PIPER JAFFRAY COMPANIES
Form 10-K
February 26, 2018

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, 2017
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 þ No ¨
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company, " and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of the 14,263,651 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, 2017 was approximately $855 million.

As of February 20, 2018, the registrant had 15,199,699 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 2018 Annual Meeting of Shareholders to be held on May 17, 2018.

TABLE OF CONTENTS

Table of Contents

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the year ended December 31, 2017 (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 conditions 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 and in our subsequent reports filed with the Securities and Exchange Commission ("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 "Risk Factors" in Part I, Item 1A of this Form 10-K, 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" in Part II, Item 7 of this Form 10-K and in our subsequent reports filed with the 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 ("Piper Jaffray") 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 research and institutional brokerage; fixed income institutional brokerage; and asset management services. Our headquarters are located in Minneapolis, Minnesota and we have offices across the United States and international locations in London, Aberdeen, Hong Kong and Zurich. We market our investment banking and institutional securities business under Piper Jaffray, and Simmons & Company International – Energy Specialists of Piper Jaffray. 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 alternative asset management funds and our principal investments.

- Investment Banking – For our corporate clients, we provide advisory services, primarily relating to mergers and acquisitions, equity private placements, and debt and restructuring advisory. We also help raise capital through equity and debt financings. We operate in the following focus sectors: healthcare; energy; consumer; diversified industrials and services; business services; technology; financial services; and agriculture, clean technologies and renewables, primarily focusing on middle-market clients. For our government and non-profit clients, we underwrite debt issuances, provide municipal financial advisory and loan placement services, and offer various over-the-counter derivative products. Our public finance investment banking capabilities focus on state and local governments, cultural and social service non-profit entities, and the education, healthcare, hospitality, senior living and transportation sectors.

3

Table of Contents

- 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 North America and Europe that invest in our core sectors. Our research analysts provide investment ideas and support to our trading clients on approximately 675 companies. Our fixed income sales and trading professionals have expertise in municipal, corporate, mortgage, agency, treasury and structured 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 focus principally on proprietary investments in municipal bonds and U.S. government agency 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 funds and other firm investments.

- Alternative Asset Management Funds – We have created alternative asset management funds in merchant banking, energy, and senior living in order to invest firm capital and to manage capital from outside investors.

Asset Management

The Asset Management segment includes our traditional asset management business and our 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 MLP and energy infrastructure strategies, as well as domestic and global equity strategies. We offer customized solutions to our clients in both diversified and more concentrated versions of our products, generally through separately managed accounts, and open-end and closed-end funds.

- Master Limited Partnerships ("MLPs") and Energy Infrastructure – We manage MLPs, energy infrastructure, and related operating entity assets 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. In addition to our MLP-focused funds, we manage other private funds focused on energy sector securities.

- Equity – Our equity product offerings include both value and growth-driven strategies in the domestic and global equity markets. These strategies have investment philosophies built on a foundation of core principles, which have been tested in various market conditions and remained consistent over time. Our investment strategies seek to create portfolios that deliver long-term, positive returns while minimizing risk.

As of December 31, 2017, total assets under management ("AUM") were $7.3 billion, of which approximately 52 percent was invested in MLPs and energy infrastructure securities and 48 percent in equities. As of the same date, approximately 79 percent of our AUM was invested in domestic investment strategies and 21 percent was invested in global investment strategies. Approximately 59 percent of our AUM as of December 31, 2017 was managed on behalf of institutional clients, including pension funds, corporations, foundations and endowments, and through mutual fund sponsors and registered advisors. Approximately 21 percent of our AUM was managed through sub-advisory relationships on closed-end funds, and approximately 20 percent of our AUM was managed on behalf of individual client relationships, which are principally high net worth individuals.

Table of Contents

Financial Information about Geographic Areas

As of December 31, 2017, the substantial majority of our net revenues and long-lived assets were located in the U.S.

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 venues. 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 20, 2018, we had approximately 1,301 employees, of whom approximately 792 were registered with the Financial Industry Regulatory Authority, Inc. ("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. 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. The intensity of the regulatory environment may correlate with the level and nature of our legal proceedings for a given period, and increased intensity could 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 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 broker dealer 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 two entities that are authorized, licensed and regulated by the U.K. Financial Conduct Authority and registered under the laws of England and Wales, as well as an entity that is authorized, licensed and regulated by the Hong Kong Securities and Futures Commission and registered under the laws of Hong Kong. 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. We also have a subsidiary organized in Guernsey and regulated by the Guernsey Financial Services Commission.

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 the time the client relationship is initiated, monitoring client transactions and reporting suspicious activity. Our entities in Hong Kong, the United Kingdom and Guernsey 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 subsidiaries that are registered as investment advisors with the SEC and subject to regulation and oversight by the SEC. Advisory Research, Inc. ("ARI"), Piper Jaffray Investment Management LLC ("PJIM"), and PJC Capital Partners LLC are asset management subsidiaries and registered investment advisors. 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. Piper Jaffray & Co. is also a registered investment advisor and subject to these requirements. Also, 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 is the investment advisor for Advisory Research Global Funds PLC, an open-ended investment company with variable capital authorized and regulated by the Central Bank of Ireland pursuant to the European Communities Regulations (Undertakings for Collective Investments in Transferable Securities or "UCITS"). Advisory Research Global Funds PLC has closed and is in the process of liquidation. 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. Parallel General Partners Limited is the general partner of several private equity limited partnerships; it and the limited partnerships are registered and regulated by the Guernsey Financial Services Commission ("GFSC").

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.

Table of Contents

Executive Officers

Information regarding our executive officers and their ages as of February 20, 2018, are as follows:

Name	Age	Position(s)
Chad R. Abraham	49	Chief Executive Officer
Debbra L. Schoneman	49	President
Timothy L. Carter	50	Chief Financial Officer
R. Scott LaRue	57	Global Head of Investment Banking and Capital Markets
John W. Geelan	42	General Counsel and Secretary

Chad R. Abraham is our chief executive officer, a position he has held since January 2018. He previously served as co-head of global investment banking and capital markets from October 2010 to December 2017. Prior to that, he served as head of equity capital markets since November 2005. Mr. Abraham joined Piper Jaffray in 1991.

Debbra L. Schoneman is our president, a position she has held since January 2018. She previously served as chief financial officer from May 2008 to December 2017, and global head of equities from June 2017 to December 2017. Prior to that, she served as treasurer from August 2006 until May 2008; and 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. Ms. Schoneman joined Piper Jaffray in 1990.

Timothy L. Carter is our chief financial officer, a position he has held since January 2018. He previously served as senior vice president of finance from May 2017 to December 2017. Prior to that, he served as treasurer from May 2008 to May 2017, chief accounting officer from 2006 to May 2008, and controller from 1999 to 2006. Mr. Carter joined Piper Jaffray in 1995.

R. Scott LaRue is our global head of investment banking and capital markets, a position he has held since January 2018. Prior to that, he served as our global co-head of investment banking and capital markets with Mr. Abraham from October 2010 to December 2017, global co-head of consumer investment banking from February 2010 to September 2010, and co-head of consumer investment banking from August 2004 to January 2010. Mr. LaRue joined Piper Jaffray in 2003.

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.

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, as amended, 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 or elsewhere, including, but not limited to, PIPER JAFFRAY®, REALIZE THE POWER OF PARTNERSHIP®, ADVISORY RESEARCH®, SIMMONS & COMPANY INTERNATIONAL® ENERGY SPECIALISTS OF PIPER JAFFRAY®, TAKING STOCK WITH TEENS®, HEALTHY ACTIVE AND SUSTAINABLE LIVING®, and GUIDES FOR THE JOURNEY® are the property of Piper Jaffray.

ITEM 1A. RISK FACTORS.

In the normal course of our business activities, we are exposed to a variety of risks. The principal risks we face in operating our business include: strategic risks, market risks, liquidity risks, credit risks, human capital risks, operational risks, and legal and regulatory risks. A full description of each of these principal areas of risk, as well as the primary risk management processes that we use to mitigate our risk exposure in each, is discussed below under the caption "Risk Management" included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Form 10-K.

Table of Contents

The following discussion sets forth the risk factors that we have identified in each area of principal risk as being the most significant to our business, future financial condition, and results of operations. Although we discuss these risk factors primarily in the context of their potential effects on our business, financial condition or results of operations, you should understand that these effects can have further negative implications such as: reducing the price of our common stock; reducing our capital, which can have regulatory and other consequences; affecting the confidence that our clients and other counterparties have in us, with a resulting negative effect on our ability to conduct and grow our business; and reducing the attractiveness of our securities to potential purchasers, which may adversely affect our ability to raise capital and secure other funding or the prices at which we are able to do so. Further, additional risks beyond those discussed below and elsewhere in this Form 10-K or in other of our reports filed with, or furnished to, the SEC could adversely affect us. We cannot assure you that the risk factors herein or elsewhere in our other reports address all potential risks that we may face.

These risk factors also serve to describe factors which may cause our results to differ materially from those described in forward-looking statements included in this Form 10-K or in other documents or statements that make reference to this Form 10-K. Forward-looking statements and other factors that may affect future results are discussed below under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Form 10-K.

Strategic and Market Risk

Our business success depends in large part upon the strategic decisions made by our executive management, the alignment of business plans developed to act upon those decisions, and the quality of implementation of these business plans. Strategic risk represents the risk associated with our executive management failing to develop and execute on the appropriate strategic vision which demonstrates a commitment to our culture, leverages our core competencies, appropriately responds to external factors in the marketplace, and is in the best interests of our company. In setting out and executing upon a strategic vision for our business, we are faced with a number of inherent risks, including risks relating to external events and market and economic conditions, competition, and business performance that could all negatively affect our ability to execute on our strategic decisions and, therefore, our future financial condition or results of operations. The risks related to external events and overall market and/or economic conditions are referred to as market, or systemic, risk. The following are those risk factors that we have identified as being most significant to our strategic vision, and the market risks that may impact execution of our strategy.

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:

- Our equities investment banking revenue in the form of advisory (i.e., M&A), underwriting, and placement fees, is directly related to macroeconomic conditions and corresponding financial market activity. When the outlook for macroeconomic conditions is uncertain or negative, financial market activity generally tends to decrease, which can reduce our equities investment banking revenues. As an example, a significant portion of our investment banking revenues in recent years have been derived from advisory engagements in our focus sectors, and activity in this area is highly correlated to the macroeconomic environment and market conditions. Reduced expectations of U.S. economic growth or a decline in the global macroeconomic outlook could cause financial market activity to decrease and negatively affect our advisory revenues. In addition, U.S. financial markets remain vulnerable to the potential risks posed by exogenous shocks, which could include, among other things, political and financial uncertainty in the United States and the European Union, renewed concern about China's economy, complications involving global trade, and terrorism and armed conflicts around the world. More generally, because our business is closely correlated to the macroeconomic outlook, worsening conditions or an exogenous shock would likely have an immediate and significant negative impact on our equities investment banking business and our overall results of operations.

Interest rates can have a significant impact on macroeconomic activity and economic growth, and they also meaningfully affect multiple components of our business, including the fixed income inventory on our balance sheet. Rising interest rates, volatility in interest rates, changes in the slope of the yield curve, and changes in credit spreads all impact our business. During 2017, the U.S. Federal Reserve increased short-term rates three times in response to stronger economic growth, but long-term rates did not correspondingly rise, causing the yield curve to flatten, which muted our fixed income institutional results for the year. Looking ahead, if the U.S. Federal Reserve continues to raise rates, or longer-term rates rise across the yield curve, we could see increased fixed income activity, but the rising interest rates could be perceived as moderating macroeconomic growth, which might cause equity market volatility and a corresponding decrease in transaction volumes for our advisory and equity capital markets businesses. With respect to our inventory, a large percentage of our positions on our balance sheet -

Table of Contents

both that are held for facilitating client activity as well as our own proprietary trading - consists of fixed income securities, and increases in interest rates (especially if rapid) may decrease the value of these inventories, sometimes significantly. To reduce interest rate risk and volatility, we use interest rate hedging strategies, but 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. Lastly, increased interest rates may also negatively impact the volume of debt refinancing issuances underwritten by our public finance investment banking business, as well as our assets under management focused on master limited partnerships ("MLPs"), which may underperform compared to other asset classes in a rising interest rate environment.

It is difficult to predict the market conditions for 2018, which are dependent in large part upon the pace of global and U.S. economic growth and geopolitical events globally. The first part of 2018 has seen significantly higher levels of volatility in global markets, which may continue during the year. 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, business mix, 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, our business mix, 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.

Developments in specific business sectors and markets in which we conduct our business, 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 U.S. or global economy, or for certain products within the financial services industry, due to our business mix and focus areas. For example:

- Our equities investment banking business focuses on specific sectors, including healthcare, energy, consumer, diversified industrials and services, business services, technology, financial services, and agriculture, clean technologies and renewables. Volatility, uncertainty, or slowdowns in these sectors may adversely affect our business, sometimes disproportionately, and may cause volatility in the net revenues we receive from our corporate advisory and capital markets activities. In recent years, the healthcare sector has been a significant contributor to our overall results, and negative developments in this sector would materially and disproportionately impact us, even if general economic conditions were strong. In addition, we may not participate, or may participate to a lesser degree than other firms, in sectors that experience significant activity, such as real estate, and our operating results may not correlate with the results of other firms that participate in these sectors.

- Our public finance investment banking business depends heavily upon conditions in the municipal market. It focuses on investment banking activity in sectors that include state and local government, education, senior living, healthcare, transportation, 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. Further, the enactment, or the threat of enactment, of any legislation that alters the financing alternatives available to local or state governments or tax-exempt organizations through the elimination or reduction of tax-exempt bonds could have a negative impact on our results of operations in these businesses. For example, the Tax Cuts and Jobs Act (the "Tax Reform Act") eliminated tax-exempt advance refunding bonds, which are bonds issued by a local or state government to refinance outstanding bonds before the original bonds mature or are callable in order to take advantage of lower borrowing costs. To the extent that this removal of tax-exempt advance refunding bonds reduces the total amount of issuances or other financing activities for which we compete, our results of operations could be adversely affected. In addition, the Tax Reform Act reduced the federal corporate income tax rate from 35 percent to 21 percent. To the extent that this change in the corporate tax rate reduces the demand from institutional investors, including banks and insurance companies, for tax-exempt municipal bonds, there could be increased volatility in the municipal bond market and our fixed income institutional brokerage business could be adversely affected.

- Our fixed income institutional business derives its revenue from sales and trading activity in the municipal market and from products within the taxable market, 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 a significant portion of our business focuses on the municipal market and we do not participate in significant segments of the fixed income markets such as credit default swaps, corporate high-yield bonds, currencies or commodities.

Table of Contents

Financing and advisory services engagements are transactional 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. As a consequence, the timing of when fees are earned varies, and, therefore, our financial results from capital markets and corporate advisory activities may experience volatility quarter to quarter based on equity market conditions as well as the macroeconomic business cycle more broadly. In particular, our revenues related to acquisition and disposition transactions tend to be more unpredictable from quarter to quarter due to the one-time nature of the transaction and the size of the fee. As a result, high levels of revenue in one quarter will not necessarily be predictive of continued high levels of revenue 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 could be adversely affected.

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 issues 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.

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

We may grow in part through corporate development activities that could include acquisitions, joint ventures and minority investment stakes. Most recently, we expanded our equities investment banking business into the energy and financial institutions sectors through our completed acquisitions of Simmons & Company International and River Branch Holdings LLC, respectively. Our acquisition of Simmons & Company International resulted in the energy sector becoming one of our more significant sectors of coverage for our equity investment banking business. 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. Importantly, we may be unable to retain key personnel after the transaction, personnel who are critical to the success of the ongoing business. 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 may require increased costs in the form of management personnel, financial and management systems and controls and facilities, which, in the absence of continued revenue growth, could cause our operating margins to decline. In addition, when we acquire a business, a substantial portion of the purchase price is often allocated to goodwill and other identifiable intangible assets. Our goodwill and intangible assets are tested at least annually for impairment. If, in connection with that test, we determine that a reporting unit's fair value is less than its carrying value, we would be required to recognize an impairment to the goodwill associated with that reporting unit. For example, we recorded a $114.4 million non-cash goodwill impairment charge in the third quarter of 2017 relating to Advisory Research, Inc. ("ARI"), a Chicago-based asset management firm that we acquired in 2010. The charge in our Asset Management segment negatively impacted our net income and results of operations and resulted in a net loss in accordance with U.S. generally accepted accounting principles for our full-year results in 2017. 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 closed our Hong Kong capital markets business in 2012, and realized a pre-tax loss on the investment in our Hong Kong subsidiaries.

Table of Contents

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 highly competitive, and our revenues and profitability will suffer if we are unable to compete effectively. 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 and could continue to 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 technology resources, 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, some of these firms are able to use their larger capital base to offer additional products or services to their investment banking clients, which can be a 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, potentially with less opportunity for growth than 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).

Our inability to identify and address actual, potential, or perceived conflicts of interest may negatively impact our reputation and have a material adverse effect on our business.

We regularly address actual, potential or perceived conflicts of interest in our business, including situations where our services to a particular client or our own investments or other interests conflict, or are perceived to conflict, with the interests of another client. Appropriately identifying and dealing with conflicts of interest is complex and difficult, and we face the risk that our current policies, controls and procedures do not timely identify or appropriately manage such conflicts of interest. It is possible that actual, potential or perceived conflicts could give rise to client dissatisfaction, litigation or regulatory enforcement actions. Our reputation could be damaged if we fail, or appear to fail, to deal appropriately with potential or actual conflicts of interest. Client dissatisfaction, litigation, or regulatory enforcement actions arising from a failure to adequately deal with conflicts of interest, and the reputational harm suffered as a consequence, could have a material adverse effect on our business.

Damage to our reputation could damage our business.

Maintaining our reputation is critical to attracting and maintaining clients, customers, investors, and employees. If we fail to deal with, or appear to fail to deal with, issues that may give rise to reputational risk, such failure or appearance of failure could have a material adverse effect on our business and stock price. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering, cybersecurity, and the proper identification of the strategic, market, credit, liquidity, human capital, and operational risks inherent in our business and products.

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

The success of our asset management business is largely dependent on the level of assets under management, 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. Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business. 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. For example, certain of our investment strategies have experienced investment performance beneath comparable benchmarks for an extended period of time, which we believe contributed to net asset outflows from these investment strategies in 2017. 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, existing clients may withdraw funds in favor of better performing products or a different investment style or focus, our ability to attract new funds could be impaired, and our key employees in the business may depart, whether to join a competitor or otherwise.

A significant portion of our asset management revenues are derived from management and performance fees we earn on assets invested by institutions and individuals focused on MLPs and other investments related to the energy infrastructure sector. Return on investment in the energy infrastructure sector is dependent to a meaningful degree on the prices of energy commodities such as natural gas, natural gas liquids, crude oil, refined petroleum products or coal. Persistently depressed prices for any of these products, such as those experienced in 2015 and the first quarter of 2016, will likely lead to a deterioration of market conditions for companies in the energy infrastructure sector and poorer returns in this sector, and, consequently, a reduction in the management and performance fees we receive.

We also earn asset management revenues from actively managed equity strategies, and this type of investment product has experienced asset outflows in recent years in favor of passively managed equity strategies, which offer lower management fees than actively managed strategies. Furthermore, even though we added assets under management in some new, actively managed strategies in 2017, these strategies tended to be lower margin product offerings and the revenue gained from these strategies did not fully offset the decrease in revenues we suffered from a decline in assets under management within our higher margin product offerings. To the extent that the trend in investors moving assets to passive strategies continues and passively managed strategies continue to gain market share at the expense of actively managed strategies, it is possible that we may continue to experience asset outflows, find it increasingly difficult to attract new assets under management, or be unable to maintain our current fee structures given price competition, any of which could negatively impact our results of operations. The decline in our asset management profitability in 2017 led us to record a $114.4 million non-cash goodwill impairment charge relating to our Asset Management segment, representing the full value of the remaining goodwill associated with our Asset Management segment.

Liquidity and Credit Risk

Two of our principal categories of risk as a broker dealer and asset management firm are liquidity and credit risk, each of which can have a material impact on our results of operations and viability as a business. During the credit crisis, effective management of liquidity and credit were fundamental to the financial health of the Company. With respect to liquidity risk, it impacts our ability to timely access necessary funding sources in order to operate our business and our ability to timely divest securities that we hold in connection with our market-making, sales and trading, and proprietary trading activities. Credit risk, as distinguished from liquidity risk, is the potential for loss due to the default or deterioration in credit quality of a counterparty, customer, client, borrower, or issuer of securities we hold in our trading inventory. The nature and amount of credit risk depends on the type of transaction, the structure and duration of that transaction and the parties involved. The following are the liquidity and credit risk factors that we have identified as posing the most significant risks to us.

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, with Lehman Brothers being the most prominent example. To fund our business, we rely on commercial paper, bank financing, and other funding sources, including financing provided by Pershing LLC ("Pershing") under our fully disclosed clearing agreement. Our bank financing includes an uncommitted credit line, which could become unavailable to us on relatively short notice. The financing provided by Pershing is at Pershing's discretion and could be denied. In an effort to mitigate our funding risks, we renewed a $200 million committed credit facility in December 2017 for an additional twelve months. We also have $125 million of unsecured notes maturing in October 2018. In order to further diversify our short-term funding needs, we also continue to maintain two commercial paper programs in the amounts of $300 million and $200 million, respectively.

Our access to funding sources, particularly uncommitted funding sources, is dependent on 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 also 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 unsecured notes discussed above include covenants that, among other things, limit our leverage ratio and require maintenance of certain levels of tangible net worth, regulatory net capital, and operating cash flow to fixed charges. In addition, 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.

If we are unable to obtain necessary funding, or if the funding we obtain is on terms and conditions unfavorable to us, it could negatively affect our business activities and operations, and our ability to pursue certain growth initiatives and make certain capital decisions, including the decision whether to pay future dividends to our shareholders, as well as our future financial condition or results of operations.

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, alternative asset management, merchant banking, credit underwriting and syndication platform, and underwriting businesses. We have committed capital to these businesses, and we may take substantial positions in particular types of securities and/or issuers. For example, in the fourth quarter of 2017, we increased our fixed income inventory balances, particularly municipal securities, as a result of a trading opportunity in the municipal market identified at the end of the year. 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.

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 nature of our businesses exposes us to credit risk, or the 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 could adversely affect our business.

Particular activities or products within our business expose us to increased credit risk, including inventory positions, interest rate swap contracts with customer credit exposure, counterparty risk with one major financial institution related to customer interest rate swap contracts without customer credit exposure, investment banking and advisory fee receivables, liquidity providers on variable rate demand notes we remarket, and similar activities. With respect to interest rate swap contracts with customer credit exposure, we have retained the credit exposure with five public finance counterparties totaling $19.1 million at December 31, 2017 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. 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. Non-performance by our counterparties, clients and others, including with respect to our inventory positions and interest rate swap contracts with customer credit exposures, could result in losses, potentially material, and thus have a significant adverse effect on our business and results of operations.

In addition, reliance on revenues from hedge funds and hedge fund advisors, which are less regulated than many investment company and investment 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.

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 divest inventory positions may have an impact on our liquidity as funding sources generally become more restrictive, which could limit our ability 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.

Our underwriting, 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 underwriting, lending, proprietary trading, and principal investing. In our role as underwriter for equity and fixed income securities, we commit to purchase securities from the issuer or one or more holders of the issuer's securities, and then sell those securities to other investors or into the public markets, as applicable. Our underwriting activities, including bought deal transactions and equity block trading activities, expose us to the risk of loss if the price of the security falls below the price we purchased the security before we are able to sell all of the securities that we purchased. For example, as an underwriter, or, with respect to equity securities, a block positioner, we may commit to purchasing securities from an issuer or one or more holders of the issuer's securities without having found purchasers for some or all of the securities. In those instances, we may find that we are unable to sell the securities at a price equal to or above the price at which we purchased the securities, or with respect to certain securities, at a price sufficient to cover our hedges.

We also engage in proprietary trading activities (which we also refer to as "strategic trading" in this Form 10-K) related to municipal bonds. In certain years, proprietary trading has been a meaningful contributor to our overall financial results. In addition to proprietary trading, we engage in principal investing, having established alternative asset management funds for merchant banking (focused on investments in the equity and debt instruments of private companies) and senior living construction projects. We have invested firm capital in these funds alongside capital raised from outside investors, and our investments comprise a majority of our Level III assets. Level III assets have little or no pricing observability, and may be less liquid than other securities that we hold in our securities inventory. Additionally, we make principal investments in funds managed by ARI, our asset management subsidiary, which are generally invested in publicly traded equities. Lastly, in 2018, we will begin using some firm capital to make investments in joint venture entities that will underwrite and syndicate client debt. These entities will hold a portion of the client debt after syndication, and our invested capital will be exposed to a risk of loss to the extent that the debt is ultimately not repaid.

Our results from these activities may vary significantly from quarter to quarter. We may incur significant losses from our underwriting, proprietary trading, and principal investments due to equity or fixed income market fluctuations and volatility from quarter to quarter, or from a deterioration in specific business subsectors or the economy more generally. In addition, we may engage in hedging transactions that, if not successful, could result in losses; and the hedges we purchase to counterbalance market rate changes in certain inventory positions are not perfectly matched to the positions being hedged, which could result in losses. With respect to principal investing, there often is not an established liquid trading market for these investments or our investments may be otherwise subject to restrictions on sale or hedging, and our ability to withdraw our capital from these investments may be limited, increasing our risk of losses. 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.

Use of derivative instruments as part of our financial 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, U.S. Treasury bond futures, and equity 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 the Municipal Market Data ("MMD"), 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. 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 risk, especially when market volatility reduces the correlation between a hedging vehicle and the securities inventory being hedged.

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. We may incur losses from our exposure to derivative interest rate products and the increased use of these products in the future.

Table of Contents

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, investments in private companies, 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. With respect to accounting for goodwill, we complete our annual goodwill and intangible asset impairment testing in the fourth quarter of each year or earlier if impairment indicators are present. Impairment charges resulting from this valuation analysis could materially adversely affect our results of operations. In 2016, we recorded an $82.9 million non-cash impairment charge to reduce the carrying value of the goodwill associated with our Asset Management segment following significant net client outflows of AUM in 2016, primarily from our value equity strategies, due to investment performance below benchmarks and an extended cycle of investors favoring passive investment vehicles over active management. Throughout 2017, our Asset Management segment experienced a further decline in profitability as revenues decreased in product offerings with higher management fees, which was not fully offset with earnings from new product offerings. As a result, we identified impairment indicators in the third quarter of 2017 related to our Asset Management segment, and performed an interim goodwill impairment test as of July 31, 2017, which resulted in a non-cash goodwill impairment charge of $114.4 million.

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 transaction between market participants at the measurement date. 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.

Investments in private companies are valued based on an assessment of each underlying security, considering rounds of financing, third party transactions and market-based information, including comparable company transactions, trading multiples (e.g., multiples of revenue and EBITDA) and changes in market outlook, among other factors. These valuation techniques require significant management estimation and judgment.

Human Capital Risk

Our business is a human capital business, and, therefore, our future financial condition and results of operations are significantly dependent upon our employees and their actions. Our success is dependent upon the skills, expertise, and performance of our employees. Human capital risks represent the risks posed if we fail to attract and retain qualified individuals who are motivated to serve the best interests of our clients, thereby serving the best interests of our company, as well as the risks posed if our culture fails to encourage such behavior. Human capital risk is also present where we fail to detect and prevent employees from acting contrary to our policies and procedures, including when these failures might lead to reputational damage for our firm. The following are those human capital risk factors that we have identified as posing the most significant risks to us.

Our ability to attract, develop and retain highly skilled and productive employees, develop the next generation of our business leadership, and instill and maintain a culture of ethics 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, which could adversely affect our results of operations.

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 needs or demands may result in the loss of some of our professionals or the inability to recruit additional professionals at

Table of Contents

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.

A vibrant and ethical corporate culture is critical to ensuring that our employees put our clients’ interests first and are able to identify and manage potential conflicts of interest, while also creating an environment in which each of our employees feel empowered to develop and pursue their full potential. Our expectations for our corporate culture and ethics are instilled and maintained by the "tone at the top" set by our management and board of directors. Lapses in our corporate culture could lead to reputational damage or employee loss, either of which could adversely affect our results of operations.

Our business success depends in large part on the strategic decisions made by our leadership team, and the business plans developed and implemented by our senior business leaders. Our ability to identify, develop, and retain future senior business leaders, and our ability to develop and implement successful succession plans for our CEO and leadership team, is critical to our future success and results of operations.

Our inability to effectively integrate and retain personnel in connection with our acquisitions may adversely affect our financial condition and results of operations.

We invest time and resources in carefully assessing opportunities for acquisitions, and we have made acquisitions in the past several years to broaden the scope and depth of our human capital in various businesses. Despite diligence and integration planning, acquisitions still present certain risks, including the difficulties in integrating and bringing together different work cultures and employees, and retaining those employees for the period of time necessary to realize the anticipated benefits of the acquisition. Difficulties in integrating our acquisitions, including attracting and retaining talent to realize the expected benefits of these acquisitions, may adversely affect our financial condition and results of operations.

Operational Risk

Operational risk is the risk of loss, or damage to our reputation, resulting from inadequate or failed processes, people and systems or from external events. Such loss or reputational damage could negatively impact our future financial condition and results of operations. The following are those operational risk factors that we have identified as posing the most significant risks to us.

Our information and 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, 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.

In 2017, we made the strategic decision to move to a fully disclosed model for all of our previously self clearing broker dealer operations. In a fully disclosed model, we act as an introducing broker for most customer transactions and rely on a clearing broker dealer to handle clearance and settlement of our customers' securities transactions. We completed this conversion in August 2017. Upon converting to a fully disclosed clearing model, the clearing services provided by the clearing broker dealer, Pershing, will be critical to our business operations, and similar to other important outsourced operations, any failure by the clearing agent with respect to the services we will rely on it to provide could significantly disrupt and negatively impact our operations and financial results. We also contract with third parties for market data services, which constantly broadcast news, quotes, analytics and other relevant information to our employees, as well as other critical data processing activities. 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, compliance, 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.

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.

Protection of our sensitive and confidential information is critical to our operations, and failure of those systems may disrupt our business, damage our reputation, and cause financial losses.

Our clients routinely provide us with sensitive and confidential information. Secure processing, storage and transmission of confidential and other information in our internal and outsourced computer systems and networks 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, and those of our clients, vendors, service providers, counterparties and other third parties, may be vulnerable to unauthorized access, cyberattacks, security breaches, computer viruses or other malicious code, inadvertent, erroneous or intercepted transmission of information (including by e-mail), human error, and other events that could have an information security impact. We work with our employees, clients, vendors, service providers, counterparties and other third parties to develop and implement measures designed to protect against such an event, but we may not be able to fully protect against such an event, and do not have, and may be unable to put in place, secure capabilities with all of these third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. 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 those of third parties, 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 reputational harm as well as litigation, regulatory penalties, and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

A failure to protect our computer systems, networks and information, and our clients' information, against cyber attacks, data breaches, and similar threats could impair our ability to conduct our businesses, result in the disclosure, theft or destruction of confidential information, damage our reputation and cause significant financial and legal exposure.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. There have been several highly publicized cases involving financial services companies, consumer-based companies and other companies, as well as governmental and political organizations, reporting breaches in the security of their websites, networks or other systems. We have not been immune from such events. Some of the publicized breaches have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, including through the introduction of computer viruses or malware, cyberattacks and other means. There have also been several highly publicized cases where hackers have requested "ransom" payments in exchange for not disclosing customer information.

A successful penetration or circumvention of the security of our systems could cause serious negative consequences for us, including significant disruption of our operations and those of our clients, customers and counterparties; misappropriation of our confidential information or that of our clients, customers, counterparties or employees; or damage to our computers or systems and those of our clients, customers and counterparties; and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure and reputational harm, all of which could have a material adverse effect on us.

We must continuously monitor and develop our systems to protect our technology infrastructure and data from misappropriation or corruption. Despite our efforts to ensure the integrity of our systems and information, we have not been and may not be able to anticipate, detect or implement effective preventive measures against all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently, and are often not recognized until months after the attack. Cyber attacks can originate from a variety of sources, including third parties who are affiliated with foreign governments or employees acting negligently or in a manner adverse to our interests. Third parties may seek to gain access to our systems either directly or using equipment or security passwords belonging to employees, customers, third party service providers or other users of our systems. In addition, due to our interconnectivity with third party vendors, central agents, exchanges, clearing houses and other financial institutions, we could be adversely impacted if any of them is subject to a successful cyber attack or other information security event.

Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks have been and may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities, exposures, or information security events. Due to the complexity and interconnectedness of our systems, the process of enhancing our protective measures can itself create a risk of systems disruptions and security issues.

The increased use of cloud technologies can heighten these and other operational risks. Certain aspects of the security of such technologies are unpredictable or beyond our control, and this lack of transparency may inhibit our ability to discover a failure by cloud service providers to adequately safeguard their systems and prevent cyber attacks that could disrupt our operations and result in misappropriation, corruption or loss of confidential and other information. In addition, there is a risk that encryption and other protective measures, despite their sophistication, may be defeated, particularly to the extent that new computing technologies vastly increase the speed and computing power available.

Risk management processes may not fully mitigate exposure to the various risks that we face.

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 identifying and mitigating our risk exposure in all economic market environments or against all types of risk. For example, we may 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 risk, or every economic and financial outcome, or the specifics and timing of such outcomes. In addition, our risk management techniques and strategies seek to balance our ability to profit from our market-making and investing positions with our exposure to potential losses. 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.

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.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could materially affect our business.

We have documented and tested our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors regarding our internal control over financial reporting. We are in compliance with Section 404 of the Sarbanes-Oxley Act as of December 31, 2017. However, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to maintain an effective internal control environment could materially adversely affect our business.

Legal and Regulatory Risk

Legal and regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements and the loss to our reputation we may suffer as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards and codes of conduct applicable to our business activities. It also includes the risk that legislation could reduce or eliminate certain business activities that we are currently engaged in, which could negatively impact our future financial condition or results of operation. The following are those legal and regulatory risk factors that we have identified as posing the most significant risks to us.

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 remains intense. 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 on, cause significant reputational harm to, or result in other collateral consequences for 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, the United Kingdom, and Hong Kong. Each of these entities is registered or licensed with the applicable local 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, as well as Piper Jaffray & Co., are registered as investment advisors with the SEC and subject to the regulation and oversight by the SEC, and we have an additional asset management subsidiary subject to regulation in Guernsey.

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, record-keeping 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.

Our business also subjects us to the complex income and payroll tax laws of the national and local 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 and other 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

Table of Contents

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 that could disrupt our operations and negatively impact our results of operations.

Legislative and regulatory proposals could significantly curtail the revenue from certain products that we currently provide or otherwise have a material adverse effect on our results of operations.

Proposed changes in laws or regulations relating to our business could decrease, perhaps significantly, the revenue that we receive from certain products or services that we provide, or otherwise have a material adverse effect on our results of operations. For example, the Tax Reform Act reduced the federal income tax rates paid by U.S. corporations, and limited certain other tax deductions that U.S. corporations can take. Although the reduction in overall corporate tax rates will generally be positive for our results of operations, it did cause us to incur a one-time, non-cash tax charge of $54.2 million in the fourth quarter of 2017 reflecting a remeasurement of our existing deferred tax assets as the federal corporate tax rate declined from 35 percent to 21 percent. In addition, other provisions in the Tax Reform Act will limit the amount of compensation paid to our executive officers that we will be able to deduct for tax purposes in future periods. Lastly, the Tax Reform Act eliminated the tax-exemption for advance refunding bonds, which are bonds issued by local or state governments to refinance outstanding bonds before the original bonds are callable in order to take advantage of lower borrowing costs. To the extent that this elimination of tax-exemption, or any other component of legislation that may be enacted in the future (whether at the local, state, or federal level), reduces the total amount of issuances or other financing activities for which we compete, our results of operations could be adversely affected.

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

To the extent that 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 noncompliance 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 January 2018, new regulations adopted in the European Union require the unbundling of equity trading and research fees, among other requirements. While we expect the impact of such regulations on our equity institutional business to be relatively modest, differing regulatory requirements in international jurisdictions may affect markets in the United States over time.

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. The regulatory restrictions described above may impede access to funds our holding company needs to make payments on any such obligations.

Other Risks to Our Shareholders

We may change our dividend policy at any time and there can be no assurance that we will continue to declare cash dividends.

Beginning in fiscal year 2017, we began paying quarterly and annual cash dividends to our shareholders in order to return between 30 percent and 50 percent of our adjusted net income from each fiscal year to shareholders. Although we expect to pay dividends to our shareholders in accordance with our dividend policy, we have no obligation to pay any dividend, and our dividend policy may change at any time without notice. The declaration and payment of dividends is at the discretion of our board of directors in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, limitations imposed by our indebtedness, legal requirements and other factors that our board of directors deems relevant. As a result, we may not pay dividends at any rate or at all.

Table of Contents

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, earnings per share, and return on equity. Our business, by its nature, does not produce steady and predictable earnings on a quarterly basis, which may cause 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, a predominantly passive or quantitative shareholder base among the company's top twenty shareholders, 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.

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 20, 2018, we conducted our operations through 52 principal offices in 29 states, and the District of Columbia, and in London, Aberdeen, Hong Kong and Zurich. All of our offices are leased. Our principal executive office is located at 800 Nicollet Mall, Suite 1000, Minneapolis, Minnesota 55402 and, as of February 20, 2018, comprises approximately 124,000 square feet of space under a lease which expires November 30, 2025, with an early termination option effective January 31, 2022.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS.

Due to the nature of our business, we are involved in a variety of legal proceedings. 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, 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. Reasonably possible losses in excess of amounts accrued at December 31, 2017 are not material. 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.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S 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 high and low sales price information and the amount of dividends declared per common share by our board of directors for the years ended December 31, 2017 and 2016. On February 20, 2018, the last reported sale price of our common stock was $89.80.

	2017 Fiscal Year			2016 Fiscal Year		
	High	Low	Dividends Declared Per Common Share	High	Low	Dividends Declared Per Common Share
First Quarter	$81.85	$61.43	$ 0.3125	$50.66	$31.66	$ —
Second Quarter	64.10	56.55	0.3125	50.15	35.36	—
Third Quarter	65.85	52.75	0.3125	48.70	36.80	—
Fourth Quarter	87.45	59.20	0.3125	77.80	47.72	—

Shareholders

We had 13,320 shareholders of record and approximately 26,043 beneficial owners of our common stock as of February 20, 2018.

Dividends

Beginning in 2017, we initiated the payment of a quarterly cash dividend. In the fourth quarter of 2017, our board of directors approved a new dividend policy intended to return between 30 percent and 50 percent of our adjusted net income from the previous fiscal year to shareholders. This will include the addition of an annual special cash dividend, payable in the first quarter of each year. Our board of directors has declared a special cash dividend on the company's common stock of $1.62 per share. This special dividend will be paid on March 15, 2018, to shareholders of record as of the close of business on February 26, 2018. Including this special cash dividend and the regular quarterly dividends totaling $1.25 per share paid during 2017, we will have returned $2.87 per share, or approximately 40 percent of our fiscal year 2017 adjusted net income to shareholders.

In addition, our board of directors has declared a quarterly cash dividend on the company's common stock of $0.375 per share to be paid on March 15, 2018, to shareholders of record as of the close of business on February 26, 2018.

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 24 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Purchases of Equity Securities

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, 2017.

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, 2017 to October 31, 2017)	667	$ 61.60	—	$ 150 million
Month #2 (November 1, 2017 to November 30, 2017)	4,897	$ 73.22	—	$ 150 million
Month #3 (December 1, 2017 to December 31, 2017)	177	$ 86.40	—	$ 150 million
Total	5,741	$ 72.28	—	$ 150 million

(1) Effective September 30, 2017, our board of directors authorized the repurchase of up to $150 million of common stock through September 30, 2019.

Table of Contents

Stock Performance Graph

The following graph compares the performance of an investment in our common stock from December 31, 2012 through December 31, 2017, with the S&P 500 Index and the S&P 500 Diversified Financials Index. The graph assumes $100 was invested on December 31, 2012, 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. 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	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Piper Jaffray Companies	100	123.09	180.80	125.74	225.65	273.68
S&P 500 Index	100	132.39	150.51	152.59	170.84	208.14
S&P 500 Diversified Financials	100	141.39	164.81	149.81	180.60	225.55

Table of Contents

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)	2017	2016	2015	2014	2013
Revenues:					
Investment banking	$633,837	$490,340	$414,118	$369,811	$248,563
Institutional brokerage	154,563	161,186	154,889	156,809	146,648
Asset management	56,835	60,672	75,017	85,062	83,045
Interest	31,954	33,074	41,557	48,716	50,409
Investment income	18,002	24,602	10,736	12,813	21,566
Total revenues	895,191	769,874	696,317	673,211	550,231
Interest expense	20,268	22,525	23,399	25,073	25,036
Net revenues	874,923	747,349	672,918	648,138	525,195
Non-interest expenses:					
Compensation and benefits	617,635	510,612	421,733	394,510	322,464
Restructuring and integration costs	—	10,206	10,652	—	4,689
Goodwill impairment	114,363	82,900	—	—	—
Other	172,248	174,505	154,110	143,317	122,429
Total non-interest expenses	904,246	778,223	586,495	537,827	449,582
Income/(loss) from continuing operations before income tax expense/(benefit)	(29,323)	(30,874)	86,423	110,311	75,613
Income tax expense/(benefit)	30,229	(17,128)	27,941	35,986	20,390
Net income/(loss) from continuing operations	(59,552)	(13,746)	58,482	74,325	55,223
Discontinued operations:					
Loss from discontinued operations, net of tax	—	—	—	—	(4,739)
Net income/(loss)	(59,552)	(13,746)	58,482	74,325	50,484
Net income applicable to noncontrolling interests	2,387	8,206	6,407	11,153	5,394
Net income/(loss) applicable to Piper Jaffray Companies	$(61,939)	$(21,952)	$52,075	$63,172	$45,090
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	$(64,875) [(1)]	$(21,952) [(1)]	$48,060	$58,141	$40,596

Continued on next page

Table of Contents

(Dollars and shares in thousands, except per share data)	For the year ended December 31, 2017	2016	2015	2014	2013
Amounts applicable to Piper Jaffray Companies					
Net income/(loss) from continuing operations	$(61,939)	$(21,952)	$52,075	$63,172	$49,829
Net loss from discontinued operations	—	—	—	—	(4,739)
Net income/(loss) applicable to Piper Jaffray Companies	$(61,939)	$(21,952)	$52,075	$63,172	$45,090
Earnings/(loss) per basic common share					
Income/(loss) from continuing operations	$(5.07)	$(1.73)	$3.34	$3.88	$2.98
Loss from discontinued operations	—	—	—	—	(0.28)
Earnings/(loss) per basic common share	$(5.07)	$(1.73)	$3.34	$3.88	$2.70
Earnings/(loss) per diluted common share					
Income/(loss) from continuing operations	$(5.07)	$(1.73)	$3.34	$3.87	$2.98
Loss from discontinued operations	—	—	—	—	(0.28)
Earnings/(loss) per diluted common share	$(5.07)[(2)]	$(1.73)[(2)]	$3.34	$3.87	$2.70
Dividends declared per common share	$1.25	$—	$—	$—	$—
Weighted average number of common shares					
Basic	12,807	12,674	14,368	14,971	15,046
Diluted	12,978[(2)]	12,779[(2)]	14,389	15,025	15,061
Other data					
Total assets	$2,024,683	$2,125,503	$2,138,518	$2,623,917	$2,318,157
Long-term debt	$125,000	$175,000	$175,000	$125,000	$125,000
Total common shareholders' equity	$693,332	$759,250	$783,659	$819,912	$734,676
Total shareholders' equity	$741,235	$816,266	$832,820	$969,460	$882,072
Total employees [(3)]	1,266	1,297	1,152	1,026	1,026

(1) No allocation of undistributed income was made due to loss position. See Note 22 to our consolidated financial statements in this Form 10-K.

(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.

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 Form 10-K. Certain statements in this Form 10-K 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 this Form 10-K 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 this Form 10-K, 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 and non-compensation expenses from acquisition-related agreements, (4) restructuring and acquisition integration costs, (5) goodwill impairment charges and (6) the impact from remeasuring deferred tax assets resulting from changes to the U.S. federal tax code. These adjustments affect the following financial measures: net revenues, compensation expenses, non-compensation expenses, income tax expense/(benefit), net income/(loss) applicable to Piper Jaffray Companies, earnings/(loss) per diluted common share, return on average common shareholders' equity, segment net revenues, segment operating expenses, segment pre-tax operating income/(loss) and segment pre-tax operating margin. Management believes that presenting these results and measures on an adjusted basis in conjunction with the corresponding U.S. GAAP measures provides the most meaningful basis for comparison of its operating results across periods, and enhances the overall understanding of our current financial performance by excluding certain items that may not be indicative of our core operating results. The non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of financial performance prepared in accordance with U.S. GAAP.

Executive Overview

Strategic Growth Initiatives – Beginning in 2011, following the financial crisis, we implemented a strategic framework focused on achieving strong results across various markets conditions, sustainable growth and predictability in earnings, as well as expanding operating margin. Our plan focused on increasing the contributions from our higher margin activities (i.e., advisory services and public finance), diversifying the business, managing operating costs diligently, and investing for growth. Through strong execution on these strategic initiatives we have produced a substantial increase in net revenues and remixed the business to higher quality earnings. These favorable attributes have generated greater earnings and enabled us to return capital to our shareholders through the payment of dividends, which we initiated in the first quarter of 2017 and subsequently increased going into 2018. Our investments in the business are discussed below.

Overview of Operations – Our 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 investment banking services and institutional sales, trading and research services. Investment banking services include management of and participation in underwritings, financial advisory services and public finance activities. Revenues are generated through the receipt of advisory and financing fees. Institutional sales, trading and research services focus on the trading of equity and fixed income products with institutions, government and non-profit entities. Revenues are generated through commissions and sales credits earned on equity and fixed income institutional sales activities, net interest revenues on trading securities held in inventory, and profits and losses from trading these securities. Also, we generate revenue through strategic trading and investing activities, which focus on investments in municipal bonds and U.S. government agency securities. In order to invest firm capital and to manage capital from outside investors, we have created alternative asset management funds in merchant banking that involve equity or debt investments in late stage private companies; senior living, which provides financing to U.S. senior living facilities; and energy, whose principal activity is to invest in oil and gas services companies headquartered in Europe. We receive management and performance fees for managing these funds.

Table of Contents

We have executed on our strategic growth initiatives through investments in the business, primarily by expanding into new industry sectors within equity investment banking and equity institutional brokerage, and the expansion of our fixed income middle market sales platform. The following is a summary of these activities.

- As part of our strategy to expand our equity investment banking business into the energy sector and grow our advisory business, on February 26, 2016, we completed the acquisition of Simmons & Company International ("Simmons"), an employee-owned investment bank and broker dealer focused on the energy industry. For more information on our acquisition of Simmons, see Note 4 of our consolidated financial statements.

- In 2015, we built upon our expansion into the financial institutions sector by acquiring the assets of River Branch Holdings LLC ("River Branch"), an equity investment banking boutique focused on the financial institutions sector. Also in 2015, we completed the acquisition of BMO Capital Markets GKST Inc. ("BMO GKST"), a municipal bond sales, trading and origination business of BMO Financial Corp.

- Over the past several years, we have added and strengthened sub-sectors across our industry groups. In equity investment banking, we added healthy living in our consumer sector and strengthened our healthcare sector with biotech and healthcare information technology practices. In addition, we broadened our specialty practices in public finance with additions in senior living and charter schools.

We have investment commitments related to affiliated entities which will make direct or indirect debt investments in companies. In 2018, we anticipate that we will begin to underwrite and syndicate loans through these entities.

Asset Management – The Asset Management segment, which provides traditional asset management services, manages investments in master limited partnerships ("MLPs") and energy infrastructure securities focused on the energy sector, and manages assets in domestic and global equity markets. 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.

An explicit element of our strategy in asset management has been to diversify our product offerings through the addition of high quality investment teams. In addition to our core MLP and value equity products, we have added teams specializing in domestic growth equity, global equity, and quantitative strategies, allowing us to leverage the infrastructure of our existing platform.

In 2017, our Asset Management segment experienced declining profitability due to decreases in revenues from reduced AUM and higher operating expenses from the addition of new investment teams. In the third quarter of 2017, we identified goodwill impairment indicators necessitating a full impairment testing of goodwill. The interim impairment testing related to our Asset Management segment goodwill resulted in a pre-tax non-cash impairment charge of $114.4 million. For more information on our goodwill impairment testing, please refer to the "Critical Accounting Policies" section.

In 2016, an extended cycle of investors favoring passive investment vehicles over active management, combined with certain products having investment performance below their benchmarks, reduced management fees for the asset management business and caused a corresponding decline in profitability. Lower average AUM for our MLP strategies, driven by a decline in MLP valuations, also resulted in decreased management fees and profitability. In the fourth quarter of 2016, we conducted our annual goodwill impairment testing, including the goodwill associated with our Asset Management segment, which resulted in a pre-tax non-cash impairment charge of $82.9 million.

Table of Contents

Financial Highlights

(Amounts in thousands, except per share data)	Twelve Months Ended Dec. 31, 2017	Dec. 31, 2016	Percent Inc/(Dec) 2017 vs. 2016
U.S. GAAP			
Net revenues	$874,923	$747,349	17.1 %
Compensation and benefits expenses	617,635	510,612	21.0
Non-compensation expenses	286,611	267,611	7.1
Net loss applicable to Piper Jaffray Companies	(61,939)	(21,952)	N/M
Loss per diluted common share	$(5.07)	$(1.73)	N/M
Non-GAAP (1)			
Adjusted net revenues	$869,604	$736,279	18.1 %
Adjusted compensation and benefits expenses	562,636	474,371	18.6
Adjusted non-compensation expenses	153,316	150,427	1.9
Adjusted net income applicable to Piper Jaffray Companies	108,902	72,642	49.9
Adjusted earnings per diluted common share	$7.12	$4.69	51.8

N/M — Not meaningful

For the year ended December 31, 2017

- Net revenues increased 17.1 percent compared to 2016. Significantly higher advisory services revenues, as well as higher equity financing revenues, were partially offset by lower debt financing, institutional brokerage and asset management revenues.
- Compensation and benefits expenses were up 21.0 percent compared to the year-ago period due primarily to increased compensation expenses arising from increased revenues, as well as higher acquisition-related compensation costs related to a performance award plan implemented in conjunction with our acquisition of Simmons. In 2017, we recorded $27.0 million of compensation expense related to this plan, compared to $4.3 million in 2016. The higher compensation costs were due to outperformance of the Simmons business in 2017.
- Non-compensation expenses increased 7.1 percent compared to 2016. In 2017, we incurred a $114.4 million goodwill impairment charge, compared to a $82.9 million goodwill impairment charge in 2016. Also, incremental back office conversion costs in the current year were more than offset by lower restructuring costs. In 2016, non-compensation expenses included $10.2 million of restructuring and integration costs primarily related to the acquisition of Simmons.
- The enactment of the Tax Cuts and Jobs Act, which reduced the federal corporate tax rate to 21 percent, required a remeasurement of our deferred tax assets resulting in a $54.2 million non-cash write-off in the fourth quarter of 2017.
- For the year ended December 31, 2017, we recorded a tax benefit of $9.2 million related to restricted stock vesting at values greater than the grant price. The tax benefit increased earnings per diluted common share by $0.72 in 2017.
- In 2017, our return on average common shareholders' equity was a negative 8.1 percent, compared with a negative 2.8 percent for 2016. On an adjusted basis, we generated a return on average common shareholders' equity of 14.2 percent[2] in 2017, compared with 9.2 percent[2] for 2016.

Table of Contents

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

	Year Ended December 31,	
(Amounts in thousands, except per share data)	2017	2016
Net revenues:		
Net revenues – U.S. GAAP basis	$874,923	$747,349
Adjustments:		
Revenue related to noncontrolling interests	(5,319)	(11,070)
Adjusted net revenues	$869,604	$736,279
Compensation and benefits:		
Compensation and benefits – U.S. GAAP basis	$617,635	$510,612
Adjustments:		
Compensation from acquisition-related agreements	(54,999)	(36,241)
Adjusted compensation and benefits	$562,636	$474,371
Non-compensation expenses:		
Non-compensation expenses – U.S. GAAP basis	$286,611	$267,611
Adjustments:		
Non-compensation expenses related to noncontrolling interests	(2,932)	(2,864)
Restructuring and integration costs	—	(10,206)
Goodwill impairment	(114,363)	(82,900)
Amortization of intangible assets related to acquisitions	(15,400)	(21,214)
Non-compensation expenses from acquisition-related agreements	(600)	—
Adjusted non-compensation expenses	$153,316	$150,427
Net income/(loss) applicable to Piper Jaffray Companies:		
Loss applicable to Piper Jaffray Companies – U.S. GAAP basis	$(61,939)	$(21,952)
Adjustments:		
Compensation from acquisition-related agreements	35,755	23,700
Restructuring and integration costs	—	7,014
Goodwill impairment	70,791	50,901
Amortization of intangible assets related to acquisitions	9,534	12,979
Non-compensation expenses from acquisition-related agreements	607	—
Impact of the Tax Cuts and Jobs Act legislation	54,154	—
Adjusted net income applicable to Piper Jaffray Companies	$108,902	$72,642
Earnings/(loss) per diluted common share:		
Loss per diluted common share – U.S. GAAP basis	$(5.07)	$(1.73)
Adjustment for loss allocated to participating shares (3)	1.04	0.30
	(4.03)	(1.43)
Adjustments:		
Compensation from acquisition-related agreements	2.33	1.53
Restructuring and integration costs	—	0.45
Goodwill impairment	4.62	3.29
Amortization of intangible assets related to acquisitions	0.62	0.84
Non-compensation expenses from acquisition-related agreements	0.04	—
Impact of the Tax Cuts and Jobs Act legislation	3.54	—
Adjusted earnings per diluted common share	$7.12	$4.69

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

(3) Piper Jaffray Companies calculates earnings per common share using the two-class method, which requires the allocation of consolidated adjusted net income between common shareholders and participating security holders, which in the case of Piper Jaffray Companies, represents unvested stock with dividend rights. No allocation of undistributed earnings is made for periods in which a loss is incurred.

Table of Contents

Market Data

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

Year Ended	2017	2016	2015	2017 v2016	2016 v2015
S&P 500 (a)	2,674	2,239	2,044	19.4 %	9.5 %
NASDAQ (a)	6,950	5,383	5,007	29.1 %	7.5 %
Average CBOE Volatility Index (VIX)	11	16	17	(31.3)%	(5.9)%
NYSE Average Daily Number of Shares Traded (millions of shares)	1,077	1,256	1,187	(14.3)%	5.8 %
NASDAQ Average Daily Number of Shares Traded (millions of shares)	1,899	1,896	1,886	0.2 %	0.5 %
Mergers and Acquisitions - Middle Market (number of transactions in U.S.) (b)	2,727	2,620	2,724	4.1 %	(3.8)%
Public Equity Offerings (number of transactions in U.S.) (c) (e)	961	735	909	30.7 %	(19.1)%
Initial Public Offerings (number of transactions in U.S.) (c)	182	106	171	71.7 %	(38.0)%
Municipal Negotiated Issuances (number of transactions in U.S.) (d)	7,959	8,915	8,858	(10.7)%	0.6 %
Municipal Negotiated Issuances (value of transactions in billions in U.S.) (d)	$348.8	$353.0	$317.8	(1.2)%	11.1 %
10-Year Treasuries Average Rate	2.33 %	1.84 %	2.14 %	26.6 %	(14.0)%
3-Month Treasuries Average Rate	0.95 %	0.32 %	0.05 %	196.9 %	540.0 %
Average 10-Year Municipal-Treasury Ratio (f)	0.89	0.93	0.98	(4.3)%	(5.1)%

(a) Data provided is at period end.
(b) Source: Thomson Reuters (transactions with reported deal value between $100 million and $1 billion and transactions with an undisclosed deal value that had a financial advisor).
(c) Source: Dealogic (offerings with reported market value greater than $20 million).
(d) Source: Thomson Reuters.
(e) Number of transactions includes convertible offerings.
(f) Calculated based on the 10-year Municipal Market Data (MMD) index rate divided by the 10-year treasury rate.

External Factors Impacting Our Business

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

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

Table of Contents

Outlook for 2018

We expect the U.S. economy to continue to grow at a moderate pace in 2018. The recently passed tax reform legislation, increased fiscal spending, actions to reduce the regulatory burden on businesses, and broad growth across most major global economies should be supportive to economic growth in the U.S. Conversely, geopolitical risks or economic instability internationally may pose consequences for the global economy and inject periods of heightened volatility into the U.S. equity and debt markets.

We believe that U.S. monetary policy could possibly have a material impact on the economy in 2018. The U.S. Federal Reserve increased short-term interest rates three times in 2017 on the expectation of stronger economic growth despite muted signs of inflation. Long-term interest rates, however, have not moved in step with increases in short-term interest rates resulting in a flattening of the yield curve. We anticipate that the U.S. Federal Reserve will continue to pursue a gradual and steady path to rate normalization, particularly if there is acceleration in the pace of inflation. Higher interest rates could trigger a sell-off in equities which would likely adversely impact our equity capital raising and advisory businesses. Further, if long-term interest rates prove resistant to a tightening in monetary policy, we could experience an extended period of a flat, or even an inverse, yield curve, which could adversely impact our fixed income sales and trading business. In addition, exogenous conditions may trigger episodes of volatility with respect to interest rates. A volatile interest rate environment could manifest itself in changes to the yield curve or relative spreads which may have a mixed impact on certain of our businesses.

The Tax Cuts and Jobs Act (the "Tax Reform Act"), which was enacted on December 22, 2017, will have a significant impact on the federal tax code, including a significant corporate federal rate reduction and tax treatment which would facilitate the repatriation of earnings from overseas profits. The lower corporate tax rate will result in additional earnings, which we will use to invest in our business and to return capital to our shareholders through dividends. We will also continue to look for opportunistic investments that are in line with our strategy. Although the full impact of the Tax Reform Act on our businesses is not yet known, we would anticipate that certain sectors of our businesses may be affected more than others. We expect that our public finance operations will be adversely impacted as the repeal of tax-exempt advance refunding bonds through the Tax Reform Act will result in a decline in municipal issuance volume in the market. The impact on our equity investment banking businesses is expected to be favorable, albeit at a moderate level. The Tax Reform Act is not expected to have a significant impact on our institutional brokerage or asset management businesses. We will continue to monitor and evaluate the impact of this legislation on our businesses.

We expect conditions in the equity markets to remain conducive to our advisory and equity capital raising activities in 2018. While lower volatility benefits our capital raising business, it has the inverse effect on our equity sales and trading business. We have experienced heightened volatility in early 2018. If we experience sustained bouts of higher volatility or a material market correction, our equity brokerage business may benefit while our advisory and equity capital raising businesses may suffer. We believe our advisory services business will continue to perform well in 2018 on the strength of our market position, long-term investments, diversity in our practice and readily available capital. As noted above, economic instability arising from a significant geopolitical event, for example, or an adverse market reaction to monetary tightening would likely be detrimental to both our equity capital raising and advisory businesses. Advisory services revenues for any given quarter are impacted by the timing and size of the deals closing, which can result in fluctuations in revenues period over period.

We expect that secular challenges to our equity brokerage business, including the shift from active to passive managers, will persist in 2018. These challenges may be exacerbated by the implementation of MiFID II, a European regulation which may be adopted by some of our U.S. clients. This regulation, which governs how buyside clients (asset managers) pay for services performed by brokerage businesses, may lead to revenue declines for U.S brokerage businesses, and we would not be immune from this impact.

We would expect the low interest rate environment and flat yield curve to persist in 2018. This would continue to subdue customer flow activity for our fixed income institutional brokerage business. While higher interest rates across the yield curve would be favorable to this business, the move to higher rates could adversely impact our public finance business in the short-term as the level of refunding activity eases while greater economic growth has not yet spurred a ramp in new money issuance volumes. Irrespective of the interest rate levels, we believe that municipal debt underwriting activity will be down meaningfully in 2018 compared to 2017 as some issuances were accelerated to the end of 2017 due to pending changes from the tax reform legislation, and also due to a lower level of refunding activity.

As economic growth continues we would expect rising market valuations, which would have a positive impact on our asset management business. However, market valuations may be negatively impacted by significant declines and volatility in the financial markets, as experienced in early 2018. We would expect that active asset managers, ourselves included, will remain under pressure to create alpha for their clients and to maintain or grow AUM.

Table of Contents

Results of Operations

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)	2017	2016	2015	2017 v2016	2016 v2015	2017	2016	2015
Revenues:								
Investment banking	$633,837	$490,340	$414,118	29.3 %	18.4 %	72.4 %	65.6 %	61.5 %
Institutional brokerage	154,563	161,186	154,889	(4.1)	4.1	17.7	21.6	23.0
Asset management	56,835	60,672	75,017	(6.3)	(19.1)	6.5	8.1	11.1
Interest	31,954	33,074	41,557	(3.4)	(20.4)	3.7	4.4	6.2
Investment income	18,002	24,602	10,736	(26.8)	129.2	2.1	3.3	1.6
Total revenues	895,191	769,874	696,317	16.3	10.6	102.3	103.0	103.5
Interest expense	20,268	22,525	23,399	(10.0)	(3.7)	2.3	3.0	3.5
Net revenues	874,923	747,349	672,918	17.1	11.1	100.0	100.0	100.0
Non-interest expenses:								
Compensation and benefits	617,635	510,612	421,733	21.0	21.1	70.6	68.3	62.7
Outside services	38,012	39,289	36,218	(3.3)	8.5	4.3	5.3	5.4
Occupancy and equipment	33,462	34,813	28,301	(3.9)	23.0	3.8	4.7	4.2
Communications	29,891	29,626	23,762	0.9	24.7	3.4	4.0	3.5
Marketing and business development	31,293	30,404	29,990	2.9	1.4	3.6	4.1	4.5
Trade execution and clearance	8,166	7,651	7,794	6.7	(1.8)	0.9	1.0	1.2
Restructuring and integration costs	—	10,206	10,652	(100.0)	(4.2)	—	1.4	1.6
Goodwill impairment	114,363	82,900	—	38.0	N/M	13.1	11.1	—
Intangible asset amortization	15,400	21,214	7,662	(27.4)	176.9	1.8	2.8	1.1
Back office conversion costs	3,927	561	—	600.0	N/M	0.4	0.1	—
Other operating expenses	12,097	10,947	20,383	10.5	(46.3)	1.4	1.5	3.0
Total non-interest expenses	904,246	778,223	586,495	16.2	32.7	103.4	104.1	87.2
Income/(loss) before income tax expense/(benefit)	(29,323)	(30,874)	86,423	N/M	N/M	(3.4)	(4.1)	12.8
Income tax expense/(benefit)	30,229	(17,128)	27,941	N/M	N/M	3.5	(2.3)	4.2
Net income/(loss)	(59,552)	(13,746)	58,482	N/M	N/M	(6.8)	(1.8)	8.7
Net income applicable to noncontrolling interests	2,387	8,206	6,407	(70.9)	28.1	0.3	1.1	1.0
	$(61,939)	$(21,952)	$52,075	N/M	N/M	(7.1)%	(2.9)%	7.7 %

Net income/(loss) applicable to
Piper Jaffray Companies
N/M — Not meaningful

Table of Contents

For the year ended December 31, 2017, we recorded a net loss applicable to Piper Jaffray Companies of $61.9 million, driven by a $70.8 million, net of tax, goodwill impairment charge and a $54.2 million tax charge for the remeasurement of our deferred tax assets as a result of the lower enacted federal corporate tax rate. Net revenues for the year ended December 31, 2017 were $874.9 million, a 17.1 percent increase compared to $747.3 million in the year-ago period. In 2017, investment banking revenues increased 29.3 percent to $633.8 million, compared with $490.3 million in 2016, driven by strong advisory services revenues. The advisory services business has been a strategic focus for us, and these results reflect significant market share gains. Also, equity financing revenues increased as the market environment for equity capital raising improved significantly after challenging market conditions in the prior year. These increases were partially offset by lower debt financing revenues, which declined compared to a strong year-ago period. For the year ended December 31, 2017, institutional brokerage revenues were $154.6 million, down 4.1 percent compared with $161.2 million in 2016, due to lower equity and fixed income institutional brokerage revenues. Asset management fees were $56.8 million in 2017, down 6.3 percent compared with $60.7 million in 2016, as lower management fees from our equity product offerings were partially offset by higher management fees from MLP product offerings. For the year ended December 31, 2017, net interest income increased to $11.7 million, compared with $10.5 million in 2016. In 2017, investment income was $18.0 million, compared with $24.6 million in 2016, due to lower gains on our investment and the noncontrolling interests in the merchant banking fund that we manage. Non-interest expenses were $904.2 million for the year ended December 31, 2017, an increase of 16.2 percent compared to $778.2 million in the prior year. The increase was driven by higher compensation expenses from increased revenues, as well as higher acquisition-related compensation costs. Also, we incurred a $114.4 million goodwill impairment charge in 2017, compared to a $82.9 million goodwill impairment charge in the prior year. Incremental back office conversion costs in the current year were more than offset by lower restructuring costs.

For the year ended December 31, 2016, we recorded a net loss applicable to Piper Jaffray Companies of $22.0 million, driven by a $50.9 million, net of tax, goodwill impairment charge. Net revenues for the year ended December 31, 2016 were $747.3 million, a 11.1 percent increase compared to $672.9 million in 2015. In 2016, investment banking revenues increased 18.4 percent to $490.3 million, compared with $414.1 million in 2015, driven by strong advisory services and debt financing revenues which reflected our investments and focus to grow these businesses. These increases were partially offset by lower equity financing revenues, as our equity capital raising business experienced challenging market conditions for most of 2016. For the year ended December 31, 2016, institutional brokerage revenues were $161.2 million, up 4.1 percent compared with $154.9 million in 2015, due to higher equity institutional brokerage revenues. Asset management fees were $60.7 million in 2016, compared with $75.0 million in 2015, due to lower management fees from our equity and MLP product offerings. For the year ended December 31, 2016, net interest income decreased to $10.5 million, compared with $18.2 million in 2015. The decrease primarily resulted from the liquidation of our municipal bond fund with outside investors in the second half of 2015, and additional interest expense on our senior notes. In addition, we had lower interest income earned on mortgage-backed securities as a result of lower inventory balances. In 2016, investment income was $24.6 million, compared with $10.7 million in 2015. We recorded losses on our investments of firm capital in our MLP strategies in 2015. Non-interest expenses were $778.2 million for the year ended December 31, 2016, an increase of 32.7 percent compared to $586.5 million in 2015. The increase was due to an $82.9 million goodwill impairment charge, as well as higher compensation expense driven by increased revenues and higher expenses resulting from our acquisitions and business expansion. Partially offsetting this increase was lower legal reserves associated with a $9.8 million legal settlement in 2015.

New Revenue Recognition Guidance

As discussed in Note 3 to our consolidated financial statements, we will adopt new revenue recognition guidance effective as of January 1, 2018. The current broker dealer industry treatment of netting deal expenses with investment banking revenues will change under the new guidance. As a result of adopting the new guidance, we will generally present deal expenses on a gross basis under non-interest expenses on the consolidated statements of operations, rather than the current presentation of netting deal expenses incurred for completed investment banking deals within revenues. This change will not impact earnings, however, we will report higher investment banking revenues and higher non-compensation expenses. Based upon prior years' experience, we would expect $20 million to $25 million of annual deal-related costs to be reported as non-compensation expenses upon adoption of the new guidance. The amount of deal-related costs in 2018 will principally be dependent on the level of deal activity and may vary from quarter to quarter as the collection of deal-related costs typically coincides with the closing of a transaction. In addition, we expect to defer the recognition of performance fees on our merchant banking, energy and senior living alternative asset management funds until such fees are no longer subject to reversal, which will cause a delay in the recognition of these fees as revenue. We anticipate that our current methods of recognizing investment banking revenues will not be significantly impacted by the new guidance.

Table of Contents

Consolidated Non-Interest Expenses

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

For the year ended December 31, 2017, compensation and benefits expenses increased 21.0 percent to $617.6 million from $510.6 million in 2016. Compensation expenses increased due to higher revenues as well as higher acquisition-related compensation costs, which were driven by incremental compensation expenses related to a Simmons performance award plan implemented at the time of acquisition. Our compensation costs related to this performance plan increased to $27.0 million in 2017, compared to $4.3 million in 2016, as the Simmons business outperformed our projections in 2017 due to a recovery in the energy markets and strong execution of investment banking transactions. As a result, we have refined our future projections related to this business and the performance award plan. Compensation and benefits expenses as a percentage of net revenues was 70.6 percent in 2017, compared with 68.3 percent in 2016. The higher compensation expense ratio was attributable to increased acquisition-related compensation, and the impact of defined retirement provisions for performance share units to be granted in February 2018, which resulted in recognition of additional compensation expense. Absent a significant change in our business or market conditions impacting the energy sector, the impact of acquisition-related costs will continue to elevate this rate in 2018.

For the year ended December 31, 2016, compensation and benefits expenses increased 21.1 percent to $510.6 million from $421.7 million in 2015, due to higher revenues as well as higher acquisition-related compensation costs primarily resulting from the Simmons acquisition completed in February 2016. Compensation and benefits expenses as a percentage of net revenues was 68.3 percent in 2016, compared with 62.7 percent in 2015. The higher compensation expense ratio was attributable to increased acquisition-related compensation.

Outside Services – Outside services expenses include securities processing expenses, outsourced technology functions, outside legal fees, fund expenses associated with our consolidated alternative asset management funds and other professional fees. Outside services expenses decreased 3.3 percent to $38.0 million in 2017, compared with $39.3 million in the corresponding period of 2016. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses were essentially flat.

Outside services expenses increased 8.5 percent to $39.3 million in 2016, compared with $36.2 million in 2015. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses increased 9.2 percent due primarily to higher professional fees, as well as incremental expenses related to our acquisitions.

Occupancy and Equipment – For the year ended December 31, 2017, occupancy and equipment expenses decreased 3.9 percent to $33.5 million, compared with $34.8 million in 2016.

For the year ended December 31, 2016, occupancy and equipment expenses increased 23.0 percent to $34.8 million, compared with $28.3 million in 2015. The increase was primarily the result of incremental occupancy expenses from our acquisitions of Simmons, River Branch and BMO GKST.

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, 2017, communication expenses were $29.9 million, up slightly compared with 2016.

For the year ended December 31, 2016, communication expenses increased 24.7 percent to $29.6 million, compared with $23.8 million for the year ended December 31, 2015. The increase resulted from higher market data service expenses due to the additional headcount associated with our acquisition of Simmons, and also reflected a full year of incremental expenses associated with our acquisitions of River Branch and BMO GKST.

Table of Contents

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. In 2017, marketing and business development expenses were $31.3 million, compared with $30.4 million for the year ended December 31, 2016.

In 2016, marketing and business development expenses were $30.4 million, compared with $30.0 million for the year ended December 31, 2015, as increased travel expenses were offset by a decline in third party marketing fees.

Trade Execution and Clearance – For the year ended December 31, 2017, trade execution and clearance expenses increased to $8.2 million, compared with $7.7 million for the year ended December 31, 2016.

For the year ended December 31, 2016, trade execution and clearance expenses were $7.7 million, down slightly compared with 2015.

Restructuring and Integration Costs – For the year ended December 31, 2016, we recorded restructuring and acquisition integration costs of $10.2 million, primarily related to our acquisition of Simmons. The expenses consisted of $6.6 million of severance, benefits and outplacement costs, $1.3 million of vacated redundant leased office space, $1.3 million of transaction costs, and $1.0 million of contract termination costs.

For the year ended December 31, 2015, we recorded restructuring and integration costs of $10.7 million, primarily related to the acquisitions of River Branch and BMO GKST. The expenses consisted of $8.8 million of severance, benefits and outplacement costs, $1.4 million of transaction costs, and $0.5 million of contract termination costs.

Goodwill Impairment – During the third quarter of 2017, we performed an interim goodwill impairment test, which resulted in a non-cash goodwill impairment charge of $114.4 million related to our asset management reporting unit.

During the fourth quarter of 2016, we completed our annual goodwill impairment testing, which resulted in a non-cash goodwill impairment charge of $82.9 million related to our asset management reporting unit.

Intangible Asset Amortization – Intangible asset amortization includes the amortization of definite-lived intangible assets consisting of customer relationships and the Simmons trade name. For the year ended December 31, 2017, intangible asset amortization was $15.4 million, compared with $21.2 million in the corresponding period of 2016.

For the year ended December 31, 2016, intangible asset amortization was $21.2 million, compared with $7.7 million in the corresponding period of 2015. The increase reflects incremental intangible asset amortization related to the acquisition of Simmons, and a full year of intangible asset amortization related to the 2015 acquisitions of River Branch and BMO GKST.

Back Office Conversion Costs – In 2017, we migrated to a fully disclosed clearing model and are no longer self clearing. Back office conversion costs include costs incurred to transition to a fully disclosed clearing model, such as contract termination fees, vendor migration fees, professional fees, and severance benefits for impacted personnel. For the year ended December 31, 2017, we incurred back office conversion costs of $3.9 million, compared with $0.6 million in the year ended December 31, 2016.

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 increased to $12.1 million in 2017, compared with $10.9 million in 2016. The increase was primarily due to higher expense related to our charitable giving program driven by our increased profitability on a non-GAAP basis.

Other operating expenses decreased to $10.9 million in 2016, compared with $20.4 million in 2015. Legal reserves were higher in 2015 due to a $9.8 million charge resulting from settlement of a legal matter.

Income Taxes – For the year ended December 31, 2017, our provision for income taxes was $30.2 million, which includes a non-cash tax charge of $54.2 million for the remeasurement of our deferred tax assets arising from the passing of the Tax Reform Act and the lower enacted federal corporate tax rate of 21 percent. As a result of the lower enacted federal tax rate, we anticipate our effective tax rate, excluding noncontrolling interests and the impact from stock-based compensation award vestings, to be approximately 25 percent to 27 percent, beginning in 2018. Excluding this charge, our provision from income taxes in 2017 was a benefit of $23.9 million as a result of pre-tax losses related to the $114.4 million non-cash goodwill impairment charge. In addition, for the year ended December 31, 2017, we recorded a $9.2 million tax benefit related to stock-based compensation awards vesting at values greater than the grant price. As discussed in Note 3, "Recent Accounting Pronouncements and Other Guidance" in the notes to our consolidated financial statements included in this Form 10-K, effective as of January 1, 2017, new accounting guidance requires us to recognize the income tax effects of stock-based compensation awards in the income statement when the awards vest, rather than as additional paid-in capital. The amount recognized in the income statement in future periods may vary depending upon, among other things, the number of restricted shares vesting and their change in value since the grant date. We would expect that the impact of this guidance will be more meaningful in the first half of each year as the majority of our restricted stock vestings related to our employees' incentive compensation occurs in February.

For the year ended December 31, 2016, our benefit for income taxes was $17.1 million, equating to an effective tax rate, excluding noncontrolling interests, of 43.8 percent. The higher effective tax rate was due to the benefit from tax-exempt municipal interest income during a period with pre-tax losses.

For the year ended December 31, 2015, our provision for income taxes was $27.9 million, equating to an effective rate, excluding noncontrolling interests, of 34.9 percent.

Segment Performance

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

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

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 and non-compensation expenses from acquisition-related agreements, (4) restructuring and acquisition integration costs and (5) goodwill impairment charges. 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 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 and non-compensation expenses from acquisition-related agreements. These amounts are excluded on a non-GAAP basis as they represent expenses specifically related to acquisitions that will eventually be fully amortized and therefore not part of our on-going operations. 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 leased office space and contract termination costs. Restructuring and integration costs are excluded from our non-GAAP financial measures as they generally relate to an acquisition or a specific event and excluding these amounts provides a better understanding of our core non-compensation expenses. Management believes that presenting adjusted segment pre-tax operating income and

Table of Contents

adjusted segment pre-tax operating margin excluding the acquisition-related amounts and restructuring and integration costs provides clarity on the financial results generated by the core operating components of our business. The non-cash goodwill impairment charges recognized in 2017 and 2016 relate to the asset management reporting unit.

Capital Markets

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

	Year Ended December 31,							
	2017				2016			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$98,996	$—	$—	$98,996	$71,161	$—	$—	$71,161
Debt	93,434	—	—	93,434	115,013	—	—	115,013
Advisory services	443,303	—	—	443,303	304,654	—	—	304,654
Total investment banking	635,733	—	—	635,733	490,828	—	—	490,828
Institutional sales and trading								
Equities	81,717	—	—	81,717	87,992	—	—	87,992
Fixed income	89,455	—	—	89,455	90,495	971	—	91,466
Total institutional sales and trading	171,172	—	—	171,172	178,487	971	—	179,458
Total management and performance fees	5,566	—	—	5,566	6,363	—	—	6,363
Investment income	12,321	5,319	—	17,640	14,692	10,099	—	24,791
Long-term financing expenses	(7,676)	—	—	(7,676)	(9,136)	—	—	(9,136)
Net revenues	817,116	5,319	—	822,435	681,234	11,070	—	692,304
Operating expenses	669,630	2,932	65,777	738,339	580,974	2,864	62,025	645,863
Segment pre-tax operating income	$147,486	$2,387	$(65,777)	$84,096	$100,260	$8,206	$(62,025)	$46,441
Segment pre-tax operating margin	18.0 %			10.2 %	14.7 %			6.7 %

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

Noncontrolling interests – The impacts of consolidating noncontrolling interests in our alternative asset management funds 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)	2017	2016
Compensation from acquisition-related agreements	$54,999	$36,241
Restructuring and integration costs	—	10,197
Amortization of intangible assets related to acquisitions	10,178	15,587
Non-compensation expenses from acquisition-related agreements	600	—
	$65,777	$62,025

38

Table of Contents

Capital Markets net revenues on a U.S. GAAP basis increased 18.8 percent to $822.4 million for the year ended December 31, 2017, compared with $692.3 million in the prior-year period. For the year ended December 31, 2017, Capital Markets adjusted net revenues were $817.1 million compared with $681.2 million for the year ended December 31, 2016. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis.

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

In 2017, investment banking revenues increased 29.5 percent to $635.7 million compared with $490.8 million in the corresponding period of the prior year as strong advisory services and equity financing revenues were partially offset by lower debt financing revenues. For the year ended December 31, 2017, advisory services revenues increased 45.5 percent to $443.3 million, compared with $304.7 million in 2016. The increase reflects our long-term efforts to invest in and grow the advisory services business and the breadth of our platform. Revenue growth in advisory services also reflects market share gains, supplemented by constructive markets. We completed 163 transactions with an aggregate enterprise value of $34.3 billion in 2017, compared with 150 transactions with an aggregate enterprise value of $22.3 billion in 2016. For the year ended December 31, 2017, equity financing revenues were $99.0 million, up 39.1 percent compared with $71.2 million in the prior-year period, due to more completed transactions and higher revenue per transaction in an improved market environment. Market conditions, driven by increased valuations and low volatility, were conducive for equity capital raising in 2017. During 2017, we completed 84 equity financings, raising $17.1 billion for our clients, compared with 68 equity financings, raising $13.7 billion for our clients in the year-ago period. Debt financing revenues for the year ended December 31, 2017 were $93.4 million, a decrease of 18.8 percent compared with $115.0 million in the year-ago period. Despite an increase in municipal issuance volume at the end of 2017 as issuers accelerated financings before the implementation of federal tax law changes in 2018, public finance revenues declined compared to a very strong 2016. Refunding activity decreased compared to the prior-year period, and was only partially offset by an increase in new money issuance volumes in 2017. During 2017, we completed 622 negotiated municipal issues with a total par value of $15.3 billion, compared with 718 negotiated municipal issues with a total par value of $16.7 billion during the prior-year period.

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

For the year ended December 31, 2017, institutional brokerage revenues decreased 4.6 percent to $171.2 million, compared with $179.5 million in the prior-year period, due to lower equity and fixed income institutional brokerage revenues. Equity institutional brokerage revenues were $81.7 million in 2017, down 7.1 percent compared with $88.0 million in 2016, as historically low levels of volatility reduced client trading volumes during the year. For the year ended December 31, 2017, fixed income institutional brokerage revenues were $89.5 million, down 2.2 percent compared with $91.5 million in the prior-year period. Customer flow activity remained light for most of 2017 due to the low interest rates and flat yield curve.

Management and performance fees include the fees generated from our merchant banking, energy and senior living funds with outside investors. For the year ended December 31, 2017, management and performance fees were $5.6

million, compared with $6.4 million in the prior-year period, due primarily to lower performance fees from our merchant banking fund. Upon adopting new revenue recognition guidance effective as of January 1, 2018, we expect to defer the recognition of performance fees on our merchant banking, energy and senior living funds until such fees are no longer subject to reversal, which will cause a delay in the recognition of these fees as revenue.

Investment income includes realized and unrealized gains and losses on investments, including amounts attributable to noncontrolling interests, in our merchant banking, energy and senior living funds, and other firm investments. For the year ended December 31, 2017, investment income was $17.6 million, compared to $24.8 million in 2016. In 2017, we recorded lower gains in our merchant banking and senior living funds, which were partially offset by higher gains on our other firm investments. Excluding the impact of noncontrolling interests, adjusted investment income was $12.3 million in 2017.

Table of Contents

Long-term financing expenses primarily represent interest recorded on our senior notes. For the year ended December 31, 2017, long-term financing expenses decreased to $7.7 million, compared to $9.1 million in the prior-year period. We repaid the $50 million of Class A senior notes upon maturity on May 31, 2017.

Capital Markets segment pre-tax operating margin for the year ended December 31, 2017 increased to 10.2 percent, compared with 6.7 percent for 2016. The increased pre-tax operating margin was due to a lower non-compensation ratio driven by higher revenues and lower levels of restructuring costs, which was partially offset by higher acquisition-related costs. In the year-ago period, we recorded $10.2 million of restructuring and integration costs primarily related to the acquisition of Simmons. Adjusted segment pre-tax operating margin of 18.0 percent in 2017 was an increase from the 14.7 percent operating margin recorded in 2016 due to operating leverage as a result of higher revenues. Adjusted net revenues increased 19.9 percent in 2017 and adjusted operating expenses increased 15.3 percent compared to 2016, reflecting operating leverage in the business.

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

	Year Ended December 31,							
	2016				2015			
		Adjustments (1)				Adjustments (1)		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Investment banking								
Financing								
Equities	$71,161	$—	$—	$71,161	$114,468	$—	$—	$114,468
Debt	115,013	—	—	115,013	91,195	—	—	91,195
Advisory services	304,654	—	—	304,654	209,163	—	—	209,163
Total investment banking	490,828	—	—	490,828	414,826	—	—	414,826
Institutional sales and trading								
Equities	87,992	—	—	87,992	78,584	—	—	78,584
Fixed income	90,495	971	—	91,466	93,489	816	—	94,305
Total institutional sales and trading	178,487	971	—	179,458	172,073	816	—	172,889
Total management and performance fees	6,363	—	—	6,363	4,642	—	—	4,642
Investment income	14,692	10,099	—	24,791	15,474	8,994	—	24,468
Long-term financing expenses	(9,136)	—	—	(9,136)	(7,494)	—	—	(7,494)
Net revenues	681,234	11,070	—	692,304	599,521	9,810	—	609,331
Operating expenses	580,974	2,864	62,025	645,863	511,241	3,403	16,293	530,937
Segment pre-tax operating income	$100,260	$8,206	$(62,025)	$46,441	$88,280	$6,407	$(16,293)	$78,394

Segment pre-tax operating margin	14.7 %	6.7 %	14.7 %	12.9 %

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

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

Table of Contents

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)	2016	2015
Compensation from acquisition-related agreements	$36,241	$4,019
Restructuring and integration costs	10,197	10,652
Amortization of intangible assets related to acquisitions	15,587	1,622
	$62,025	$16,293

Capital Markets net revenues on a U.S. GAAP basis increased 13.6 percent to $692.3 million for the year ended December 31, 2016, compared with $609.3 million for the year ended December 31, 2015. For the year ended December 31, 2016, Capital Markets adjusted net revenues were $681.2 million compared with $599.5 million in the prior year. The variance explanations for net revenues and adjusted net revenues are consistent on both a U.S. GAAP and non-GAAP basis.

In 2016, investment banking revenues increased 18.3 percent to $490.8 million compared with $414.8 million in the prior year, as strong advisory services and debt financing revenues were partially offset by lower equity financing revenues. For the year ended December 31, 2016, advisory services revenues increased to $304.7 million, compared with $209.2 million in 2015. The increase reflects our long-term effort to grow our advisory services business, including expansion into the energy and financial institutions sectors. Our revenues increased more than 45 percent compared to the prior year while market-wide mergers and acquisitions activity declined, which reflects meaningful market share gains. Our debt advisory group also contributed to the strong results. We completed 150 transactions with an aggregate enterprise value of $22.3 billion during 2016, compared with 82 transactions with an aggregate enterprise value of $23.0 billion in 2015. Debt financing revenues for the year ended December 31, 2016 were $115.0 million, up 26.1 percent compared with $91.2 million in the prior year, due to higher public finance revenues. Our public finance business benefited from increased new money issuance volumes and refunding activity, as well as market share gains attributable to our geographic and sector expansion. In 2016, our par value from negotiated debt issuances increased 17.2 percent, compared to 10.5 percent for the industry. During 2016, we completed 718 negotiated municipal issues with a total par value of $16.7 billion, compared with 707 negotiated municipal issues with a total par value of $14.3 billion during 2015. For the year ended December 31, 2016, equity financing revenues were $71.2 million, down 37.8 percent compared with $114.5 million in 2015, due to fewer completed transactions and lower revenue per transaction. The equity capital raising business experienced challenging market conditions for most of 2016. The total available fee pool in the sub-$2 billion market decreased 33 percent in 2016. Contributions from our expansion into the energy and financial institutions sectors partially offset the impact of the significant decrease in capital raising. During 2016, we completed 68 equity financings, raising $13.7 billion for our clients, compared with 95 equity financings, raising $17.4 billion for our clients in 2015.

For the year ended December 31, 2016, institutional brokerage revenues increased 3.8 percent to $179.5 million, compared with $172.9 million in 2015, as higher equity institutional brokerage revenues were partially offset by lower fixed income institutional brokerage revenues. Equity institutional brokerage revenues were $88.0 million in 2016, up 12.0 percent compared with $78.6 million in 2015. The increase reflects our expansion into the energy and financial institutions sectors and expanded research capabilities. For the year ended December 31, 2016, fixed income institutional brokerage revenues were $91.5 million, down 3.0 percent compared with $94.3 million in the prior year. The addition of BMO GKST in the fourth quarter of 2015 resulted in gains to our customer flow business in 2016, which were offset by lower trading gains from fewer trading opportunities. Challenging market conditions at various times during 2016 negatively impacted our trading opportunities, which reduced our revenues. Credit spreads were volatile in the first quarter of 2016, and the municipal market, in which we have a meaningful presence, was volatile in the fourth quarter of 2016.

For the year ended December 31, 2016, management and performance fees were $6.4 million, up 37.1 percent compared with $4.6 million in 2015, due to incremental management fees generated from two energy funds, which we acquired with the Simmons acquisition, as well as higher performance fees from our merchant banking fund. These increases were offset by lower management fees from a municipal bond fund with outside investors, which we closed in the third quarter of 2015.

For the year ended December 31, 2016, investment income was $24.8 million, compared to $24.5 million in 2015. In 2016, higher gains on the senior living fund that we manage, as well as higher gains on our firm investments, were offset by lower gains in our merchant banking fund. Excluding the impact of noncontrolling interests, adjusted investment income was $14.7 million in 2016.

In 2016, long-term financing expenses increased to $9.1 million, compared to $7.5 million in the prior year, as we increased the amount of outstanding principal on our senior notes in the fourth quarter of 2015 from $125 million to $175 million.

Table of Contents

Capital Markets segment pre-tax operating margin for 2016 decreased to 6.7 percent, compared with 12.9 percent for 2015, due to higher acquisition-related costs. Adjusted segment pre-tax operating margin of 14.7 percent for 2016 was consistent with 2015. In 2016, a decrease in our non-compensation ratio was offset by a higher compensation ratio due to our mix of business.

Asset Management

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

	Year Ended December 31,							
	2017				2016			
		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								
Equity	$23,639	$—	$—	$23,639	$28,164	$—	$—	$28,164
MLP	27,630	—	—	27,630	25,561	—	—	25,561
Total management fees	51,269	—	—	51,269	53,725	—	—	53,725
Performance fees								
Equity	—			—	584	—	—	584
MLP	—			—	—	—	—	—
Total performance fees	—	—	—	—	584	—	—	584
Total management and performance fees	51,269	—	—	51,269	54,309	—	—	54,309
Investment income	1,219	—	—	1,219	736	—	—	736
Total net revenues	52,488	—	—	52,488	55,045	—	—	55,045
Operating expenses	46,322	—	119,585	165,907	43,824	—	88,536	132,360
Segment pre-tax operating income/(loss)	$6,166	$—	$(119,585)	$(113,419)	$11,221	$—	$(88,536)	$(77,315)
Segment pre-tax operating margin	11.7 %			(216.1)%	20.4 %			(140.5)%
Adjusted segment pre-tax operating margin excluding investment income (2)	9.6 %				19.3 %			

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

	Year Ended December 31,	
(Dollars in thousands)	2017	2016
Restructuring and integration costs	$—	$9

Goodwill impairment	114,363	82,900
Amortization of intangible assets related to acquisitions	5,222	5,627
	$119,585	$88,536

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

Table of Contents

Management and performance fee revenues comprise the revenues generated from management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Client asset inflows and outflows and investment performance have a direct effect on management and performance fee revenues. Management fees are generally based on the level of assets under management ("AUM") measured monthly or quarterly, and an increase or reduction in AUM, due to market price fluctuations or net client asset flows, will result in a corresponding increase or decrease in management fees. Fees vary with the type of assets managed and the vehicle in which they are managed. Performance fees are earned when the investment return on AUM exceeds certain benchmark targets or other performance targets over a specified measurement period. The level of performance fees earned can vary significantly from period to period and these fees may not necessarily be correlated to changes in total AUM. The majority of performance fees, if earned, are generally recorded in the fourth quarter of the applicable year or upon withdrawal of client assets. At December 31, 2017, approximately five percent of our AUM was eligible to earn performance fees.

For the year ended December 31, 2017, management fees were $51.3 million, a decrease of 4.6 percent, compared with $53.7 million in the prior-year period, as lower management fees from our equity product offerings were partially offset by higher management fees from our MLP product offerings. In 2017, management fees related to our equity strategies were $23.6 million, down 16.1 percent compared to $28.2 million in 2016. The decrease was driven by a lower average effective revenue yield which resulted from changes in our product mix, as well as lower average AUM due to net client outflows. The average effective yield (total management fees as a percentage of our average month-end AUM) for our equity strategies was 62 basis points for the year ended December 31, 2017, compared with 71 basis points for the prior-year period. Management fees from our MLP strategies increased 8.1 percent in 2017 to $27.6 million compared with $25.6 million in 2016, due to a higher average effective revenue yield and a slightly higher average AUM. The average effective yield for our MLP strategies was 65 basis points for the year ended December 31, 2017, compared with 62 basis points for the year ended December 31, 2016.

The performance fees of $0.6 million recorded in 2016 resulted from certain funds exceeding their performance targets over a specified measurement period.

Investment income includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. In 2017, we recorded investment income of $1.2 million, compared with $0.7 million for the year ended December 31, 2016.

The negative pre-tax operating margin in 2017 and 2016 was driven by non-cash goodwill impairment charges of $114.4 million and $82.9 million, respectively. Excluding investment income on firm capital invested in our strategies, adjusted operating margin declined from 19.3 percent in 2016 to 9.6 percent in 2017. The decrease was due to negative operating leverage in the business.

Table of Contents

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

	Year Ended December 31,							
	2016				2015			
		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								
Equity	$28,164	$ —	$ —	$28,164	$38,249	$ —	$ —	$38,249
MLP	25,561	—	—	25,561	31,918	—	—	31,918
Total management fees	53,725	—	—	53,725	70,167	—	—	70,167
Performance fees								
Equity	584	—	—	584	208	—	—	208
MLP	—	—	—	—	—	—	—	—
Total performance fees	584	—	—	584	208	—	—	208
Total management and performance fees	54,309	—	—	54,309	70,375	—	—	70,375
Investment income/(loss)	736	—	—	736	(6,788)	—	—	(6,788)
Total net revenues	55,045	—	—	55,045	63,587	—	—	63,587
Operating expenses	43,824	—	88,536	132,360	49,304	—	6,254	55,558
Segment pre-tax operating income/(loss)	$11,221	$ —	$ (88,536)	$(77,315)	$14,283	$ —	$ (6,254)	$8,029
Segment pre-tax operating margin	20.4 %			(140.5)%	22.5 %			12.6 %
Adjusted segment pre-tax operating margin excluding investment income/(loss) (2)	19.3 %				29.9 %			

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

	Year Ended December 31,	
(Dollars in thousands)	2016	2015
Compensation from acquisition-related agreements	$—	$214
Restructuring and integration costs	9	—
Goodwill impairment	82,900	—
Amortization of intangible assets related to acquisitions	5,627	6,040
	$88,536	$6,254

(2) Management believes that presenting adjusted segment pre-tax operating margin excluding investment income/(loss), a non-GAAP measure, provides the most meaningful basis for comparison of Asset Management

operating results across periods.

For the year ended December 31, 2016, management fees were $53.7 million, a decrease of 23.4 percent, compared with $70.2 million in 2015, due to decreased management fees from both our equity and MLP product offerings. In 2016, management fees related to our equity strategies were $28.2 million, down 26.4 percent compared to 2015, driven by lower AUM from net client outflows in our value equity products amid tough market trends for active asset managers and underperformance in certain of our strategies. Management fees from our MLP strategies decreased 19.9 percent in 2016 to $25.6 million, compared with $31.9 million in 2015. The decline in management fees resulted from lower average AUM, driven by a decline in MLP valuations.

Table of Contents

For the year ended December 31, 2016, performance fees were $0.6 million, compared to $0.2 million in 2015. The performance fees recorded in 2016 and 2015 resulted from certain funds exceeding their performance targets over a specified measurement period.

In 2016, we recorded investment income of $0.7 million, compared with a loss of $6.8 million in 2015. The investment loss in 2015 was driven by losses in MLP investments.

The negative pre-tax operating margin in 2016 was driven by the $82.9 million non-cash goodwill impairment charge. Excluding investment income/(loss) on firm capital invested in our strategies, adjusted segment pre-tax operating margin declined from 29.9 percent in 2015 to 19.3 percent in 2016, due to lower management fees.

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

	Twelve Months Ended December 31,		
(Dollars in millions)	2017	2016	2015
Equity			
Beginning of period	$4,115	$4,954	$5,758
Net outflows	(1,003)	(1,331)	(572)
Net market appreciation/(depreciation)	444	492	(232)
End of period	$3,556	$4,115	$4,954
MLP			
Beginning of period	$4,616	$3,924	$5,711
Net inflows/(outflows)	(424)	(286)	434
Net market appreciation/(depreciation)	(402)	978	(2,221)
End of period	$3,790	$4,616	$3,924
Total			
Beginning of period	$8,731	$8,878	$11,469
Net outflows	(1,427)	(1,617)	(138)
Net market appreciation/(depreciation)	42	1,470	(2,453)
End of period	$7,346	$8,731	$8,878

Total AUM was $7.3 billion at December 31, 2017. Equity AUM was $3.6 billion at December 31, 2017, compared to $4.1 billion at December 31, 2016, as net client outflows of $1.0 billion were partially offset by net market appreciation of $0.4 billion. The asset management industry continues to be impacted by the ongoing trend of investors favoring passive investment vehicles over active management. In addition, performance in our small-cap and small/mid-cap value strategies has lagged their respective benchmarks on a three and five year basis, which contributed to client outflows during the year. Also, in mid-2017, we exited our Japan value product, which reduced AUM by approximately $0.8 billion. The reduction from client outflows in our value equity strategies was partially offset by client inflows into our new global equity strategy during the year. MLP AUM decreased to $3.8 billion at December 31, 2017 due to net market depreciation of $0.4 billion and net client outflows of $0.4 billion. The MLP market was challenged during most of the year with valuations declining since the second quarter of 2017. This market dynamic contributed to client outflows in the second half of the year.

At December 31, 2016, total AUM was $8.7 billion. Equity AUM was $4.1 billion at December 31, 2016, compared to $5.0 billion at December 31, 2015 as net client outflows of $1.3 billion were partially offset by net market appreciation of $0.5 billion. The asset management industry has experienced an ongoing trend of investors favoring passive investment vehicles over active management. Our AUM outflows in 2016 reflected the impact of this trend, including a large investor in our all-cap product shifting to a passive investment. In addition, performance in our small/mid-cap and all-cap value strategies lagged their relative benchmarks which contributed to client outflows. These outflows were partially offset by client inflows related to the addition of an aggressive growth equity team in the fourth quarter of 2016. MLP AUM increased to $4.6 billion at December 31, 2016 as net market appreciation of $1.0 billion more than offset net client outflows of $0.3 billion.

Table of Contents

Recent Accounting Pronouncements

Recent accounting pronouncements are set forth in Note 3 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K, and are incorporated herein by reference.

Critical Accounting Policies

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

For a full description of our significant accounting policies, see Note 2 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K. We believe that of our significant accounting policies, the following are our critical accounting policies.

Valuation of Financial Instruments

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

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants at the measurement date (the exit price). Based on the nature of our business and our role as a "dealer" in the securities industry or as a manager of alternative asset management funds, the fair values of our financial instruments are determined internally. See Note 2 and Note 6 to our consolidated financial statements for additional information on the valuation of our financial instruments and our fair value processes, including specific control processes to determine the reasonableness of the fair value of our financial instruments.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 820, "Fair Value Measurement," establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to inputs with little or no pricing observability (Level III measurements). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Note 6 to our consolidated financial statements for additional discussion of our assets and liabilities in the fair value hierarchy.

Goodwill and Intangible Assets

We record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities acquired requires certain management estimates. At

December 31, 2017, we had goodwill of $81.9 million, all of which relates to our capital markets segment. At December 31, 2017, we had intangible assets of $22.8 million, of which $9.1 million relates to our capital markets segment and $13.7 million relates to our asset management segment.

We are required to perform impairment tests of our goodwill and indefinite-life intangible assets annually and on an interim basis when circumstances exist that could indicate possible impairment. We have elected to test for goodwill impairment in the fourth quarter of each calendar year. We have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after making an assessment, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if we conclude otherwise, then we are required to perform the two-step impairment test, which requires management to make judgments in determining what assumptions to use in the calculation. As discussed in Note 3 to our consolidated financial statements included in this Form 10-K, we adopted new accounting guidance effective July 1, 2017 which eliminates the second step from the goodwill impairment test. Accordingly, we evaluate impairment charges based on the excess of a reporting unit's carrying amount over its fair value. See Note 13 to our consolidated financial statements for additional information on our goodwill impairment testing.

The initial recognition of goodwill and other intangible assets and the subsequent quantitative impairment analysis involves significant judgment in determining the estimates of future cash flows, discount rates, economic forecast and other assumptions which are then used in acceptable valuation techniques, such as the market approach (earnings and/or transaction multiples) and/or the income approach (discounted cash flow method). Changes in these estimates and assumptions could have a significant impact on the fair value and any resulting impairment of goodwill. Our estimated cash flows, by their nature, are difficult to determine over an extended time period. Events and factors that may significantly affect the estimates include, among others, competitive forces and changes in revenue growth trends, cost structures, technology, and market conditions. To assess the reasonableness of cash flow estimates and validate assumptions used in our estimates, we review historical performance of the underlying assets or similar assets. In assessing the fair value of our reporting units, the volatile nature of the securities markets and our industry requires us to consider the business and market cycle and assess the stage of the cycle in estimating the timing and extent of future cash flows. In addition to discounted cash flows, we consider earnings multiples of comparable public companies and multiples of recent mergers and acquisitions transactions of similar businesses in our subsequent impairment analysis.

We identified impairment indicators in the third quarter of 2017 related to our asset management reporting unit and performed an interim goodwill impairment test as of July 31, 2017, which resulted in a non-cash goodwill impairment charge of $114.4 million. The impairment charge, which represented the full value of goodwill attributable to the asset management reporting unit, resulted from declining profitability in 2017 driven by lower revenues from reduced AUM and higher operating expenses from the addition of new investment teams. The fair value of the asset management reporting unit was calculated using the income approach (discounted cash flow method based on revenue and EBITDA forecasts) and market approach (earnings multiples of comparable public companies), which are valuation techniques we believe market participants would use for the reporting unit.

We elected to perform a qualitative assessment to test the goodwill in our capital markets reporting unit for impairment. The following relevant events and circumstances were evaluated in concluding that it was not more likely than not that this goodwill was impaired: macroeconomic conditions, industry and market considerations, and the overall financial performance of the capital markets reporting unit. Our annual goodwill impairment testing, performed as of October 31, 2017, resulted in no impairment associated with the capital markets reporting unit.

We also evaluated intangible assets (indefinite and definite-lived) and concluded there was no impairment in 2017.

Compensation Plans

Stock-Based Compensation Plans

As part of our compensation to employees and directors, we use stock-based compensation, consisting of restricted stock and restricted stock units. We account for equity awards in accordance with FASB Accounting Standards Codification Topic 718, "Compensation–Stock Compensation," ("ASC 718"), which requires all share-based payments to employees to be recognized on the consolidated statements of operations at grant date fair value. Compensation expense related to share-based awards which require future service are amortized over the service period of the award. Forfeitures of awards with service conditions are accounted for when they occur. Share-based awards that do not require future service are recognized in the year in which the awards are deemed to be earned.

See Note 21 to our consolidated financial statements for additional information about our stock-based compensation plans.

Table of Contents

Income Taxes

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally restricted compensation (i.e., restricted stock, restricted stock units, restricted mutual fund shares (MFRS awards), and deferred compensation). The realization of deferred tax assets is assessed and a valuation allowance is recognized to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. We believe that our future taxable profits will be sufficient to recognize our deferred tax assets. However, if our projections of future taxable profits do not materialize, we may conclude that a valuation allowance is necessary, which would impact our results of operations in that period. In the fourth quarter of 2017, we reversed the full amount of Simmons & Company International Limited's deferred tax asset valuation allowance based on projected future earnings. This resulted in a $0.8 million tax benefit to our results of operations.

The Tax Reform Act will have a significant impact on the federal tax code, including a corporate federal rate reduction from 35 percent to 21 percent effective in 2018. In addition, certain corporate tax deductions will be repealed or amended. For example, corporate tax deductions for certain public company executive compensation in excess of $1 million will no longer be allowed. Our 2017 results include a non-cash $54.2 million tax charge for the remeasurement of our deferred tax assets arising from the enactment of the Tax Reform Act and the lower federal tax rate of 21 percent. As a result of the lower enacted federal tax rate, we anticipate our effective tax rate, excluding noncontrolling interest, and the income tax effects of stock-based compensation at the time of vesting, to be approximately 25 percent to 27 percent.

We record deferred tax benefits for future tax deductions expected upon the vesting of stock-based compensation. As discussed in Note 3 to our consolidated financial statements, beginning January 1, 2017, new accounting guidance requires us to recognize the income tax effects of stock-based compensation awards in the income statement when the awards vest, rather than as additional paid-in capital. If deductions reported on our tax return for stock-based compensation (i.e., the value of the stock-based compensation at the time of vesting) exceed the cumulative cost of those instruments recognized for financial reporting (i.e., the grant date fair value of the compensation computed in accordance with ASC 718), we record the excess tax benefit as income tax benefit. Conversely, if deductions reported on our tax return for stock-based compensation are less than the cumulative cost of those instruments recognized for financial reporting, the deficiency is recorded as income tax expense. For the year ended December 31, 2017, we recorded a $9.2 million tax benefit for stock awards vesting during the period. In the first quarter of 2018, approximately 530,000 shares vested at share prices greater than the grant date fair value, resulting in $5.0 million of excess tax benefits recorded as income tax benefit in the first quarter of 2018.

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

Liquidity, Funding and Capital Resources

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

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

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

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

Beginning in 2017, we initiated the payment of a quarterly cash dividend to holders of our common stock, which includes unvested restricted shares. Our board of directors determines the declaration and payment of dividends on a quarterly basis, and is free to change our dividend policy at any time.

Our board of directors declared the following dividends:

Declaration Date	Dividend Per Share	Record Date	Payment Date
February 2, 2017	$ 0.3125	February 20, 2017	March 13, 2017
April 27, 2017	$ 0.3125	May 26, 2017	June 15, 2017
July 27, 2017	$ 0.3125	August 28, 2017	September 15, 2017
October 26, 2017	$ 0.3125	November 29, 2017	December 15, 2017
February 1, 2018 (1)	$ 1.6200	February 26, 2018	March 15, 2018
February 1, 2018	$ 0.3750	February 26, 2018	March 15, 2018

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

In the fourth quarter of 2017, our board of directors approved a new dividend policy intended to return between 30 percent and 50 percent of our adjusted net income from the previous fiscal year to shareholders. This will include the addition of an annual special cash dividend, payable in the first quarter of each year. Our board of directors has declared a special cash dividend on the company's common stock of $1.62 per share. This special dividend will be paid on March 15, 2018, to shareholders of record as of the close of business on February 26, 2018. Including this special cash dividend and the regular quarterly dividends totaling $1.25 per share paid during 2017, we will have returned $2.87 per share, or approximately 40 percent of our fiscal year 2017 adjusted net income to shareholders.

Effective August 14, 2015, our board of directors authorized the repurchase of up to $150.0 million in common shares through September 30, 2017. During 2017, we repurchased 36,936 shares our common stock at an average price of $67.62 per share for an aggregate purchase price of $2.5 million related to this authorization.

On August 10, 2017, our board of directors authorized the repurchase of up to $150.0 million in common shares through September 30, 2019. The authorization became effective on September 30, 2017. No repurchases have been made in conjunction with this authorization through December 31, 2017.

We also purchase shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. During 2017, we purchased 314,542 shares or $23.0 million of our common stock for this purpose.

Table of Contents

Cash Flows

Cash and cash equivalents at December 31, 2017 were $33.8 million, a decrease of $7.6 million from December 31, 2016. Operating activities provided $232.1 million of cash, as non-cash charges and decreases in operating assets were partially offset by an increase in operating liabilities. Our $59.6 million net loss in 2017 included non-cash charges of $114.4 million related to goodwill impairment, $54.2 million for the remeasurement of our deferred tax assets arising from the enactment of the Tax Reform Act and the lower federal corporate tax rate of 21 percent, and $15.4 million of intangible asset amortization. In 2017, we migrated to a fully disclosed clearing model and are no longer self clearing. This conversion resulted in a decrease in net operating assets related to the clearing and carrying of customer accounts as Pershing now facilitates our clearing and holds our customer accounts. This decrease was partially offset by an increase in inventory balances, particularly municipal securities, driven by a trading opportunity in the municipal market identified at the end of the year. The increase in operating liabilities was primarily driven by an increase in accrued compensation of $109.1 million, the result of higher compensation costs in 2017 resulting from increased revenues. In 2017, investing activities used $8.1 million of cash for the purchase of fixed assets. Cash of $233.1 million was used in financing activities as we reduced amounts due under our short-term financing by $128.9 million, primarily by decreasing our commercial paper funding as our clearing relationship with Pershing provided another source of financing. In addition, we repaid our $50.0 million Class A variable rate senior notes in full on the May 31, 2017 maturity date.

Cash and cash equivalents decreased $148.6 million to $41.4 million at December 31, 2016 from December 31, 2015. Operating activities provided $48.8 million of cash, as non-cash charges were partially offset by an increase in operating assets. Our $13.7 million net loss in 2016 included non-cash charges of $82.9 million related to goodwill impairment and $21.2 million of intangible asset amortization. The increase in intangible asset amortization was due to incremental expense related to our acquisitions of Simmons, River Branch and BMO GKST. The increase in operating assets primarily related to a receivable for unsettled trades, reverse repurchase agreements, which are principally used to make delivery on securities sold short, and additional investments in our senior living fund. Investing activities in 2016 used $83.7 million of which $72.7 million related to the acquisition of Simmons, and $11.0 million for the purchase of fixed assets. In 2016, financing activities used $111.6 million of cash as we repurchased $70.9 million of common stock. In addition, we used excess cash of $27.4 million to reduce amounts due under our short-term financing, primarily related to commercial paper, and also decreased our obligations related to repurchase agreements.

Cash and cash equivalents increased $174.0 million to $189.9 million at December 31, 2015 from December 31, 2014. Operating activities provided $379.5 million of cash primarily due to cash generated from earnings as well as a reduction in operating assets, particularly related to the liquidation of our municipal bond fund with outside investors, convertible securities inventory, and reverse repurchase agreements, which are principally used to make delivery on securities sold short. Investing activities in 2015 used $16.2 million of cash primarily related to the acquisitions of River Branch and BMO GKST, and the purchase of fixed assets. In 2015, financing activities used $189.0 million of cash as we repurchased $132.9 million of common stock, and experienced a $106.8 million decrease in noncontrolling interests resulting from the liquidation of our municipal bond fund with outside investors. In October 2015, we entered into a Second Amended and Restated Note Purchase Agreement under which we issued unsecured fixed rate senior notes that provided $125.0 million in financing, $75.0 million of which was used to repay our Class B variable rate senior notes that were due in November 2015.

Table of Contents

Leverage

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

(Dollars in thousands)	December 31, 2017	December 31, 2016
Total assets	$ 2,024,683	$ 2,125,503
Deduct: Goodwill and intangible assets	(104,689)	(233,452)
Deduct: Assets from noncontrolling interests	(54,917)	(109,179)
Adjusted assets	$ 1,865,077	$ 1,782,872
Total shareholders' equity	$ 741,235	$ 816,266
Deduct: Goodwill and intangible assets	(104,689)	(233,452)
Deduct: Noncontrolling interests	(47,903)	(57,016)
Tangible common shareholders' equity	$ 588,643	$ 525,798
Leverage ratio (1)	2.7	2.6
Adjusted leverage ratio (2)	3.2	3.4

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

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

Funding and Capital Resources

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

In 2017, we migrated to a fully disclosed clearing model and are no longer self clearing. Pershing is our clearing broker dealer. The conversion provided us with a new funding source through Pershing and, as a result, changed our mix of funding sources.

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

Table of Contents

Pershing Clearing Arrangement – We have established an arrangement to obtain financing from Pershing related to the majority of our trading activities. Under our fully disclosed clearing agreement, the majority of our securities inventories and all of our customer activities are held by or cleared through Pershing. Financing under this arrangement is secured primarily by securities, and collateral limitations could reduce the amount of funding available under this arrangement. Our clearing arrangement activities are recorded net from trading activity and reported within receivables from brokers, dealers and clearing organizations. The funding is at the discretion of Pershing and could be denied. Our fully disclosed clearing agreement includes a covenant requiring Piper Jaffray & Co. to maintain excess net capital of $120 million. At December 31, 2017, we had $160.2 million of financing outstanding under this arrangement.

Commercial Paper Program – Our U.S. broker dealer subsidiary, Piper Jaffray & Co., issues secured commercial paper to fund a portion of its securities inventory. This commercial paper is currently issued under two separate programs, CP Series A and CP Series II A, and is secured by different inventory classes, which is reflected in the interest rate paid on the respective program. The programs can issue commercial paper with maturities of 27 to 270 days. CP Series II A includes a revised covenant that requires Piper Jaffray & Co. to maintain excess net capital of $100 million. During the third quarter of 2017, we retired the CP Series III A program, and increased the maximum amount that may be issued under CP Series II A from $150 million to $200 million. The following table provides information about our commercial paper programs at December 31, 2017:

(Dollars in millions)	CP Series A	CP Series II A
Maximum amount that may be issued	$300.0	$200.0
Amount outstanding	—	50.0
Weighted average maturity, in days	—	8
Weighted average maturity at issuance, in days	—	41

Prime Broker Arrangements – We have established an arrangement to obtain overnight financing by a single prime broker related to certain strategic trading activities in municipal securities. Additionally, we have established a second overnight financing arrangement with another broker dealer related to our convertible securities inventories. Financing under these arrangements is secured primarily by securities, and collateral limitations could reduce the amount of funding available under these arrangements. Our prime broker financing activities are recorded net of receivables from trading activity. The funding is at the discretion of the prime brokers and could be denied subject to a notice period. At December 31, 2017, we had $240.0 million of financing outstanding under these prime broker arrangements.

Committed Lines – Our committed line is a one-year $200 million revolving secured credit facility. We use this credit facility in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under the facility varies daily based on our funding needs. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires Piper Jaffray & Co. to maintain minimum net capital of $120 million, and the unpaid principal amount of all advances under the facility will be due on December 14, 2018. This credit facility has been in place since 2008 and we renewed the facility for another one-year term in the fourth quarter of 2017. At December 31, 2017, we had no advances against this line of credit.

Uncommitted Line – We use this uncommitted line in the ordinary course of business to fund a portion of our daily operations, and the amount borrowed under our uncommitted line varies daily based on our funding needs. Our $85 million uncommitted secured line is dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. Collateral limitations could reduce the amount of funding available under this secured line. Our uncommitted line is discretionary and is not a commitment by the bank to provide an advance under the line. More specifically, the line is subject to approval by the bank each time an advance is requested and advances may be denied, which may be particularly true during times of market stress or market perceptions of our exposures. We manage our relationship with the bank that provides this uncommitted facility in order to have appropriate levels of funding for our business. At December 31, 2017, we had no advances against this line of credit.

Table of Contents

The following tables present the average balances outstanding for our various funding sources by quarter for 2017 and 2016, respectively.

(Dollars in millions)	Average Balance for the Three Months Ended Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017
Funding source:				
Pershing clearing arrangement	$20.6	$26.3	$—	$—
Commercial paper	49.5	30.3	117.1	137.7
Prime broker arrangements	221.1	175.2	192.6	204.9
Short-term bank loans	—	6.0	67.1	2.5
Total	$291.2	$237.8	$376.8	$345.1

(Dollars in millions)	Average Balance for the Three Months Ended Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016
Funding source:				
Repurchase agreements	$3.5	$14.8	$28.9	$30.5
Commercial paper	165.8	235.8	279.7	279.2
Prime broker arrangements	306.0	212.7	184.4	174.4
Short-term bank loans	5.3	—	6.4	0.8
Total	$480.6	$463.3	$499.4	$484.9

The average funding in the fourth quarter of 2017 increased to $291.2 million, compared with $237.8 million during the third quarter of 2017, due to an increase in inventory balances, the result of a trading opportunity in the municipal market, as well as an increase in commercial paper funding as we resumed issuing commercial paper. Average funding decreased from $480.6 million in the corresponding period of 2016 as we used cash from operations to reduce funding, primarily related to our commercial paper programs and prime broker arrangements.

The following table presents the maximum daily funding amount by quarter for 2017 and 2016, respectively.

(Dollars in millions)	2017	2016
First Quarter	$543.4	$576.4
Second Quarter	$538.3	$669.7
Third Quarter	$418.7	$525.6
Fourth Quarter	$569.9	$574.8

Senior Notes

We have entered into variable and fixed rate senior notes with certain entities advised by Pacific Investment Management Company ("PIMCO"). The following table presents the outstanding balance by note class:

(Dollars in thousands)	Outstanding Balance December 31, 2017	December 31, 2016
Class A Notes	$—	$ 50,000
Class C Notes	125,000	125,000
Total senior notes	$125,000	$ 175,000

On October 8, 2015, we entered into a second amended and restated note purchase agreement ("Second Amended and Restated Note Purchase Agreement") under which we issued $125 million of fixed rate Class C Notes. The Class C Notes bear interest at an annual fixed rate of 5.06 percent, are payable semi-annually and mature on October 9, 2018. The unpaid principal amount is due in full on the maturity date and may not be prepaid. The $50 million of variable rate Class A Notes issued in 2014 were repaid in full on the May 31, 2017 maturity date.

The Second Amended and Restated Note Purchase Agreement includes customary events of default and covenants that, among other things, require us to maintain a minimum consolidated tangible net worth and minimum regulatory net capital, limit our leverage ratio and require maintenance of a minimum ratio of operating cash flow to fixed charges. At December 31, 2017, we were in compliance with all covenants.

Table of Contents

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes the contractual amounts at December 31, 2017, in total and by remaining maturity. Excluded from the table are a number of obligations recorded on the consolidated statements of financial condition that generally are short-term in nature, including secured financing transactions, trading liabilities, short-term borrowings and other payables and accrued liabilities. The amounts presented in the table below may not necessarily reflect our actual future cash funding requirements, because the actual timing of the future payments made may vary from the stated contractual obligation.

(Dollars in millions)	2018	2019 - 2020	2021 - 2022	2023 and thereafter	Total
Operating lease obligations	$14.5	$25.1	$14.4	$ 14.9	$68.9
Purchase commitments	22.3	19.7	10.4	13.5	65.9
Investment commitments (1)	—	—	—	—	72.5
Senior notes	125.0	—	—	—	125.0

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

Purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions, and the approximate timing of the transaction. Purchase commitments with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase commitments contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

New Leases Guidance

As discussed in Note 3 to our consolidated financial statements, we will adopt new accounting guidance related to leases effective as of January 1, 2019. The guidance requires lessees to recognize all leases, including operating leases, with a term greater than 12 months on the statements of financial position. As of December 31, 2017, we had approximately 65 operating leases for office space with aggregate minimum lease commitments of $68.9 million. Upon adoption of the new guidance, this lease commitment will be reflected on our statement of financial condition as a right-of-use asset and a lease commitment liability. The impact of the new guidance on Piper Jaffray & Co.'s net capital is expected to be minimal.

Capital Requirements

As a registered broker dealer and member firm of the Financial Industry Regulatory Authority, Inc. ("FINRA"), Piper Jaffray & Co., our U.S. broker dealer subsidiary, is subject to the uniform net capital rule of the SEC and the net capital rule of FINRA. We have elected to use the alternative method permitted by the uniform net capital rule which requires that we maintain minimum net capital of $1.0 million. Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain approvals, notifications and other provisions of the uniform net capital rules. We expect that these provisions will not impact our ability to meet current and future obligations. At December 31, 2017, our net capital under the SEC's uniform net capital rule was $137.6 million, and exceeded the minimum net capital required under the SEC rule by $136.6 million.

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

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

At December 31, 2017, Piper Jaffray Ltd., our broker dealer subsidiary registered in the United Kingdom, was subject to, and was in compliance with, the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority pursuant to the Financial Services Act of 2012.

Table of Contents

Piper Jaffray Hong Kong Limited is licensed by the Hong Kong Securities and Futures Commission, which is subject to the liquid capital requirements of the Securities and Futures (Financial Resources) Rule promulgated under the Securities and Futures Ordinance. At December 31, 2017, Piper Jaffray Hong Kong Limited was in compliance with the liquid capital requirements of the Hong Kong Securities and Trade Commission.

Off-Balance Sheet Arrangements

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

	Expiration Per Period at December 31,						Total Contractual Amount	
(Dollars in thousands)	2018	2019	2020	2021 - 2022	2023 - 2024	Later	December 31, 2017	December 31, 2016
Customer matched-book derivative contracts (1) (2)	$ —	$ 32,850	$ 23,850	$ 51,620	$ 166,700	$ 2,543,986	$ 2,819,006	$ 3,330,207
Trading securities derivative contracts (2)	380,700	—	—	—	—	18,750	399,450	423,550
Credit default swap index contracts (2)	—	—	—	—	—	—	—	7,470
Futures and equity option derivative contracts (2)	9,635	—	—	—	—	—	9,635	—
Investment commitments (3)	—	—	—	—	—	—	72,467	22,776

(1) Consists of interest rate swaps. We have minimal market risk related to these matched-book derivative contracts; however, we do have counterparty risk with one major financial institution, which is mitigated by collateral deposits. In addition, we have a limited number of counterparties (contractual amount of $180.1 million at December 31, 2017) who are not required to post collateral. The uncollateralized amounts, representing the fair value of the derivative contracts, expose us to the credit risk of these counterparties. At December 31, 2017, we had $19.1 million of credit exposure with these counterparties, including $14.9 million of credit exposure with one counterparty.

(2) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional or contract amount overstates the expected payout. At December 31, 2017 and December 31, 2016, the net fair value of these derivative contracts approximated $20.5 million and $24.0 million, respectively.

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

Derivatives

Derivatives' notional or contract amounts are not reflected as assets or liabilities on our consolidated statements of financial condition. Rather, the fair value of the derivative transactions are reported on the consolidated statements of financial condition as assets or liabilities in financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased, as applicable. For a complete discussion of our activities related to derivative products, see Note 5, "Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased," in the notes to our consolidated financial statements.

Investment Commitments

We have investments, including those made as part of our merchant banking activities, in various limited partnerships or limited liability companies that provide financing or make investments in companies. We commit capital and/or act as the managing partner of these entities. For additional information on our activities related to these types of entities, see Note 7, "Variable Interest Entities," in the notes to our consolidated financial statements. We have committed capital of $72.5 million to certain entities and these commitments generally have no specified call dates.

Table of Contents

Risk Management

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

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

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

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

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

Strategic Risk

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

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

Market Risk

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

Our different types of market risk include:

Interest Rate Risk — Interest rate risk represents the potential volatility from changes in market interest rates. We are exposed to interest rate risk arising from changes in the level and volatility of interest rates, changes in the slope of the yield curve, changes in credit spreads, and the rate of prepayments on our interest-earning assets (e.g., inventories) and our funding sources (e.g., short-term financing) which finance these assets. Interest rate risk is managed by selling short U.S. government securities, agency securities, corporate debt securities and derivative contracts. See Note 5 of our accompanying consolidated financial statements for additional information on our derivative contracts. Our interest rate hedging strategies may not work in all market environments and as a result may not be effective in mitigating interest rate risk. Also, we establish limits on the notional level of our fixed income securities inventory and manage net positions within those limits.

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

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

Value-at-Risk ("VaR")

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

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

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

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

Table of Contents

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

(Dollars in thousands)	December 31, 2017	December 31, 2016
Interest Rate Risk	$ 965	$ 696
Equity Price Risk	62	41
Diversification Effect (1)	(40)	(26)
Total Value-at-Risk	$ 987	$ 711

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

We view average VaR over a period of time as more representative of trends in the business than VaR at any single point in time. The table below illustrates the daily high, low and average VaR calculated for each component of market risk during the years ended December 31, 2017 and 2016, respectively.

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2017			
Interest Rate Risk	$1,235	$480	$ 785
Equity Price Risk	178	28	81
Diversification Effect (1)			(57)
Total Value-at-Risk	$1,244	$506	$ 809

(Dollars in thousands)	High	Low	Average
For the Year Ended December 31, 2016			
Interest Rate Risk	$990	$251	$ 533
Equity Price Risk	412	6	150
Diversification Effect (1)			(72)
Total Value-at-Risk	$1,049	$362	$ 611

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

Trading losses exceeded our one-day VaR on two occasions during 2017.

The aggregate VaR as of December 31, 2017 was higher than the reported VaR on December 31, 2016. The increase in VaR was due to increased inventory levels in asset classes that are accretive to VaR, particularly municipal securities, as we capitalized on a trading opportunity in the municipal market toward the end of the measurement period.

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

Liquidity Risk

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

Table of Contents

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

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

Credit Risk

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

Our different types of credit risk include:

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

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

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

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

We have concentrated counterparty credit exposure with five non-publicly rated entities totaling $19.1 million at December 31, 2017. This counterparty credit exposure is part of our matched-book derivative program related to our public finance business, consisting primarily of interest rate swaps. One derivative counterparty represents 78.1 percent, or $14.9 million, of this exposure. Credit exposure associated with our derivative counterparties is driven by uncollateralized market movements in the fair value of

Table of Contents

the interest rate swap contracts and is monitored regularly by our financial risk committee. We attempt to minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Operational Risk

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

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

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

In 2017, we migrated to a fully disclosed clearing model for all of our clearing operations. In a fully disclosed clearing model, we act as an introducing broker for client transactions and rely on Pershing, our clearing broker dealer, to facilitate clearance and settlement of our clients' securities transactions. Subsequent to transitioning to a fully disclosed clearing model, the clearing services provided by Pershing are critical to our business operations, and similar to other services performed by third party vendors, any failure by Pershing with respect to the services we rely upon Pershing to provide could cause financial loss, significantly disrupt our business, damage our reputation, and adversely affect our ability to serve our clients and manage our exposure to risk.

Human Capital Risk

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

Legal and Regulatory Risk

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

Table of Contents

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

Effects of Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information under the caption "Risk Management" in Part II, Item 7 of this Form 10-K entitled, "Management's Discussion and Analysis of Financial Condition and Results of Operations," is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on its assessment and those criteria, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2017.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements of Piper Jaffray Companies included in this Annual Report on Form 10-K, has issued an attestation report on internal control over financial reporting as of December 31, 2017. Their report, which expresses an unqualified opinion on the effectiveness of Piper Jaffray Companies' internal control over financial reporting as of December 31, 2017, is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Piper Jaffray Companies

Opinion on Internal Control over Financial Reporting
We have audited Piper Jaffray Companies' (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial condition of the Company as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, of the Company and our report dated February 26, 2018 expressed an unqualified opinion thereon.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
February 26, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Piper Jaffray Companies

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Piper Jaffray Companies (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2003.
Minneapolis, Minnesota
February 26, 2018

Table of Contents

Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	December 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 33,793	$ 41,359
Cash and cash equivalents segregated for regulatory purposes	—	29,015
Receivables:		
Customers	—	31,917
Brokers, dealers and clearing organizations	145,394	212,730
Securities purchased under agreements to resell	—	159,697
Financial instruments and other inventory positions owned	663,330	464,610
Financial instruments and other inventory positions owned and pledged as collateral	720,047	594,361
Total financial instruments and other inventory positions owned	1,383,377	1,058,971
Fixed assets (net of accumulated depreciation and amortization of $55,944 and $58,308, respectively)	25,179	25,343
Goodwill	81,855	196,218
Intangible assets (net of accumulated amortization of $85,417 and $70,017, respectively)	22,834	37,234
Investments	176,212	168,057
Net deferred income tax assets	101,205	97,833
Other assets	54,834	67,129
Total assets	$ 2,024,683	$ 2,125,503
Liabilities and Shareholders' Equity		
Short-term financing	$ 289,937	$ 418,832
Senior notes	125,000	175,000
Payables:		
Customers	—	29,352
Brokers, dealers and clearing organizations	19,392	40,842
Securities sold under agreements to repurchase	—	15,046
Financial instruments and other inventory positions sold, but not yet purchased	399,227	299,357
Accrued compensation	400,092	288,255
Other liabilities and accrued expenses	49,800	42,553
Total liabilities	1,283,448	1,309,237
Shareholders' equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at December 31, 2017 and December 31, 2016;		
Shares issued: 19,512,914 at December 31, 2017 and 19,535,307 at December 31, 2016;		
Shares outstanding: 12,911,149 at December 31, 2017 and 12,391,970 at December 31, 2016	195	195
Additional paid-in capital	791,970	788,927
Retained earnings	176,270	257,188
Less common stock held in treasury, at cost: 6,601,765 at December 31, 2017 and 7,143,337 shares at December 31, 2016	(273,824)	(284,461)

Accumulated other comprehensive loss	(1,279)	(2,599)
Total common shareholders' equity	693,332	759,250
Noncontrolling interests	47,903	57,016
Total shareholders' equity	741,235	816,266
Total liabilities and shareholders' equity	$ 2,024,683	$ 2,125,503

See Notes to the Consolidated Financial Statements

Table of Contents

Piper Jaffray Companies
Consolidated Statements of Operations

	Year Ended December 31,		
(Amounts in thousands, except per share data)	2017	2016	2015
Revenues:			
Investment banking	$633,837	$490,340	$414,118
Institutional brokerage	154,563	161,186	154,889
Asset management	56,835	60,672	75,017
Interest	31,954	33,074	41,557
Investment income	18,002	24,602	10,736
Total revenues	895,191	769,874	696,317
Interest expense	20,268	22,525	23,399
Net revenues	874,923	747,349	672,918
Non-interest expenses:			
Compensation and benefits	617,635	510,612	421,733
Outside services	38,012	39,289	36,218
Occupancy and equipment	33,462	34,813	28,301
Communications	29,891	29,626	23,762
Marketing and business development	31,293	30,404	29,990
Trade execution and clearance	8,166	7,651	7,794
Restructuring and integration costs	—	10,206	10,652
Goodwill impairment	114,363	82,900	—
Intangible asset amortization	15,400	21,214	7,662
Back office conversion costs	3,927	561	—
Other operating expenses	12,097	10,947	20,383
Total non-interest expenses	904,246	778,223	586,495
Income/(loss) before income tax expense/(benefit)	(29,323)	(30,874)	86,423
Income tax expense/(benefit)	30,229	(17,128)	27,941
Net income/(loss)	(59,552)	(13,746)	58,482
Net income applicable to noncontrolling interests	2,387	8,206	6,407
Net income/(loss) applicable to Piper Jaffray Companies	$(61,939)	$(21,952)	$52,075
Net income/(loss) applicable to Piper Jaffray Companies' common shareholders	$(64,875)[1]	$(21,952)[1]	$48,060
Earnings/(loss) per common share			
Basic			