PIPER JAFFRAY COMPANIES
Form 10-K
February 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2013
Commission File No. 001-31720
PIPER JAFFRAY COMPANIES
(Exact Name of Registrant as specified in its Charter)

DELAWARE	30-0168701
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
800 Nicollet Mall, Suite 1000 Minneapolis, Minnesota	55402
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ
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 R No £
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer £ Accelerated filer R Non-accelerated filer £ Smaller reporting company £
(Do not check if a smaller reporting company)

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

The aggregate market value of the 16,068,113 shares of the Registrant's Common Stock, par value $0.01 per share, held by non-affiliates based upon the last sale price, as reported on the New York Stock Exchange, of the Common Stock on June 30, 2013 was approximately $508 million.

As of February 19, 2014, the registrant had 16,171,560 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the Registrant's Proxy Statement for its 2014 Annual Meeting of Shareholders to be held on May 7, 2014.

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements. 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 this Form 10-K. 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 "Risk Factors" in Item 1A, as well as those factors discussed under "External Factors Impacting Our Business" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K and in our subsequent reports filed with the Securities and Exchange Commission ("SEC"). Our SEC reports are available at our Web site at www.piperjaffray.com and at the SEC's 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.

ITEM 1. BUSINESS.

Overview

Piper Jaffray Companies is an investment bank and asset management firm, serving the needs of corporations, private equity groups, public entities, non-profit entities and institutional investors in the U.S. and internationally. Founded in 1895, Piper Jaffray provides a broad set of products and services, including equity and debt capital markets products; public finance services; financial advisory services; equity and fixed income institutional brokerage; equity and fixed income research; and asset management services. Our headquarters are located in Minneapolis, Minnesota and we have offices across the United States and international locations in London, Hong Kong and Zurich. We market our investment banking and institutional securities business under a single name – Piper Jaffray – which gives us a consistent brand across this business. Our traditional asset management business is marketed under Advisory Research, Inc.

Prior to 1998, Piper Jaffray was an independent public company. U.S. Bancorp acquired the Piper Jaffray business in 1998 and operated it through various subsidiaries and divisions. At the end of 2003, U.S. Bancorp facilitated a tax-free distribution of our common stock to all U.S. Bancorp shareholders, causing Piper Jaffray to become an independent public company again.

Our Businesses

We operate through two reportable business segments, Capital Markets and Asset Management. We believe that the mix of activities across our business segments helps to provide diversification in our business model.

Capital Markets

The Capital Markets segment provides investment banking and institutional sales, trading and research services for various equity and fixed income products. This segment also includes the results from our two alternative asset management funds and our principal investments.

- Investment Banking – We raise capital through equity financings and provide advisory services, primarily relating to mergers and acquisitions, for our corporate clients. We operate in the following focus industries: business services,

clean technologies, consumer and retail, healthcare, industrials, and technology, media and telecommunications, primarily focusing on middle-market clients. For our government and non-profit clients, we underwrite debt issuances and provide financial advisory and interest rate risk management services. Our public finance investment banking capabilities focus on state and local governments, cultural and social service non-profit entities, and the healthcare, education, senior living and hospitality sectors.

- Equity and Fixed Income Institutional Brokerage – We offer both equity and fixed income advisory and trade execution services for institutional investors and government and non-profit entities. Integral to our capital markets efforts, we have equity sales and trading relationships with institutional investors in the United States and Europe that invest in our core sectors. Our research analysts provide investment ideas and support to our trading clients on approximately 600 companies. Our fixed income sales and trading professionals have expertise in municipal, corporate, mortgage, agency, treasury and structured

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product securities and cover a range of institutional investors. We engage in trading activities for both customer facilitation and strategic trading purposes. Our strategic trading activities (i.e. proprietary trading) are dedicated solely to investing firm capital, and principally focus on investments in municipal bonds, mortgage-backed securities and equity securities.

- Principal Investments – We engage in merchant banking activities, which involve equity or debt investments in late stage private companies. Additionally, we have investments in private equity and venture capital funds and other firm investments.

- Alternative Asset Management Funds – As certain of our strategic trading and merchant banking efforts have matured and an investment process has been developed, we have created alternative asset management funds in municipal securities and merchant banking in order to invest firm capital as well as to seek capital from outside investors.

In 2013, we completed the acquisitions of Seattle-Northwest Securities Corporation ("Seattle-Northwest"), a Seattle-based investment bank and broker dealer focused on public finance in the Northwest region of the U.S., and Edgeview Partners, L.P. ("Edgeview"), a middle-market advisory firm specializing in mergers and acquisitions. For more information on our acquisitions of Seattle-Northwest and Edgeview, see Note 4 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Asset Management

The Asset Management segment includes our traditional asset management business and our seed investments in registered funds and private funds or partnerships that we manage. Our traditional asset management business offers specialized investment management solutions for institutions, private clients and investment advisors. We manage value-oriented domestic and international equity securities and energy infrastructure assets through open-end and closed-end funds. We also provide customized solutions to our clients. In many cases, we offer both diversified and more concentrated versions of our products, generally through separately managed accounts.

- Value Equity – We take a value-driven approach to managing assets in the domestic and international equity markets. These investment strategies have an investment philosophy that centers on fundamental security selection across industries and regions with a focus on analyzing, among other things, a company's financial position, liquidity and profitability in light of its valuation. By focusing on securities with attractive net asset values, we seek to generate competitive long-term returns while minimizing investment risk.

- Master Limited Partnerships ("MLPs") – We also manage MLPs focused on the energy sector. These strategies focus on growth, yet seek to limit exposure to riskier securities by placing greater importance on characteristics which support stable distributions and are representative of higher quality MLPs, including less volatile businesses, strategic assets, cleaner balance sheets and proven management teams. Prior to 2012, the MLP business was part of Fiduciary Asset Management, LLC ("FAMCO"), previously a division of our asset management segment that primarily managed fixed income strategies. In the first quarter of 2012, we reorganized our FAMCO and Advisory Research, Inc. ("ARI") reporting units, which resulted in the MLP business becoming part of ARI.

As of December 31, 2013, total assets under management ("AUM") were $11.2 billion, of which approximately 59 percent was invested in equities and 41 percent in MLPs. As of the same date, approximately 7 percent of our AUM was invested in international investment strategies and 93 percent was invested in domestic investment strategies. Approximately 83 percent of our AUM as of December 31, 2013 was managed on behalf of institutional clients, including foundations, endowments, pension funds and corporations, and through sub-advisory relationships, mutual fund sponsors and registered advisors, and approximately 17 percent of our AUM was managed on behalf of individual client relationships, which are principally high net worth individuals.

Discontinued Operations

In 2012, we shut down our Hong Kong capital markets business and ceased operations as of September 30, 2012. Additionally, we sold FAMCO, an asset management subsidiary, in the second quarter of 2013. For further information on our discontinued operations, see Note 5 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

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Financial Information about Geographic Areas

For financial information concerning our geographic regions for each of the years ended December 31, 2013, 2012, and 2011, respectively, see Note 26 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Competition

Our business is subject to intense competition driven by large Wall Street and international firms operating independently or as part of a large commercial banking institution. We also compete with regional broker dealers, boutique and niche-specialty firms, asset management firms and alternative trading systems that effect securities transactions through various electronic media. Competition is based on a variety of factors, including price, quality of advice and service, reputation, product selection, transaction execution, financial resources and investment performance. Many of our large competitors have greater financial resources than we have and may have more flexibility to offer a broader set of products and services than we can.

In addition, there is significant competition within the securities industry for obtaining and retaining the services of qualified employees. Our business is a human capital business and the performance of our business is dependent upon the skills, expertise and performance of our employees. Therefore, our ability to compete effectively is dependent upon attracting and retaining qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company. Attracting and retaining employees depends, among other things, on our company's culture, management, work environment, geographic locations and compensation.

Employees

As of February 19, 2014, we had approximately 1,053 employees, of whom approximately 654 were registered with the Financial Industry Regulatory Authority ("FINRA").

Regulation

As a participant in the financial services industry, our business is regulated by U.S. federal and state regulatory agencies, self-regulatory organizations ("SROs") and securities exchanges, and by foreign governmental agencies, financial regulatory bodies and securities exchanges. We are subject to complex and extensive regulation of most aspects of our business, including the manner in which securities transactions are effected, net capital requirements, recordkeeping and reporting procedures, relationships and conflicts with customers, the handling of cash and margin accounts, conduct, experience and training requirements for certain employees, and the manner in which we prevent and detect money-laundering and bribery activities. The regulatory framework of the financial services industry is designed primarily to safeguard the integrity of the capital markets and to protect customers, not creditors or shareholders.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Recent conditions in the global financial markets and economy, including the 2008 financial crisis, caused legislators and regulators to increase the examination, enforcement and rule-making activity directed toward the financial services industry, which we expect to continue in the coming years. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, the creation of a new systemic risk oversight body, expansion of the authority of existing regulators, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, expansion

of the standards for market participants in dealing with clients and customers, and regulation of fiduciary duties owed by municipal advisors or conduit borrowers of municipal securities. In addition, a section of Dodd-Frank referred to as the "Volcker Rule" provides for a limitation on proprietary trading and investments by certain bank holding companies. We are not a bank holding company and, as a result, the Volcker Rule does not apply to us. Even though portions of Dodd-Frank do not apply to us (e.g. the Volcker Rule), Dodd-Frank as a whole and the intensified regulatory environment, will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

Our U.S. broker dealer subsidiary (Piper Jaffray & Co.) is registered as a securities broker dealer with the SEC and is a member of various SROs and securities exchanges. In July of 2007, the National Association of Securities Dealers and the member regulation, enforcement and arbitration functions of the New York Stock Exchange (“NYSE”) consolidated to form FINRA, which now serves

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as the primary SRO of Piper Jaffray & Co., although the NYSE continues to have oversight over NYSE-related market activities. FINRA regulates many aspects of our U.S. broker dealer business, including registration, education and conduct of our employees, examinations, rulemaking, enforcement of these rules and the federal securities laws, trade reporting and the administration of dispute resolution between investors and registered firms. We have agreed to abide by the rules of FINRA (as well as those of the NYSE and other SROs), and FINRA has the power to expel, fine and otherwise discipline Piper Jaffray & Co. and its officers, directors and employees. Among the rules that apply to Piper Jaffray & Co. are the uniform net capital rule of the SEC (Rule 15c3-1) and the net capital rule of FINRA. Both rules set a minimum level of net capital a broker dealer must maintain and also require that a portion of the broker dealer's assets be relatively liquid. Under the FINRA rule, FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below FINRA requirements. In addition, Piper Jaffray & Co. is subject to certain notification requirements related to withdrawals of excess net capital. As a result of these rules, our ability to make withdrawals of capital from Piper Jaffray & Co. may be limited. In addition, Piper Jaffray & Co. is licensed as a broker dealer in each of the 50 states, requiring us to comply with applicable laws, rules and regulations of each state. Any state may revoke a license to conduct a securities business and fine or otherwise discipline broker dealers and their officers, directors and employees.

We also operate an entity that is licensed and regulated by the U.K. Financial Conduct Authority. This entity is registered under the laws of England and Wales is authorized and regulated by the U.K. Financial Conduct Authority. While we ceased operations related to our Hong Kong capital markets business as of September 30, 2012, we expect to maintain a more limited presence in the Hong Kong region to facilitate our U.S. advisory business. Accordingly, we have applied for a regulatory license to be registered with and subject to the Hong Kong Securities and Futures Commission. The U.K. Financial Conduct Authority and the Hong Kong Securities and Futures Commission regulate these entities (in their respective jurisdictions) in areas of capital adequacy, customer protection and business conduct, among others.

Entities in the jurisdictions identified above are also subject to anti-money laundering regulations. Piper Jaffray & Co., our U.S. broker-dealer subsidiary, is subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations requiring us to implement standards for verifying client identification at account opening, monitoring client transactions and reporting suspicious activity. Our entities in Hong Kong and the United Kingdom are subject to similar anti-money laundering laws and regulations. We are also subject to the U.S. Foreign Corrupt Practices Act as well as other anti-bribery laws in the jurisdictions in which we operate. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage.

We maintain asset management subsidiaries that are registered as investment advisers with the SEC and subject to regulation and oversight by the SEC. These entities are ARI, Piper Jaffray Investment Management LLC ("PJIM"), and PJC Capital Partners LLC. As registered investment advisors, these entities are subject to requirements that relate to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between advisor and advisory clients, as well as general anti-fraud prohibitions. Certain investment funds that we manage are registered investment companies under the Investment Company Act, as amended. Those funds and entities that serve as the funds' investment advisors are subject to the Investment Company Act and the rules and regulations of the SEC, which regulate the relationship between a registered investment company and its investment advisor and prohibit or severely restrict principal transactions or joint transactions, among other requirements. ARI is also authorized by the Irish Financial Services Regulatory Authority as an investment advisor in Ireland and cleared by the Luxembourg Commission de Surviellance du Secteur Financier as a manager to Luxembourg funds. ARI has established a Tokyo office which is a Representative Office of a Foreign Investment Advisor subject to Japanese laws and regulations. PJIM is registered with the Commodity

Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”) as a commodities pool operator. The registrations with the CFTC and NFA allow PJIM to enter into derivative instruments (e.g, interest rate swaps and credit default swap index contracts) to hedge risks associated with certain security positions of funds managed by PJIM.

Certain of our businesses also are subject to compliance with laws and regulations of U.S. federal and state governments, non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges governing the privacy of client information. Any failure with respect to our practices, procedures and controls in any of these areas could subject us to regulatory consequences, including fines, and potentially other significant liabilities.

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Executive Officers

Information regarding our executive officers and their ages as of February 19, 2014, are as follows:

Name	Age	Position(s)
Andrew S. Duff	56	Chairman and Chief Executive Officer
Chad R. Abraham	45	Co-Head of Global Investment Banking and Capital Markets
Christopher D. Crawshaw	47	Head of Asset Management
Frank E. Fairman	56	Head of Public Finance
John W. Geelan	38	General Counsel and Secretary
Jeff P. Klinefelter	46	Global Head of Equities
R. Scott LaRue	53	Co-Head of Global Investment Banking and Capital Markets
Debbra L. Schoneman	45	Chief Financial Officer
M. Brad Winges	45	Head of Fixed Income Services

Andrew S. Duff is our chairman and chief executive officer. Mr. Duff became chairman and chief executive officer of Piper Jaffray Companies following completion of our spin-off from U.S. Bancorp on December 31, 2003. He also has served as chairman of our broker dealer subsidiary since 2003, as chief executive officer of our broker dealer subsidiary since 2000, and as president of our broker dealer subsidiary since 1996. He has been with Piper Jaffray since 1980. Prior to the spin-off from U.S. Bancorp, Mr. Duff also was a vice chairman of U.S. Bancorp from 1999 through 2003.

Chad R. Abraham is our co-head of global investment banking and capital markets, a position he has held since October 2010. Prior to his current role, he served as head of equity capital markets since November 2005. Mr. Abraham joined Piper Jaffray in 1991.

Christopher D. Crawshaw is our head of asset management. He has served in this role since January 2014. Mr. Crawshaw joined Piper Jaffray from Advisory Research, Inc., a Chicago-based asset management firm that we acquired in 2010, where he had been a managing director since 2004, having joined the company in 2001. Mr. Crawshaw was named president of Advisory Research in 2012.

Frank E. Fairman is head of our public finance services business, a position he has held since July 2005. Prior to that, he served as head of the firm's public finance investment banking group from 1991 to 2005, as well as the head of the firm's municipal derivative business from 2002 to 2005. He has been with Piper Jaffray since 1983.

John W. Geelan is our general counsel and secretary. He served as assistant general counsel and assistant secretary from November 2007 until becoming general counsel in January 2013. Mr. Geelan joined Piper Jaffray in 2005.

Jeff P. Klinefelter is the global head of our equities business, a position he has held since July 2012. From May 2010 until July 2012, he served as head of equity research. Mr. Klinefelter joined Piper Jaffray in 1997 as a research analyst.

R. Scott LaRue is our co-head of global investment banking and capital markets, a position he has held since October 2010. He had previously served as global co-head of consumer investment banking since February 2010, after having served as co-head of consumer investment banking since August 2004. He has been with Piper Jaffray since 2003.

Debbra L. Schoneman is our chief financial officer. Ms. Schoneman joined Piper Jaffray in 1990 and has held her current position since May 2008. She previously served as treasurer from August 2006 until May 2008. Prior to that,

she served as finance director of our corporate and institutional services business from July 2002 until July 2004 when the role was expanded to include our public finance services division.

M. Brad Winges is head of our fixed income services business, a position he has held since January 2009. Mr. Winges joined Piper Jaffray in 1991 and served as head of public finance services sales and trading from June 2005 until obtaining his current position. Prior to that, he served as head of municipal sales and trading from June 2003 until June 2005.

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Additional Information

Our principal executive offices are located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota 55402, and our general telephone number is (612) 303-6000. We maintain an Internet Web site at http://www.piperjaffray.com. The information contained on and connected to our Web site is not incorporated into this report. We make available free of charge on or through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the SEC, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the SEC. “Piper Jaffray,” the “Company,” “registrant,” “we,” “us” and “our” refer to Piper Jaffray Companies and our subsidiaries. The Piper Jaffray logo and the other trademarks, tradenames and service marks of Piper Jaffray mentioned in this report, including Piper Jaffray®, are the property of Piper Jaffray.

ITEM 1A. RISK FACTORS.

Developments in market and economic conditions have in the past adversely affected, and may in the future adversely affect, our business and profitability and cause volatility in our results of operations.

Economic and market conditions have had, and will continue to have, a direct and material impact on our results of operations and financial condition because performance in the financial services industry is heavily influenced by the overall strength of economic conditions and financial market activity. For example:

- Interest rates, which had been at or near historical lows in 2012, rose significantly in 2013 as investors anticipated that the Federal Reserve would taper its quantitative easing program based on a stronger U.S. economy. At times in 2013, the rise in interest rates was rapid and severe, which led to widening credit spreads and a volatile trading environment. This environment negatively impacted our fixed income institutional business in 2013 as it reduced client activity and the value of our fixed income inventory positions, both those held for facilitating client activity and our own proprietary trading. Our interest rate hedging strategies were not able to fully mitigate these inventory losses. Also, our public finance investment banking business underwrote significantly fewer debt refinancing issuances as interest rates increased. We expect interest rates to continue to rise in 2014 and a rapid or severe increase may negatively impact our fixed income institutional business similar to 2013. The impact from a rapid or severe rise in interest rates and any attendant volatility on the value of our fixed income inventory positions may not be fully mitigated by our interest rate hedging strategies, as we generally do not hedge all of our interest rate risk and volatility may reduce the correlation (i.e., effectiveness) between certain hedging vehicles and the securities inventory we are attempting to hedge. Interest rate increases in 2014, both gradual and more severe, would continue to negatively impact the volume of debt refinancing issuances in our public finance business.

- Our equities investment banking revenue, in the form of underwriting, placement and financial advisory fees is directly related to global macroeconomic conditions and corresponding financial market activity. As an example, a significant component of our investment banking revenues are derived from initial public offerings of middle-market companies in growth sectors, and activity in this area is highly correlated to the macroeconomic environment. Even though equity markets were strong, volatility generally remained low, and the U.S. economy continued to show signs of improvement in 2013, growth has been uneven across various sectors. In addition, the U.S. and global economic recovery as a whole remains vulnerable to the possible risks posed by certain economic conditions or exogenous shocks, which could include, among other things, tepid job and consumer spending growth, the impact from the Federal Reserve's tapering of its quantitative easing program, a decline in the U.S. labor force participation rate, significant cuts to federal spending, concerns about deficit levels, taxes and U.S. debt ratings, a resurgence of the European sovereign debt crisis, and the continued potential for a deterioration in global economic conditions as a result of a significant downturn in one or more major economic regions. If these factors were to worsen or if an

exogenous shock were to materialize, it could lead to equity market declines and volatility, which would likely have a significant negative impact on our results of operations.

- An unsustainable economic recovery would likely result in a decline in the financial markets, reducing asset valuations and adversely impacting our asset management business. A reduction in asset values would negatively impact this business by reducing the value of assets under management, and as a result, the revenues generated from this business.

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It is difficult to predict the market conditions for 2014, which are dependent in large part upon the pace and sustainability of the global economic recovery. Our smaller scale compared to many of our competitors and the cyclical nature of the economy and this industry leads to volatility in our financial results, including our operating margins, compensation ratios and revenue and expense levels. Our financial performance may be limited by the fixed nature of certain expenses, the impact from unanticipated losses or expenses during the year, and the inability to scale back costs in a timeframe to match decreases in revenue-related changes in market and economic conditions. As a result, our financial results may vary significantly from quarter-to-quarter and year-to-year.

Our proprietary trading and principal investments expose us to risk of loss.

We engage in a variety of activities in which we commit or invest our own capital, including proprietary trading and principal investing. During 2013, our proprietary trading activities (which we also refer to as "strategic trading" in this report) related to municipal bonds, non-agency mortgage bonds, and equities constituted a considerable portion of our institutional brokerage revenues, and were a meaningful contributor to our overall financial results. Fixed-income proprietary trading activities — particularly with respect to non-agency mortgage bonds — comprise a meaningful percentage of our Level III assets within our securities inventory. Level III assets have little or no pricing observability, and may be less liquid than other securities that we hold in our securities inventory. In addition to proprietary trading, we engage in principal investing, having established alternative asset management funds for municipal securities and merchant banking. We have invested firm capital in these funds alongside capital raised from outside investors, and intend to continue to develop these alternative asset management strategies. Additionally, we have principal investments in equity and debt instruments of private companies, and in private equity and venture capital funds, among other firm investments.

Our results from these activities may vary significantly from quarter to quarter, especially as it relates to proprietary trading activity. We may incur significant losses from our proprietary activities due to fixed income or equity market fluctuations and volatility from quarter to quarter. In addition, we may engage in hedging transactions that if not successful, could result in losses. With respect to principal investing, our ability to withdraw our capital from these funds may be limited, increasing the risk of loss for these investments. Also, our merchant banking activity involves investments in late stage private companies, and we may be unable to realize our investment objectives by sale or other disposition at attractive prices.

Developments in specific sectors of the global economy have in the past adversely affected, and may in the future adversely affect, our business and profitability.

Our results for a particular period may be disproportionately impacted by declines in specific sectors of the global economy, or for certain products within the financial services industry, due to our business mix and focus areas. For example:

- Our equity investment banking business focuses on specific sectors, specifically business and financial services, clean technology and renewables, consumer, healthcare, industrial growth, and technology, media and telecommunications. Volatility or uncertainty in the business environment for these sectors, including but not limited to challenging market conditions for these sectors that are disproportionately worse than those impacting the economy and markets generally or downturns in these sectors that are independent of general economic and market conditions, may adversely affect our business. Further, we may not participate or may participate to a lesser degree than other firms in sectors that experience significant activity, such as depository financial institutions, energy and mining, and industrials, and our operating results may not correlate with the results of other firms which participate in these sectors.

- Our fixed income institutional business derives its revenue from sales and trading activity in the municipal market and from products within the taxable market, including structured mortgages, hybrid preferreds and government agency

products. Our operating results for our fixed income institutional business may not correlate with the results of other firms or the fixed income market generally because we do not participate in significant segments of the fixed income markets such as credit default swaps, and currencies and commodities.

• Similar to our fixed income institutional business, our public finance investment banking business depends heavily upon conditions in the municipal market. Our ability to effect investment banking transactions in the state and local government sectors has been, and may continue to be, challenged by concerns over debt levels for municipal issuers and fiscal budgets. Our public finance business focuses on investment banking activity in sectors that include state and local government, higher education, housing, healthcare, and hospitality sectors, with an emphasis on transactions with a par value of $500 million or less. Challenging market conditions for these sectors that are disproportionately worse than those impacting the broader economy or municipal markets generally may adversely impact our business. Lastly, our fixed income institutional business and our public finance business could be materially adversely affected by the enactment, or the threat of enactment, of any

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legislation that would alter the financing alternatives available to municipalities through the elimination or reduction of tax-exempt bonds.

- Our equities institutional brokerage business depends upon trading activity to generate revenue in the form of client commissions, and the level of this activity may vary based on economic and market conditions. In times of increased market uncertainty, we may experience reduced customer activity as investors remain cautious.

- A significant portion of our asset management revenues are derived from actively-managed equity products, and this type of investment product has experienced asset outflows in recent years. Although equity markets performed well in 2013 and most equity products experienced asset inflows during the year, equity market uncertainty, the increased prevalence of lower-cost passively-managed funds, and other negative events impacting investor confidence could cause the negative trend for actively-managed equity products to continue. Outflows for this investment product negatively affect results of operations for this business, as revenues are closely tied to assets under management.

Our stock price may fluctuate as a result of several factors, including but not limited to, changes in our revenues, operating results, tangible book value and return on equity.

We have experienced, and expect to experience in the future, fluctuations in the market price of our common stock due to factors that relate to the nature of our business, including but not limited to changes in our revenues, operating results, tangible book value, and return on equity. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which causes fluctuations in our stock price that may be significant. Other factors that have affected, and may further affect, our stock price include changes in or news related to economic or market events or conditions, changes in market conditions in the financial services industry, including developments in regulation affecting our business, failure to meet the expectations of market analysts, changes in recommendations or outlooks by market analysts, and aggressive short selling similar to that experienced in the financial industry in 2008.

The volume of anticipated investment banking transactions may differ from actual results.

The completion of anticipated investment banking transactions in our pipeline is uncertain and partially beyond our control, and our investment banking revenue is typically earned only upon the successful completion of a transaction. In most cases, we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or stockholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the client's or counterparty's business. If parties fail to complete a transaction on which we are advising or an offering in which we are participating, we earn little or no revenue from the transaction and may have incurred significant expenses (for example, travel and legal expenses) associated with the transaction. Accordingly, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties, and the number of engagements we have at any given time (and any characterization or description of our deal pipelines) is subject to change and may not necessarily result in future revenues.

Financing and advisory services engagements are singular in nature and do not generally provide for subsequent engagements.

Even though we work to represent our clients at every stage of their lifecycle, we are typically retained on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions. In particular, our revenues related to acquisition and disposition transactions tend to be highly volatile and unpredictable (or “lumpy”) from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in

any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from the successful completion of those transactions, our business and results of operations will likely be adversely affected.

Asset management revenue may vary based on investment performance and market and economic factors.

We have grown our asset management business in recent years, including with the acquisition of ARI in 2010, which has increased the risks associated with this business relative to our overall operations. Assets under management are a significant driver of this business, as revenues are primarily derived from management fees paid on the assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with major investors.

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Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. Poor investment performance and other competitive factors could reduce our revenues and impair our growth in many ways: existing clients may withdraw funds from our asset management business in favor of better performing products or a different investment style or focus; our capital investments in our investment funds or the seed capital we have committed to new asset management products may diminish in value or may be lost; and our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our investment performance is perceived to be poor in either relative or absolute terms, our asset management revenues will likely be reduced and our ability to attract new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make. Further, as the size and number of investment funds, including exchange-traded funds, hedge funds and private equity funds increases, it is possible that it will become increasingly difficult for us to attract new assets under management or price competition may mean that we are unable to maintain our current fee structures.

An inability to readily divest trading positions may result in financial losses to our business.

Timely divestiture of our trading positions, including equity, fixed income and other securities positions, can be impaired by decreased trading volume, increased price volatility, rapid changes in interest rates, concentrated trading positions, limitations on the ability to divest positions in highly specialized or structured transactions and changes in industry and government regulations. This is true both for customer transactions that we facilitate as well as proprietary trading positions that we maintain. While we hold a security, we are vulnerable to valuation fluctuations and may experience financial losses to the extent the value of the security decreases and we are unable to timely divest or hedge our trading position in that security. The value may decline as a result of many factors, including issuer-specific, market or geopolitical events. In addition, in times of market uncertainty, the inability to transfer inventory positions may have an impact on our liquidity as funding sources generally decline and we are unable to pledge the underlying security as collateral. Our liquidity may also be impacted if we choose to facilitate liquidity for specific products and voluntarily increase our inventory positions in order to do so, exposing ourselves to greater market risk and potential financial losses from the reduction in value of illiquid positions.

In addition, reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and advisor clients, may expose us to greater risk of financial loss from unsettled trades than is the case with other types of institutional investors. Concentration of risk may result in losses to us even when economic and market conditions are generally favorable for others in our industry.

Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets.

The amount and duration of our credit exposures has been volatile over the past several years. This exposes us to the increased risk that third parties who owe us money, securities or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Deterioration in the credit quality of securities or obligations we hold could result in losses and adversely affect our ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of our counterparties could also have a negative impact on our results. Default rates, downgrades and disputes with counterparties as to the valuation of collateral tend to increase in times of market stress and illiquidity. Although we review credit exposures to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. Also, concerns about, or a default by, one institution generally leads to losses, significant liquidity problems, or defaults by other institutions, which in turn adversely affects our business.

Particular activities or products within our business have exposed us to increasing credit risk, including inventory positions, interest rate swap contracts with customer credit exposure, merchant banking debt investments, counterparty risk with two major financial institutions related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, customer margin accounts, and trading counterparty activities related to settlement and similar activities. With respect to interest rate swap contracts with customer credit exposure, we have credit exposure with six counterparties totaling $22.0 million at December 31, 2013 as part of our matched-book interest rate swap program. In the event of a termination of the contract, the counterparty would owe us the applicable amount of the credit exposure, and we would owe that amount to our hedging counterparty. If our counterparty is unable to make its payment to us, we would still be obligated to pay our hedging counterparty, resulting in credit losses. With respect to merchant banking investments, we have one debt investment totaling $11.6 million as of December 31, 2013. Non-performance by our counterparties, clients and others, including with respect to our inventory

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positions, interest rate swap contracts with customer credit exposures and our merchant banking debt investments could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

An inability to access capital readily or on terms favorable to us could impair our ability to fund operations and could jeopardize our financial condition and results of operations.

Liquidity, or ready access to funds, is essential to our business. Several large financial institutions failed or merged with others during the credit crisis following significant declines in asset values in securities held by these institutions, and, during 2011, a financial institution failed due to liquidity issues related to the European sovereign debt crisis. To fund our business, we rely on commercial paper and bank financing as well as other funding sources such as the repurchase markets. Our bank financing includes uncommitted credit lines, which could become unavailable to us on relatively short notice. In an effort to mitigate this funding risk, we renewed a $250 million credit facility for the fifth consecutive year in 2013, and also issued $125 million of unsecured variable rate notes at the end of 2012, refinancing a three-year secured credit facility. The notes consist of two classes, with $50 million maturing in May 2014 and $75 million maturing in November 2015. In order to further diversify our short-term funding needs, we also continue to maintain our $300 million and $150 million commercial paper programs, and initiated a third commercial program in the amount of $100 million during 2013.

Our access to funding sources, particularly uncommitted funding sources, could be hindered by many factors, and many of these factors we cannot control, such as economic downturns, the disruption of financial markets, the failure or consolidation of other financial institutions, negative news about the financial industry generally or us specifically. We could experience disruptions with our credit facilities in the future, including the loss of liquidity sources and/or increased borrowing costs, if lenders or investors develop a negative perception of our short- or long-term financial prospects, which could result from decreased business activity. Our liquidity also could be impacted by the activities resulting in concentration of risk, including proprietary activities from long-term investments and/or investments in specific markets or products without liquidity. Our access to funds may be impaired if regulatory authorities take significant action against us, or if we discover that one of our employees has engaged in serious unauthorized or illegal activity.

In the future, we may need to incur debt or issue equity in order to fund our working capital requirements, as well as to execute our growth initiatives that may include acquisitions and other investments. Similarly, our access to funding sources may be contingent upon terms and conditions that may limit or restrict our business activities and growth initiatives. For example, the institutional notes noted above include covenants that, among other things, limit our leverage ratio and require maintenance of certain levels tangible net worth, regulatory net capital, and operating cash flow to fixed charges.

Lastly, we currently do not have a credit rating, which could adversely affect our liquidity and competitive position by increasing our borrowing costs and limiting access to sources of liquidity that require a credit rating as a condition to providing funds.

Concentration of risk increases the potential for significant losses.

Concentration of risk increases the potential for significant losses in our sales and trading, proprietary trading, merchant banking and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. This concentration of risk may cause us to suffer losses even when economic and market conditions are generally favorable for our competitors. Further, disruptions in the credit markets can make it difficult to hedge exposures effectively and economically. We also experience concentration of risk in our role as remarketing agent and broker dealer for certain types of municipal securities,

including in our role as remarketing agent for approximately $3.3 billion of variable rate demand notes. In an effort to facilitate liquidity, we may (but are not required to) increase our inventory positions in securities, exposing ourselves to greater concentration of risk and potential financial losses from the reduction in value of illiquid positions. Further, inventory positions that benefit from a liquidity provider, such as certain types of variable rate demand notes, may be adversely affected by an event that results in termination of the liquidity provider's obligation, such as an insolvency or ratings downgrade of the monoline insurer.

Our underwriting and market-making activities may place our capital at risk.

We may incur losses and be subject to reputational harm to the extent that, for any reason, we are unable to sell securities we purchased as an underwriter at the anticipated price levels. As an underwriter, we also are subject to heightened standards regarding liability for material misstatements or omissions in prospectuses and other offering documents relating to offerings we underwrite. Further, even though underwriting agreements with issuing companies typically include a right to indemnification in favor of the underwriter for these offerings to cover potential liability from any material misstatements or omissions, indemnification may be unavailable or insufficient in certain circumstances, for example if the issuing company has become insolvent. These underwriting-

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related risks may be greater with respect to our now-discontinued business in Asia because the Asian capital markets are generally less developed than those of the U.S. and many Asia-based issuer companies are less mature than may be the case in the U.S. and may have a higher risk profile. Additionally, indemnification and other contractual obligations of Asia-based companies may offer less protection to underwriters than they do for U.S. companies; Asia-based companies may have no assets in the U.S. upon which collection could be made, and a legal judgment obtained in the U.S. (for example related to an indemnification obligation) may be unenforceable in Asia.

As a market maker, we may own large positions in specific securities, and these undiversified holdings concentrate the risk of market fluctuations and may result in greater losses than would be the case if our holdings were more diversified.

Our technology systems, including outsourced systems, are critical components of our operations, and failure of those systems or other aspects of our operations infrastructure may disrupt our business, cause financial loss and constrain our growth.

We typically transact thousands of securities trades on a daily basis across multiple markets. Our data and transaction processing, custody, financial, accounting and other technology and operating systems are essential to this task. A system malfunction (due to hardware failure, capacity overload, security incident, data corruption, etc.) or mistake made relating to the processing of transactions could result in financial loss, liability to clients, regulatory intervention, reputational damage and constraints on our ability to grow. We outsource a substantial portion of our critical data processing activities, including trade processing and back office data processing. For example, we have entered into contracts with Broadridge Financial Solutions, Inc. pursuant to which Broadridge handles our trade and back office processing, and Unisys Corporation, pursuant to which Unisys supports our data center and helpdesk needs. We also contract with third parties for market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees. We contract with other vendors to produce and mail our customer statements and to provide other services. In the event that any of these service providers fails to adequately perform such services or the relationship between that service provider and us is terminated, we may experience a significant disruption in our operations, including our ability to timely and accurately process transactions or maintain complete and accurate records of those transactions.

Adapting or developing our technology systems to meet new regulatory requirements, client needs, geographic expansion and industry demands also is critical for our business. Introduction of new technologies present new challenges on a regular basis. We have an ongoing need to upgrade and improve our various technology systems, including our data and transaction processing, financial, accounting, risk management and trading systems. This need could present operational issues or require significant capital spending. It also may require us to make additional investments in technology systems and may require us to reevaluate the current value and/or expected useful lives of our technology systems, which could negatively impact our results of operations.

Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks also is critically important to our business. We take protective measures and endeavor to modify them as circumstances warrant. However, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), and other events that could have an information security impact. If one or more of such events occur, this potentially 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 may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A disruption in the infrastructure that supports our business due to fire, natural disaster, health emergency (for example, a disease pandemic), power or communication failure, act of terrorism or war may affect our ability to service and interact with our clients. If we are not able to implement contingency plans effectively, any such disruption could harm our results of operations.

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Legislative and regulatory proposals could significantly curtail the revenue from certain products that we currently provide.

Currently, federal law allows investors in debt issuances by government and non-profit entities to exclude the bond interest for federal income tax purposes, resulting in lower interest expense for the issuer as compared to a taxable financing. In recent years, federal lawmakers have presented various proposals to limit or eliminate the tax-exempt status of this bond interest, and further negotiations in 2014 regarding the budget deficit and federal spending cuts may also include similar proposals. Our public finance investment banking business receives significant revenues as a result of underwriting activity in connection with debt issuances by government and non-profit clients, primarily on a tax-exempt basis. Also, a significant percentage of our securities inventory — both positions held for client activity and our own proprietary trading positions — consist of municipal securities. Any reduction or elimination of tax-exempt bond interest could negatively impact the value of the municipal securities we hold in our securities inventory as well as our public finance investment banking business more generally, which would negatively impact the results of operations for these businesses.

Another proposal to address current debt and deficit levels is the levying of a sales tax on financial transactions, similar to that currently in place in certain European countries and proposed in region more broadly. Referred to as a “transactions tax” or “financial transactions tax,” this proposal would tax trading and other financial services activity in an effort to increase tax receipts. These proposals, which have been introduced both at the federal and state level, propose various tax rates for different types of transactions, encompassing activities within investment banking, institutional brokerage, and asset management. One such proposal, introduced in the U.S. House of Representatives in 2011, proposed various tax rates for different types of transactions, including a 0.25% tax on equity transactions. A similar tax was proposed in the state of Minnesota in early 2013 that would expand the sales tax base to include brokerage and investment consulting, which may include the activities noted above. This type of transaction tax would erode commission revenue, and also have a negative impact on our investment banking and asset management activities by increasing the costs associated with these businesses.

We have experienced volume declines and pricing pressures in our institutional sales and trading business, which may impair our revenues and profitability.

In recent years, we have experienced volume declines and pricing pressures within our institutional sales and trading business. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins in certain instances. In the equity market, volumes have declined and institutional clients increasingly limit the number of trading partners with whom they conduct business. The increased use of electronic and direct market access trading has caused additional downward competitive pressure on trading margins, and the trend toward using alternative trading systems continues to grow. These market dynamics may result in decreased trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. Institutional clients also have pressured financial services firms to alter “soft dollar” practices under which brokerage firms bundle the cost of trade execution with research products and services. Some institutions are entering into arrangements that separate (or “unbundle”) payments for research products or services from sales commissions. These arrangements have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including by reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins.

Our ability to attract, develop and retain highly skilled and productive employees is critical to the success of our business.

Historically, the market for qualified employees within the financial services industry has been marked by intense competition, and the performance of our business may suffer to the extent we are unable to attract and retain employees effectively, particularly given the relatively small size of our company and our employee base compared to some of our competitors and the geographic locations in which we operate. The primary sources of revenue in each of our business lines are commissions and fees earned on advisory and underwriting transactions and customer accounts managed by our employees, who have historically been recruited by other firms and in certain cases are able to take their client relationships with them when they change firms. Some specialized areas of our business are operated by a relatively small number of employees, the loss of any of whom could jeopardize the continuation of that business following the employee's departure.

Further, recruiting and retention success often depends on the ability to deliver competitive compensation, and we may be at a disadvantage to some competitors given our size and financial resources. Our inability or unwillingness to meet compensation

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needs or demands may result in the loss of some of our professionals or the inability to recruit additional professionals at compensation levels that are within our target range for compensation and benefits expense. Our ability to retain and recruit also may be hindered if we limit our aggregate annual compensation and benefits expense as a percentage of annual net revenues.

Our exposure to legal liability is significant, and could lead to substantial damages.

We face significant legal risks in our businesses. These risks include potential liability under securities laws and regulations in connection with our capital markets, asset management and other businesses. The volume and amount of damages claimed in litigation, arbitrations, regulatory enforcement actions and other adversarial proceedings against financial services firms have increased in recent years. Our experience has been that adversarial proceedings against financial services firms typically increase during and following a market downturn. We also are subject to claims from disputes with our employees and our former employees under various circumstances. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time, making the amount of legal reserves related to these legal liabilities difficult to determine and subject to future revision. Legal or regulatory matters involving our directors, officers or employees in their individual capacities also may create exposure for us because we may be obligated or may choose to indemnify the affected individuals against liabilities and expenses they incur in connection with such matters to the extent permitted under applicable law. In addition, like other financial services companies, we may face the possibility of employee fraud or misconduct. The precautions we take to prevent and detect this activity may not be effective in all cases and there can be no assurance that we will be able to deter or prevent fraud or misconduct. Exposures from and expenses incurred related to any of the foregoing actions or proceedings could have a negative impact on our results of operations and financial condition. In addition, future results of operations could be adversely affected if reserves relating to these legal liabilities are required to be increased or legal proceedings are resolved in excess of established reserves.

Our business is subject to extensive regulation in the jurisdictions in which we operate, and a significant regulatory action against our company may have a material adverse financial effect or cause significant reputational harm to our company.

As a participant in the financial services industry, we are subject to complex and extensive regulation of many aspects of our business by U.S. federal and state regulatory agencies, self-regulatory organizations (including securities exchanges) and by foreign governmental agencies, regulatory bodies and securities exchanges. Specifically, our operating subsidiaries include broker dealer and related securities entities organized in the United States and the United Kingdom, and we have applied for a regulatory license in Hong Kong Special Administrative Region of the People's Republic of China (“PRC”) as we expect to maintain a more limited presence in the region to facilitate our U.S. advisory business following the cessation of operations in 2012. Each of these entities is registered or licensed (or has applied to be licensed) with the applicable local securities regulator and is subject to all of the applicable rules and regulations promulgated by those authorities. In addition, our asset management subsidiaries, ARI, PJIM, and PJC Capital Partners LLC are registered as investment advisers with the SEC and subject to the regulation and oversight by the SEC.

Generally, the requirements imposed by our regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. These requirements are not designed to protect our shareholders. Consequently, broker dealer regulations often serve to limit our activities, through net capital, customer protection and market conduct requirements and restrictions on the businesses in which we may operate or invest. We also must comply with asset management regulations, including requirements related to fiduciary duties to clients, recordkeeping and reporting and customer disclosures. Compliance with many of these regulations entails a number of risks, particularly in areas where applicable regulations may be newer or unclear. In addition, regulatory authorities in

all jurisdictions in which we conduct business may intervene in our business and we and our employees could be fined or otherwise disciplined for violations or prohibited from engaging in some of our business activities.

The laws, rules and regulations comprising this regulatory framework can (and do) change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Recent conditions in the global financial markets and economy, including the 2008 financial crisis, caused legislators and regulators to increase the examination, enforcement and rule-making activity directed toward the financial services industry, which we expect to continue in the coming years. In 2010, the federal government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Dodd-Frank significantly restructures and intensifies regulation in the financial services industry, with provisions that include, among other things, the creation of a new systemic risk oversight body, expansion of the authority of existing regulators, increased regulation of and restrictions on OTC derivatives markets and transactions, broadening of the reporting and regulation of executive compensation, expansion of the standards for market participants in dealing with clients and customers, and regulation of fiduciary duties owed by municipal advisors or conduit borrowers of municipal securities. The intensified regulatory environment will likely alter certain business practices and change the competitive landscape of the financial services industry, which may have an adverse effect on our business, financial condition and results of operations.

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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. We are subject to contingent tax risk that could adversely affect our results of operations, to the extent that our interpretations of tax laws are disputed upon examination or audit, and are settled in amounts in excess of established reserves for such contingencies.

The effort to combat money laundering also has become a high priority in governmental policy with respect to financial institutions. The obligation of financial institutions, including ourselves, to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls which have increased, and may continue to increase, our costs. Any failure with respect to our programs in this area could subject us to serious regulatory consequences, including substantial fines, and potentially other liabilities. In addition, our international operations require compliance with anti-bribery laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act 2010. These laws generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. While our employees and agents are required to comply with these laws, we cannot ensure that our internal control policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents, which acts could subject our company to fines or other regulatory consequences.

Risk management processes may not fully mitigate exposure to the various risks that we face, including market risk, liquidity risk and credit risk.

We refine our risk management techniques, strategies and assessment methods on an ongoing basis. However, risk management techniques and strategies, both ours and those available to the market generally, may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk. For example, we might fail to identify or anticipate particular risks that our systems are capable of identifying, or the systems that we use, and that are used within the industry generally, may not be capable of identifying certain risks. Some of our strategies for managing risk are based upon our use of observed historical market behavior. We apply statistical and other tools to these observations to quantify our risk exposure. Any failures in our risk management techniques and strategies to accurately quantify our risk exposure could limit our ability to manage risks. In addition, any risk management failures could cause our losses to be significantly greater than the historical measures indicate. Further, our quantified modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

Use of derivative instruments as part of our risk management techniques may not effectively hedge the risks associated with activities in certain of our businesses.

We use interest rate swaps, interest rate locks, credit default swap index contracts and option contracts as a means to manage risk in certain inventory positions and to facilitate customer transactions. With respect to risk management, we enter into derivative contracts to hedge interest rate and market value risks associated with our security positions, including fixed income inventory positions we hold both for facilitating client activity as well as for our own proprietary trading operations. The instruments use interest rates based upon either the Municipal Market Data ("MMD") index, LIBOR or SIFMA index. We also enter into credit default swap index contracts to hedge risks associated with our taxable fixed income securities, and option contracts to hedge market value risk associated with convertible securities and asset-backed securities. Generally, we do not hedge all of our interest rate risk. In addition, these hedging strategies may not work in all market environments and as a result may not be effective in mitigating

interest rate and market value credit risk, especially when market volatility reduces the correlation between a hedging vehicle and the securities inventory being hedged.

With respect to customer transactions, our fixed income business provides swaps and other interest rate hedging products to public finance clients, which we in turn hedge through a counterparty. There are risks inherent in our use of these products, including counterparty exposure and basis risk. Counterparty exposure refers to the risk that the amount of collateral in our possession on any given day may not be sufficient to fully cover the current value of the swaps if a counterparty were to suddenly default. Basis risk refers to risks associated with swaps where changes in the value of the swaps may not exactly mirror changes in the value of the cash flows they are hedging. It is possible that we may incur losses from our exposure to derivative and interest rate hedging products and the increased use of these products in the future. For example, if the derivative instruments that we use to hedge the risks associated with interest rate swap contracts with public finance clients where we have retained the credit risk are terminated

as a result of a client credit event, we may incur losses if we make a payment to our hedging counterparty without recovering any amounts from our client.

The use of estimates and valuations in measuring fair value involve significant estimation and judgment by management.

We make various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in measuring fair value of certain financial instruments, accounting for goodwill and intangible assets, establishing provisions for potential losses that may arise from litigation, and regulatory proceedings and tax examinations. Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our consolidated financial statements.

Certain financial instruments, including financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold but not yet purchased, are recorded at fair value, and unrealized gains and losses related to these financial instruments are reflected on our consolidated statements of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Difficult market environments, such as those experienced in 2008, may cause financial instruments to become substantially more illiquid and difficult to value, increasing the use of valuation models. Our future results of operations and financial condition may be adversely affected by the valuation adjustments that we apply to these financial instruments.

We may make strategic acquisitions and minority investments, engage in joint ventures or divest or exit existing businesses, which could cause us to incur unforeseen expenses and have disruptive effects on our business but may not yield the benefits we expect.

We may grow in part through corporate development activities that may include acquisitions, joint ventures and minority investment stakes. For example, we expanded our existing asset management business in March 2010 with the acquisition of ARI, a Chicago-based asset management firm, and we added to our public finance and fixed income sales and trading and corporate advisory businesses with our acquisitions of Seattle-Northwest Securities Corporation and Edgeview Partners, L.P. in July 2013. There are a number of risks associated with corporate development activities. Costs or difficulties relating to a transaction, including integration of products, employees, technology systems, accounting systems and management controls, may be difficult to predict accurately and be greater than expected causing our estimates to differ from actual results. We may be unable to retain key personnel after the transaction, and the transaction may impair relationships with customers and business partners. We may incur unforeseen liabilities of an acquired company that could impose significant and unanticipated legal costs on us. Also, our share price could decline after we announce or complete a transaction if investors view the transaction as too costly or unlikely to improve our competitive position. Longer-term, these activities require increased investment in management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, would cause our operating margins to decline. More generally, any difficulties that we experience could disrupt our ongoing business, increase our expenses and adversely affect our operating results and financial condition. We also may be unable to achieve anticipated benefits and synergies from the transaction as fully as expected or within the expected time frame. Divestitures or elimination of existing businesses or products could have similar effects. For example, we shut down our Hong Kong capital markets business in 2012, and realized a pre-tax loss on the investment in our Hong Kong subsidiaries.

We enter into off-balance sheet arrangements that may be required to be consolidated on our financial statements based on future events outside of our control, including changes in complex accounting standards.

In the normal course of our business, we periodically create or transact with entities that are investment vehicles organized as limited partnerships or limited liability companies, established for the purpose of investing in equity or debt securities of public and private companies or various partnership entities. Certain of these entities have been identified as variable interest entities ("VIEs"). We are required to consolidate onto our consolidated statement of financial condition all VIEs for which we are considered to be the primary beneficiary as defined under applicable accounting standards. The assessment of whether the accounting criteria for consolidation are met requires management to exercise significant judgment. If certain events occur that require us to re-assess our initial determination of non-consolidation or if our judgment of non-consolidation is in error, we could be required to consolidate the assets and liabilities of a VIE onto our consolidated statement of financial condition and recognize its future gains or losses in our consolidated statement of operations. For reasons outside of our control, including changes in existing accounting standards, or interpretations of those standards, the risk of consolidation of these VIEs could increase. Further consolidation would affect the size of our consolidated statement of financial condition.

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The financial services industry and the markets in which we operate are subject to systemic risk that could adversely affect our business and results.

Participants in the financial services industry and markets increasingly are closely interrelated as a result of credit, trading, clearing, technology and other relationships between them. A significant adverse development with one participant (such as a bankruptcy or default) may spread to others and lead to significant concentrated or market-wide problems (such as defaults, liquidity problems or losses) for other participants, including us. This systemic risk was evident during 2008 following the demise of Bear Stearns and Lehman Brothers, and the resulting events (sometimes described as “contagion”) had a negative impact on the remaining industry participants, including us. Further, the control and risk management infrastructure of the markets in which we operate often is outpaced by financial innovation and growth in new types of securities, transactions and markets. Systemic risk is inherently difficult to assess and quantify, and its form and magnitude can remain unknown for significant periods of time.

We may suffer losses if our reputation is harmed.

Our ability to attract and retain customers and employees may be diminished to the extent our reputation is damaged. If we fail, or are perceived to fail, to address various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with market dynamics, potential conflicts of interest, legal and regulatory requirements, ethical issues, customer privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products and services. Failure to appropriately address these issues could give rise to loss of existing or future business, financial loss, and legal or regulatory liability, including complaints, claims and enforcement proceedings against us, which could, in turn, subject us to fines, judgments and other penalties.

Regulatory capital requirements may limit our ability to expand or maintain our present levels of business or impair our ability to meet our financial obligations.

We are subject to the SEC's uniform net capital rule (Rule 15c3-1) and the net capital rule of FINRA, which may limit our ability to make withdrawals of capital from Piper Jaffray & Co., our U.S. broker dealer subsidiary. The uniform net capital rule sets the minimum level of net capital a broker dealer must maintain and also requires that a portion of its assets be relatively liquid. FINRA may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital falls below its requirements. Underwriting commitments require a charge against net capital and, accordingly, our ability to make underwriting commitments may be limited by the requirement that we must at all times be in compliance with the applicable net capital regulations.

As Piper Jaffray Companies is a holding company, it depends on dividends, distributions and other payments from our subsidiaries to fund its obligations, including any share repurchases that we may make. The regulatory restrictions described above may impede access to funds our holding company needs to make payments on any such obligations.

We may not be able to compete successfully with other companies in the financial services industry who often have significantly greater resources than we do.

The financial services industry remains extremely competitive, and our revenues and profitability will suffer if we are unable to compete effectively. An inability to effectively compete will also have a negative impact on our ability to achieve our strategic priorities, which include growth for our public finance, fixed income sales, asset management, and corporate advisory businesses. We compete generally on the basis of such factors as quality of advice and service, reputation, price, product selection, transaction execution and financial resources. Pricing and other competitive pressures in investment banking, including trends toward multiple book runners, co-managers, and multiple financial

advisors handling transactions, have continued and could adversely affect our revenues. The trend toward multiple book runners has also been accompanied by an increasing disparity in the relative economics between or among book runners, with the senior book runner(s) receiving a large percentage of the economics.

We remain at a competitive disadvantage given our relatively small size compared to some of our competitors. Large financial services firms have a larger capital base, greater access to capital and greater resources than we have, affording them greater capacity for risk and potential for innovation, an extended geographic reach and flexibility to offer a broader set of products. For example, these firms have used their resources and larger capital base to take advantage of growth in international markets and to support their investment banking business by offering credit products to corporate clients, which is a significant competitive advantage. With respect to our fixed income institutional and public finance investment banking businesses, it is more difficult for us to diversify and differentiate our product set, and our fixed income business mix currently is concentrated in the municipal market and to a lesser extent corporate credits and structured mortgage products, potentially with less opportunity for growth than

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other firms which have grown their fixed income businesses by investing in, developing and offering non-traditional products (e.g., credit default swaps, interest rate products and currencies and commodities).

The business operations that we conduct outside of the United States subject us to unique risks.

To the extent we conduct business outside the United States, for example in Asia and Europe, we are subject to risks including, without limitation, the risk that we will be unable to provide effective operational support to these business activities, the risk of non-compliance with foreign laws and regulations, and the general economic and political conditions in countries where we conduct business, which may differ significantly from those in the United States. In 2012, we shut down our Hong Kong capital markets business following a sustained period of operating losses, though we have applied for a regulatory license in Hong Kong to maintain a presence in the region to facilitate advisory engagements. With respect to our Asia-based capital markets activity, we facilitated underwritten capital-raising transactions for Asia-based issuers, which may have exposed us to greater underwriting risk in our capital markets business as compared to the U.S., as noted above.

Provisions in our certificate of incorporation and bylaws and of Delaware law may prevent or delay an acquisition of our company, which could decrease the market value of our common stock.

Our certificate of incorporation and bylaws and Delaware law contain provisions that are intended to deter abusive takeover tactics by making them unacceptably expensive to the raider and to encourage prospective acquirors to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include limitations on our shareholders' ability to act by written consent and to call special meetings. Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15 percent or more of our outstanding common stock. We believe these provisions protect our shareholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of February 19, 2014, we conducted our operations through 45 principal offices in 28 states and in London, Hong Kong and Zurich. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota and, as of February 19, 2014, comprises approximately 240,000 square feet of leased space (approximately 90,000 square feet of this space is sublet to others). Our existing sublease arrangement with U.S. Bancorp for our headquarters at 800 Nicollet Mall expires in May 2014, and our new lease agreement for approximately 124,000 square feet of office space at the same location commences on June 1, 2014. This new lease at 800 Nicollet Mall expires on November 30, 2025, and includes an option to terminate the lease early effective January 31, 2022.

ITEM 3. LEGAL PROCEEDINGS.

Due to the nature of our business, we are involved in a variety of legal proceedings (including, but not limited to, those described below). These proceedings include litigation, arbitration and regulatory proceedings, which may arise from, among other things, underwriting or other transactional activity, client account activity, employment matters, regulatory examinations of our businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. The securities industry is highly regulated, and the regulatory scrutiny applied to securities firms is intense, resulting in a significant number of regulatory investigations and enforcement actions and uncertainty regarding the likely outcome of these matters.

Litigation-related expenses include amounts we reserve and/or pay out as legal and regulatory settlements, awards or judgments, and fines. Parties who initiate litigation and arbitration proceedings against us may seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines being imposed on us. We reserve for contingencies related to legal proceedings at the time and to the extent we determine the amount to be probable and reasonably estimable. However, it is inherently difficult to predict accurately the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines. We assess each proceeding based on its particular facts, our outside advisors' and our past experience with similar matters, and expectations regarding the current legal and regulatory environment and other external developments that might affect the outcome of a particular proceeding or type of proceeding. Subject to the foregoing and except for the legal proceeding described below, we believe, based on our current knowledge, after appropriate consultation with outside legal counsel and taking into account our established reserves, that pending legal actions, investigations and regulatory proceedings, will be resolved with no material adverse effect on our consolidated financial condition, results of operations or cash flows. However, there can be no assurance that our assessments will reflect the ultimate outcome of pending proceedings, and the outcome of any particular matter may be material to our operating results for any particular period, depending, in part, on the operating results for that period and the amount of established reserves. We generally have denied, or believe that we have meritorious defenses and will deny, liability in all significant cases currently pending against us, and we intend to vigorously defend such actions.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed on the New York Stock Exchange under the symbol "PJC." The following table contains historical quarterly price information for the years ended December 31, 2013 and 2012. On February 19, 2014, the last reported sale price of our common stock was $39.77.

	2013 Fiscal Year		2012 Fiscal Year	
	High	Low	High	Low
First Quarter	$41.97	$32.95	$27.20	$21.03
Second Quarter	36.26	30.50	27.46	20.53
Third Quarter	36.14	30.99	27.81	19.56
Fourth Quarter	39.55	32.33	32.13	25.33

Shareholders

We had 16,870 shareholders of record and approximately 30,259 beneficial owners of our common stock as of February 19, 2014.

Dividends

We do not currently pay cash dividends on our common stock. Our board of directors is free to change our dividend policy at any time. Restrictions on our U.S. broker dealer subsidiary's ability to pay dividends are described in Note 27 to the consolidated financial statements.

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 December 31, 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Yet to be Purchased Under the Plans or Programs (1)	
Month #1 (October 1, 2013 to October 31, 2013)	36,568	$32.43	36,568	$39	million
Month #2 (November 1, 2013 to November 30, 2013)	8,991	$35.62	—	$39	million
Month #3 (December 1, 2013 to December 31, 2013)	243	$37.44	—	$39	million
Total	45,802	$33.08	36,568	$39	million

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

October 1, 2012.

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

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Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2008 through December 31, 2013, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on December 31, 2008, in each of our common stock, the S&P 500 Index and the S&P 500 Diversified Financials Index and that all dividends were reinvested on the date of payment without payment of any commissions. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

FIVE YEAR TOTAL RETURN FOR PIPER JAFFRAY COMPANIES COMMON STOCK,
THE S&P 500 INDEX AND THE S&P DIVERSIFIED FINANCIALS INDEX

Company/Index	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Piper Jaffray Companies	100	127.29	88.05	50.80	80.81	99.47
S&P 500 Index	100	126.46	145.51	148.59	172.37	228.19
S&P 500 Diversified Financials	100	130.39	137.01	95.86	135.49	191.57

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ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected consolidated financial data in accordance with U.S. generally accepted accounting principles for the periods and dates indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto.

	For the year ended December 31,				
(Dollars and shares in thousands, except per share data)	2013	2012	2011	2010	2009
Revenues:					
Investment banking	$248,563	$232,958	$202,513	$239,630	$197,951
Institutional brokerage	146,648	166,642	135,358	161,698	218,058
Asset management	83,045	65,699	63,307	55,948	5,122
Interest	50,409	37,845	43,447	40,474	30,528
Investment income	21,566	4,903	8,178	5,371	(1,027)
Total revenues	550,231	508,047	452,803	503,121	450,632
Interest expense	25,036	19,095	20,720	23,187	9,716
Net revenues	525,195	488,952	432,083	479,934	440,916
Non-interest expenses:					
Compensation and benefits	322,464	296,882	265,015	280,047	257,842
Restructuring and integration costs	4,689	3,642	—	10,699	3,541
Goodwill impairment	—	—	120,298	—	—
Other	122,429	119,417	126,959	135,371	119,444
Total non-interest expenses	449,582	419,941	512,272	426,117	380,827
Income/(loss) from continuing operations before income tax expense/(benefit)	75,613	69,011	(80,189)	53,817	60,089
Income tax expense	20,390	19,470	9,120	32,163	26,706
Net income/(loss) from continuing operations	55,223	49,541	(89,309)	21,654	33,383
Discontinued operations:					
Income/(loss) from discontinued operations, net of tax	(4,739)	(5,807)	(11,248)	2,276	(3,187)
Net income/(loss)	50,484	43,734	(100,557)	23,930	30,196
Net income/(loss) applicable to noncontrolling interests	5,394	2,466	1,463	(432)	(173)
Net income/(loss) applicable to Piper Jaffray Companies	$45,090	$41,268	$(102,020)	$24,362	$30,369

Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	$40,596	$35,335	$(102,020)[1]	$18,929	$24,888

Continued on next page

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(Dollars and shares in thousands, except per share data)	For the year ended December 31, 2013	2012	2011	2010	2009
Amounts applicable to Piper Jaffray Companies					
Net income/(loss) from continuing operations	$49,829	$47,075	$(90,772)	$22,086	$33,556
Net income/(loss) from discontinued operations	(4,739)	(5,807)	(11,248)	2,276	(3,187)
Net income/(loss) applicable to Piper Jaffray Companies	$45,090	$41,268	$(102,020)	$24,362	$30,369
Earnings/(loss) per basic common share					
Income/(loss) from continuing operations	$2.98	$2.58	$(5.79)	$1.12	$1.72
Income/(loss) from discontinued operations	(0.28)	(0.32)	(0.72)	0.12	(0.16)
Earnings/(loss) per basic common share	$2.70	$2.26	$(6.51)	$1.23	$1.56
Earnings/(loss) per diluted common share					
Income/(loss) from continuing operations	$2.98	$2.58	$(5.79)	$1.12	$1.72
Income/(loss) from discontinued operations	(0.28)	(0.32)	(0.72)	0.11	(0.16)
Earnings/(loss) per diluted common share	$2.70	$2.26	$(6.51) [2]	$1.23	$1.55
Weighted average number of common shares					
Basic	15,046	15,615	15,672	15,348	15,952
Diluted	15,061	15,616	15,672 [2]	15,378	16,007
Other data					
Total assets	$2,318,157	$2,087,733	$1,655,721	$2,033,787	$1,703,330
Long-term debt	$125,000	$125,000	$115,000	$125,000	$—
Total common shareholders' equity	$734,676	$733,292	$718,391	$813,312	$778,616
Total shareholders' equity	$882,072	$790,175	$750,600	$818,101	$782,319
Total employees [3]	1,026	907	919	922	934

(1) No allocation of income was made due to loss position.
(2) 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.
(3) Number of employees reflect continuing operations.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following information should be read in conjunction with the accompanying audited 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, 2013 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, 2013, as updated in our subsequent reports filed with the SEC. These reports are available at our Web site at www.piperjaffray.com and at the SEC Web site at www.sec.gov. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

Explanation of Non-GAAP Financial Measures

We have included financial measures that are not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These non-GAAP financial measures include adjustments to exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions, (3) compensation from acquisition-related agreements, (4) restructuring and acquisition integration costs and (5) a goodwill impairment charge recognized in 2011. These adjustments affect the following financial measures: net revenues, non-compensation expenses, net income applicable to Piper Jaffray Companies, earnings per diluted common share, segment net revenues, segment operating expenses, segment pre-tax operating income and segment pre-tax operating margin. Management believes that presenting these results and measures on an adjusted basis in conjunction with U.S. GAAP measures provides the most meaningful basis for comparison of its operating results across periods.

Executive Overview

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

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

As part of our strategy to grow our public finance business, on July 12, 2013, we completed the acquisition of Seattle-Northwest Securities Corporation ("Seattle-Northwest"), a Seattle-based investment bank and broker dealer focused on public finance in the Northwest region of the U.S.

On July 16, 2013, we completed the purchase of Edgeview Partners, L.P. ("Edgeview"), a middle-market advisory firm specializing in mergers and acquisitions. The acquisition further strengthens our mergers and acquisitions position in the middle market and adds resources dedicated to the private equity community.

For more information on our acquisitions of Seattle-Northwest and Edgeview, see Note 4 of our consolidated financial statements. We incurred $4.3 million of restructuring, integration and transaction costs in the year ended December 31, 2013 related to these acquisitions.

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Asset Management – The Asset Management segment provides traditional asset management services by taking a value-driven approach to managing assets in domestic and international equity markets. Additionally, the asset management segment manages master limited partnerships (“MLPs”) focused on the energy sector for institutions and individuals. Revenues are generated in the form of management and performance fees. Revenues are also generated through investments in the partnerships and funds that we manage.

Discontinued Operations – Our discontinued operations for all periods presented include the operating results of our Hong Kong capital markets business and Fiduciary Asset Management, LLC ("FAMCO"), an asset management subsidiary. As of September 30, 2012, we ceased operations related to our Hong Kong capital markets business. As a result of discontinuing this business, we realized net cash proceeds of approximately $19.1 million, due principally to a U.S. tax benefit for the realized loss on the investment in our Hong Kong subsidiaries. We sold FAMCO in the second quarter of 2013. FAMCO was classified as held for sale as of December 31, 2012. See Note 5 to our consolidated financial statements for further discussion of our discontinued operations.

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Results for the year ended December 31, 2013

For the year ended December 31, 2013, net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, was $45.1 million, or $2.70 per diluted common share. Net income applicable to Piper Jaffray Companies from continuing operations in 2013 was $49.8 million, or $2.98 per diluted common share, compared with $47.1 million, or $2.58 per diluted common share, for the prior-year period. The current period results of operations include a $4.0 million, or $0.24 per diluted common share, tax benefit from reversing the full amount of our U.K. subsidiary's deferred tax asset valuation allowance. In 2013, we generated a return on average common shareholders' equity of 6.2 percent, compared with 5.7 percent for 2012. Net revenues from continuing operations for the year ended December 31, 2013 were $525.2 million, up 7.4 percent from $489.0 million in the year-ago period. In 2013, we recorded increased revenues from our equity-related businesses, asset management services and merchant banking activities, offset in part by lower advisory services and fixed income institutional brokerage revenues. For the year ended December 31, 2013, non-compensation expenses from continuing operations were $127.1 million, up from $123.1 million in 2012.

For the year ended December 31, 2013, adjusted net income applicable to Piper Jaffray Companies from continuing operations was $59.5 million[1], or $3.56[1] per diluted common share, compared with $54.3 million[1], or $2.98[1] per diluted common share, for the prior-year period. Adjusted net revenues for the year ended December 31, 2013 were $516.4 million[1], an increase of 6.5 percent from $484.8 million[1] reported in the year-ago period. For the year ended December 31, 2013, adjusted non-compensation expenses were $111.0 million[1], essentially flat compared to $110.8 million[1] for the year ended December 31, 2012.

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

(Dollars in thousands)	Year Ended December 31, 2013	2012
Net revenues:		
Net revenues – U.S. GAAP basis	$525,195	$488,952
Adjustments:		
Revenue related to noncontrolling interests	(8,794)	(4,174)
Adjusted net revenues	$516,401	$484,778
Non-compensation expenses:		
Non-compensation expenses – U.S. GAAP basis	$127,118	$123,059
Adjustments:		
Non-compensation expenses related to noncontrolling interests	(3,400)	(1,708)
Restructuring and integration costs	(4,689)	(3,642)
Amortization of intangible assets related to acquisitions	(7,993)	(6,944)
Adjusted non-compensation expenses	$111,036	$110,765
Net income from continuing operations applicable to Piper Jaffray Companies:		
Net income from continuing operations applicable to Piper Jaffray Companies - U.S. GAAP basis	$49,829	$47,075
Adjustments:		
Compensation from acquisition-related agreements	1,774	785
Restructuring and integration costs	2,865	2,225
Amortization of intangible assets related to acquisitions	5,079	4,243
Adjusted net income from continuing operations applicable to Piper Jaffray Companies	$59,547	$54,328

Earnings per diluted common share from continuing operations:		
U.S. GAAP basis	$2.98	$2.58
Adjustments:		
Compensation from acquisition-related agreements	0.11	0.04
Restructuring and integration costs	0.17	0.12
Amortization of intangible assets related to acquisitions	0.30	0.23
Non-U.S. GAAP basis, as adjusted	$3.56	$2.98

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Market Data

The following table provides a summary of relevant market data over the past three years.

Year Ended December 31,	2013	2012	2011	2013 v2012	2012 v2011
Dow Jones Industrials Average (a)	16,577	13,104	12,218	26.5 %	7.3 %
NASDAQ (a)	4,177	3,020	2,605	38.3 %	15.9 %
NYSE Average Daily Number of Shares Traded (millions of shares)	1,034	1,146	1,552	(9.8)%	(26.2)%
NASDAQ Average Daily Number of Shares Traded (millions of shares)	1,762	1,741	2,042	1.2 %	(14.7)%
Mergers and Acquisitions (number of transactions in U.S.) (b)	9,146	8,400	8,539	8.9 %	(1.6)%
Public Equity Offerings (number of transactions in U.S.) (c) (e)	1,125	748	663	50.4 %	12.8 %
Initial Public Offerings (number of transactions in U.S.) (c)	221	139	138	59.0 %	0.7 %
Managed Municipal Underwritings (number of transactions in U.S.) (d)	11,321	13,115	10,574	(13.7)%	24.0 %
Managed Municipal Underwritings (value of transactions in billions in U.S.) (d)	$331.0	$379.6	$287.7	(12.8)%	31.9 %
10-Year Treasuries Average Rate	2.35 %	1.72 %	2.79 %	36.6 %	(38.4)%
3-Month Treasuries Average Rate	0.06 %	0.07 %	0.05 %	(14.3)%	40.0 %

(a) Data provided is at period end.
(b) Source: Securities Data Corporation.
(c) Source: Dealogic (offerings with reported market value greater than $20 million).
(d) Source: Thomson Financial.
(e) Number of transactions includes convertible offerings.

External Factors Impacting Our Business

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

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

markets and securities businesses, our earnings may fluctuate significantly from period to period, and results for any individual period should not be considered indicative of future results.

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

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Outlook for 2014

In 2014, we expect continuing improvement in U.S. economic growth, modest appreciation in the equity markets and gradually increasing U.S. interest rates as the U.S. economy continues to improve by building on momentum that emerged in the second half of 2013. We believe that the interest rate environment has largely factored in the Federal Reserve's intention to taper bond purchases under its quantitative easing program, and interest rates generally will move in response to the rate of economic growth going forward. We are cognizant, however, that quantitative easing may have influenced capital flows into certain asset classes. We will monitor the potential impact on our markets as these capital flows normalize in the absence of quantitative easing.

Rising interest rates and mixed financial market conditions in 2013 resulted in varied financial results across our debt financing and fixed income institutional brokerage businesses. Our fixed income institutional brokerage business reported stronger financial results in the second half of 2013 after overcoming turbulent conditions earlier in the year. Rising interest rates negatively impacted our debt financing revenues as public finance issuances decreased as debt refinancing activity became less attractive. We anticipate that interest rates will continue to increase gradually throughout 2014, which could impact our debt financing and fixed income institutional brokerage revenues. We expect less favorable public finance underwriting conditions in 2014 as the demand for refinancing activity subsides in a rising interest rate environment and new issuance activity is not expected to entirely offset this decline. Our public finance underwriting business is expected to benefit from increased market share and our fixed income institutional sales and trading activities is expected to benefit from the expansion of our middle market sales force. We will continue to manage our inventories and hedging strategies to mitigate market volatility and our exposure to rising interest rates.

The equity markets experienced significant appreciation in 2013 and volatility remained low. Each of our equity-related businesses benefited from these favorable market conditions. We believe that the equity markets will continue to appreciate in 2014, but at more modest levels that may include a period of market correction. Conditions should continue to be accommodative for our equity-related businesses, however, a period of market correction may be disruptive to our capital raising, while our trading business should benefit from higher volatility. In 2014, we expect to reap the full-year benefits of the investments we made in 2013.

Asset management revenues will continue to be dependent upon equity valuations and our investment performance, which can impact the amount of client inflows and outflows of assets under management.

Results of Operations

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

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Financial Summary

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.

	Year Ended December 31,					As a Percentage of Net Revenues for the Year Ended December 31,		
(Dollars in thousands)	2013	2012	2011	2013 v2012	2012 v2011	2013	2012	2011
Revenues:								
Investment banking	$248,563	$232,958	$202,513	6.7 %	15.0 %	47.3 %	47.6 %	46.9 %
Institutional brokerage	146,648	166,642	135,358	(12.0)	23.1	27.9	34.1	31.3
Asset management	83,045	65,699	63,307	26.4	3.8	15.8	13.4	14.7
Interest	50,409	37,845	43,447	33.2	(12.9)	9.6	7.7	10.1
Investment income	21,566	4,903	8,178	339.9	(40.0)	4.1	1.0	1.9
Total revenues	550,231	508,047	452,803	8.3	12.2	104.8	103.9	104.8
Interest expense	25,036	19,095	20,720	31.1	(7.8)	4.8	3.9	4.8
Net revenues	525,195	488,952	432,083	7.4	13.2	100.0	100.0	100.0
Non-interest expenses:								
Compensation and benefits	322,464	296,882	265,015	8.6	12.0	61.4	60.7	61.3
Occupancy and equipment	25,493	26,454	28,430	(3.6)	(7.0)	4.9	5.4	6.6
Communications	21,431	20,543	22,121	4.3	(7.1)	4.1	4.2	5.1
Floor brokerage and clearance	8,270	8,054	8,925	2.7	(9.8)	1.6	1.6	2.1
Marketing and business development	21,603	19,908	22,640	8.5	(12.1)	4.1	4.1	5.2
Outside services	32,982	27,998	27,570	17.8	1.6	6.3	5.7	6.4
Restructuring and integration costs	4,689	3,642	—	28.7	N/M	0.9	0.7	—
Goodwill impairment	—	—	120,298	N/M	N/M	—	—	27.8
Intangible asset amortization expense	7,993	6,944	7,256	15.1	(4.3)	1.5	1.4	1.7
Other operating expenses	4,657	9,516	10,017	(51.1)	(5.0)	0.9	1.9	2.3
Total non-interest expenses	449,582	419,941	512,272	7.1	(18.0)	85.6	85.9	118.6
Income/(loss) from continuing operations before income tax expense	75,613	69,011	(80,189)	9.6	N/M	14.4	14.1	(18.6)
Income tax expense	20,390	19,470	9,120	4.7	113.5	3.9	4.0	2.1

Income/(loss) from continuing operations	55,223	49,541	(89,309)	11.5	N/M	10.5	10.1	(20.8)
Discontinued operations:								
Loss from discontinued operations, net of tax	(4,739)	(5,807)	(11,248)	(18.4)	(48.4)	(0.9)	(1.2)	(2.6)
Net income/(loss)	50,484	43,734	(100,557)	15.4	N/M	9.6	8.9	(23.3)
Net income applicable to noncontrolling interests	5,394	2,466	1,463	118.7	68.6 %	1.0	0.5	0.3
Net income/(loss) applicable to Piper Jaffray Companies	$45,090	$41,268	$(102,020)	9.3 %	N/M	8.6 %	8.4 %	(23.6)%

N/M — Not meaningful

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For the year ended December 31, 2013, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $45.1 million. The current period results of operations include a $4.0 million tax benefit from reversing the full amount of our U.K. subsidiary's deferred tax asset valuation allowance. Net revenues from continuing operations for the year ended December 31, 2013 were $525.2 million, a 7.4 percent increase compared to $489.0 million in the year-ago period. In 2013, investment banking revenues were $248.6 million, compared with $233.0 million in the prior-year period due to higher equity financing revenues, offset in part by a decline in advisory revenues. For the year ended December 31, 2013, institutional brokerage revenues decreased 12.0 percent to $146.6 million, compared with $166.6 million in 2012. The decline was driven by lower fixed income strategic trading results in 2013. In 2013, asset management fees increased 26.4 percent to $83.0 million, compared with $65.7 million in 2012, due to higher management fees from increased assets under management and higher performance fees earned in the fourth quarter of 2013. In 2013, net interest income increased 35.3 percent to $25.4 million, compared with $18.8 million in 2012. The increase was primarily the result of higher net interest income attributable to noncontrolling interests from our municipal bond fund, as well as higher inventory balances in mortgage-backed and municipal securities. For the year ended December 31, 2013, investment income was $21.6 million, compared with $4.9 million in the prior-year period as we recorded higher investment gains associated with our merchant banking and firm investments. Non-interest expenses from continuing operations were $449.6 million for the year ended December 31, 2013, an increase of 7.1 percent compared to $419.9 million in the prior year, primarily resulting from higher compensation expenses due to an increased revenue base.

For the year ended December 31, 2012, we recorded net income applicable to Piper Jaffray Companies, including continuing and discontinued operations, of $41.3 million. Net revenues from continuing operations for the year ended December 31, 2012 were $489.0 million, a 13.2 percent increase from 2011. In 2012, investment banking revenues were $233.0 million, compared with $202.5 million in 2011, due to higher public finance and advisory services revenues. For the year ended December 31, 2012, institutional brokerage revenues increased 23.1 percent to $166.6 million, compared with $135.4 million in 2011, driven by strong fixed income strategic trading revenues. In 2012, asset management fees were $65.7 million, up modestly compared with 2011. Net interest income in 2012 decreased 17.5 percent to $18.8 million, compared with $22.7 million in 2011. The decrease was primarily the result of a strategic decision to further diversify from overnight funding sources to short term funding sources with extended terms. These short term funding sources with extended terms typically have higher interest costs than overnight financing obtained from repurchase obligations. The change in net interest income is also partly attributable to a decline of our average long inventory balances. For the year ended December 31, 2012, investment income was $4.9 million, compared with $8.2 million in 2011 as we recorded higher investment gains associated with our merchant banking investments in 2011. In 2012, non-interest expenses from continuing operations were $419.9 million, compared with $392.0 million in 2011, which excludes the pre-tax goodwill impairment charge of $120.3 million. This increase was driven by increased variable compensation due to improved operating performance.

Consolidated Non-Interest Expenses from Continuing Operations

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

For the year ended December 31, 2013, compensation and benefits expenses increased 8.6 percent to $322.5 million from $296.9 million in 2012. Compensation and benefits expenses as a percentage of net revenues increased from

60.7 percent in 2012 to 61.4 percent in 2013, primarily attributable to changes in our mix of business, as we recorded significantly higher fixed income strategic trading revenues in 2012, which have a lower compensation payout.

For the year ended December 31, 2012, compensation and benefits expenses increased 12.0 percent to $296.9 million from $265.0 million in 2011, due to increased variable compensation expense driven by higher net revenues and operating profits. Compensation and benefits expenses as a percentage of net revenues was 60.7 percent in 2012, compared with 61.3 percent in 2011. The lower compensation ratio in 2012 was driven by increased revenues and our mix of business as we recorded significantly higher fixed income strategic trading revenues in 2012.

Occupancy and Equipment – For the year ended December 31, 2013, occupancy and equipment expenses decreased 3.6 percent to $25.5 million, compared with $26.5 million in the corresponding period of 2012. The decrease was primarily the result of prior investments in technology and equipment becoming fully depreciated and lower occupancy costs associated with our headquarters

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office space, offset in part by incremental occupancy expense from our acquisitions of Seattle-Northwest and Edgeview during the third quarter of 2013.

For the year ended December 31, 2012, occupancy and equipment expenses decreased 7.0 percent to $26.5 million, compared with $28.4 million in 2011. The decrease was primarily due to cost saving initiatives.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third-party market data information. For the year ended December 31, 2013, communication expenses increased 4.3 percent to $21.4 million, compared with $20.5 million for the year ended December 31, 2012. The increase resulted from higher market data service expenses.

For the year ended December 31, 2012, communication expenses decreased 7.1 percent to $20.5 million, compared with $22.1 million in 2011. The decrease was primarily attributable to lower market data service expenses.

Floor Brokerage and Clearance – For the year ended December 31, 2013, floor brokerage and clearance expenses increased slightly to $8.3 million, compared with $8.1 million million in the year ended December 31, 2012.

For the year ended December 31, 2012, floor brokerage and clearance expenses decreased 9.8 percent to $8.1 million, compared with $8.9 million in 2011. The decline was due to lower trading fees resulting from lower U.S. equity client volumes.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment and promotional and advertising costs. In 2013, marketing and business development expenses increased 8.5 percent to $21.6 million, compared with $19.9 million in the year ended December 31, 2012, due to higher travel expenses resulting from increased equity underwriting activity.

In 2012, marketing and business development expenses decreased 12.1 percent to $19.9 million, compared with $22.6 million in 2011. In 2011, we recorded higher travel expenses from write-offs related to equity investment banking deals that were never completed due to volatility in the capital markets.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses increased 17.8 percent to $33.0 million in 2013, compared with $28.0 million in the corresponding period of 2012, due to higher computer consulting and fund expenses.

In 2012, outside services expenses were $28.0 million, essentially flat compared with 2011.

Restructuring and Integration Costs – During the year ended December 31, 2013, we recorded restructuring, integration and transaction costs of $4.7 million primarily related to the acquisitions of Seattle-Northwest and Edgeview. For the year ended December 31, 2012, we recorded a restructuring charge of $3.6 million, which consisted of $2.4 million of employee severance costs and $1.2 million for the reduction of leased office space.

Goodwill Impairment — In 2011, we recorded a non-cash goodwill impairment charge of $120.3 million related to our Capital Markets reporting unit. The charge primarily related to the goodwill originating from our 1998 acquisition by U.S. Bancorp, which was retained by us when we spun off as a separate public company on December 31, 2003.

Intangible Asset Amortization Expense – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of customer relationships and non-competition agreements. For the year ended December 31, 2013, intangible asset amortization expense was $8.0 million, compared with $6.9 million in the

corresponding period of 2012. The increase was attributable to incremental intangible asset amortization expense related to the acquisitions of Seattle-Northwest and Edgeview.

In 2012, intangible asset amortization expense was $6.9 million, compared with $7.3 million in 2011.

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 51.1 percent to $4.7 million in 2013, compared with $9.5 million in 2012. In 2013, we received insurance proceeds for the reimbursement of prior legal settlements.

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Other operating expenses decreased 5.0 percent to $9.5 million in 2012, compared with $10.0 million in 2011, due primarily to a business tax refund received in 2012.

Income Taxes – For the year ended December 31, 2013, our provision for income taxes was $20.4 million equating to an effective tax rate, excluding noncontrolling interests, of 29.0 percent. In 2013, we recorded a tax benefit for the full reversal of our U.K subsidiary's deferred tax asset valuation allowance of $4.0 million as we achieved three years of profitability and expect future taxable profits.

For the year ended December 31, 2012, our provision for income taxes was $19.5 million, equating to an effective tax rate, excluding noncontrolling interests, of 29.3 percent. In 2012, we recorded a tax benefit for the reversal of previously accrued uncertain state income tax positions of $7.4 million, net of federal tax, partially offset by a $4.6 million write-off of deferred tax assets related to equity grants that either were forfeited or vested at share prices lower than the grant date share price.

In 2011, our provision for income taxes was $9.1 million. In 2011, we incurred a pre-tax loss due to the $120.3 million goodwill impairment charge. Excluding the goodwill impairment charge, the substantial majority of which had no tax impact, we recorded pre-tax income from continuing operations of $40.1 million, which resulted in an effective tax rate for 2011 of 23.6 percent. Income tax expense in 2011 included a $1.1 million partial reversal of our U.K. subsidiary’s deferred tax asset valuation allowance.

Segment Performance from Continuing Operations

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

Throughout this section, we have presented segment results on both a U.S. GAAP and non-GAAP basis. Management believes that presenting adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin in conjunction with the U.S. GAAP measures provides a more meaningful basis for comparison of its operating results and underlying trends between periods.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin exclude (1) revenues and expenses related to noncontrolling interests, (2) amortization of intangible assets related to acquisitions, (3) compensation from acquisition-related agreements, (4) restructuring and integration costs, and (5) a goodwill impairment charge recognized in 2011. For U.S. GAAP purposes, these items are included in each of their respective line items on the consolidated statements of operations.

Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin present the segments' results of operations excluding the impact resulting from the consolidation of noncontrolling interests in alternative asset management funds and private equity investment vehicles. Consolidation of these funds results in the inclusion of the proportionate share of the income or loss attributable to the equity interests in consolidated funds that are not attributable, either directly or indirectly, to us (i.e. noncontrolling interests). This proportionate share is reflected in net income/(loss) applicable to noncontrolling interests in the accompanying consolidated statements of operations, and has no effect on the overall financial performance of the segments, as ultimately, this income or loss is not income or

loss for the segments themselves. Included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin is the actual proportionate share of the income or loss attributable to us as an investor in such funds. Adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin also exclude amortization of intangible assets and compensation from acquisition-related agreements resulting from our ARI, Seattle-Northwest and Edgeview acquisitions. The restructuring and integration costs excluded from adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin represent charges that resulted from severance benefits, vacating redundant office space and contract termination costs. The goodwill impairment charge recognized in 2011 primarily pertained to goodwill created from the 1998 acquisition of Piper Jaffray Companies Inc. by U.S. Bancorp, which was retained by us when we spun-off from U.S. Bancorp on December 31, 2003.

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Capital Markets

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

	Year Ended December 31,							
	2013				2012			
		Adjustments (1)				Adjustments (1)		
	Total	Noncontrolling	Other	U.S.	Total	Noncontrolling	Other	U.S.
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP
Investment banking								
Financing								
Equities	$100,224	$—	$—	$100,224	$73,180	$—	$—	$73,180
Debt	74,284	—	—	74,284	74,102	—	—	74,102
Advisory services	74,420	—	—	74,420	86,165	—	—	86,165
Total investment banking	248,928	—	—	248,928	233,447	—	—	233,447
Institutional sales and trading								
Equities	91,169	—	—	91,169	75,723	—	—	75,723
Fixed income	76,275	—	—	76,275	111,492	—	—	111,492
Total institutional sales and trading	167,444	—	—	167,444	187,215	—	—	187,215
Total management and performance fees	3,891	—	—	3,891	1,678	—	—	1,678
Investment income	21,610	8,794	—	30,404	5,666	4,174	—	9,840
Long-term financing expenses	(7,420)	—	—	(7,420)	(7,982)	—	—	(7,982)
Net revenues	434,453	8,794	—	443,247	420,024	4,174	—	424,198
Operating expenses	382,157	3,400	7,674	393,231	366,408	1,708	3,512	371,628
Segment pre-tax operating income	$52,296	$5,394	$(7,674)	$50,016	$53,616	$2,466	$(3,512)	$52,570

Segment pre-tax operating margin	12.0 %	11.3 %	12.8 %	12.4 %

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

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

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

	Year Ended December 31,	
(Dollars in thousands)	2013	2012
Compensation from acquisition-related agreements	$1,620	$—
Restructuring and integration costs	4,705	3,512
Amortization of intangible assets related to acquisitions	1,349	—
	$7,674	$3,512

Capital Markets adjusted net revenues increased 3.4 percent to $434.5 million for the year ended December 31, 2013, compared with $420.0 million in the prior-year period.

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

In 2013, investment banking revenues increased 6.6 percent to $248.9 million compared with $233.4 million in the corresponding period of the prior year, due to higher equity financing revenues, offset in part by a decline in advisory services revenues. For the year ended December 31, 2013, equity financing revenues were $100.2 million, up 37.0 percent compared with $73.2 million in the prior-year period as strong gains in the equity markets resulted in robust conditions for equity capital raising. During 2013, we completed 92 equity financings, raising $19.9 billion for our clients, compared with 67 equity financings, raising $9.1 billion for our clients (excluding the $16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position) in the comparable year-ago period. Debt financing revenues for the year ended December 31, 2013 were $74.3 million, essentially flat compared with the prior year. During 2013, we completed 413 negotiated public finance issues with a total par value of $7.9 billion, compared with 444 negotiated public finance issues with a total par value of $7.3 billion during the prior-year period. A decrease in the number of completed negotiated public finance issues from 2012 was offset by increased revenue per transaction in 2013. Additionally, our market share gains and industry sector strengths offset weak refunding activity in the second half of 2013. In 2013, our par value from negotiated debt issuances increased 7.9 percent, compared to a 17.1 percent decline for the industry. For the year ended December 31, 2013, advisory services revenues decreased 13.6 percent to $74.4 million due to lower U.S. advisory services revenue from fewer completed transactions. In 2012, sellers were motivated to complete transactions due to anticipated tax increases in 2013. Although this resulted in reduced activity through mid-year 2013, as we rebuilt our advisory pipeline, we experienced increasing demand through the second half of 2013. We completed 31 transactions with an aggregate enterprise value of $2.9 billion in 2013, compared with 40 transactions with an aggregate enterprise value of $10.2 billion in 2012.

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

For the year ended December 31, 2013, institutional brokerage revenues decreased 10.6 percent to $167.4 million, compared with $187.2 million in the prior-year period, as a decline in fixed income institutional brokerage revenues was offset in part by higher equity institutional brokerage revenues. Equity institutional brokerage revenues increased 20.4 percent to $91.2 million in 2013, compared with $75.7 million in the corresponding period of 2012, reflecting the favorable equity markets and improved trading performance. Our improved trading performance resulted from successfully executing a set of client-focused product strategies which we began implementing in 2012, and more effective deployment of capital within this business. We generated revenues from our equity strategic trading activities, which we began in the second half of 2013 to leverage our intellectual capital and to diversify our strategic trading efforts. For the year ended December 31, 2013, fixed income institutional brokerage revenues were $76.3 million, compared with $111.5 million in the prior-year period. The decrease primarily resulted from lower revenues from our strategic trading activities, primarily related to non-agency mortgage-backed securities. In addition, we experienced trading losses in the second quarter of 2013 on inventory positions due to the volatile trading environment caused by the rapid rise in interest rates and widening of credit spreads.

Management and performance fees include the performance and management fees generated from our municipal bond and merchant banking funds. For the year ended December 31, 2013, management and performance fees were $3.9

million, compared with $1.7 million in the prior-year period, due to increased management fees from our municipal bond fund driven by higher AUM from net client inflows and a full year of management fees generated from our merchant banking fund.

Adjusted investment income includes realized and unrealized gains and losses on our merchant banking and other firm investments. Also, it includes realized and unrealized gains and losses on our investment in the municipal bond funds that we manage. For the year ended December 31, 2013, adjusted investment income was $21.6 million, compared to $5.7 million in the corresponding period of 2012. The significant increase from 2012 was driven by larger gains on our merchant banking investments. Merchant banking investments made before 2010 are accounted for on a cost basis, which can result, and in this case did result, in significant realized gains in the period of a liquidity event for these investments.

Long-term financing expenses represent interest paid on our variable rate senior notes and syndicated bank facility. For the year ended December 31, 2013, long-term financing expenses decreased 7.0 percent to $7.4 million, compared to $8.0 million in the

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prior-year period. The decrease was due to additional costs recognized in the fourth quarter of 2012 upon prepayment of the syndicated bank facility.

Capital Markets adjusted segment pre-tax operating margin for the year ended December 31, 2013 decreased slightly to 12.0 percent, compared with 12.8 percent for the corresponding period of 2012.

	Year Ended December 31,							
	2012				2011			
		Adjustments [1]				Adjustments [1]		
	Total	Noncontrolling	Other	U.S.	Total	Noncontrolling	Other	U.S.
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP
Investment banking								
Financing								
Equities	$73,180	$—	$—	$73,180	$74,161	$—	$—	$74,161
Debt	74,102	—	—	74,102	54,565	—	—	54,565
Advisory services	86,165	—	—	86,165	74,373	—	—	74,373
Total investment banking	233,447	—	—	233,447	203,099	—	—	203,099
Institutional sales and trading								
Equities	75,723	—	—	75,723	86,175	—	—	86,175
Fixed income	111,492	—	—	111,492	75,589	—	—	75,589
Total institutional sales and trading	187,215	—	—	187,215	161,764	—	—	161,764
Total management and performance fees	1,678	—	—	1,678	243	—	—	243
Investment income	5,666	4,174	—	9,840	9,267	1,785	—	11,052
Long-term financing expenses	(7,982)	—	—	(7,982)	(7,067)	—	—	(7,067)
Net revenues	420,024	4,174	—	424,198	367,306	1,785	—	369,091
Operating expenses	366,408	1,708	3,512	371,628	343,714	322	120,298	464,334
Segment pre-tax operating	$53,616	$2,466	$(3,512)	$52,570	$23,592	$1,463	$(120,298)	$(95,243)

income						
Segment pre-tax operating margin	12.8	%	12.4	%	6.4	%	N/M

(1) Other Adjustments – For the year ended December 31, 2012, restructuring and integration costs of $3.5 million are not included in adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin. For the year ended December 31, 2011, adjusted segment pre-tax operating income and adjusted segment pre-tax operating margin exclude a goodwill impairment charge of $120.3 million.

Capital Markets adjusted net revenues increased 14.4 percent to $420.0 million for the year ended December 31, 2012, compared with $367.3 million for the year ended December 31, 2011.

In 2012, investment banking revenues increased 14.9 percent to $233.4 million compared with $203.1 million in the prior year, due to an increase in debt financing and advisory services revenues. For the year ended December 31, 2012, equity financing revenues were $73.2 million, essentially flat compared with the prior year. In 2012, we continued to experience sluggish equity capital markets activity due to uncertain economic conditions. During 2012, we completed 67 equity financings, raising $9.1 billion for our clients (excluding the $16.0 billion of capital raised from the Facebook initial public offering, on which we had a small co-manager position), compared with 60 equity financings, raising $12.9 billion in 2011. Debt financing revenues in 2012 increased 35.8 percent to $74.1 million, compared with $54.6 million in 2011, due to an increase in public finance revenues. In 2012, historically low interest rates created client refinancing opportunities, which resulted in a 33.6 percent increase in our par value from negotiated debt issuances. In addition, 2011 municipal underwriting activity was at historic lows following a robust 2010 municipal financing year driven by the taxable Build America Bonds. In 2012, we completed 444 negotiated public finance issues

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with a total par value of $7.3 billion, compared with 410 negotiated public finance issues with a total par value of $5.5 billion in 2011. Additionally, in 2012 we grew our public finance economic market share. For the year ended December 31, 2012, advisory services revenues increased 15.9 percent to $86.2 million due to higher U.S. advisory services revenue. This increase was attributable to more conducive equity capital markets in the U.S., an increased internal focus on this product and motivated sellers anticipating tax increases for 2013. We completed 40 transactions with an aggregate enterprise value of $10.2 billion during 2012, compared with 38 transactions with an aggregate enterprise value of $5.2 billion in 2011.

In 2012, institutional brokerage revenues increased 15.7 percent to $187.2 million, compared with $161.8 million in 2011, driven by strong fixed income trading revenues. Equity institutional brokerage revenues decreased to $75.7 million in 2012, compared with $86.2 million in 2011. The decrease was attributable to lower U.S. equity client volumes resulting from the uncertainty in the equity markets in 2012. For the year ended December 31, 2012, fixed income institutional brokerage revenues increased to $111.5 million, compared with $75.6 million in 2011. The increase was principally driven by our non-agency mortgage-backed security strategic trading activities. Additionally, in 2012 we experienced more favorable fixed income market conditions that resulted in higher customer activity and increased taxable fixed income sales and trading revenues.

Management and performance fees were $1.7 million for the year ended December 31, 2012, compared to $0.2 million for 2011. The increase was primarily due to the recognition of a full year of management and performance fees generated from our municipal bond fund, which commenced operations mid-year in 2011.

For the year ended December 31, 2012, adjusted investment income was $5.7 million, compared with $9.3 million in the prior year. In 2012, we recorded lower gains on our merchant banking investments.

Long-term financing expenses increased 12.9 percent to $8.0 million for the year ended December 31, 2012, compared with $7.1 million in the prior-year period. The increase resulted from additional costs recognized in the fourth quarter of 2012 upon repayment of our syndicated bank facility.

Capital Markets adjusted segment pre-tax operating margin for 2012 was 12.8 percent, compared with 6.4 percent for 2011. The increase compared to 2011 was due to operating leverage from higher net revenues and a lower compensation ratio due to our mix of business, as we recorded significantly higher fixed income strategic trading revenues in 2012, which have a lower compensation payout.

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Asset Management

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

	Year Ended December 31,							
	2013				2012			
		Adjustments [1]				Adjustments [1]		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$50,066	$—	$—	$50,066	$48,636	$—	$—	$48,636
MLP	21,248	—	—	21,248	14,600	—	—	14,600
Total management fees	71,314	—	—	71,314	63,236	—	—	63,236
Performance fees								
Value equity	7,620			7,620	785	—	—	785
MLP	220			220	—	—	—	—
Total performance fees	7,840	—	—	7,840	785	—	—	785
Total management and performance fees	79,154	—	—	79,154	64,021	—	—	64,021
Investment income	2,794	—	—	2,794	733	—	—	733