

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2019

OR

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

For the transition period from _____ to _____

Commission File No. 001-31720

PIPER JAFFRAY COMPANIES

(Exact Name of Registrant as specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

800 Nicollet Mall, Suite 1000

Minneapolis, Minnesota

(Address of Principal Executive Offices)

30-0168701

(IRS Employer Identification No.)

55402

(Zip Code)

(612) 303-6000

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange On Which Registered</u>
Common Stock, par value \$0.01 per share	PJC	The New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of July 26, 2019, the registrant had 14,203,450 shares of Common Stock outstanding.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Piper Jaffray Companies
Consolidated Statements of Financial Condition

	June 30, 2019	December 31, 2018
	(Unaudited)	
<i>(Amounts in thousands, except share data)</i>		
Assets		
Cash and cash equivalents	\$ 23,436	\$ 50,364
Receivables from brokers, dealers and clearing organizations	98,599	235,278
Financial instruments and other inventory positions owned	362,443	479,795
Financial instruments and other inventory positions owned and pledged as collateral	223,581	147,427
Total financial instruments and other inventory positions owned	586,024	627,222
Fixed assets (net of accumulated depreciation and amortization of \$63,511 and \$58,927, respectively)	30,817	32,300
Goodwill	81,855	81,855
Intangible assets (net of accumulated amortization of \$38,072 and \$36,566, respectively)	2,778	4,284
Investments	175,472	151,886
Net deferred income tax assets	62,647	72,996
Right-of-use lease asset	42,027	—
Other assets	69,415	46,443
Assets held for sale	32,972	42,641
Total assets	<u>\$ 1,206,042</u>	<u>\$ 1,345,269</u>
Liabilities and Shareholders' Equity		
Short-term financing	\$ 49,962	\$ 49,953
Payables to brokers, dealers and clearing organizations	1,594	8,657
Financial instruments and other inventory positions sold, but not yet purchased	147,523	177,427
Accrued compensation	187,951	323,588
Accrued lease liability	56,025	—
Other liabilities and accrued expenses	32,722	45,016
Liabilities held for sale	4,480	10,212
Total liabilities	480,257	614,853
Shareholders' equity:		
Common stock, \$0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2019 and December 31, 2018;		
Shares issued: 19,523,606 at June 30, 2019 and 19,518,044 at December 31, 2018;		
Shares outstanding: 13,705,315 at June 30, 2019 and 12,995,397 at December 31, 2018	195	195
Additional paid-in capital	756,263	796,363
Retained earnings	187,182	182,552
Less common stock held in treasury, at cost: 5,818,291 shares at June 30, 2019 and 6,522,647 shares at December 31, 2018	(284,699)	(300,268)
Accumulated other comprehensive loss	(1,284)	(1,398)
Total common shareholders' equity	657,657	677,444
Noncontrolling interests	68,128	52,972
Total shareholders' equity	725,785	730,416
Total liabilities and shareholders' equity	<u>\$ 1,206,042</u>	<u>\$ 1,345,269</u>

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
<i>(Amounts in thousands, except per share data)</i>				
Revenues:				
Investment banking	\$ 118,739	\$ 123,904	\$ 259,800	\$ 244,745
Institutional brokerage	32,204	33,135	67,169	60,829
Interest	6,863	8,178	14,430	18,591
Investment income	17,605	2,243	19,197	6,495
Total revenues	175,411	167,460	360,596	330,660
Interest expense	2,993	5,099	5,636	10,437
Net revenues	172,418	162,361	354,960	320,223
Non-interest expenses:				
Compensation and benefits	102,476	109,256	219,603	217,623
Outside services	8,451	9,632	17,022	17,702
Occupancy and equipment	8,425	8,562	16,774	16,762
Communications	6,849	7,250	14,714	15,040
Marketing and business development	8,089	7,005	14,827	13,416
Deal-related expenses	6,725	6,166	11,453	11,217
Trade execution and clearance	1,017	2,028	2,823	4,191
Restructuring and integration costs	6,395	3,498	6,395	3,498
Intangible asset amortization	753	1,215	1,506	2,429
Other operating expenses	2,313	2,862	5,781	5,336
Total non-interest expenses	151,493	157,474	310,898	307,214
Income from continuing operations before income tax expense/(benefit)	20,925	4,887	44,062	13,009
Income tax expense/(benefit)	(180)	559	4,012	(1,953)
Income from continuing operations	21,105	4,328	40,050	14,962
Discontinued operations:				
Income/(loss) from discontinued operations, net of tax	(2,166)	364	(2,305)	349
Net income	18,939	4,692	37,745	15,311
Net income/(loss) applicable to noncontrolling interests	8,550	(1,534)	7,934	(1,518)
Net income applicable to Piper Jaffray Companies	\$ 10,389	\$ 6,226	\$ 29,811	\$ 16,829
Net income applicable to Piper Jaffray Companies' common shareholders	\$ 10,151	\$ 5,522	\$ 27,887	\$ 12,195

Continued on next page

Piper Jaffray Companies
Consolidated Statements of Operations – Continued
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Amounts in thousands, except per share data)</i>	2019	2018	2019	2018
Amounts applicable to Piper Jaffray Companies				
Net income from continuing operations	\$ 12,555	\$ 5,862	\$ 32,116	\$ 16,480
Net income/(loss) from discontinued operations	<u>(2,166)</u>	<u>364</u>	<u>(2,305)</u>	<u>349</u>
Net income applicable to Piper Jaffray Companies	\$ 10,389	\$ 6,226	\$ 29,811	\$ 16,829
Earnings per basic common share				
Income from continuing operations	\$ 0.90	\$ 0.40	\$ 2.24	\$ 0.88
Income/(loss) from discontinued operations	<u>(0.15)</u>	<u>0.03</u>	<u>(0.16)</u>	<u>0.03</u>
Earnings per basic common share	\$ 0.75	\$ 0.43	\$ 2.08	\$ 0.91
Earnings per diluted common share				
Income from continuing operations	\$ 0.87	\$ 0.40	\$ 2.18	\$ 0.91
Income/(loss) from discontinued operations	<u>(0.15)</u>	<u>0.03</u>	<u>(0.16)</u>	<u>0.03</u>
Earnings per diluted common share	\$ 0.72	\$ 0.43	\$ 2.02	\$ 0.94
Dividends declared per common share	\$ 0.38	\$ 0.38	\$ 1.76	\$ 2.37
Weighted average number of common shares outstanding				
Basic	13,588	13,303	13,397	13,200
Diluted	14,024	13,438	13,778	13,411

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Amounts in thousands)</i>	2019	2018	2019	2018
Net income	\$ 18,939	\$ 4,692	\$ 37,745	\$ 15,311
Other comprehensive income/(loss), net of tax:				
Foreign currency translation adjustment	(101)	(397)	114	132
Comprehensive income	18,838	4,295	37,859	15,443
Comprehensive income/(loss) applicable to noncontrolling interests	8,550	(1,534)	7,934	(1,518)
Comprehensive income applicable to Piper Jaffray Companies	\$ 10,288	\$ 5,829	\$ 29,925	\$ 16,961

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

<i>(Amounts in thousands, except share amounts)</i>	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2018	12,995,397	\$ 195	\$ 796,363	\$ 182,552	\$(300,268)	\$ (1,398)	\$ 677,444	\$ 52,972	\$ 730,416
Net income/(loss)	—	—	—	19,422	—	—	19,422	(616)	18,806
Dividends	—	—	—	(19,947)	—	—	(19,947)	—	(19,947)
Amortization/issuance of restricted stock	—	—	23,826	—	—	—	23,826	—	23,826
Repurchase of common stock through share repurchase program	(501)	—	—	—	(32)	—	(32)	—	(32)
Issuance of treasury shares for restricted stock vestings	1,035,360	—	(48,092)	—	48,092	—	—	—	—
Repurchase of common stock from employees	(563,284)	—	—	—	(39,695)	—	(39,695)	—	(39,695)
Shares reserved/issued for director compensation	1,263	—	87	—	—	—	87	—	87
Other comprehensive income	—	—	—	—	—	215	215	—	215
Fund capital distributions, net	—	—	—	—	—	—	—	(5)	(5)
Balance at March 31, 2019	13,468,235	\$ 195	\$ 772,184	\$ 182,027	\$(291,903)	\$ (1,183)	\$ 661,320	\$ 52,351	\$ 713,671
Net income	—	—	—	10,389	—	—	10,389	8,550	18,939
Dividends	—	—	—	(5,234)	—	—	(5,234)	—	(5,234)
Amortization/issuance of restricted stock	—	—	1,448	—	—	—	1,448	—	1,448
Issuance of treasury shares for restricted stock vestings	365,908	—	(17,703)	—	17,703	—	—	—	—
Repurchase of common stock from employees	(133,127)	—	—	—	(10,499)	—	(10,499)	—	(10,499)
Shares reserved/issued for director compensation	4,299	—	334	—	—	—	334	—	334
Other comprehensive loss	—	—	—	—	—	(101)	(101)	—	(101)
Fund capital contributions, net	—	—	—	—	—	—	—	7,227	7,227
Balance at June 30, 2019	13,705,315	\$ 195	\$ 756,263	\$ 187,182	\$(284,699)	\$ (1,284)	\$ 657,657	\$ 68,128	\$ 725,785

Piper Jaffray Companies
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

<i>(Amounts in thousands, except share amounts)</i>	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Common Shareholders' Equity	Noncontrolling Interests	Total Shareholders' Equity
Balance at December 31, 2017	12,911,149	\$ 195	\$ 791,970	\$ 176,270	\$(273,824)	\$ (1,279)	\$ 693,332	\$ 47,903	\$ 741,235
Net income	—	—	—	10,603	—	—	10,603	16	10,619
Dividends	—	—	—	(30,575)	—	—	(30,575)	—	(30,575)
Amortization/issuance of restricted stock	—	—	34,416	—	—	—	34,416	—	34,416
Issuance of treasury shares for restricted stock vestings	574,594	—	(23,901)	—	23,901	—	—	—	—
Repurchase of common stock from employees	(187,860)	—	—	—	(16,797)	—	(16,797)	—	(16,797)
Shares reserved/issued for director compensation	942	—	81	—	—	—	81	—	81
Other comprehensive income	—	—	—	—	—	529	529	—	529
Cumulative effect upon adoption of new accounting standard, net of tax	—	—	—	(3,597)	—	—	(3,597)	—	(3,597)
Fund capital distributions, net	—	—	—	—	—	—	—	(904)	(904)
Balance at March 31, 2018	13,298,825	\$ 195	\$ 802,566	\$ 152,701	\$(266,720)	\$ (750)	\$ 687,992	\$ 47,015	\$ 735,007
Net income/(loss)	—	—	—	6,226	—	—	6,226	(1,534)	4,692
Dividends	—	—	—	(5,520)	—	—	(5,520)	—	(5,520)
Amortization/issuance of restricted stock	—	—	5,127	—	—	—	5,127	—	5,127
Repurchase of common stock through share repurchase program	(56,714)	—	—	—	(3,938)	—	(3,938)	—	(3,938)
Issuance of treasury shares for restricted stock vestings	143,907	—	(6,224)	—	6,224	—	—	—	—
Repurchase of common stock from employees	(54,346)	—	—	—	(4,179)	—	(4,179)	—	(4,179)
Shares reserved/issued for director compensation	2,717	—	213	—	—	—	213	—	213
Other comprehensive loss	—	—	—	—	—	(397)	(397)	—	(397)
Fund capital contributions, net	—	—	—	—	—	—	—	6,195	6,195
Balance at June 30, 2018	13,334,389	\$ 195	\$ 801,682	\$ 153,407	\$(268,613)	\$ (1,147)	\$ 685,524	\$ 51,676	\$ 737,200

See Notes to the Consolidated Financial Statements

Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended
June 30,

2019 2018

(Dollars in thousands)

Operating Activities:

Net income	\$	37,745	\$	15,311
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of fixed assets		4,686		4,074
Deferred income taxes		15,055		2,428
Stock-based compensation		10,912		19,227
Amortization of intangible assets		6,971		5,230
Amortization of forgivable loans		1,607		2,486
Decrease/(increase) in operating assets:				
Receivables from brokers, dealers and clearing organizations		136,679		(74,237)
Net financial instruments and other inventory positions owned		11,294		541,543
Investments		(23,586)		20,463
Other assets		(24,695)		(25,347)
Increase/(decrease) in operating liabilities:				
Payables to brokers, dealers and clearing organizations		(7,063)		(14,135)
Accrued compensation		(120,728)		(191,388)
Other liabilities and accrued expenses		1,763		(8,126)
Decrease/(increase) in assets held for sale		(674)		251
Decrease in liabilities held for sale		(5,732)		(5,152)
Net cash provided by operating activities		<u>44,234</u>		<u>292,628</u>

Investing Activities:

Purchases of fixed assets, net		<u>(3,126)</u>		<u>(6,230)</u>
Net cash used in investing activities		<u>(3,126)</u>		<u>(6,230)</u>

Financing Activities:

Increase/(decrease) in short-term financing		9		(238,231)
Payment of cash dividend		(25,181)		(35,991)
Increase in noncontrolling interests		7,222		5,291
Repurchase of common stock		<u>(50,226)</u>		<u>(24,914)</u>
Net cash used in financing activities		<u>(68,176)</u>		<u>(293,845)</u>

Currency adjustment:

Effect of exchange rate changes on cash		<u>140</u>		<u>(321)</u>
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Net decrease in cash and cash equivalents		<u>(26,928)</u>		<u>(7,768)</u>
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Cash and cash equivalents at beginning of period		<u>50,364</u>		<u>33,793</u>
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Cash and cash equivalents at end of period		<u>\$ 23,436</u>		<u>\$ 26,025</u>
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Supplemental disclosure of cash flow information –

Cash paid during the period for:				
Interest	\$	5,727	\$	10,302
Income taxes	\$	7,969	\$	14,742

See Notes to the Consolidated Financial Statements

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

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

Note 1 Organization and Basis of Presentation

Organization

Piper Jaffray Companies is the parent company of Piper Jaffray & Co. ("Piper Jaffray"), a securities broker dealer and investment banking firm; Piper Jaffray Ltd., a firm providing securities brokerage and mergers and acquisitions services in Europe; Piper Jaffray Finance LLC, which facilitates corporate debt underwriting in conjunction with affiliated credit vehicles; Advisory Research, Inc. ("ARI"), which provides asset management services to separately managed accounts, closed-end and open-end funds and partnerships; Piper Jaffray Investment Group Inc. and PJC Capital Management LLC, which consist of entities providing alternative asset management services; Piper Jaffray Financial Products Inc. and Piper Jaffray Financial Products II Inc., entities that facilitate derivative transactions; and other immaterial subsidiaries.

Piper Jaffray Companies and its subsidiaries (collectively, the "Company") operate in one reporting segment providing investment banking and institutional securities services (collectively, "Capital Markets"). The Company's Capital Markets business provides investment banking services and institutional sales, trading and research services. Investment banking services include financial advisory services, management of and participation in underwritings and public finance activities. Revenues are generated through the receipt of advisory and financing fees. 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. Also, the Company generates revenue through strategic trading and investing activities, which focus on investments in municipal bonds, U.S. government agency securities, and merchant banking activities involving equity investments in late stage private companies. The Company has created alternative asset management funds in merchant banking, energy and senior living in order to invest firm capital and to manage capital from outside investors. The Company receives management and performance fees for managing these funds.

As discussed in Note 3, the Company's ARI subsidiary is being held for sale as of June 30, 2019. ARI's results were previously reported in the Company's Asset Management segment, which provided traditional asset management services with product offerings in master limited partnerships and equity securities.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to this guidance, certain information and disclosures have been omitted that are included within complete annual financial statements. Except as disclosed herein, there have been no material changes in the information reported in the financial statements and related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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

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

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

Note 2 Accounting Policies and Pronouncements

Summary of Significant Accounting Policies

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for a full description of the Company's significant accounting policies. Changes to the Company's significant accounting policies are described below.

Leases

A lease is a contract, or part of a contract, that conveys the right to control the use of identified property or equipment for a period of time in exchange for consideration. In making this determination, the Company considers if it obtains substantially all of the economic benefits from the use of the underlying asset and directs how and for what purpose the asset is used during the term of the contract.

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

The Company recognizes a right-of-use ("ROU") lease asset and lease liability on the consolidated statements of financial position for all leases with a term greater than 12 months. The lease liability represents the Company's obligation to make future lease payments and is recorded at an amount equal to the present value of the remaining lease payments due over the lease term. The ROU lease asset, which represents the right to use the underlying asset during the lease term, is measured based on the carrying value of the lease liability, adjusted for other items, such as lease incentives and uneven rent payments.

The discount rate used to determine the present value of the remaining lease payments reflects the Company's incremental borrowing rate, which is the rate the Company would have to pay to borrow on a collateralized basis over a similar term in a similar economic environment. In calculating its discount rates, the Company took into consideration a current financing arrangement that is on a secured (i.e., collateralized) basis, as well as market interest rates and spreads, other reference points, and the respective tenors of the Company's designated lease term ranges. The Company applied the portfolio approach in determining the discount rates for its leases. The weighted-average discount rate was 4.0 percent at June 30, 2019.

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

Cash or lease incentives received upon entering into certain leases are recognized on a straight-line basis as a reduction of rent expense from the date the Company takes possession of the property or receives the cash to the end of the initial lease term. Lease incentives, which initially reduce the ROU lease asset, are a component of the amortization of the ROU lease asset.

Rent expense for leases with a term of 12 months or less is recorded on a straight-line basis over the lease term in the consolidated statements of operations.

Adoption of New Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize a ROU lease asset and lease liability on the consolidated statements of financial position for all leases with a term longer than 12 months and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP.

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

The Company adopted ASU 2016-02 as of January 1, 2019 using the modified retrospective approach and applied the package of practical expedients in transitioning to the new guidance. Electing the package of practical expedients allowed the Company to carryforward its prior conclusions on lease definition, lease classification and initial direct costs related to the existing leases as of the adoption date. Also, the Company has elected the practical expedient to not separate lease components from nonlease components.

Upon adoption, the Company recognized a ROU lease asset of approximately \$44.0 million and a lease liability of approximately \$59.0 million. The difference between the ROU lease asset and the lease liability is due to lease incentives. There were no changes to the recognition of rent expense in the Company's consolidated statements of operations upon adoption of ASU 2016-02. In addition, the new guidance has not impacted Piper Jaffray's net capital position.

Future Adoption of New Applicable Accounting Standards

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The new guidance requires an entity to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts as opposed to delaying recognition until the loss was probable of occurring. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019. The Company does not expect the adoption of ASU 2016-13 to have a material impact on its consolidated financial statements.

Note 3 Discontinued Operations

The Company's traditional asset management subsidiary, ARI, is classified as held for sale as of June 30, 2019. On May 29, 2019, the Company reached a definitive agreement to sell its master limited partnerships and energy infrastructure strategies business to Tortoise Capital Advisors. Additionally, the Company has entered into a separate agreement, dated June 11, 2019, to sell its remaining equity strategies business to an existing management team. The transactions are subject to certain closing conditions, including client consents.

ARI'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 consisted of:

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Net deferred income tax assets	\$ 24,155	\$ 28,861
Fee receivables	4,408	4,128
Intangible assets	2,626	8,090
Other assets	1,783	1,562
Total assets held for sale	<u>\$ 32,972</u>	<u>\$ 42,641</u>
<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Accrued compensation	\$ 3,849	\$ 9,934
Other liabilities	631	278
Total liabilities held for sale	<u>\$ 4,480</u>	<u>\$ 10,212</u>

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The components of discontinued operations are as follows:

<i>(Dollars in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net revenues	\$ 9,317	\$ 11,121	\$ 18,607	\$ 22,320
Operating expenses	7,382	9,077	15,521	18,959
Intangible asset amortization and impairment (1)	4,106	1,400	5,465	2,801
Restructuring costs	696	272	696	272
Total non-interest expenses	12,184	10,749	21,682	22,032
Income/(loss) from discontinued operations before income tax expense/(benefit)	(2,867)	372	(3,075)	288
Income tax expense/(benefit)	(701)	8	(770)	(61)
Income/(loss) from discontinued operations, net of tax	<u>\$ (2,166)</u>	<u>\$ 364</u>	<u>\$ (2,305)</u>	<u>\$ 349</u>

(1) Includes \$2.9 million of intangible asset impairment related to the ARI trade name for the three and six months ended June 30, 2019, respectively.

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

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	\$ 15,385	\$ 1,458
Convertible securities	91,633	92,485
Fixed income securities	16,392	31,906
Municipal securities:		
Taxable securities	20,332	38,711
Tax-exempt securities	240,459	268,804
Short-term securities	60,568	52,472
Mortgage-backed securities	971	15
U.S. government agency securities	116,173	123,384
U.S. government securities	4,808	954
Derivative contracts	19,303	17,033
Total financial instruments and other inventory positions owned	\$ 586,024	\$ 627,222
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	\$ 46,982	\$ 82,082
Fixed income securities	19,842	20,180
U.S. government agency securities	3,801	10,257
U.S. government securities	69,817	60,365
Derivative contracts	7,081	4,543
Total financial instruments and other inventory positions sold, but not yet purchased	\$ 147,523	\$ 177,427

At June 30, 2019 and December 31, 2018, financial instruments and other inventory positions owned in the amount of \$223.6 million and \$147.4 million, respectively, had been pledged as collateral for short-term financings.

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 and U.S. treasury bond futures.

Derivative Contract Financial Instruments

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

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

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

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

<i>(Dollars in thousands)</i>	June 30, 2019			December 31, 2018		
	Derivative Assets (1)	Derivative Liabilities (2)	Notional Amount	Derivative Assets (1)	Derivative Liabilities (2)	Notional Amount
Derivative Category						
Interest rate						
Customer matched-book	\$ 213,847	\$ 202,579	\$ 2,288,739	\$ 181,199	\$ 169,950	\$ 2,532,966
Trading securities	—	4,688	285,675	408	4,202	262,275
	<u>\$ 213,847</u>	<u>\$ 207,267</u>	<u>\$ 2,574,414</u>	<u>\$ 181,607</u>	<u>\$ 174,152</u>	<u>\$ 2,795,241</u>

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

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

<i>(Dollars in thousands)</i>	Derivative Category	Operations Category	Three Months Ended		Six Months Ended	
			June 30,		June 30,	
			2019	2018	2019	2018
	Interest rate derivative contract	Investment banking	\$ 186	\$ (471)	\$ (431)	\$ (1,266)
	Interest rate derivative contract	Institutional brokerage	(196)	(830)	(445)	4,232
			<u>\$ (10)</u>	<u>\$ (1,301)</u>	<u>\$ (876)</u>	<u>\$ 2,966</u>

Credit risk associated with the Company's derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company's derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company's financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company's derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of June 30, 2019, the Company had \$18.3 million of uncollateralized credit exposure with these counterparties (notional contract amount of \$175.4 million), including \$16.0 million of uncollateralized credit exposure with one counterparty.

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Note 5 Fair Value of Financial Instruments

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

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

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

Cash Equivalents

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

Financial Instruments and Other Inventory Positions Owned

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

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

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

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

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

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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 (e.g., maturity and sector) and management judgment to infer an appropriate current yield or other model-based valuation techniques deemed appropriate by management based on the specific nature of the individual security and are therefore categorized as Level III.

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

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

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation ("CMO") securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields on spreads over U.S. treasury securities, or models based upon prepayment expectations. These securities are categorized as Level II.

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

Derivatives – Derivative contracts include interest rate swaps, interest rate locks and U.S. treasury bond futures. 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 included the previously mentioned observable inputs and certain unobservable inputs that required significant judgment, such as the premium over the MMD curve. These instruments are classified as Level III.

Investments

The Company's investments valued at fair value include equity investments in private companies and partnerships and investments in registered mutual funds. Investments in registered mutual funds are valued based on quoted prices on active markets and classified as Level I. Investments in private companies are valued based on an assessment of each underlying security, considering rounds of financing, third party transactions and market-based information, including comparable company transactions, trading multiples (e.g., multiples of revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA")) and changes in market outlook, among other factors. These securities are generally categorized as Level III.

Fair Value Option – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. Merchant banking and other equity investments of \$2.4 million and \$3.0 million, included within investments

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on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets at June 30, 2019 and December 31, 2018, respectively. The realized and unrealized net impact from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were losses of \$0.3 million and gains of \$1.1 million for the six months ended June 30, 2019 and 2018, respectively.

The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level III financial instruments as of June 30, 2019:

	Valuation Technique	Unobservable Input	Range	Weighted Average (1)
Assets:				
Investments at fair value:				
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 5 times	4.5 times
		EBITDA multiple (2)	11 - 20 times	15.7 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 in basis points ("bps") (3)	3 - 16 bps	12.5 bps

Uncertainty of fair value measurements:

- (1) *Unobservable inputs were weighted by the relative fair value of the financial instruments.*
- (2) *Significant increase/(decrease) in the unobservable input in isolation would have resulted in a significantly higher/(lower) fair value measurement.*
- (3) *Significant increase/(decrease) in the unobservable input in isolation would have resulted in a significantly lower/(higher) fair value measurement.*

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The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820") as of June 30, 2019:

<i>(Dollars in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Counterparty and Cash Collateral Netting (1)</u>	<u>Total</u>
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 684	\$ 14,701	\$ —	\$ —	\$ 15,385
Convertible securities	—	91,633	—	—	91,633
Fixed income securities	—	16,392	—	—	16,392
Municipal securities:					
Taxable securities	—	20,332	—	—	20,332
Tax-exempt securities	—	240,459	—	—	240,459
Short-term securities	—	60,568	—	—	60,568
Mortgage-backed securities	—	958	13	—	971
U.S. government agency securities	—	116,173	—	—	116,173
U.S. government securities	4,808	—	—	—	4,808
Derivative contracts	—	213,847	—	(194,544)	19,303
Total financial instruments and other inventory positions owned	<u>5,492</u>	<u>775,063</u>	<u>13</u>	<u>(194,544)</u>	<u>586,024</u>
Cash equivalents	1,096	—	—	—	1,096
Investments at fair value	32,945	2,747	132,556 ⁽²⁾	—	168,248
Total assets	<u>\$ 39,533</u>	<u>\$ 777,810</u>	<u>\$ 132,569</u>	<u>\$ (194,544)</u>	<u>\$ 755,368</u>
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 45,568	\$ 1,414	\$ —	\$ —	\$ 46,982
Fixed income securities	—	19,842	—	—	19,842
U.S. government agency securities	—	3,801	—	—	3,801
U.S. government securities	69,817	—	—	—	69,817
Derivative contracts	—	202,849	4,418	(200,186)	7,081
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 115,385</u>	<u>\$ 227,906</u>	<u>\$ 4,418</u>	<u>\$ (200,186)</u>	<u>\$ 147,523</u>

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

(2) Noncontrolling interests of \$68.1 million are attributable to third party ownership in consolidated merchant banking and senior living funds.

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The following table summarizes the valuation of the Company's financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2018:

<i>(Dollars in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Counterparty and Cash Collateral Netting (1)</u>	<u>Total</u>
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	\$ 331	\$ 1,127	\$ —	\$ —	\$ 1,458
Convertible securities	—	92,485	—	—	92,485
Fixed income securities	—	31,906	—	—	31,906
Municipal securities:					
Taxable securities	—	38,711	—	—	38,711
Tax-exempt securities	—	268,804	—	—	268,804
Short-term securities	—	52,472	—	—	52,472
Mortgage-backed securities	—	—	15	—	15
U.S. government agency securities	—	123,384	—	—	123,384
U.S. government securities	954	—	—	—	954
Derivative contracts	—	181,378	229	(164,574)	17,033
Total financial instruments and other inventory positions owned	1,285	790,267	244	(164,574)	627,222
Cash equivalents	20,581	—	—	—	20,581
Investments at fair value	33,587	2,649	107,792 ⁽²⁾	—	144,028
Total assets	<u>\$ 55,453</u>	<u>\$ 792,916</u>	<u>\$ 108,036</u>	<u>\$ (164,574)</u>	<u>\$ 791,831</u>
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	\$ 81,575	\$ 507	\$ —	\$ —	\$ 82,082
Fixed income securities	—	20,180	—	—	20,180
U.S. government agency securities	—	10,257	—	—	10,257
U.S. government securities	60,365	—	—	—	60,365
Derivative contracts	—	169,950	4,202	(169,609)	4,543
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 141,940</u>	<u>\$ 200,894</u>	<u>\$ 4,202</u>	<u>\$ (169,609)</u>	<u>\$ 177,427</u>

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

(2) Noncontrolling interests of \$53.0 million are attributable to third party ownership in consolidated merchant banking and senior living funds.

The Company's Level III assets were \$132.6 million and \$108.0 million, or 17.6 percent and 13.6 percent of financial instruments measured at fair value at June 30, 2019 and December 31, 2018, respectively. There were no significant transfers between levels for the six months ended June 30, 2019.

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

<i>(Dollars in thousands)</i>	Balance at March 31, 2019	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at June 30, 2019	Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2019
Assets:									
Financial instruments and other inventory positions owned:									
Mortgage-backed securities	\$ 14	\$ —	\$ (4)	\$ —	\$ —	\$ 4	\$ (1)	\$ 13	\$ (1)
Total financial instruments and other inventory positions owned	14	—	(4)	—	—	4	(1)	13	(1)
Investments at fair value	107,878	8,000	—	—	(783)	—	17,461	132,556	16,940
Total assets	\$ 107,892	\$ 8,000	\$ (4)	\$ —	\$ (783)	\$ 4	\$ 17,460	\$ 132,569	\$ 16,939
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$ 4,222	\$ (3,220)	\$ —	\$ —	\$ —	\$ 3,220	\$ 196	\$ 4,418	\$ 3,060
Total financial instruments and other inventory positions sold, but not yet purchased	\$ 4,222	\$ (3,220)	\$ —	\$ —	\$ —	\$ 3,220	\$ 196	\$ 4,418	\$ 3,060

<i>(Dollars in thousands)</i>	Balance at March 31, 2018	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at June 30, 2018	Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2018
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Short-term securities	\$ 719	\$ —	\$ (725)	\$ —	\$ —	\$ 51	\$ —	\$ 45	\$ —
Mortgage-backed securities	284	—	—	—	—	—	(266)	18	(94)
Derivative contracts	2,144	4	(1,115)	—	—	1,111	(1,214)	930	(254)
Total financial instruments and other inventory positions owned	3,147	4	(1,840)	—	—	1,162	(1,480)	993	(348)
Investments at fair value	121,637	1,107	(10,787)	—	(145)	5,665	(9,356)	108,121	(2,804)
Total assets	\$ 124,784	\$ 1,111	\$ (12,627)	\$ —	\$ (145)	\$ 6,827	\$ (10,836)	\$ 109,114	\$ (3,152)
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$ 1,389	\$ (1,192)	\$ —	\$ —	\$ —	\$ 1,192	\$ (384)	\$ 1,005	\$ 531
Total financial instruments and other inventory positions sold, but not yet purchased	\$ 1,389	\$ (1,192)	\$ —	\$ —	\$ —	\$ 1,192	\$ (384)	\$ 1,005	\$ 531

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<i>(Dollars in thousands)</i>	Balance at December 31, 2018	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at June 30, 2019	Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2019
Assets:									
Financial instruments and other inventory positions owned:									
Mortgage-backed securities	\$ 15	\$ —	\$ (6)	\$ —	\$ —	\$ (23)	\$ 27	\$ 13	\$ (1)
Derivative contracts	229	—	(336)	—	—	336	(229)	—	—
Total financial instruments and other inventory positions owned	244	—	(342)	—	—	313	(202)	13	(1)
Investments at fair value	107,792	8,000	—	—	(783)	—	17,547	132,556	17,027
Total assets	<u>\$ 108,036</u>	<u>\$ 8,000</u>	<u>\$ (342)</u>	<u>\$ —</u>	<u>\$ (783)</u>	<u>\$ 313</u>	<u>\$ 17,345</u>	<u>\$ 132,569</u>	<u>\$ 17,026</u>

Liabilities:

Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$ 4,202	\$ (8,822)	\$ —	\$ —	\$ —	\$ 8,822	\$ 216	\$ 4,418	\$ 4,418
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 4,202</u>	<u>\$ (8,822)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,822</u>	<u>\$ 216</u>	<u>\$ 4,418</u>	<u>\$ 4,418</u>

<i>(Dollars in thousands)</i>	Balance at December 31, 2017	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses)	Unrealized gains/ (losses)	Balance at June 30, 2018	Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2018
Assets:									
Financial instruments and other inventory positions owned:									
Municipal securities:									
Tax-exempt securities	\$ 700	\$ —	\$ —	\$ —	\$ (700)	\$ —	\$ —	\$ —	\$ —
Short-term securities	714	—	(725)	—	—	51	5	45	—
Mortgage-backed securities	481	—	(5)	—	—	—	(458)	18	(91)
Derivative contracts	126	4	(2,875)	—	—	2,872	803	930	930
Total financial instruments and other inventory positions owned	2,021	4	(3,605)	—	(700)	2,923	350	993	839
Investments at fair value	126,060	1,708	(14,941)	—	(145)	9,067	(13,628)	108,121	(4,078)
Total assets	<u>\$ 128,081</u>	<u>\$ 1,712</u>	<u>\$ (18,546)</u>	<u>\$ —</u>	<u>\$ (845)</u>	<u>\$ 11,990</u>	<u>\$ (13,278)</u>	<u>\$ 109,114</u>	<u>\$ (3,239)</u>

Liabilities:

Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	\$ 4,433	\$ (2,497)	\$ 3,226	\$ —	\$ —	\$ (729)	\$ (3,428)	\$ 1,005	\$ 1,005
Total financial instruments and other inventory positions sold, but not yet purchased	<u>\$ 4,433</u>	<u>\$ (2,497)</u>	<u>\$ 3,226</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (729)</u>	<u>\$ (3,428)</u>	<u>\$ 1,005</u>	<u>\$ 1,005</u>

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

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

Note 6 Variable Interest Entities ("VIEs")

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

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

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

Consolidated VIEs

The Company's consolidated VIEs at June 30, 2019 included certain alternative asset management funds in which the Company has an investment and, as the managing partner, is deemed to have both the power to direct the most significant activities of the funds and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to these funds.

The following table presents information about the carrying value of the assets and liabilities of the VIEs which are consolidated by the Company and included on the consolidated statements of financial condition at June 30, 2019. The assets can only be used to settle the liabilities of the respective VIE, and the creditors of the VIEs do not have recourse to the general credit of the Company. One of these VIEs has \$25.0 million of bank line financing available with an interest rate based on prime plus an applicable margin. The assets and liabilities are presented prior to consolidation, and thus a portion of these assets and liabilities are eliminated in consolidation.

<i>(Dollars in thousands)</i>	Alternative Asset Management Funds
Assets:	
Investments	\$ 128,880
Other assets	182
Total assets	<u>\$ 129,062</u>
Liabilities:	
Other liabilities and accrued expenses	\$ 3,053
Total liabilities	<u>\$ 3,053</u>

The Company has investments in a grantor trust which was established as part of a nonqualified deferred compensation plan. The Company is the primary beneficiary of the grantor trust. Accordingly, the assets and liabilities of the grantor trust are consolidated by the Company on the consolidated statements of financial condition. See Note 15 for additional information on the nonqualified deferred compensation plan.

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Nonconsolidated VIEs

The Company determined it is not the primary beneficiary of certain VIEs and accordingly does not consolidate them. These VIEs had net assets approximating \$0.3 billion at June 30, 2019 and December 31, 2018, respectively. The Company's exposure to loss from these VIEs is \$6.1 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statements of financial condition at June 30, 2019. The Company had no liabilities related to these VIEs at June 30, 2019 and December 31, 2018, respectively. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of June 30, 2019.

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

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Receivable from clearing organizations	\$ 76,818	\$ 223,987
Deposits with clearing organizations	3,474	230
Receivable from brokers and dealers	15,454	7,700
Other	2,853	3,361
Total receivables from brokers, dealers and clearing organizations	<u>\$ 98,599</u>	<u>\$ 235,278</u>

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Payable to clearing organizations	\$ —	\$ 4,734
Payable to brokers and dealers	1,594	3,923
Total payables to brokers, dealers and clearing organizations	<u>\$ 1,594</u>	<u>\$ 8,657</u>

Under the Company's fully disclosed clearing agreement, the majority of its securities inventories and all of its customer activities are held by or cleared through Pershing LLC ("Pershing"). The Company has also established an arrangement to obtain financing from Pershing related to the majority of its trading activities. Financing under this arrangement is secured primarily by securities, and collateral limitations could reduce the amount of funding available under this arrangement. The funding is at the discretion of Pershing and could be denied. The Company's clearing arrangement activities are recorded net from trading activity. The Company's fully disclosed clearing agreement includes a covenant requiring Piper Jaffray to maintain excess net capital of \$120 million.

Note 8 Investments

The Company's investments include investments in private companies and partnerships and registered mutual funds.

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Investments at fair value	\$ 168,248	\$ 144,028
Investments at cost	1,084	1,512
Investments accounted for under the equity method	6,140	6,346
Total investments	<u>175,472</u>	<u>151,886</u>
Less investments attributable to noncontrolling interests (1)	<u>(68,128)</u>	<u>(52,972)</u>
	<u>\$ 107,344</u>	<u>\$ 98,914</u>

(1) Noncontrolling interests are attributable to third party ownership in consolidated merchant banking and senior living funds.

At June 30, 2019, investments carried on a cost basis had an estimated fair market value of \$1.1 million. Because valuation estimates were based upon management's judgment, investments carried at cost would be categorized as Level III assets in the fair value hierarchy, if they were carried at fair value.

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Investments accounted for under the equity method include general and limited partnership interests. The carrying value of these investments is based on the investment vehicle's net asset value. The net assets of investment partnerships consist of investments in both marketable and non-marketable securities. The underlying investments held by such partnerships are valued based on the estimated fair value determined by management in the Company's 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 9 Other Assets

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Fee receivables	\$ 29,272	\$ 18,990
Income tax receivables	15,262	—
Accrued interest receivables	2,928	4,240
Forgivable loans, net	7,047	7,152
Prepaid expenses	7,608	8,763
Other	7,298	7,298
Total other assets	<u>\$ 69,415</u>	<u>\$ 46,443</u>

Note 10 Short-Term Financing

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes ("CP Notes") can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are currently issued under two separate programs, CP Series A and CP Series II A, and are secured by different inventory classes. As of June 30, 2019, the weighted average maturity of outstanding CP Notes was 8 days. The CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin. CP Series II A includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain excess net capital of \$100 million. The Company had CP Notes of \$50.0 million outstanding at June 30, 2019 and December 31, 2018 with weighted average interest rates of 3.42% and 3.38%, respectively.

The Company's committed short-term bank line financing at June 30, 2019 consisted of a one-year \$175 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2018. The Company uses this credit facility in the ordinary course of business to fund a portion of its daily operations and the amount borrowed under this credit facility varies daily based on the Company's funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company's U.S. broker dealer subsidiary to maintain minimum net capital of \$120 million, and the unpaid principal amount of all advances under this facility will be due on December 13, 2019. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At June 30, 2019, the Company had no advances against this line of credit.

Note 11 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.

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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. Reasonably possible losses in excess of amounts accrued at June 30, 2019 are not material. In many cases, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated.

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

Note 12 Leases

The Company leases office space throughout the United States and in a limited number of foreign countries where the Company's international operations reside. Aggregate minimum lease commitments on an undiscounted basis for the Company's operating leases (including short-term leases) as of June 30, 2019 are as follows:

(Dollars in thousands)

Remainder of 2019	\$	7,388
2020		14,580
2021		10,162
2022		8,773
2023		7,909
Thereafter		17,130
Total	<u>\$</u>	<u>65,942</u>

The weighted-average remaining lease term was 5.8 years at June 30, 2019.

For the three and six months ended June 30, 2019, the Company's operating lease cost from continuing operations was \$2.9 million and \$5.7 million, respectively, of which \$0.1 million and \$0.3 million, respectively, related to short-term leases. The Company recorded sublease income from continuing operations of \$0.4 million and \$0.8 million, respectively, for the three and six months ended June 30, 2019.

Note 13 Restructuring

The Company incurred pre-tax restructuring charges from continuing operations for the three and six months ended June 30, 2019, primarily in conjunction with its acquisition of Weeden & Co. L.P. ("Weeden & Co."). The Company incurred pre-tax restructuring charges from continuing operations for the three and six months ended June 30, 2018, primarily related to headcount reductions.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
<i>(Dollars in thousands)</i>				
Severance, benefits and outplacement costs	\$ 1,109	\$ 3,183	\$ 1,109	\$ 3,183
Contract termination costs	2,798	185	2,798	185
Vacated leased office space	—	130	—	130
Total pre-tax restructuring costs	<u>\$ 3,907</u>	<u>\$ 3,498</u>	<u>\$ 3,907</u>	<u>\$ 3,498</u>

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Note 14 Shareholders' Equity

Share Repurchases

Effective September 30, 2017, the Company's board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2019. During the six months ended June 30, 2019, the Company repurchased 501 shares at an average price of \$64.80 per share related to this authorization. The Company has \$102.8 million remaining under this authorization.

During the six months ended June 30, 2018, the Company repurchased 56,714 shares at an average price of \$69.43 per share for an aggregate purchase price of \$3.9 million related to this authorization.

The Company also purchases shares of common stock from restricted stock award recipients upon the award vesting or as recipients sell shares to meet their employment tax obligations. The Company purchased 696,411 shares and 242,206 shares, or \$50.2 million and \$21.0 million of the Company's common stock for these purposes during the six months ended June 30, 2019 and 2018, respectively.

Issuance of Shares

The Company issues common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 15. During the six months ended June 30, 2019 and 2018, the Company issued 1,401,268 shares and 718,501 shares, respectively, related to these obligations.

Dividends

The Company's dividend policy includes a quarterly and an annual special cash dividend, payable in the first quarter of each year, with the intention of returning a metric based on the Company's net income from the previous fiscal year.

During the six months ended June 30, 2019, the Company declared and paid quarterly cash dividends on its common stock, aggregating \$0.75 per share, and an annual special cash dividend on its common stock of \$1.01 per share, totaling \$25.2 million.

On July 26, 2019, the board of directors declared a cash dividend of \$0.375 per share to be paid on September 13, 2019, to shareholders of record as of the close of business on August 23, 2019.

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 merchant banking funds of \$65.1 million and a senior living fund aggregating \$3.0 million as of June 30, 2019. As of December 31, 2018, noncontrolling interests included the minority equity holders' proportionate share of the equity in merchant banking funds of \$50.2 million and a senior living fund aggregating \$2.8 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 six months ended June 30, 2019 and 2018, respectively.

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Note 15 Compensation Plans**Stock-Based Compensation Plans**

The Company maintains three stock-based compensation plans: the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "Incentive Plan"), the 2016 Employment Inducement Award Plan (the "Simmons Inducement Plan") and the 2019 Employment Inducement Award Plan (the "Weeden & Co. 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, less forfeitures.

The following table provides a summary of the Company's outstanding equity awards (in shares or units) as of June 30, 2019:

Incentive Plan

Restricted Stock	
Annual grants	478,674
Sign-on grants	55,811
	<u>534,485</u>

Incentive Plan

Restricted Stock Units	
Leadership grants	114,315

Incentive Plan

Stock Options	
	<u>81,667</u>

Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company's employees and directors for up to 8.2 million shares of common stock (0.7 million shares remained available for future issuance under the Incentive Plan as of June 30, 2019). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

Restricted Stock Awards

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

The Company's Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation — Stock Compensation." 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 2018 for its February 2019 Annual Grant ("2019 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.

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

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

Restricted Stock Units

The Company grants restricted stock units to its leadership team ("Leadership Grants").

Leadership Grants Subsequent to 2016

Restricted stock units granted in each of the years subsequent to 2016 will vest and convert to shares of common stock at the end of each 36-month performance period only if the Company satisfies predetermined performance and/or market conditions over the performance period. Under the terms of these awards, the number of units that will actually vest and convert to shares will be based on the extent to which the Company achieves specified targets during each performance period. The maximum payout leverage under these grants is 150 percent.

Up to 75 percent of the award can be earned based on the Company achieving certain average adjusted return on equity targets, as defined in the terms of the award agreements. The fair value of this portion of the award was based on the closing price of the Company's common stock on the grant date. If the Company determines that it is probable that the performance condition will be achieved, compensation expense is amortized on a straight-line basis over the 36-month performance period. The probability that the performance condition will be achieved is reevaluated each reporting period with changes in estimated outcomes accounted for using a cumulative effect adjustment to compensation expense. Compensation expense will be recognized only if the performance condition is met. Employees forfeit unvested restricted stock units upon termination of employment with a corresponding reversal of compensation expense. As of June 30, 2019, the Company has determined that the probability of achieving the performance condition for each award is as follows:

Grant Year	Probability of Achieving Performance Condition
2019	68%
2018	50%
2017	75%

Up to 75 percent of the award can be earned based on the Company's total shareholder return relative to members of a predetermined peer group. The market condition must be met for the awards to vest and compensation cost will be recognized regardless if the market condition is satisfied. Compensation expense is amortized on a straight-line basis over the 36-month requisite service period. Employees forfeit unvested restricted stock units upon termination of employment with a corresponding reversal of compensation expense. For this portion of the awards, the fair value on the grant date was determined using a Monte Carlo simulation with the following assumptions:

Grant Year	Risk-free Interest Rate	Expected Stock Price Volatility
2019	2.50%	31.9%
2018	2.40%	34.8%
2017	1.62%	35.9%

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

The compensation committee of the Company's board of directors included defined retirement provisions in its Leadership Grants, beginning with the February 2018 grant. Certain grantees meeting defined age and service requirements will be fully vested in the awards as long as performance and post-termination obligations are met throughout the performance period. These retirement-eligible grants are expensed in the period in which those awards are deemed to be earned, which is the calendar year preceding the February grant date. For example, the Company recognized compensation expense for retirement-eligible grantees in fiscal 2018 for its February 2019 Leadership Grant.

2016 Leadership Grant

Restricted stock units granted in 2016 contain market condition criteria and convert to shares of common stock at the end of the 36-month performance period only if the Company's stock performance satisfies predetermined market conditions over the performance period. Under the terms of the award, the number of units that vested and converted to shares was based on the Company's stock performance achieving specified targets during the performance period. All units vested in full. Compensation expense was recognized over the 36-month performance period which ended in May 2019.

Up to 50 percent of the award was 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 was 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 with the following assumptions pursuant to the methodology above:

Grant Year	Risk-free Interest Rate	Expected Stock Price Volatility
2016	0.98%	34.9%

Stock Options

On February 15, 2018, the Company granted options to certain executive officers. These options are expensed on a straight-line basis over the required service period of five years, based on the estimated fair value of the award on the date of grant. The exercise price per share is equal to the closing price on the date of grant plus ten percent. These options are subject to graded vesting, beginning on the third anniversary of the grant date, so long as the employee remains continuously employed by the Company. The maximum term of these stock options is ten years.

The fair value of this stock option award was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.82%
Dividend yield	3.22%
Expected stock price volatility	37.20%
Expected life of options (in years)	7.0
Fair value of options granted (per share)	\$24.49

The risk-free interest rate assumption was based on the U.S. Treasury bond yield with a maturity equal to the expected life of the options. The dividend yield assumption was based on the assumed dividend payout over the expected life of the options. The expected stock price volatility assumption was determined using historical volatility, as correlation coefficients can only be developed through historical volatility.

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Inducement Plans

The Company established the Simmons Inducement Plan in conjunction with the acquisition of Simmons & Company International ("Simmons"). The Company granted \$11.6 million (286,776 shares) in restricted stock under the Simmons Inducement Plan on May 16, 2016. Simmons Inducement Plan awards were amortized as compensation expense on a straight-line basis over the vesting period. All outstanding shares cliff vested on May 16, 2019. The Company terminated the Simmons Inducement Plan in July 2019.

The Company established the Weeden & Co. Inducement Plan in conjunction with its acquisition of Weeden & Co. The Company will grant \$7.5 million (up to 125,000 shares) in restricted stock under the Weeden & Co. Inducement Plan upon closing on August 2, 2019.

Stock-Based Compensation Activity

The following table summarizes the Company's stock-based compensation activity within continuing operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<i>(amounts in millions)</i>				
Stock-based compensation expense	\$ 5.8	\$ 9.5	\$ 10.1	\$ 18.4
Forfeitures	0.3	0.4	1.2	0.4
Tax benefit related to stock-based compensation expense	1.1	1.5	1.5	2.7

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

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2018	1,569,795	\$ 53.80
Granted	264,413	74.45
Vested	(1,292,965)	47.01
Canceled	(6,758)	82.18
June 30, 2019	534,485	\$ 80.08

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

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2018	194,251	\$ 48.97
Granted	39,758	75.78
Vested	(103,707)	19.93
Canceled	(15,987)	45.79
June 30, 2019	114,315	\$ 85.09

As of June 30, 2019, there was \$3.7 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.3 years.

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

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2018	81,667	\$ 99.00	9.1	\$ —
Granted	—	—		
Exercised	—	—		
Canceled	—	—		
June 30, 2019	81,667	\$ 99.00	8.6	\$ —

As of June 30, 2019, there was \$1.5 million of unrecognized compensation cost related to stock options expected to be recognized over a weighted average period of 3.6 years. There were no options exercised during the six months ended June 30, 2019.

Acquisition-related Compensation Arrangements

The Company entered into acquisition-related compensation arrangements with certain employees for retention and incentive purposes. Additional cash compensation was available to certain employees subject to exceeding an investment banking revenue threshold during the three year Simmons post-acquisition period, which ended on February 26, 2019. As of June 30, 2019, the Company had accrued \$40.1 million related to this performance award plan, which is expected to be paid in August 2019. Amounts payable related to this performance award plan were recorded as compensation expense from continuing operations on the consolidated statements of operations over the requisite performance period of three years. The Company recorded \$1.0 million and \$2.3 million as compensation expense from continuing operations for the three months ended June 30, 2019 and 2018, respectively, and \$0.4 million and \$6.6 million for the six months ended June 30, 2019 and 2018, respectively.

Deferred Compensation Plans

The Company maintains various deferred compensation arrangements for employees.

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

The nonqualified deferred compensation plan is an unfunded plan which allows certain highly compensated employees, at their election, to defer a portion of their compensation. In 2017, this plan was closed to future deferral elections by participants for performance periods beginning after December 31, 2017. The amounts deferred under this plan are held in a grantor trust. The Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan. Investments in the grantor trust, consisting of mutual funds, totaled \$30.4 million and \$31.2 million as of June 30, 2019 and December 31, 2018, respectively, and are included in investments on the consolidated statements of financial condition. The compensation deferred by the employees was expensed in the period earned. The deferred compensation liability was \$30.7 million and \$31.4 million as of June 30, 2019 and December 31, 2018, respectively. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

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

Note 16 Earnings Per Share ("EPS")

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. No allocation of undistributed earnings is made for periods in which a loss is incurred, or for periods in which cash dividends exceed net income resulting in an undistributed loss. Distributed earnings (e.g., dividends) are allocated to participating securities. Prior to the 2019 Annual Grant, 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, as well as the 2019 Annual Grant, are not participating securities as they are not eligible to receive dividends, or the dividends are forfeitable until vested. Diluted earnings per common share is calculated by adjusting the weighted average outstanding shares to assume conversion of all potentially dilutive stock options, restricted stock units and non-participating restricted shares.

The computation of earnings per share is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Amounts in thousands, except per share data)</i>	2019	2018	2019	2018
Net income from continuing operations applicable to Piper Jaffray Companies	\$ 12,555	\$ 5,862	\$ 32,116	\$ 16,480
Net income/(loss) from discontinued operations	(2,166)	364	(2,305)	349
Net income applicable to Piper Jaffray Companies	10,389	6,226	29,811	16,829
Earnings allocated to participating securities (1)	(238)	(704)	(1,924)	(4,634)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	<u>\$ 10,151</u>	<u>\$ 5,522</u>	<u>\$ 27,887</u>	<u>\$ 12,195</u>
Shares for basic and diluted calculations:				
Average shares used in basic computation	13,588	13,303	13,397	13,200
Restricted stock units	189	135	197	211
Non-participating restricted shares	247	—	184	—
Average shares used in diluted computation (3)	<u>14,024</u>	<u>13,438</u>	<u>13,778</u>	<u>13,411</u>
Earnings per basic common share:				
Income from continuing operations	\$ 0.90	\$ 0.40	\$ 2.24	\$ 0.88
Income/(loss) from discontinued operations	(0.15)	0.03	(0.16)	0.03
Earnings per basic common share	\$ 0.75	\$ 0.43	\$ 2.08	\$ 0.91
Earnings per diluted common share (3):				
Income from continuing operations	\$ 0.87	\$ 0.40	\$ 2.18	\$ 0.91
Income/(loss) from discontinued operations	(0.15)	0.03	(0.16)	0.03
Earnings per diluted common share	\$ 0.72	\$ 0.43	\$ 2.02	\$ 0.94

- (1) Represents the allocation of distributed and undistributed earnings to participating securities. No allocation of undistributed earnings is made for periods in which a loss is incurred, or for periods in which cash dividends exceed net income resulting in an undistributed loss. Distributed earnings (e.g., dividends) are allocated to participating securities. Participating securities include the Company's unvested restricted shares issued prior to the 2019 Annual Grant. The weighted average participating shares outstanding were 403,103 and 1,906,364 for the three months ended June 30, 2019 and 2018, respectively, and 764,963 and 1,997,254 for the six months ended June 30, 2019 and 2018, 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, restricted stock units and non-participating restricted shares to dilutive shares outstanding, which alters the ratio used to allocate earnings to Piper Jaffray Companies' common shareholders and participating securities for purposes of calculating diluted and basic EPS.
- (3) Earnings per diluted common share is calculated using the basic weighted average number of common shares outstanding for periods in which a loss is incurred, or for periods in which cash dividends exceed net income resulting in an undistributed loss. Common shares of 275,724 and 1,878,016 were excluded from diluted EPS at June 30, 2019 and 2018, respectively, as the Company had undistributed losses for these periods.

Piper Jaffray Companies
Notes to the Consolidated Financial Statements
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The anti-dilutive effects from stock options, restricted stock units and non-participating restricted shares were immaterial for the six months ended June 30, 2019 and 2018, respectively.

Note 17 Revenues and Business Information

The Company's activities as an investment bank and institutional securities firm constitute a single business segment. The substantial majority of the Company's net revenues and long-lived assets are located in the U.S.

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

Reportable segment financial results from continuing operations are as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(Dollars in thousands)</i>	2019	2018	2019	2018
Capital Markets				
Investment banking				
Advisory services	\$ 75,238	\$ 77,214	\$ 190,117	\$ 152,543
Equity financing	25,784	30,038	39,311	67,680
Debt financing	18,204	16,851	31,286	24,537
<i>Total investment banking</i>	<u>119,226</u>	<u>124,103</u>	<u>260,714</u>	<u>244,760</u>
Institutional sales and trading				
Equities	15,775	19,141	31,489	37,147
Fixed income	20,083	18,539	43,762	34,923
<i>Total institutional sales and trading</i>	<u>35,858</u>	<u>37,680</u>	<u>75,251</u>	<u>72,070</u>
<i>Investment income</i>	17,801	2,410	19,700	7,012
<i>Other financing expenses</i>	<u>(467)</u>	<u>(1,832)</u>	<u>(705)</u>	<u>(3,619)</u>
Net revenues	172,418	162,361	354,960	320,223
Operating expenses (1)	<u>151,493</u>	<u>157,474</u>	<u>310,898</u>	<u>307,214</u>
Segment pre-tax operating income	<u>\$ 20,925</u>	<u>\$ 4,887</u>	<u>\$ 44,062</u>	<u>\$ 13,009</u>
Segment pre-tax operating margin	12.1%	3.0%	12.4%	4.1%

(1) Operating expenses include intangible asset amortization of \$0.8 million and \$1.2 million for the three months ended June 30, 2019 and 2018, respectively; and \$1.5 million and \$2.4 million for the six months ended June 30, 2019 and 2018, respectively.

Note 18 Net Capital Requirements and Other Regulatory Matters

Piper Jaffray is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. The Financial Industry Regulatory Authority, Inc. ("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 \$1.0 million. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by Piper Jaffray are subject to certain approvals, notifications and other provisions of SEC and FINRA rules.

Piper Jaffray Companies
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At June 30, 2019, net capital calculated under the SEC rule was \$197.8 million, and exceeded the minimum net capital required under the SEC rule by \$196.8 million.

The Company's committed short-term credit facility includes a covenant requiring Piper Jaffray to maintain minimum net capital of \$120 million. CP Notes issued under CP Series II A include a covenant that requires Piper Jaffray to maintain excess net capital of \$100 million. The Company's fully disclosed clearing agreement with Pershing also includes a covenant requiring Piper Jaffray to maintain excess net capital of \$120 million.

Piper Jaffray Ltd., a broker dealer subsidiary registered in the United Kingdom, is subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of June 30, 2019, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At June 30, 2019, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Futures Commission.

Note 19 *Income Taxes*

The Company recorded an income tax benefit from continuing operations of \$0.2 million and income tax expense from continuing operations of \$0.6 million for the three months ended June 30, 2019 and 2018, respectively. Income tax expense from continuing operations was reduced by a tax benefit of \$3.5 million and \$1.4 million for the three months ended June 30, 2019 and 2018, respectively, related to stock-based compensation awards vesting at values greater than the grant price.

The Company recorded income tax expense from continuing operations of \$4.0 million and an income tax benefit from continuing operations of \$2.0 million for the six months ended June 30, 2019 and 2018, respectively. Income tax expense from continuing operations was reduced by a tax benefit of \$5.1 million and \$6.4 million for the six months ended June 30, 2019 and 2018, respectively, related to stock-based compensation awards vesting at values greater than the grant price.

Note 20 *Subsequent Events*

On July 9, 2019, the Company signed a definitive agreement to acquire SOP Holdings, LLC and its subsidiaries, including Sandler O'Neill & Partners, L.P. (collectively, "Sandler O'Neill"). Sandler O'Neill is a full-service investment banking firm and broker dealer focused on the financial services industry. The Company will acquire 100 percent of the equity and partnership interests in Sandler O'Neill. The total consideration of \$485.0 million, which includes \$100.0 million of tangible book value, consists of \$350.0 million in cash and \$135.0 million in restricted consideration, primarily in restricted stock. In addition, the Company agreed to provide restricted award agreements of \$115.0 million, primarily in restricted stock, for retention purposes. The transaction is expected to close in the first quarter of 2020, subject to obtaining required regulatory approvals and other customary closing conditions.

On August 2, 2019, the Company will close on the purchase of Weeden & Co., a broker dealer specializing in equity security sales and trading. The transaction will be completed pursuant to the Securities Purchase Agreement dated February 24, 2019, for total consideration of approximately \$34.5 million, consisting of \$24.5 million in cash and \$10.0 million in restricted cash. Additional consideration up to \$31.5 million may be earned if certain revenue targets are achieved. The Company also entered into acquisition-related compensation arrangements with certain employees of \$7.5 million in restricted stock for retention purposes under the Weeden & Co. Inducement Plan. The allocation of the purchase price will be finalized upon completion of the analysis of the fair values of the net assets acquired. Weeden & Co.'s results of operations will be included in the Company's consolidated financial statements prospectively from the date of acquisition.

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, 2018 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, 2018, as updated in our subsequent reports filed with the SEC and under "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Explanation of Non-GAAP Financial Measures

We have included financial measures that are not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include adjustments to exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions, (3) compensation and non-compensation expenses from acquisition-related agreements, (4) acquisition-related restructuring and integration costs, (5) the impact from remeasuring deferred tax assets resulting from changes to the U.S. federal tax code (6) the impact of the annual special cash dividend paid in the first quarter on earnings per diluted common share and (7) discontinued operations. These adjustments affect the following financial measures: net revenues, compensation expenses, non-compensation expenses, income tax expense/(benefit), net income applicable to Piper Jaffray Companies, earnings per diluted common share, operating expenses, pre-tax operating income and pre-tax operating margin. Management believes that presenting these results and measures on an adjusted basis in conjunction with the corresponding U.S. GAAP measures provides the most meaningful basis for comparison of our operating results across periods, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of financial performance prepared in accordance with U.S. GAAP.

Executive Overview

Our continuing operations principally consist of providing investment banking and institutional brokerage services to corporations, private equity groups, public entities, non-profit entities and institutional investors in the United States and Europe. We operate through one reportable business segment. Refer to our Annual Report on Form 10-K for the year ended December 31, 2018 for a full description of our business, including our business strategy.

During 2019, we announced three key strategic activities which impacted our second quarter results and will significantly impact our go-forward operations. The following is a summary of these activities:

- In the first quarter, we announced the acquisition of Weeden & Co. L.P. ("Weeden & Co."). This acquisition will close on August 2, 2019. Weeden & Co. is a broker dealer focused on providing institutional clients with global trading solutions, specializing in best execution through the use of high-touch, low-touch and program trading capabilities. The transaction adds enhanced trade execution capabilities and scale to our equity brokerage business while providing support for our growing equity capital markets business.
- During the second quarter of 2019, we announced the pending sale of Advisory Research, Inc. ("ARI"), our traditional asset management subsidiary, through two separate transactions. On May 29, 2019, we reached a definitive agreement to sell our master limited partnerships and energy infrastructure strategies business to Tortoise Capital Advisors. Additionally, we entered into a separate agreement, dated June 11, 2019, to sell our remaining equity strategies business to an existing management buyout team. Exiting the traditional asset management business generates capital to deploy in our capital markets business. The transactions are subject to certain closing conditions, including client consents.

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ARI's results, previously reported in our Asset Management segment, have been presented herein as discontinued operations for all periods presented. See Note 3 to our unaudited consolidated financial statements for further discussion of our discontinued operations.

- On July 9, 2019, we signed a definitive agreement to acquire SOP Holdings, LLC and its subsidiaries, including Sandler O'Neill & Partners, L.P. (collectively, "Sandler O'Neill"). Sandler O'Neill is a full-service investment banking firm and broker dealer focused on the financial services industry. This transaction accelerates our goal of prioritizing and building our advisory services business, diversifies and scales our capital markets franchise, adds a differentiated fixed income business and enhances our equity brokerage business. Upon completion of the transaction, the combined firm will be named Piper Sandler Companies. The transaction is expected to close early in the first quarter of 2020, subject to the receipt of regulatory approvals and the satisfaction of other customary closing conditions.

Financial Highlights

	Three Months Ended			Six Months Ended		
	June 30, 2019	June 30, 2018	Percent Inc/(Dec)	June 30, 2019	June 30, 2018	Percent Inc/(Dec)
<i>(Amounts in thousands, except per share data)</i>						
U.S. GAAP						
Net revenues	\$172,418	\$ 162,361	6.2 %	\$ 354,960	\$ 320,223	10.8%
Compensation and benefits	102,476	109,256	(6.2)	219,603	217,623	0.9
Non-compensation expenses	49,017	48,218	1.7	91,295	89,591	1.9
Net income applicable to Piper Jaffray Companies	10,389	6,226	66.9	29,811	16,829	77.1
Earnings per diluted common share	\$ 0.72	\$ 0.43	67.4	\$ 2.02	\$ 0.94	114.9%
Non-GAAP⁽¹⁾						
Adjusted net revenues	\$162,779	\$ 162,799	— %	\$ 344,908	\$ 319,742	7.9%
Adjusted compensation and benefits	101,147	101,919	(0.8)	215,967	200,082	7.9
Adjusted non-compensation expenses	40,780	45,735	(10.8)	81,162	84,822	(4.3)
Adjusted net income applicable to Piper Jaffray Companies	18,982	12,423	52.8	41,169	32,707	25.9
Adjusted earnings per diluted common share	\$ 1.32	\$ 0.82	61.0	\$ 2.83	\$ 2.13	32.9%

For the three months ended June 30, 2019

- Net revenues were up 6.2 percent from the year-ago period as higher investment income was partially offset by lower equity financing and equity institutional brokerage revenues.
- Compensation and benefits expenses decreased 6.2 percent compared with the prior-year period due to lower acquisition-related compensation costs.
- Non-compensation expenses were up 1.7 percent compared to the year-ago period.
- For the three months ended June 30, 2019 and 2018, we recorded a tax benefit of \$3.5 million and \$1.4 million, respectively, related to restricted stock vesting at values greater than the grant price. The tax benefit increased earnings per diluted common share by \$0.24 in the second quarter of 2019, compared with \$0.11 in the second quarter of 2018.

For the six months ended June 30, 2019

- Net revenues were up 10.8 percent from the year-ago period as higher advisory services, debt financing and fixed income institutional brokerage revenues, and higher investment income, were partially offset by lower equity financing and equity institutional brokerage revenues.
- Compensation and benefits expenses increased slightly compared with the prior-year period as higher compensation expenses resulting from increased revenues and profitability were offset by lower acquisition-related compensation costs.
- Non-compensation expenses increased 1.9 percent compared to the year-ago period.
- For the six months ended June 30, 2019 and 2018, we recorded a tax benefit of \$5.1 million and \$6.4 million, respectively, related to restricted stock vesting at values greater than the grant price. The tax benefit increased earnings per diluted common share by \$0.35 and \$0.49 in the first half of 2019 and 2018, respectively.

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

(Amounts in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenues:				
Net revenues – U.S. GAAP basis	\$ 172,418	\$ 162,361	\$ 354,960	\$ 320,223
Adjustments:				
Revenue related to noncontrolling interests	(9,639)	438	(10,052)	(481)
Adjusted net revenues	<u>\$ 162,779</u>	<u>\$ 162,799</u>	<u>\$ 344,908</u>	<u>\$ 319,742</u>
Compensation and benefits:				
Compensation and benefits – U.S. GAAP basis	\$ 102,476	\$ 109,256	\$ 219,603	\$ 217,623
Adjustments:				
Compensation from acquisition-related agreements	(1,329)	(7,337)	(3,636)	(17,541)
Adjusted compensation and benefits	<u>\$ 101,147</u>	<u>\$ 101,919</u>	<u>\$ 215,967</u>	<u>\$ 200,082</u>
Non-compensation expenses:				
Non-compensation expenses – U.S. GAAP basis	\$ 49,017	\$ 48,218	\$ 91,295	\$ 89,591
Adjustments:				
Non-compensation expenses related to noncontrolling interests	(1,089)	(1,096)	(2,118)	(1,999)
Acquisition-related restructuring and integration costs	(6,395)	—	(6,395)	—
Amortization of intangible assets related to acquisitions	(753)	(1,215)	(1,506)	(2,429)
Non-compensation expenses from acquisition-related agreements	—	(172)	(114)	(341)
Adjusted non-compensation expenses	<u>\$ 40,780</u>	<u>\$ 45,735</u>	<u>\$ 81,162</u>	<u>\$ 84,822</u>
Net income applicable to Piper Jaffray Companies:				
Net income applicable to Piper Jaffray Companies – U.S. GAAP basis	\$ 10,389	\$ 6,226	\$ 29,811	\$ 16,829
Adjustment to exclude net income/(loss) from discontinued operations	(2,166)	364	(2,305)	349
Net income from continuing operations	\$ 12,555	\$ 5,862	\$ 32,116	\$ 16,480
Adjustments:				
Compensation from acquisition-related agreements	1,047	5,517	2,989	13,190
Acquisition-related restructuring and integration costs	4,809	—	4,809	—
Amortization of intangible assets related to acquisitions	571	915	1,141	1,829
Non-compensation expenses from acquisition-related agreements	—	129	114	256
Impact of the Tax Cuts and Jobs Act legislation	—	—	—	952
Adjusted net income applicable to Piper Jaffray Companies	<u>\$ 18,982</u>	<u>\$ 12,423</u>	<u>\$ 41,169</u>	<u>\$ 32,707</u>
Earnings per diluted common share:				
Earnings per diluted common share – U.S. GAAP basis	\$ 0.72	\$ 0.43	\$ 2.02	\$ 0.94
Adjustment to exclude net income/(loss) from discontinued operations	(0.15)	0.03	(0.16)	0.03
Income from continuing operations	\$ 0.87	\$ 0.40	\$ 2.18	\$ 0.91
Adjustment related to participating shares (2)	—	—	0.02	0.17
	<u>0.87</u>	<u>0.40</u>	<u>2.20</u>	<u>1.08</u>
Adjustments:				
Compensation from acquisition-related agreements	0.07	0.35	0.21	0.85
Acquisition-related restructuring and integration costs	0.34	—	0.33	—
Amortization of intangible assets related to acquisitions	0.04	0.06	0.08	0.12
Non-compensation expenses from acquisition-related agreements	—	0.01	0.01	0.02
Impact of the Tax Cuts and Jobs Act legislation	—	—	—	0.06
Adjusted earnings per diluted common share	<u>\$ 1.32</u>	<u>\$ 0.82</u>	<u>\$ 2.83</u>	<u>\$ 2.13</u>

(2) The adjustment related to participating shares excludes the impact of the annual special cash dividend paid in the first quarter.

External Factors Impacting Our Business

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

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

Outlook for the remainder of 2019

We believe that the U.S. economy will continue to grow at a moderate pace for the remainder of 2019. However, geopolitical and macroeconomic risks, such as uncertainties surrounding trade policy, negotiations regarding Brexit, and global economic deceleration, present risks to this outlook. These risks and uncertainties may pose consequences for the global economy and inject periods of heightened volatility into the U.S. equity and debt markets.

U.S. monetary policy will continue to be a critical factor impacting the economy and financial markets. Uncertainties around global growth and trade continue to weigh on the U.S. Federal Reserve's outlook, and inflation remains muted. Factors such as these recently resulted in a reduction in short-term interest rates, with additional reductions possible in the future.

Market conditions remain conducive to advisory engagements, especially in the U.S. middle market, our primary market. Advisory activity has been driven by solid economic growth domestically, healthy valuations, ample financing availability with low interest rates, and demand from private equity investors. We believe our advisory pipeline remains strong and, consistent with prior years, will be more weighted to the second half of the year. Advisory services revenues for any given quarter are impacted by the timing and size of the deals closing, which can result in fluctuations in revenues period over period. The market for equity capital raising improved in the second quarter of 2019 after the year started slowly due to the extended federal government shut down and steep sell-off in the fourth quarter of 2018. Solid valuations, coupled with lower volatility and strong investor demand for IPOs, have led to favorable conditions for capital raising. Our pipeline remains strong and we expect to benefit from these market conditions. If the equity market experiences sustained bouts of higher volatility or a material market correction, our advisory services and equity capital raising businesses may suffer.

Our equity brokerage business experienced secular changes in 2018 as the manner in which many market participants pay for trade execution and research services began to transition at a time when the overall fee pool was shrinking. Increasingly, market participants are executing trades through low-touch execution providers and paying separately for research services. This dynamic has introduced more seasonality to our equity brokerage business as we typically receive an increased level of payments for research in the second half of the year. Our acquisition of Weeden & Co. will add enhanced trade execution capabilities and scale to our equity brokerage business.

Interest rates remain relatively low by historical standards and the yield curve has flattened. We expect these conditions to persist for our fixed income institutional brokerage business. In our public finance business, municipal issuance levels for the first half of 2019 were essentially flat compared to 2018 and below historical levels, and we expect volumes in the second half of 2019 to be similar to 2018. Our product capabilities and industry expertise should serve to mitigate the impact of muted municipal issuance levels on our public finance business.

Results of Operations

Financial Summary for the three months ended June 30, 2019 and June 30, 2018

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

	Three Months Ended June 30,			As a Percentage of Net Revenues for the Three Months Ended June 30,	
	2019	2018	2019 v2018	2019	2018
<i>(Dollars in thousands)</i>					
Revenues:					
Investment banking	\$ 118,739	\$ 123,904	(4.2)%	68.9%	76.3%
Institutional brokerage	32,204	33,135	(2.8)	18.7	20.4
Interest	6,863	8,178	(16.1)	4.0	5.0
Investment income	17,605	2,243	684.9	10.2	1.4
Total revenues	175,411	167,460	4.7	101.7	103.1
Interest expense	2,993	5,099	(41.3)	1.7	3.1
Net revenues	172,418	162,361	6.2	100.0	100.0
Non-interest expenses:					
Compensation and benefits	102,476	109,256	(6.2)	59.4	67.3
Outside services	8,451	9,632	(12.3)	4.9	5.9
Occupancy and equipment	8,425	8,562	(1.6)	4.9	5.3
Communications	6,849	7,250	(5.5)	4.0	4.5
Marketing and business development	8,089	7,005	15.5	4.7	4.3
Deal-related expenses	6,725	6,166	9.1	3.9	3.8
Trade execution and clearance	1,017	2,028	(49.9)	0.6	1.2
Restructuring and integration costs	6,395	3,498	82.8	3.7	2.2
Intangible asset amortization	753	1,215	(38.0)	0.4	0.7
Other operating expenses	2,313	2,862	(19.2)	1.3	1.8
Total non-interest expenses	151,493	157,474	(3.8)	87.9	97.0
Income from continuing operations before income tax expense/(benefit)	20,925	4,887	328.2	12.1	3.0
Income tax expense/(benefit)	(180)	559	N/M	(0.1)	0.3
Income from continuing operations	21,105	4,328	387.6	12.2	2.7
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	(2,166)	364	N/M	(1.3)	0.2
Net income	18,939	4,692	303.6	11.0	2.9
Net income/(loss) applicable to noncontrolling interests	8,550	(1,534)	N/M	5.0	(0.9)
Net income applicable to Piper Jaffray Companies	\$ 10,389	\$ 6,226	66.9 %	6.0%	3.8%

N/M – Not meaningful

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For the three months ended June 30, 2019, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of \$10.4 million. Net revenues from continuing operations for the three months ended June 30, 2019 were \$172.4 million, a 6.2 percent increase compared to \$162.4 million in the year-ago period. In the second quarter of 2019, investment banking revenues were \$118.7 million, down 4.2 percent compared with \$123.9 million in the prior-year period, due primarily to lower equity financing revenues. For the three months ended June 30, 2019, institutional brokerage revenues decreased 2.8 percent to \$32.2 million, compared with \$33.1 million in the second quarter of 2018, as higher fixed income institutional brokerage revenues were more than offset by lower equity institutional brokerage revenues. For the three months ended June 30, 2019, net interest income was \$3.9 million, up compared to \$3.1 million in the prior-year period. We recorded investment income of \$17.6 million in the second quarter of 2019, compared with \$2.2 million in the prior-year period. The increase was driven by higher gains on our investment and the noncontrolling interests in the merchant banking funds that we manage. Non-interest expenses from continuing operations were \$151.5 million for the three months ended June 30, 2019, down 3.8 percent compared to \$157.5 million in the prior-year period, driven by decreased compensation expenses resulting primarily from lower acquisition-related compensation.

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-related costs. A portion of compensation expense is comprised of variable incentive arrangements, including discretionary incentive compensation, the amount of which fluctuates in proportion to the level of business activity, increasing with higher revenues and operating profits. Other compensation costs, primarily base salaries and benefits, are more fixed in nature. The timing of incentive compensation payments, which generally occur in February, has a greater impact on our cash position and liquidity than is reflected on our consolidated statements of operations. We have granted restricted stock with service conditions as a component of our acquisition deal consideration, which is amortized to compensation expense over the service period.

For the three months ended June 30, 2019, compensation and benefits expenses decreased 6.2 percent to \$102.5 million, compared with \$109.3 million in the corresponding period of 2018. Compensation and benefits expenses as a percentage of net revenues was 59.4 percent in the second quarter of 2019, compared with 67.3 percent in the second quarter of 2018. The compensation ratio was favorably impacted by higher noncontrolling interest revenue in our merchant banking portfolio in the current quarter and decreased acquisition-related compensation driven by a decline in compensation expenses related to the acquisition of Simmons & Company International ("Simmons"). The requisite service period for our Simmons acquisition-related compensation arrangements ended in the second quarter of 2019.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses decreased 12.3 percent to \$8.5 million in the second quarter of 2019, compared with \$9.6 million in the corresponding period of 2018 due primarily to lower professional fees.

Occupancy and Equipment – For the three months ended June 30, 2019, occupancy and equipment expenses decreased slightly to \$8.4 million, compared with \$8.6 million for the three months ended June 30, 2018.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the three months ended June 30, 2019, communication expenses decreased 5.5 percent to \$6.8 million, compared with \$7.3 million for the three months ended June 30, 2018. The decline in expense was related to lower market data expenses.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. For the three months ended June 30, 2019, marketing and business development expenses increased 15.5 percent to \$8.1 million, compared with \$7.0 million in the corresponding period of 2018. The increase was driven by higher travel and entertainment expenses.

Deal-Related Expenses – Deal-related expenses include costs we incurred over the course of a completed investment banking deal, which primarily consist of legal fees, offering expenses, and travel and entertainment costs. For the three months ended June 30, 2019, deal-related expenses were \$6.7 million, compared with \$6.2 million for the three months ended June 30, 2018. The amount of deal-related expenses will principally be dependent on the level of deal activity and may vary from period to period as the recognition of deal-related costs typically coincides with the closing of a transaction.

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Trade Execution and Clearance – For the three months ended June 30, 2019, trade execution and clearance expenses were \$1.0 million, compared with \$2.0 million in the corresponding period of 2018. The decline in trade execution and clearance expenses was reflective of reduced trading volumes compared with the second quarter of 2018.

Restructuring and Integration Costs – For the three months ended June 30, 2019, we incurred acquisition-related restructuring and integration costs of \$6.4 million related to the acquisition of Weeden & Co. and the announced acquisition of Sandler O'Neill. The expenses consisted of \$2.8 million of contract termination fees, \$2.5 million of transaction costs, and \$1.1 million of severance benefits. We expect to incur additional restructuring and integration costs in the second half of 2019. For the three months ended June 30, 2018, we incurred restructuring costs of \$3.5 million related to our brokerage business. Restructuring costs included \$3.2 million of severance benefits, \$0.1 million for vacated leased office space, and \$0.2 million for contract termination fees.

Intangible Asset Amortization – Intangible asset amortization includes the amortization of definite-lived intangible assets consisting of customer relationships and the Simmons trade name. For the three months ended June 30, 2019, intangible asset amortization was \$0.8 million, compared with \$1.2 million in the corresponding period of 2018. Beginning in the third quarter of 2019, we will incur additional intangible asset amortization expense related to the acquisition of Weeden & Co.

Other Operating Expenses – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses decreased to \$2.3 million in the second quarter of 2019, compared with \$2.9 million in the second quarter of 2018. In the second quarter of 2019, we recorded foreign currency gains from our foreign cash accounts, compared with foreign currency losses in the prior-year period.

Income Taxes – For the three months ended June 30, 2019, our benefit from income taxes was \$0.2 million, which included a \$3.5 million tax benefit related to stock-based compensation awards vesting at values greater than the grant price. Excluding the impact of this benefit and noncontrolling interests, our effective tax rate was 26.5 percent.

For the three months ended June 30, 2018, our provision for income taxes was \$0.6 million. In the second quarter of 2018, we recorded a \$1.4 million tax benefit related to stock-based compensation awards vesting at values greater than the grant price. Excluding the impact of this benefit and noncontrolling interests, our effective tax rate was 30.6 percent.

Financial Performance from Continuing Operations

Our activities as an investment bank and institutional securities firm constitute a single business segment.

Throughout this section, we have presented results on both a U.S. GAAP and non-GAAP basis. Management believes that presenting adjusted pre-tax operating income and adjusted pre-tax operating margin, each a non-GAAP measure, in conjunction with the U.S. GAAP measures provides a more meaningful basis for comparison of its operating results and underlying trends between periods, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP results should be considered in addition to, not as a substitute for, the results prepared in accordance with U.S. GAAP.

Adjusted pre-tax operating income and adjusted pre-tax operating margin exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions, (3) compensation and non-compensation expenses from acquisition-related agreements and (4) acquisition-related restructuring and integration costs. For U.S. GAAP purposes, these items are included in each of their respective line items on the consolidated statements of operations.

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

	Three Months Ended June 30,							
	2019				2018			
	Total Adjusted	Adjustments (1)		U.S. GAAP	Total Adjusted	Adjustments (1)		U.S. GAAP
Noncontrolling Interests		Other Adjustments	Noncontrolling Interests			Other Adjustments		
<i>(Dollars in thousands)</i>								
Investment banking								
Advisory services	\$ 75,238	\$ —	\$ —	\$ 75,238	\$ 77,214	\$ —	\$ —	\$ 77,214
Equity financing	25,784	—	—	25,784	30,038	—	—	30,038
Debt financing	18,204	—	—	18,204	16,851	—	—	16,851
Total investment banking	119,226	—	—	119,226	124,103	—	—	124,103
Institutional sales and trading								
Equities	15,775	—	—	15,775	19,141	—	—	19,141
Fixed income	20,083	—	—	20,083	18,539	—	—	18,539
Total institutional sales and trading	35,858	—	—	35,858	37,680	—	—	37,680
Investment income	8,162	9,639	—	17,801	2,848	(438)	—	2,410
Other financing expenses	(467)	—	—	(467)	(1,832)	—	—	(1,832)
Net revenues	162,779	9,639	—	172,418	162,799	(438)	—	162,361
Operating expenses	141,927	1,089	8,477	151,493	147,654	1,096	8,724	157,474
Pre-tax operating income	\$ 20,852	\$ 8,550	\$ (8,477)	\$ 20,925	\$ 15,145	\$ (1,534)	\$ (8,724)	\$ 4,887
Pre-tax operating margin	12.8%			12.1%	9.3%			3.0%

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

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

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

	Three Months Ended June 30,	
	2019	2018
<i>(Dollars in thousands)</i>		
Compensation from acquisition-related agreements	\$ 1,329	\$ 7,337
Acquisition-related restructuring and integration costs	6,395	—
Amortization of intangible assets related to acquisitions	753	1,215
Non-compensation expenses from acquisition-related agreements	—	172
	\$ 8,477	\$ 8,724

Net revenues on a U.S. GAAP basis were \$172.4 million for the three months ended June 30, 2019, compared with \$162.4 million in the prior-year period. Adjusted net revenues were \$162.8 million in the second quarter of 2019 and 2018, respectively. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis unless stated otherwise.

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

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In the second quarter of 2019, investment banking revenues decreased 3.9 percent to \$119.2 million, compared with \$124.1 million in the corresponding period of the prior year. For the three months ended June 30, 2019, advisory services revenues were \$75.2 million, down slightly compared to \$77.2 million in the second quarter of 2018. We completed 46 transactions with an aggregate enterprise value of \$4.8 billion in the second quarter of 2019, compared with 37 transactions with an aggregate enterprise value of \$4.9 billion in the second quarter of 2018. The uneven distribution of the number and size of deals results in revenue fluctuations from quarter to quarter. For the three months ended June 30, 2019, equity financing revenues were \$25.8 million, down 14.2 percent compared with \$30.0 million in the second quarter of 2018, driven by fewer completed transactions. During the second quarter of 2019, we completed 22 equity financings, compared with 26 equity financings in the comparable year-ago period. Debt financing revenues for the three months ended June 30, 2019 were \$18.2 million, up compared to \$16.9 million in the prior-year period. During the second quarter of 2019, we completed 134 negotiated municipal issues with a total par value of \$3.1 billion, compared with 124 negotiated municipal issues with a total par value of \$2.4 billion during the prior-year period.

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

For the three months ended June 30, 2019, institutional brokerage revenues were \$35.9 million, a decrease of 4.8 percent compared with \$37.7 million in the prior-year period. Equity institutional brokerage revenues were \$15.8 million in the second quarter of 2019, down 17.6 percent compared with \$19.1 million in the corresponding period of 2018. The decrease was driven by lower commissions from client trading as market volatility and volumes were relatively subdued during the quarter. For the three months ended June 30, 2019, fixed income institutional brokerage revenues were \$20.1 million, up 8.3 percent compared with \$18.5 million in the prior-year period, due to improved trading performance. In the second quarter of 2019, we experienced solid client activity across most taxable fixed income products.

Investment income includes realized and unrealized gains and losses on investments, including amounts attributable to noncontrolling interests, in our merchant banking, energy and senior living funds, as well as management and performance fees generated from those funds. For the three months ended June 30, 2019, investment income was \$17.8 million, compared with \$2.4 million in the corresponding period of 2018. In the second quarter of 2019, we recorded higher gains on the merchant banking funds that we manage. Excluding the impact of noncontrolling interests, adjusted investment income was \$8.2 million and \$2.8 million for the three months ended June 30, 2019 and 2018, respectively.

Other financing expenses primarily represent interest paid on our senior notes along with commitment fees on our line of credit. We repaid our \$125 million fixed rate senior notes upon maturity on October 9, 2018, and, as a result, we no longer have financing expenses related to these notes.

Pre-tax operating margin for the three months ended June 30, 2019 was 12.1 percent, compared with 3.0 percent for the corresponding period of 2018. The increase in pre-tax operating margin was due to higher revenues and lower acquisition-related compensation costs. Adjusted pre-tax operating margin for the three months ended June 30, 2019 was 12.8 percent, compared with 9.3 percent for the corresponding period of 2018. Adjusted pre-tax operating margin increased compared to the year-ago period due to lower non-compensation expenses, which included restructuring costs of \$3.5 million in the prior-year period.

Financial Summary for the six months ended June 30, 2019 and June 30, 2018

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

	Six Months Ended June 30,			As a Percentage of Net Revenues for the Six Months Ended June 30,	
	2019	2018	2019 v2018	2019	2018
<i>(Dollars in thousands)</i>					
Revenues:					
Investment banking	\$ 259,800	\$ 244,745	6.2%	73.2%	76.4%
Institutional brokerage	67,169	60,829	10.4	18.9	19.0
Interest	14,430	18,591	(22.4)	4.1	5.8
Investment income	19,197	6,495	195.6	5.4	2.0
Total revenues	<u>360,596</u>	<u>330,660</u>	<u>9.1</u>	<u>101.6</u>	<u>103.3</u>
Interest expense	<u>5,636</u>	<u>10,437</u>	<u>(46.0)</u>	<u>1.6</u>	<u>3.3</u>
Net revenues	<u>354,960</u>	<u>320,223</u>	<u>10.8</u>	<u>100.0</u>	<u>100.0</u>
Non-interest expenses:					
Compensation and benefits	219,603	217,623	0.9	61.9	68.0
Outside services	17,022	17,702	(3.8)	4.8	5.5
Occupancy and equipment	16,774	16,762	0.1	4.7	5.2
Communications	14,714	15,040	(2.2)	4.1	4.7
Marketing and business development	14,827	13,416	10.5	4.2	4.2
Deal-related expenses	11,453	11,217	2.1	3.2	3.5
Trade execution and clearance	2,823	4,191	(32.6)	0.8	1.3
Restructuring and integration costs	6,395	3,498	82.8	1.8	1.1
Intangible asset amortization	1,506	2,429	(38.0)	0.4	0.8
Other operating expenses	5,781	5,336	8.3	1.6	1.7
Total non-interest expenses	<u>310,898</u>	<u>307,214</u>	<u>1.2</u>	<u>87.6</u>	<u>95.9</u>
Income from continuing operations before income tax expense/(benefit)	44,062	13,009	238.7	12.4	4.1
Income tax expense/(benefit)	<u>4,012</u>	<u>(1,953)</u>	<u>N/M</u>	<u>1.1</u>	<u>(0.6)</u>
Income from continuing operations	40,050	14,962	167.7	11.3	4.7
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	<u>(2,305)</u>	<u>349</u>	<u>N/M</u>	<u>(0.6)</u>	<u>0.1</u>
Net income	37,745	15,311	146.5	10.6	4.8
Net income/(loss) applicable to noncontrolling interests	<u>7,934</u>	<u>(1,518)</u>	<u>N/M</u>	<u>2.2</u>	<u>(0.5)</u>
Net income applicable to Piper Jaffray Companies	<u>\$ 29,811</u>	<u>\$ 16,829</u>	<u>77.1%</u>	<u>8.4%</u>	<u>5.3%</u>

N/M – Not meaningful

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

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For the six months ended June 30, 2019, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of \$29.8 million. Net revenues from continuing operations for the six months ended June 30, 2019 increased 10.8 percent to \$355.0 million, compared with \$320.2 million in the year-ago period. In the first half of 2019, investment banking revenues were \$259.8 million, up 6.2 percent compared with \$244.7 million in the prior-year period as higher advisory services and debt financing revenues were partially offset by lower equity financing revenues. For the six months ended June 30, 2019, institutional brokerage revenues increased 10.4 percent to \$67.2 million, compared with \$60.8 million in the first half of 2018, as higher fixed income institutional brokerage revenues were partially offset by lower equity institutional brokerage revenues. In the first six months of 2019, net interest income increased to \$8.8 million, compared with \$8.2 million in the prior-year period. For the six months ended June 30, 2019, investment income was \$19.2 million, compared with \$6.5 million in the prior-year period. Non-interest expenses from continuing operations were \$310.9 million for the six months ended June 30, 2019, up slightly compared with \$307.2 million in the year-ago period. We recorded higher restructuring and integration costs in the first six months of 2019.

Consolidated Non-Interest Expenses from Continuing Operations

Income Taxes – For the six months ended June 30, 2019, our provision for income taxes was \$4.0 million. In the first half of 2019, we recorded a \$5.1 million tax benefit related to stock-based compensation awards vesting at values greater than the grant price. Excluding the impact of this benefit and noncontrolling interests, our effective tax rate was 25.3 percent.

For the six months ended June 30, 2018, our benefit from income taxes was \$2.0 million. In the first half of 2018, we recorded a \$6.4 million tax benefit related to stock-based compensation awards vesting at values greater than the grant price. Additionally, pursuant to SEC Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," we recorded an additional \$1.0 million of income tax expense for the six months ended June 30, 2018 related to revaluing our deferred tax assets at the lower federal tax rate. Excluding the impact of these items and noncontrolling interests, our effective tax rate was 24.0 percent for the six months ended June 30, 2018.

Financial Performance from Continuing Operations

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

	Six Months Ended June 30,							
	2019				2018			
	Total Adjusted	Adjustments ⁽¹⁾		U.S. GAAP	Total Adjusted	Adjustments ⁽¹⁾		U.S. GAAP
Noncontrolling Interests		Other Adjustments	Noncontrolling Interests			Other Adjustments		
<i>(Dollars in thousands)</i>								
Investment banking								
Advisory services	\$ 190,117	\$ —	\$ —	\$ 190,117	\$ 152,543	\$ —	\$ —	\$ 152,543
Equity financing	39,311	—	—	39,311	67,680	—	—	67,680
Debt financing	31,286	—	—	31,286	24,537	—	—	24,537
Total investment banking	260,714	—	—	260,714	244,760	—	—	244,760
Institutional sales and trading								
Equities	31,489	—	—	31,489	37,147	—	—	37,147
Fixed income	43,762	—	—	43,762	34,923	—	—	34,923
Total institutional sales and trading	75,251	—	—	75,251	72,070	—	—	72,070
Investment income	9,648	10,052	—	19,700	6,531	481	—	7,012
Other financing expenses	(705)	—	—	(705)	(3,619)	—	—	(3,619)
Net revenues	344,908	10,052	—	354,960	319,742	481	—	320,223
Operating expenses	297,129	2,118	11,651	310,898	284,904	1,999	20,311	307,214
Pre-tax operating income	\$ 47,779	\$ 7,934	\$ (11,651)	\$ 44,062	\$ 34,838	\$ (1,518)	\$ (20,311)	\$ 13,009
Pre-tax operating margin	13.9%			12.4%	10.9%			4.1%

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

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

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

	Six Months Ended June 30,	
	2019	2018
<i>(Dollars in thousands)</i>		
Compensation from acquisition-related agreements	\$ 3,636	\$ 17,541
Acquisition-related restructuring and integration costs	6,395	—
Amortization of intangible assets related to acquisitions	1,506	2,429
Non-compensation expenses from acquisition-related agreements	114	341
	\$ 11,651	\$ 20,311

Net revenues on a U.S. GAAP basis were \$355.0 million for the six months ended June 30, 2019, compared with \$320.2 million in the prior-year period. In the first half of 2019, adjusted net revenues were \$344.9 million, compared with \$319.7 million in the first half of 2018. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis unless stated otherwise.

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In the first half of 2019, investment banking revenues increased 6.5 percent to \$260.7 million, compared with \$244.8 million in the corresponding period of the prior year. For the six months ended June 30, 2019, advisory services revenues increased 24.6 percent to \$190.1 million, compared with \$152.5 million in the first half of 2018. The increase was driven by a strong first quarter of 2019 which was elevated by the closing of two larger deals. We completed 81 transactions with an aggregate enterprise value of \$16.7 billion in the first half of 2019, compared with 73 transactions with an aggregate enterprise value of \$10.2 billion in the first half of 2018. For the six months ended June 30, 2019, equity financing revenues were \$39.3 million, a decrease of 41.9 percent compared with \$67.7 million in the prior-year period, due to fewer completed transactions and lower revenue per transaction. Although the pace of equity financing activity improved in the second quarter of 2019, the slow first quarter of 2019 was impacted by the federal government shut down and hesitation by market participants after the market volatility in the fourth quarter of 2018. During the first half of 2019, we completed 34 equity financings, compared with 51 equity financings in the year-ago period. Debt financing revenues for the six months ended June 30, 2019 were \$31.3 million, up 27.5 percent compared with \$24.5 million in the year-ago period. The par amount of our negotiated municipal issuances increased approximately 21 percent from the first half of 2018, compared to an increase of approximately two percent for the industry. During the first half of 2019, we completed 214 negotiated municipal issues with a total par value of \$4.9 billion, compared with 183 negotiated municipal issues with a total par value of \$4.0 billion during the prior-year period.

For the six months ended June 30, 2019, institutional brokerage revenues increased 4.4 percent to \$75.3 million, compared with \$72.1 million in the prior-year period. Equity institutional brokerage revenues decreased 15.2 percent to \$31.5 million in the first half of 2019, compared with \$37.1 million in the corresponding period of 2018. Volatility and volumes have been relatively subdued, which negatively impacted our performance. Additionally, revenues in the first quarter of 2018 were positively impacted by more block trade activity. For the six months ended June 30, 2019, fixed income institutional brokerage revenues were \$43.8 million, up 25.3 percent compared with \$34.9 million in the prior-year period, due to a combination of solid client activity in the first half of 2019 coupled with challenging markets in the first half of 2018. In the second quarter of 2019, client activity increased across most taxable fixed income products. Additionally, there was increased activity in municipals bonds in the first quarter of 2019, however, it slowed in the second quarter of 2019 as the ratio of municipal bond yields to treasury yields reached historic lows. In the first quarter of 2018, industry returns for municipal bonds were the worst in nearly a decade, and customer demand was muted due to the impact of tax reform on the municipal asset class.

Investment income for the six months ended June 30, 2019 was \$19.7 million, compared with \$7.0 million in the year-ago period. In the first half of 2019, we recorded higher gains on the merchant banking funds that we manage. Excluding the impact of noncontrolling interests, adjusted investment income was \$9.6 million and \$6.5 million for the six months ended June 30, 2019 and 2018, respectively.

For the six months ended June 30, 2019, other financing expenses decreased to \$0.7 million, compared with \$3.6 million in the prior-year period. We repaid our \$125 million fixed rate senior notes upon maturity on October 9, 2018, and, as a result, we no longer have financing expenses related to these notes.

Pre-tax operating margin for the six months ended June 30, 2019 was 12.4 percent, compared with 4.1 percent for the corresponding period of 2018. The increase in pre-tax operating margin was driven by higher revenues and lower acquisition-related compensation costs. Adjusted pre-tax operating margin for the six months ended June 30, 2019 was 13.9 percent, compared with 10.9 percent for the corresponding period of 2018, due to higher revenues and lower non-compensation expenses.

Discontinued Operations

Discontinued operations includes our traditional asset management subsidiary, ARI, which is classified as held for sale as of June 30, 2019. ARI's results, previously reported in the Asset Management segment, have been presented as discontinued operations for all periods presented.

The components of discontinued operations are as follows:

<i>(Amounts in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net revenues	\$ 9,317	\$ 11,121	\$ 18,607	\$ 22,320
Operating expenses	7,382	9,077	15,521	18,959
Intangible asset amortization and impairment (1)	4,106	1,400	5,465	2,801
Restructuring costs	696	272	696	272
Total non-interest expenses	12,184	10,749	21,682	22,032
Income/(loss) from discontinued operations before income tax expense/(benefit)	(2,867)	372	(3,075)	288
Income tax expense/(benefit)	(701)	8	(770)	(61)
Income/(loss) from discontinued operations, net of tax	<u>\$ (2,166)</u>	<u>\$ 364</u>	<u>\$ (2,305)</u>	<u>\$ 349</u>

(1) Includes \$2.9 million of intangible asset impairment related to the ARI trade name for the three and six months ended June 30, 2019, respectively.

See Note 3 to our unaudited consolidated financial statements for further discussion on our discontinued operations.

Recent Accounting Pronouncements

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

Critical Accounting Policies

Our accounting and reporting policies comply with U.S. GAAP and conform to practices within the securities industry. The preparation of financial statements in compliance with U.S. 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 U.S. GAAP.

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

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

See the "Critical Accounting Policies" section and Note 2, "Summary of Significant Accounting Policies" to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 for further information

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on our critical accounting policies. See also Note 2, "Accounting Policies and Pronouncements" in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for changes to our significant accounting policies.

Liquidity, Funding and Capital Resources

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

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

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

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

As part of our definitive agreement to acquire Weeden & Co., we will pay approximately \$24.5 million of the total consideration in cash upon closing on August 2, 2019.

As part of our acquisition of Simmons, we entered into acquisition-related compensation arrangements with certain employees for retention and incentive purposes. Additional cash compensation was available to certain employees subject to exceeding an investment banking revenue threshold during the three year post-acquisition period, which ended on February 26, 2019. As of June 30, 2019, we had accrued \$40.1 million related to this performance award plan, which is expected to be paid in August 2019.

Our acquisition of Sandler O'Neill, which is expected to close early in the first quarter of 2020, will be funded through cash flows from operations and anticipated cash proceeds from the pending sale of ARI. We also expect to raise approximately \$150.0 million of debt to finance a portion of the cash consideration.

Our dividend policy is intended to return between 30 percent and 50 percent of our adjusted net income from the previous fiscal year to shareholders. This includes the payment of a quarterly and an annual special cash dividend, payable in the first quarter of each year. Our board of directors determines the declaration and payment of dividends on an annual and quarterly basis, and is free to change our dividend policy at any time.

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Our board of directors declared the following dividends on shares of our common stock:

Declaration Date	Dividend Per Share	Record Date	Payment Date
February 1, 2018 (1)	\$ 1.6200	February 26, 2018	March 15, 2018
February 1, 2018	\$ 0.3750	February 26, 2018	March 15, 2018
April 27, 2018	\$ 0.3750	May 25, 2018	June 15, 2018
July 27, 2018	\$ 0.3750	August 24, 2018	September 14, 2018
October 26, 2018	\$ 0.3750	November 28, 2018	December 14, 2018
February 1, 2019 (2)	\$ 1.0100	February 25, 2019	March 15, 2019
February 1, 2019	\$ 0.3750	February 25, 2019	March 15, 2019
April 26, 2019	\$ 0.3750	May 24, 2019	June 14, 2019
July 26, 2019	\$ 0.3750	August 23, 2019	September 13, 2019

(1) Represents the annual special cash dividend based on our fiscal year 2017 results.

(2) Represents the annual special cash dividend based on our fiscal year 2018 results.

Effective September 30, 2017, our board of directors authorized the repurchase of up to \$150.0 million in common shares through September 30, 2019. During the six months ended June 30, 2019, we repurchased 501 shares of our common stock at an average price of \$64.80 per share related to this authorization. We have \$102.8 million remaining under this authorization.

We also purchase shares of common stock from restricted stock award recipients upon the award vesting or as recipients sell shares to meet their employment tax obligations. During the first half of 2019, we purchased 696,411 shares or \$50.2 million of our common stock for these purposes.

Leverage

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

	June 30, 2019	December 31, 2018
<i>(Dollars in thousands)</i>		
Total assets	\$ 1,206,042	\$ 1,345,269
Deduct: Goodwill and intangible assets	(84,633)	(86,139)
Deduct: Right-of-use lease asset	(42,027)	—
Deduct: Assets from noncontrolling interests	(69,435)	(53,558)
Adjusted assets	<u>\$ 1,009,947</u>	<u>\$ 1,205,572</u>
Total shareholders' equity	\$ 725,785	\$ 730,416
Deduct: Goodwill and intangible assets	(84,633)	(86,139)
Deduct: Noncontrolling interests	(68,128)	(52,972)
Tangible common shareholders' equity	<u>\$ 573,024</u>	<u>\$ 591,305</u>
Leverage ratio (1)	1.7	1.8
Adjusted leverage ratio (2)	1.8	2.0

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

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

Adjusted assets and tangible common shareholders' equity are non-GAAP financial measures. Goodwill and intangible assets are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as we believe that goodwill and intangible assets do not constitute operating assets which can be deployed in a liquid manner. The right-of-use lease asset is also subtracted from total assets in determining adjusted assets as it is not an operating asset that can be deployed in a liquid manner. Amounts attributed to noncontrolling interests are subtracted from total assets and total shareholders' equity in determining adjusted assets and tangible common shareholders' equity, respectively, as they represent assets and equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

Funding and Capital Resources

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

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

Pershing Clearing Arrangement – We have established an arrangement to obtain financing from Pershing related to the majority of our trading activities. Under our fully disclosed clearing agreement, the majority of our securities inventories and all of our customer activities are held by or cleared through Pershing. Financing under this arrangement is secured primarily by securities, and collateral limitations could reduce the amount of funding available under this arrangement. Our clearing arrangement activities are recorded net from trading activity and reported within receivables from or payables to brokers, dealers and clearing organizations. The funding is at the discretion of Pershing (i.e., uncommitted) and could be denied without a notice period. Our fully disclosed clearing agreement includes a covenant requiring Piper Jaffray & Co., our U.S. broker dealer subsidiary, to maintain excess net capital of \$120 million. At June 30, 2019, we had \$82.1 million of financing outstanding under this arrangement.

Commercial Paper Program – Piper Jaffray & Co. issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is currently 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 programs can issue commercial paper with maturities of 27 to 270 days. CP Series II A includes a covenant that requires Piper Jaffray & Co. to maintain excess net capital of \$100 million. The following table provides information about our commercial paper programs at June 30, 2019:

<i>(Dollars in millions)</i>	<u>CP Series A</u>	<u>CP Series II A</u>
Maximum amount that may be issued	\$ 300.0	\$ 200.0
Amount outstanding	—	50.0
Weighted average maturity, in days	—	8
Weighted average maturity at issuance, in days	—	33

Prime Broker Arrangements – We have established an overnight financing arrangement with a broker dealer related to our convertible securities inventories. Financing under this arrangement is secured primarily by convertible securities and collateral limitations could reduce the amount of funding available. The funding is at the discretion of the prime broker and could be denied subject to a notice period. This arrangement is reported within receivables from or payables to brokers, dealers and clearing organizations, net of trading activity. At June 30, 2019, we had \$72.6 million of financing outstanding under this prime broker arrangement.

Additionally, we previously established an arrangement to obtain overnight financing with another prime broker related to certain strategic trading activities in municipal securities. We completed the liquidation of the municipal securities inventories associated with these strategic trading activities in the third quarter of 2018, and closed this prime broker arrangement as we no longer needed the funding source.

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Committed Line – Our committed line is a one-year \$175 million revolving secured credit facility. We may use this credit facility in the ordinary course of business to fund a portion of our daily operations. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co. to maintain minimum net capital of \$120 million, and the unpaid principal amount of all advances under the facility will be due on December 13, 2019. This credit facility has been in place since 2008 and we renewed the facility for another one-year term in the fourth quarter of 2018. At June 30, 2019, we had no advances against this line of credit.

The following tables present the average balances outstanding for our various funding sources by quarter for 2019 and 2018, respectively.

	Average Balance for the Three Months Ended	
	June 30, 2019	Mar. 31, 2019
<i>(Dollars in millions)</i>		
Funding source:		
Pershing clearing arrangement	\$ 170.2	\$ 82.1
Commercial paper	50.0	50.0
Prime broker arrangements	77.1	106.4
Total	<u>\$ 297.3</u>	<u>\$ 238.5</u>

	Average Balance for the Three Months Ended			
	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	Mar. 31, 2018
<i>(Dollars in millions)</i>				
Funding source:				
Pershing clearing arrangement	\$ 79.6	\$ 3.0	\$ 90.0	\$ 47.1
Commercial paper	50.0	50.0	50.0	50.0
Prime broker arrangements	85.2	112.7	218.8	336.5
Total	<u>\$ 214.8</u>	<u>\$ 165.7</u>	<u>\$ 358.8</u>	<u>\$ 433.6</u>

The average funding in the second quarter of 2019 increased to \$297.3 million, compared with \$238.5 million during the first quarter of 2019. This increase was the result of annual discretionary incentive payments, made in the first quarter of 2019, which increased borrowings. Average funding decreased compared to the corresponding period of 2018 due to lower inventory balances at June 30, 2019. We previously financed a portion of our municipal securities inventories associated with certain strategic trading activities through one of our prime broker arrangements. As previously discussed, we closed this prime broker arrangement in the third quarter of 2018.

The following table presents the maximum daily funding amount by quarter for 2019 and 2018, respectively.

	2019		2018	
First Quarter	\$	362.7	\$	613.1
Second Quarter	\$	427.1	\$	505.0
Third Quarter			\$	263.5
Fourth Quarter			\$	312.3

Contractual Obligations

Our contractual obligations have not materially changed from those reported in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2018.

Capital Requirements

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority, Inc. ("FINRA"), Piper Jaffray & Co., our U.S. broker dealer subsidiary, is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule which requires that we maintain minimum net capital of \$1.0 million. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain approvals, notifications and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. At June 30, 2019, our net capital under the SEC's uniform net capital rule was \$197.8 million, and exceeded the minimum net capital required under the SEC rule by \$196.8 million.

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

Our committed short-term credit facility includes a covenant requiring Piper Jaffray & Co. to maintain minimum net capital of \$120 million. Secured commercial paper issued under CP Series II A includes a covenant that requires Piper Jaffray & Co. to maintain excess net capital of \$100 million. Our fully disclosed clearing agreement with Pershing also includes a covenant requiring Piper Jaffray & Co. to maintain excess net capital of \$120 million.

At June 30, 2019, Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to, and was in compliance with, the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At June 30, 2019, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Trade Commission.

Off-Balance Sheet Arrangements

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

(Dollars in thousands)	Expiration Per Period at December 31,						Total Contractual Amount	
	2019	2020	2021	2022 - 2023	2024 - 2025	Later	June 30, 2019	December 31, 2018
Customer matched-book derivative contracts (1) (2)	\$ 29,050	\$ 21,190	\$ 10,280	\$ 125,660	\$ 101,470	\$ 2,001,089	\$ 2,288,739	\$ 2,532,966
Trading securities derivative contracts (2)	206,300	10,000	—	—	60,000	9,375	285,675	262,275
Investment commitments (3)	—	—	—	—	—	—	75,574	77,984

(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 one major financial institution, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of \$175.4 million at June 30, 2019) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At June 30, 2019, we had \$18.3 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 June 30, 2019 and December 31, 2018, the net fair value of these derivative contracts approximated \$12.2 million and \$12.5 million, respectively.

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

Derivatives

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

Investment Commitments

We have investments, including those made as part of our merchant banking activities, in various limited partnerships or limited liability companies that provide financing or make investments in companies. We commit capital and/or act as the managing partner of these entities. We have committed capital of \$75.6 million to certain entities and these commitments generally have no specified call dates.

Risk Management

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

The audit committee of the Board of Directors oversees management's processes for identifying and evaluating our major risks, and the policies, procedures and practices employed by management to govern its risk assessment and risk management processes. The nominating and governance committee of the Board of Directors oversees the Board of Directors' committee structures and functions as they relate to the various committees' responsibilities with respect to oversight of our major risk exposures. With respect to these major risk exposures, the audit committee is responsible for overseeing management's monitoring and control of our major risk exposures relating to market risk, credit risk, liquidity risk, legal and regulatory risks, operational risk (including cybersecurity), and human capital risk relating to misconduct, fraud, and legal and compliance matters. Our compensation committee is responsible for overseeing management's monitoring and control of our major risk exposures relating to compensation, organizational structure, and succession. Our Board of Directors is responsible for overseeing management's monitoring and control of our major risk exposures related to our corporate strategy. Our Chief Executive Officer and Chief Financial Officer meet with the audit committee on a quarterly basis to discuss our market, liquidity, and legal and regulatory risks, and provide updates to the Board of Directors, audit committee, and compensation committee concerning the other major risk exposures on a regular basis.

We use internal committees to assist in governing risk and ensure that our business activities are properly assessed, monitored and managed. Our financial risk committee manages our market, liquidity and credit risks, and oversees risk management practices related to these risks, including defining acceptable risk tolerances and approving risk management policies. Membership is comprised of senior leadership. A subset of this group, including but not limited to, our Chief Executive Officer, President, Chief Financial Officer, Treasurer, Head of Market and Credit Risk, and Head of Fixed Income Trading, meets with increased frequency to evaluate the firm's inventory position, and respond to market changes in a dynamic manner. Other committees that help evaluate and monitor risk include underwriting, leadership team and operating committees. These committees help manage risk by ensuring that business activities are properly managed and within a defined scope of activity. Our valuation committee, comprised of members of senior management and risk management, provide oversight and overall responsibility for the internal control processes and procedures related to fair value measurements. Additionally, our operational risk committees address and monitor risk related to information systems and security, legal, regulatory and compliance matters, and third parties such as vendors and service providers.

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

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

Strategic Risk

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

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

Market Risk

Market risk represents the risk of losses, or 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 slope of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (e.g., inventories) and our funding sources (e.g., short-term financing) which finance these assets. Interest rate risk is managed by selling short U.S. government securities, agency securities, corporate debt securities and derivative contracts. See Note 4 of our accompanying unaudited consolidated financial statements for additional information on our derivative contracts. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. Also, we establish limits on the notional level of our fixed income securities inventory and manage net positions within those limits.

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

Foreign Exchange Risk — Foreign exchange risk represents the potential volatility to earnings or capital arising from movement in foreign exchange rates. A modest portion of our business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can therefore affect the value of non-U.S. dollar net assets, revenues and expenses. A change in the foreign currency rates could create either a foreign currency transaction gain/loss (recorded in our consolidated statements of operations) or a foreign currency translation adjustment (recorded to accumulated other comprehensive income/(loss) within the shareholders' equity section of our consolidated statements of financial condition and other comprehensive income/(loss) within the consolidated statements of comprehensive income).

Value-at-Risk ("VaR")

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

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

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

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

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

<i>(Dollars in thousands)</i>	June 30, 2019	December 31, 2018
Interest Rate Risk	\$ 428	\$ 370
Equity Price Risk	64	49
Diversification Effect (1)	(49)	(40)
Total Value-at-Risk	<u>\$ 443</u>	<u>\$ 379</u>

(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.

The aggregate VaR as of June 30, 2019 was higher than the reported VaR on December 31, 2018. The increase in VaR was due to our mix of inventory compared to the end of 2018.

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average VaR calculated for each component of market risk during the six months ended June 30, 2019 and the year ended December 31, 2018, respectively.

<i>(Dollars in thousands)</i>	High	Low	Average
For the Six Months Ended June 30, 2019			
Interest Rate Risk	\$ 666	\$ 181	\$ 358
Equity Price Risk	66	42	50
Diversification Effect (1)			(39)
Total Value-at-Risk	\$ 676	\$ 191	\$ 369
<i>(Dollars in thousands)</i>	High	Low	Average
For the Year Ended December 31, 2018			
Interest Rate Risk	\$ 1,084	\$ 268	\$ 631
Equity Price Risk	91	21	54
Diversification Effect (1)			(40)
Total Value-at-Risk	\$ 1,101	\$ 277	\$ 645

(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 effect would not be meaningful.

Trading losses exceeded our one-day VaR on three occasions during the first half of 2019.

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

Liquidity Risk

Liquidity risk is the risk that we are unable to timely access necessary funding sources in order to operate our business, as well as the risk that we are unable to timely divest securities that we hold in connection with our market-making, sales and trading, and strategic trading activities. We are exposed to liquidity risk in our day-to-day funding activities, by holding potentially illiquid inventory positions and in our role as a remarketing agent for variable rate demand notes.

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See the section entitled "Liquidity, Funding and Capital Resources" for information regarding our liquidity and how we manage liquidity risk.

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

Credit Risk

Credit risk refers to the potential for loss due to the default or deterioration in credit quality of a counterparty, customer, borrower or issuer of securities we hold in our trading inventory. The nature and amount of credit risk depends on the type of transaction, the structure and duration of that transaction and the parties involved. Credit risk also results from an obligor's failure to meet the terms of any contract with us or otherwise fail to perform as agreed. This may be reflected through issues such as settlement obligations or payment collections.

Our different types of credit risk include:

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

Deterioration/Default Risk — Deterioration/default risk represents the risk due to an issuer, counterparty or borrower failing to fulfill its obligations. We are exposed to deterioration/default risk in our role as a trading counterparty to dealers and customers, as a holder of securities, and as a member of exchanges. The risk of default depends on the creditworthiness of the counterparty and/or issuer of the security. We mitigate this risk by establishing and monitoring individual and aggregate position limits for each counterparty relative to potential levels of activity, holding and marking to market collateral on certain transactions. Our risk management functions also evaluate the potential risk associated with institutional counterparties with whom we hold derivatives, TBAs and other documented institutional counterparty agreements that may give rise to credit exposure.

Collections Risk — Collections risk arises from ineffective management and monitoring of collecting outstanding debts and obligations, including those related to our customer trading activities and margin lending. 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.

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

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We have concentrated counterparty credit exposure with five non-publicly rated entities totaling \$18.3 million at June 30, 2019. This counterparty credit exposure is part of our matched-book derivative program related to our public finance business, consisting primarily of interest rate swaps. One derivative counterparty represents 87.4 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.

Operational Risk

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

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

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

We operate under a fully disclosed clearing model for all of our clearing operations. In a fully disclosed clearing model, we act as an introducing broker for client transactions and rely on Pershing, our clearing broker dealer, to facilitate clearance and settlement of our clients' securities transactions. The clearing services provided by Pershing are critical to our business operations, and similar to other services performed by third party vendors, any failure by Pershing with respect to the services we rely upon Pershing to provide could cause financial loss, significantly disrupt our business, damage our reputation, and adversely affect our ability to serve our clients and manage our exposure to risk.

Human Capital Risk

Our business is a human capital business and our success is dependent upon the skills, expertise and performance of our employees. Human capital risks represent the risks posed if we fail to attract and retain qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation. There are risks associated with the proper recruitment, development and rewards of our employees to ensure quality performance and retention.

Legal and Regulatory Risk

Legal and regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements and loss to our reputation we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. We are generally subject to extensive regulation in the various jurisdictions in which we conduct our business. We have established procedures that are designed to ensure compliance with applicable statutory and regulatory requirements, such as public company reporting obligations, regulatory net capital requirements, sales and trading practices, potential conflicts of interest, anti-money laundering, privacy and recordkeeping. We have also established procedures

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that are designed to require that our policies relating to ethics and business conduct are followed. The legal and regulatory focus on the financial services industry presents a continuing business challenge for us.

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

Effects of Inflation

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

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

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

ITEM 4. *CONTROLS AND PROCEDURES.*

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

During the second quarter of our fiscal year ending December 31, 2019, there was no change in our system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS.*

The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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 "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. 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 June 30, 2019.

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 (April 1, 2019 to April 30, 2019)	—	\$ —	—	\$ 103 million
Month #2 (May 1, 2019 to May 31, 2019)	133,093	\$ 78.86	—	\$ 103 million
Month #3 (June 1, 2019 to June 30, 2019)	34	\$ 74.27	—	\$ 103 million
Total	133,127	\$ 78.86	—	\$ 103 million

(1) Effective September 30, 2017, our board of directors authorized the repurchase of up to \$150.0 million of common stock through September 30, 2019.

ITEM 6. EXHIBITS.

Exhibit Index

Exhibit Number	Description	Method of Filing
2.1	Agreement and Plans of Merger, dated July 9, 2019, by and among Piper Jaffray Companies, SOP Holdings, LLC, Sandler O'Neill & Partners Corp., Sandler O'Neill & Partners L.P. and the other parties thereto. #	(1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer.	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.	Filed herewith
32.1	Section 1350 Certifications.	Filed herewith
101	Interactive data files pursuant to Rule 405 Registration S-T: (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements.	Filed herewith

(1) Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on July 10, 2019, and incorporated herein by reference.

Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits and schedules have been omitted. The Company hereby agrees to furnish supplementally a copy of any omitted exhibit or schedule to the Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIPER JAFFRAY COMPANIES

Date: August 2, 2019

By /s/ Chad R. Abraham
Its Chairman and Chief Executive Officer

Date: August 2, 2019

By /s/ Timothy L. Carter
Its Chief Financial Officer

CERTIFICATIONS

I, Chad R. Abraham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Jaffray Companies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ Chad R. Abraham

Chad R. Abraham

Chairman and Chief Executive Officer

CERTIFICATIONS

I, Timothy L. Carter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Piper Jaffray Companies;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ Timothy L. Carter

Timothy L. Carter
Chief Financial Officer

Certification Under Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Piper Jaffray Companies.

Dated: August 2, 2019

/s/ Chad R. Abraham

Chad R. Abraham

Chairman and Chief Executive Officer

/s/ Timothy L. Carter

Timothy L. Carter

Chief Financial Officer