The level of borrowings fluctuates within a targeted average portfolio leverage level depending on market conditions and opportunities. The use of leverage increases the risk of losses due to factors such as rising interest rates. The rates at which the funds can borrow may have a substantial effect on performance. Volatility or illiquidity in the financial markets may also cause leverage to no longer be available. The impact of our alternative asset management funds are included in the above table.

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.

Table of Contents

Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including market conditions, the general availability of credit and credit ratings. We currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our financing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing the funds.

Short-term financing

Our day-to-day funding and liquidity is obtained primarily through the use of repurchase agreements, commercial paper issuance, prime broker agreements, and bank lines of credit, and is typically collateralized by our securities inventory. These funding sources are critical to our ability to finance and hold inventory, which is a necessary part of our institutional brokerage and municipal bond funds businesses. The majority of our inventory is very liquid and is therefore funded by overnight or short-term facilities. These short-term facilities (i.e., committed line, term repurchase agreement and commercial paper) have been established to mitigate changes in the liquidity of our inventory based on changing market conditions. Our funding sources are also dependent on the types of inventory that our counterparties are willing to accept as collateral and the number of counterparties available. From time to time the number of counterparties that will enter into municipal repurchase agreements can be limited based on market conditions. Currently, the majority of our bank lines, our commercial paper programs and our prime broker arrangement will accept municipal inventory as collateral, which helps mitigate this municipal repurchase agreement counterparty risk. We also have established arrangements to obtain financing by another broker dealer at the end of each business day related specifically to our convertible inventory. Funding is generally obtained at rates based upon the federal funds rate and/or the London Interbank Offer Rate.

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co, issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is issued under two separate programs, CP Series A and CP Series II A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The maximum amount that may be issued under CP Series A and CP Series II A is $300 million and $150 million, respectively. At March 31, 2013, CP Series A had $199.1 million outstanding and CP Series II A had $65.0 million outstanding. Both programs can issue with maturities of 28 to 270 days. The weighted average maturity of CP Series A and CP Series II A as of March 31, 2013 was 102 days and 99 days, respectively.

On April 1, 2013, we initiated a third commercial paper program to provide additional funding capacity and to fund asset-backed securities. The maximum amount that may be issued under this program is $100 million.

Prime Broker Arrangement – We have established an arrangement to obtain overnight financing by a single prime broker related to our alternative asset management funds in municipal securities. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. More specifically, this funding is at the discretion of the prime broker and could be denied, which may be particularly true during times of market stress or market perceptions of our exposures. At March 31, 2013, we had $75.9 million of financing outstanding under this prime broker arrangement.

Committed Lines – Our committed line is a one-year $250 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co., our U.S. broker dealer subsidiary, to maintain a minimum net capital of $120 million, and the unpaid principal amount of all advances under the facility will be due on December 28, 2013. At March 31, 2013, we had no advances against this line of credit.

Uncommitted Lines – We use uncommitted lines in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted lines varies daily based on our funding needs. Our uncommitted secured lines total $175 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 March 31, 2013, we had $69.0 million outstanding advances against these lines of credit.

Table of Contents

The following table presents the average balances outstanding for our various short-term funding sources by quarter for 2013 and 2012, respectively.

	Average Balance for the Three Months Ended				
(Dollars in millions)	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
Funding source:					
Repurchase agreements	$66.2	$50.0	$71.0	$158.5	$114.3
Commercial paper	308.9	307.2	278.5	238.8	201.2
Prime broker arrangement	105.2	180.0	154.7	32.1	5.8
Short-term bank loans	5.1	0.2	3.5	40.9	9.7
Total	$485.4	$537.4	$507.7	$470.3	$331.0

The average funding in the first quarter of 2013 decreased to $485.4 million, compared with $537.4 million during the fourth quarter of 2012, primarily due to a decrease in funding at our prime broker. The decrease in funding at our prime broker was a result of changes in inventory and equity levels in our alternative asset management funds during the first quarter of 2013. The average funding balance increased from $331.0 million in the first quarter of 2012 to $485.4 million in the first quarter of 2013, as a result of higher average inventory balances.

The following table presents the maximum daily funding amount by quarter for 2013 and 2012, respectively.

	For the Three Months Ended				
(Dollars in millions)	Mar. 31, 2013	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	Mar. 31, 2012
Maximum amount of daily funding	$677.1	$619.4	$613.8	$666.1	$486.0

Variable rate senior notes

On November 30, 2012, we entered into a note purchase agreement ("Note Purchase Agreement") under which we issued unsecured variable rate senior notes ("Notes") in the amount of $125 million. The initial holders of the Notes are certain entities advised by Pacific Investment Management Company LLC ("PIMCO"). The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of $50 million and $75 million, respectively. The unpaid principal amount of the Class A Notes and Class B Notes will be due on May 31, 2014 and November 30, 2015, respectively. The proceeds from the Notes were used to repay the outstanding balance under the three-year bank syndicated credit agreement ("Credit Agreement"), which eliminated our obligation to comply with the covenants under the Credit Agreement, including limitations on our share repurchasing activity. The remaining proceeds are used for general corporate purposes.

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

The Note Purchase Agreement includes covenants that, among other things, require us to maintain a minimum consolidated tangible net worth and minimum regulatory net capital, limit our leverage ratio and require maintenance of a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, our U.S. broker dealer subsidiary is required to maintain minimum net capital of $120 million. At March 31, 2013, we were in compliance with all covenants.

Three-year bank syndicated credit agreement

On December 29, 2010, we entered into a Credit Agreement comprised of a $100 million amortizing term loan and a $50 million revolving credit facility. The unpaid principal and interest on the Credit Agreement was paid off on November 30, 2012 from the proceeds of the Notes.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

Capital Requirements

As a registered broker dealer and member firm of FINRA, our U.S. broker dealer subsidiary is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule, which requires that we maintain minimum net capital of the greater of $1.0 million or 2 percent of aggregate debit balances arising from customer transactions, as this is defined in the rule. FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. We also are subject to certain notification requirements related to withdrawals of excess net capital from our broker dealer subsidiary. At March 31, 2013, our net capital under the SEC's uniform net capital rule was $170.2 million, and exceeded the minimum net capital required under the SEC rule by $169.2 million.

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

At March 31, 2013 Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to the capital requirements of the U.K. Financial Services Authority ("FSA"). Effective April 1, 2013, the FSA was replaced by the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Our Piper Jaffray entities operating in the Hong Kong region are registered under the laws of Hong Kong and subject to the liquid capital requirements of the Securities and Futures (Finance Resources) Rule promulgated under the Securities and Futures Ordinance.

Off-Balance Sheet Arrangements

In the ordinary course of business we enter into various types of off-balance sheet arrangements. The following table summarizes our off-balance sheet arrangements at March 31, 2013 and December 31, 2012:

	Expiration Per Period at March 31, 2013						Total Contractual Amount	
	Remainder			2016	2018		March 31,	December 31,
(Dollars in thousands)	of 2013	2014	2015	- 2017	- 2019	Later	2013	2012
Customer matched-book derivative contracts (1) (2)	$50,220	$30,000	$72,154	$107,015	$85,250	$5,112,598	$5,457,237	$5,569,096
Trading securities derivative contracts (2)	211,000	8,000	—	—	—	—	219,000	244,250
Credit default swap index contracts (2)	—	—	96,000	229,650	—	18,902	344,552	230,650
Private equity investment commitments (3)	—	—	—	—	—	—	41,327	44,010

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with two major financial institutions, which is mitigated by collateral

deposits. In addition, we have a limited number of counterparties (contractual amount of $202.8 million at March 31, 2013) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At March 31, 2013, we had $29.1 million of credit exposure with these counterparties, including $16.0 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 March 31, 2013 and December 31, 2012, the net fair value of these derivative contracts approximated $32.0 million and $35.5 million, respectively.

(3) The investment commitments have no specified call dates; however, the investment period for these funds is through 2016. 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. Derivatives are reported on a net basis by counterparty when a legal right of offset exists and on a net basis by cross product when applicable provisions are stated in a master netting agreement.

We enter into derivative contracts in a principal capacity as a dealer to satisfy the financial needs of clients. We also use derivative products to hedge the interest rate and market value risks associated with our security positions. Our interest rate hedging strategies

Table of Contents

may not work in all market environments and as a result may not be effective in mitigating interest rate risk. For a complete discussion of our activities related to derivative products, see Note 5, “Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased,” in the notes to our consolidated financial statements.

Loan Commitments

We may commit to bridge loan financing for our clients or make commitments to underwrite corporate debt. We had no loan commitments outstanding at March 31, 2013.

Private Equity and Other Principal Investments

A component of our private equity and principal investments, including investments made as part of our merchant banking activities, are made through investments in various legal entities, typically partnerships or limited liability companies, established for the purpose of investing in securities of private companies or municipal debt obligations. We commit capital or act as the managing partner of these entities. Some of these entities are deemed to be variable interest entities. For a complete discussion of our activities related to these types of entities, see Note 7, “Variable Interest Entities,” to our consolidated financial statements.

We have committed capital to certain entities and these commitments generally have no specified call dates. We had $41.3 million of commitments outstanding at March 31, 2013, of which $40.2 million related to a commitment to an affiliated merchant banking fund.

Enterprise Risk Management

Risk is an inherent part of our business. In the course of conducting business operations, we are exposed to a variety of risks. Market risk, liquidity risk, credit risk, operational risk, legal, regulatory and compliance risk, and reputational risk are the principal risks we face in operating our business. We seek to identify, assess and monitor each risk in accordance with defined policies and procedures. The extent to which we properly identify and effectively manage each of these risks is critical to our financial condition and profitability.

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

In addition to supporting daily risk management processes on the trading desks, our risk management functions support our financial risk committee and valuation committee. The financial risk committee oversees risk management practices, including defining acceptable risk tolerances and approving risk management policies.

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

Market Risk

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

Our different types of market risk include:

Interest Rate Risk — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the shape of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (including client cash balances, investments, inventories, and resale agreements) and our funding sources (including client cash balances, short-term and bank syndicated financing, and

Table of Contents

repurchase agreements), which finance these assets. Interest rate risk is managed through the use of appropriate hedging in U.S. government securities, agency securities, mortgage-backed securities, corporate debt securities, interest rate swaps, options, futures and forward contracts. We use interest rate swap contracts and MMD rate lock agreements to hedge a portion of our fixed income inventory. These interest rate swap contracts are recorded at fair value with the changes in fair value recognized in earnings. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk.

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

Currency Risk — Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. A portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. A change in the foreign currency rates could create either a foreign currency transaction gain/loss (recorded in our consolidated statements of operations) or a foreign currency translation adjustment (recorded to accumulated other comprehensive income within the shareholders' equity section of our consolidated statements of financial condition and other comprehensive income within the consolidated statements of comprehensive income).

Value-at-Risk

Value-at-Risk ("VaR") is the potential loss in value of our trading positions, excluding non-controlling interests, due to adverse market movements over a defined time horizon with a specified confidence level. We perform a daily VaR analysis on substantially all of our trading positions, including fixed income, equities, convertible bonds, asset-backed securities, and all associated economic hedges. These positions encompass both customer-related and strategic trading activities. We use a VaR model because it provides a common metric for assessing market risk across business lines and products. Changes in VaR between reporting periods are generally due to changes in levels of risk exposure, volatilities and/or correlations among asset classes and individual securities.

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

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

The modeling of the market risk characteristics of our trading positions involves a number of assumptions and approximations. While we believe that these assumptions and approximations are reasonable, different assumptions and approximations could produce materially different VaR estimates.

The following table quantifies the model-based VaR simulated for each component of market risk for the periods presented, which are computed using the past 250 days of historical data. When calculating VaR we use a 95 percent confidence level and a one-day time horizon. This means that, over time, there is a 1 in 20 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Shortfalls on a single day can exceed reported VaR by significant amounts. Shortfalls can also accumulate over a longer time horizon, such as a number of consecutive trading days. Therefore, there can be no assurance that actual losses occurring on any given day arising from changes in market conditions will not exceed the VaR amounts shown below or that such losses will not occur more than once in a 20-day trading period.

(Dollars in thousands)	March 31, 2013	December 31, 2012
Interest Rate Risk	$1,326	$779
Equity Price Risk	913	911
Diversification Effect (1)	(956)	(737)
Total Value-at-Risk	$1,283	$953

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

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average value-at-risk calculated for each component of market risk during the three months ended March 31, 2013 and the year ended December 31, 2012, respectively.

(Dollars in thousands)	High	Low	Average
For the Three Months Ended March 31, 2013			
Interest Rate Risk	$1,817	$578	$1,044
Equity Price Risk	2,429	575	1,218
Diversification Effect (1)			(901)
Total Value-at-Risk	$2,236	$865	$1,361

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2012			
Interest Rate Risk	$1,273	$369	$780
Equity Price Risk	2,664	170	995
Diversification Effect (1)			(716)
Total Value-at-Risk	$2,451	$539	$1,059

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

Trading losses did not exceed our one-day VaR on any occasions during the first quarter of 2013.

The aggregate VaR as of March 31, 2013 was higher than the reported VaR on December 31, 2012. The increase in VaR is due to growth in fixed income trading inventories in assets classes that are accretive to VaR.

In addition to VaR, we also employ additional measures to monitor and manage market risk exposure including the following: net market position, duration exposure, option sensitivities, and inventory turnover. All metrics are aggregated by asset concentration and are used for monitoring limits and exception approvals.

Liquidity Risk

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

We are also exposed to liquidity risk in our day-to-day funding activities. We have a relatively low leverage ratio of 2.7 and adjusted leverage ratio of 3.4 as of March 31, 2013, as discussed above. We manage liquidity risk by diversifying our funding sources across products and among individual counterparties within those products. For example, our treasury department actively manages the use of our committed bank line, repurchase agreements, commercial paper issuance and secured and unsecured bank borrowings each day depending on pricing, availability of funding, available collateral and lending parameters from any one of these sources.

In addition to managing our capital and funding, the treasury department oversees the management of net interest income risk and the overall use of our capital, funding, and balance sheet.

We currently act as the remarketing agent for approximately $3.9 billion of variable rate demand notes, the majority of which have a financial institution providing a liquidity guarantee. At certain times, demand from buyers of variable rate demand notes is less than the supply generated by sellers of these instruments. In times of supply and demand imbalance, we may (but are not obligated to) facilitate liquidity by purchasing variable rate demand notes from sellers for our own account. Our liquidity risk related to variable rate demand notes is ultimately mitigated by our ability to tender these securities back to the financial institution providing the liquidity guarantee.

Table of Contents

Credit Risk

Credit risk in our business arises from potential non-performance by counterparties, customers, borrowers or issuers of securities we hold in our trading inventory. The global credit crisis also has created increased credit risk, particularly counterparty risk, as the interconnectedness of the financial markets has caused market participants to be impacted by systemic pressure, or contagion, that results from the failure or potential failure of market participants. We manage this risk by imposing and monitoring position limits for each counterparty, monitoring trading counterparties, conducting credit reviews of financial counterparties, and conducting business through clearing organizations, which guarantee performance.

We have concentrated counterparty credit exposure with six non-publicly rated entities totaling $29.1 million at March 31, 2013. This counterparty credit exposure is part of our derivative program, consisting primarily of interest rate swaps. One derivative counterparty represents 54.9 percent, or $16.0 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.

We are exposed to credit risk in our role as a trading counterparty to dealers and customers, as a holder of securities and as a member of exchanges and clearing organizations. Our client activities involve the execution, settlement and financing of various transactions. Client activities are transacted on a delivery versus payment, cash or margin basis. Our credit exposure to institutional client business is mitigated by the use of industry-standard delivery versus payment through depositories and clearing banks.

Credit exposure associated with our customer margin accounts in the U.S. is monitored daily. Our risk management functions have credit risk policies establishing appropriate credit limits and collateralization thresholds for our customers utilizing margin lending.

Merchant banking debt investments that have been funded are recorded in other assets at amortized cost on the consolidated statements of financial condition. At March 31, 2013, we had two funded merchant banking debt investments totaling $14.8 million. Merchant banking investments are monitored regularly by our financial risk committee.

Our risk management functions review risk associated with institutional counterparties with whom we hold repurchase and resale agreement facilities, stock borrow or loan facilities, derivatives, TBAs and other documented institutional counterparty agreements that may give rise to credit exposure. Counterparty levels are established relative to the level of counterparty ratings and potential levels of activity.

We are subject to credit concentration risk if we hold large individual securities positions, execute large transactions with individual counterparties or groups of related counterparties, extend large loans to individual borrowers or make substantial underwriting commitments. Concentration risk can occur by industry, geographic area or type of client. Potential credit concentration risk is carefully monitored through review of counterparties and borrowers and is managed through the use of policies and limits.

We also are exposed to the risk of loss related to changes in the credit spreads of debt instruments. Credit spread risk arises from potential changes in an issuer's credit rating or the market's perception of the issuer's credit worthiness. We use credit default swap index contracts to mitigate this risk.

Operational Risk

Operational risk refers to the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. We rely on the ability of our employees, our internal systems and processes and systems at computer centers operated by third parties to process a large number of transactions. In the event of a breakdown or improper operation of our systems or processes or improper action by our employees or third-party vendors, we could suffer financial loss, a disruption of our businesses, regulatory sanctions and damage to our reputation. We have business continuity plans in place that we believe will cover critical processes on a company-wide basis, and redundancies are built into our systems as we have deemed appropriate. These control mechanisms attempt to ensure that operations policies and procedures are being followed and that our various businesses are operating within established corporate policies and limits.

Table of Contents

Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of non-compliance with applicable legal and regulatory requirements and the risk that a counterparty's performance obligations will be unenforceable. We are generally subject to extensive regulation in the various jurisdictions in which we conduct our business. We have established procedures that are designed to ensure compliance with applicable statutory and regulatory requirements, including, but not limited to, those related to regulatory net capital requirements, sales and trading practices, use and safekeeping of customer funds and securities, credit extension, money-laundering, privacy and recordkeeping.

We have established internal policies relating to ethics and business conduct, and compliance with applicable legal and regulatory requirements, as well as training and other procedures designed to ensure that these policies are followed.

Reputation and Other Risk

We recognize that maintaining our reputation among clients, investors, regulators and the general public is critical. Maintaining our reputation depends on a large number of factors, including the conduct of our business activities and the types of clients and counterparties with whom we conduct business. We seek to maintain our reputation by conducting our business activities in accordance with high ethical standards and performing appropriate reviews of clients and counterparties.

Other risks include political, regulatory and tax risks. These risks reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we review new and pending regulations and legislation. For example, policy discussions surrounding the debt and deficits of the federal government have resulted in various proposals to increase revenue, including through restructuring of the federal tax code, which could affect our business. Specifically, the American Jobs Act of 2011 and the Debt Reduction Act of 2011 proposed capping tax-exempt interest for higher-income taxpayers, and the Bipartisan Tax Fairness and Simplification Act, introduced in the U.S. Senate earlier in 2011, proposed the use of tax-credit bonds over tax-exempt bonds. Any of these proposals, or ones like them, could have a negative impact on our public finance business and the value of municipal securities inventory positions.

Effects of Inflation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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 first quarter of our fiscal year ended December 31, 2013, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 “Legal Proceedings” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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, 2012. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

The table below sets forth the information with respect to purchases made by or on behalf of Piper Jaffray Companies or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended March 31, 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1)	
Month #1 (January 1, 2013 to January 31, 2013)	119	$32.13	—	$95	million
Month #2 (February 1, 2013 to February 28, 2013)	329,361	$41.01	—	$95	million
Month #3 (March 1, 2013 to March 31, 2013)	11,309	$36.97	—	$95	million
Total	340,789	$40.87	—	$95	million

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

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

Table of Contents

ITEM 6. EXHIBITS.

Exhibit Number	Description	Method of Filing
2.1	Agreement of Purchase and Sale dated March 8, 2013 among Piper Jaffray Asset Management Inc., Piper Jaffray Companies, Fiduciary Asset Management LLC, The Wiley Angell Family Trust, and Wiley D. Angell.	(1)
2.2	Agreement and Plan of Merger dated April 16, 2013 among Piper Jaffray Companies, Piper Jaffray & Co., Piper Jaffray Newco Inc., Seattle-Northwest Securities Corporation and Karl Leaverton, as representative of the shareholders.	(2)
10.1	Second Amendment to Employment Agreement, entered into effective as of January 30, 2013, by and between the Company and Brien M. O'Brien. †	(3)
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 March 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

† Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

(1) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on March 11, 2013 and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on April 17, 2013 and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on February 8, 2013 and incorporated herein by reference.

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 May 3, 2013.

PIPER JAFFRAY COMPANIES

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

61

Exhibit Index

Exhibit Number	Description	Method of Filing
2.1	Agreement of Purchase and Sale dated March 8, 2013 among Piper Jaffray Asset Management Inc., Piper Jaffray Companies, Fiduciary Asset Management LLC, The Wiley Angell Family Trust, and Wiley D. Angell.	(1)
2.2	Agreement and Plan of Merger dated April 16, 2013 among Piper Jaffray Companies, Piper Jaffray & Co., Piper Jaffray Newco Inc., Seattle-Northwest Securities Corporation and Karl Leaverton, as representative of the shareholders.	(2)
10.1	Second Amendment to Employment Agreement, entered into effective as of January 30, 2013, by and between the Company and Brien M. O'Brien. †	(3)
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 March 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012, (iii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (v) the notes to the Consolidated Financial Statements.	Filed herewith

† Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

(1) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on March 11, 2013 and incorporated herein by reference.

(2) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on April 17, 2013 and incorporated herein by reference.

(3) Filed as an exhibit to the Company's Form 8-K filing with the Securities and Exchange Commission on February 8, 2013 and incorporated herein by reference.

62