PIPER JAFFRAY COMPANIES
Form 10-Q
August 05, 2015

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2015
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 001-31720
PIPER JAFFRAY COMPANIES
(Exact Name of Registrant as specified in its Charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

As of July 27, 2015, the registrant had 15,102,958 shares of Common Stock outstanding.

Piper Jaffray Companies
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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Piper Jaffray Companies
Consolidated Statements of Financial Condition

(Amounts in thousands, except share data)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$14,097	$15,867
Cash and cash equivalents segregated for regulatory purposes	32,027	25,011
Receivables:		
Customers	39,655	9,658
Brokers, dealers and clearing organizations	166,611	161,009
Securities purchased under agreements to resell	183,142	308,165
Financial instruments and other inventory positions owned	412,309	507,794
Financial instruments and other inventory positions owned and pledged as collateral	1,023,469	1,108,567
Total financial instruments and other inventory positions owned	1,435,778	1,616,361
Fixed assets (net of accumulated depreciation and amortization of $49,573 and $47,327, respectively)	19,285	18,171
Goodwill	211,878	211,878
Intangible assets (net of accumulated amortization of $44,687 and $41,141, respectively)	27,112	30,658
Investments	166,040	126,840
Other assets	114,771	100,299
Total assets	$2,410,396	$2,623,917
Liabilities and Shareholders’ Equity		
Short-term financing	$500,413	$377,767
Variable rate senior notes	125,000	125,000
Payables:		
Customers	31,388	13,328
Brokers, dealers and clearing organizations	95,584	25,564
Securities sold under agreements to repurchase	68,136	102,646
Financial instruments and other inventory positions sold, but not yet purchased	460,046	738,124
Accrued compensation	135,318	228,877
Other liabilities and accrued expenses	40,851	43,151
Total liabilities	1,456,736	1,654,457
Shareholders’ equity:		
Common stock, $0.01 par value:		
Shares authorized: 100,000,000 at June 30, 2015 and December 31, 2014;		
Shares issued: 19,510,858 at June 30, 2015 and 19,523,371 at December 31, 2014;		
	195	195

Shares outstanding: 13,904,124 at June 30, 2015 and 15,265,420 at December 31, 2014		
Additional paid-in capital	751,692	735,415
Retained earnings	261,036	227,065
Less common stock held in treasury, at cost: 5,606,734 shares at June 30, 2015 and 4,257,951 shares at December 31, 2014	(223,691)	(143,140)
Accumulated other comprehensive income	403	377
Total common shareholders' equity	789,635	819,912
Noncontrolling interests	164,025	149,548
Total shareholders' equity	953,660	969,460
Total liabilities and shareholders' equity	$2,410,396	$2,623,917

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Piper Jaffray Companies
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands, except per share data)	2015	2014	2015	2014
Revenues:				
Investment banking	$106,069	$103,813	$193,146	$192,287
Institutional brokerage	36,661	34,528	72,697	78,562
Asset management	19,257	22,266	39,779	43,225
Interest	11,422	12,448	23,627	26,107
Investment income/(loss)	(3,299)	2,921	9,292	9,689
Total revenues	170,110	175,976	338,541	349,870
Interest expense	6,044	5,945	12,604	11,706
Net revenues	164,066	170,031	325,937	338,164
Non-interest expenses:				
Compensation and benefits	103,554	103,076	199,411	203,565
Outside services	8,885	9,914	17,069	18,682
Occupancy and equipment	6,983	7,061	13,766	13,839
Communications	5,088	5,432	11,416	11,387
Marketing and business development	7,239	6,709	14,221	12,960
Trade execution and clearance	1,977	1,788	3,974	3,622
Intangible asset amortization expense	1,773	2,318	3,546	4,636
Other operating expenses	2,708	3,316	5,383	6,343
Total non-interest expenses	138,207	139,614	268,786	275,034
Income before income tax expense	25,859	30,417	57,151	63,130
Income tax expense	9,542	10,049	19,032	19,876
Net income	16,317	20,368	38,119	43,254
Net income/(loss) applicable to noncontrolling interests	(682)	2,155	4,148	7,293
Net income applicable to Piper Jaffray Companies	$16,999	$18,213	$33,971	$35,961
Net income applicable to Piper Jaffray Companies' common shareholders	$15,699	$16,717	$31,513	$32,806
Earnings per common share				
Basic	$1.08	$1.12	$2.12	$2.22
Diluted	$1.08	$1.11	$2.11	$2.21

Weighted average number of common shares outstanding				
Basic	14,487	14,958	14,888	14,786
Diluted	14,513	15,013	14,920	14,836

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Piper Jaffray Companies
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands)	2015	2014	2015	2014
Net income	$16,317	$20,368	$38,119	$43,254
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	501	205	26	256
Comprehensive income	16,818	20,573	38,145	43,510
Comprehensive income/(loss) applicable to noncontrolling interests	(682)	2,155	4,148	7,293
Comprehensive income applicable to Piper Jaffray Companies	$17,500	$18,418	$33,997	$36,217

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Piper Jaffray Companies
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
(Dollars in thousands)	2015	2014
Operating Activities:		
Net income	$38,119	$43,254
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization of fixed assets	2,440	2,748
Deferred income taxes	5,041	3,698
Stock-based and deferred compensation	22,733	13,889
Amortization of intangible assets	3,546	4,636
Amortization of forgivable loans	2,663	2,614
Decrease/(increase) in operating assets:		
Cash and cash equivalents segregated for regulatory purposes	(7,016)	(1,008)
Receivables:		
Customers	(29,997)	(53,203)
Brokers, dealers and clearing organizations	(5,602)	(31,377)
Securities purchased under agreements to resell	125,023	11,552
Net financial instruments and other inventory positions owned	(97,495)	(99,590)
Investments	(39,200)	(4,346)
Other assets	(23,546)	(3,605)
Increase/(decrease) in operating liabilities:		
Payables:		
Customers	18,060	12,390
Brokers, dealers and clearing organizations	70,020	212,816
Accrued compensation	(82,669)	(14,722)
Other liabilities and accrued expenses	(2,315)	(1,085)
Net cash provided by/(used in) operating activities	(195)	98,661
Investing Activities:		
Repayment of note receivable	1,500	—
Purchases of fixed assets, net	(3,544)	(2,250)
Net cash used in investing activities	(2,044)	(2,250)

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Piper Jaffray Companies
Consolidated Statements of Cash Flows – Continued
(Unaudited)

(Dollars in thousands)	Six Months Ended June 30, 2015	2014
Financing Activities:		
Increase/(decrease) in short-term financing	$122,646	$(152,310)
Issuance of variable rate senior notes	—	50,000
Repayment of variable rate senior notes	—	(50,000)
Increase/(decrease) in securities sold under agreements to repurchase	(34,510)	7,418
Increase/(decrease) in noncontrolling interests	10,329	(12,780)
Repurchase of common stock	(105,335)	(8,806)
Excess tax benefit from stock-based compensation	5,723	262
Proceeds from stock option exercises	1,722	1,322
Net cash provided by/(used in) financing activities	575	(164,894)
Currency adjustment:		
Effect of exchange rate changes on cash	(106)	21
Net decrease in cash and cash equivalents	(1,770)	(68,462)
Cash and cash equivalents at beginning of period	15,867	123,683
Cash and cash equivalents at end of period	$14,097	$55,221
Supplemental disclosure of cash flow information – Cash paid during the period for:		
Interest	$13,907	$11,749
Income taxes	$21,907	$22,573
Non-cash financing activities – Issuance of common stock for retirement plan obligations: 103,598 shares for the six months ended June 30, 2014	$—	$4,156
Issuance of restricted common stock for annual equity award: 550,650 shares and 402,074 shares for the six months ended June 30, 2015 and 2014, respectively	$30,429	$16,131

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Piper Jaffray Companies
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Note 1 Organization and Basis of Presentation

Organization

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

Capital Markets

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

Asset Management

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Pursuant to this guidance, certain information and disclosures have been omitted that are included within complete annual financial statements. Except as disclosed herein, there have been no material changes in the information reported in the financial statements and related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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

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

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Note 2 Accounting Policies and Pronouncements

Summary of Significant Accounting Policies

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for a full description of the Company's significant accounting policies.

Future Adoption of New Applicable Accounting Standards

Revenue Recognition

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

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 makes several modifications to the consolidation guidance for variable interest entities ("VIEs") and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. It is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact of the amended guidance on its consolidated financial statements.

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Note 3 Financial Instruments and Other Inventory Positions Owned and Financial Instruments and Other Inventory Positions Sold, but Not Yet Purchased

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

(Dollars in thousands)	June 30, 2015	December 31, 2014
Financial instruments and other inventory positions owned:		
Corporate securities:		
Equity securities	$49,776	$50,365
Convertible securities	148,342	156,685
Fixed income securities	71,183	48,651
Municipal securities:		
Taxable securities	165,775	312,753
Tax-exempt securities	555,095	559,704
Short-term securities	37,778	68,717
Mortgage-backed securities	129,399	125,065
U.S. government agency securities	223,545	244,046
U.S. government securities	16,542	2,549
Derivative contracts	38,343	47,826
Total financial instruments and other inventory positions owned	1,435,778	1,616,361
Less noncontrolling interests (1)	(242,015)	(267,742)
	$1,193,763	$1,348,619
Financial instruments and other inventory positions sold, but not yet purchased:		
Corporate securities:		
Equity securities	$144,063	$154,589
Fixed income securities	30,098	21,460
U.S. government agency securities	18,680	27,735
U.S. government securities	261,359	523,527
Derivative contracts	5,846	10,813
Total financial instruments and other inventory positions sold, but not yet purchased	460,046	738,124
Less noncontrolling interests (2)	(37,088)	(98,669)
	$422,958	$639,455

(1) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $62.5 million and $123.3 million of taxable municipal securities, $175.3 million and $139.5 million of tax-exempt municipal securities, and $4.2 million and $4.9 million of derivative contracts as of June 30, 2015 and December 31, 2014, respectively.

(2) Noncontrolling interests attributable to third party ownership in a consolidated municipal bond fund consist of $36.6 million and $97.6 million of U.S. government securities, and $0.5 million and $1.1 million of derivative contracts as of June 30, 2015 and December 31, 2014, respectively.

At June 30, 2015 and December 31, 2014, financial instruments and other inventory positions owned in the amount of $1.0 billion and $1.1 billion, respectively, had been pledged as collateral for short-term financings and repurchase agreements.

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

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Derivative Contract Financial Instruments

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

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

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

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

	June 30, 2015			December 31, 2014		
(Dollars in thousands)	Derivative	Derivative	Notional	Derivative	Derivative	Notional
Derivative Category	Assets (1)	Liabilities (2)	Amount	Assets (1)	Liabilities (2)	Amount
Interest rate						
Customer matched-book	$395,676	$374,169	$4,703,823	$447,987	$425,227	$4,860,302
Trading securities	5,309	601	407,850	140	8,242	297,250
Credit default swap index						
Trading securities	5,561	3,588	146,181	5,808	5,188	267,796
Equity option						
Trading securities	84	206	15,411	76	189	19,380
	$406,630	$378,564	$5,273,265	$454,011	$438,846	$5,444,728

(1) The gross fair market value of derivative assets are included within financial instruments and other inventory positions owned on the consolidated statements of financial condition.

(2) The gross fair market value of derivative liabilities are included within financial instruments and other inventory positions sold, but not yet purchased on the consolidated statements of financial condition.

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

		Three Months Ended		Six Months Ended	
(Dollars in thousands)		June 30,		June 30,	
Derivative Category	Operations Category	2015	2014	2015	2014
Interest rate derivative contract	Investment banking	$(479)	$(844)	$(999)	$(1,369)
Interest rate derivative contract	Institutional brokerage	11,877	(4,798)	12,556	(4,266)
Credit default swap index contract	Institutional brokerage	8,038	(1,668)	12,645	(2,922)
Equity option derivative contract	Institutional brokerage	18	(698)	53	419
		$19,454	$(8,008)	$24,255	$(8,138)

Credit risk associated with the Company’s derivatives is the risk that a derivative counterparty will not perform in accordance with the terms of the applicable derivative contract. Credit exposure associated with the Company’s derivatives is driven by uncollateralized market movements in the fair value of the contracts with counterparties and is monitored regularly by the Company’s financial risk committee. The Company considers counterparty credit risk in determining derivative contract fair value. The majority of the Company’s derivative contracts are substantially collateralized by its counterparties, who are major financial institutions. The Company has a limited number of counterparties who are not required to post collateral. Based on market movements, the uncollateralized amounts representing the fair value of the derivative contract can become material, exposing the Company to the credit risk of these counterparties. As of June 30, 2015, the Company had $23.1 million of uncollateralized credit exposure with these counterparties (notional contract amount of $188.1 million), including $15.0 million of uncollateralized credit exposure with one counterparty.

Note 4 Fair Value of Financial Instruments

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

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

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

Cash Equivalents

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

Financial Instruments and Other Inventory Positions Owned

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

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

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

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

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

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

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

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

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation (“CMO”) securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 120-450 basis points (“bps”) on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 4%-20% conditional prepayment rate (“CPR”). These securities are categorized as Level II.

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

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

Investments

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

Fair Value Option – The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The fair value option was elected for certain merchant banking and other investments at inception to reflect economic events in earnings on a timely basis. Merchant banking and other equity investments of $18.9 million and $18.4 million, included within investments on the consolidated statements of financial condition, are accounted for at fair value and are classified as Level III assets at June 30, 2015 and December 31, 2014, respectively. The realized and unrealized gains from fair value changes included in earnings as a result of electing to apply the fair value option to certain financial assets were $0.5 million and $1.0 million for the six months ended June 30, 2015 and 2014, respectively.

The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level III financial instruments as of June 30, 2015:

	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:				
Financial instruments and other inventory positions owned:				
Municipal securities:				
Tax-exempt securities	Discounted cash flow	Debt service coverage ratio (2)	5 - 60%	19.4%
Short-term securities	Discounted cash flow	Expected recovery rate (% of par) (2)	66 - 94%	91.0%
Mortgage-backed securities:				
Collateralized by residential mortgages	Discounted cash flow	Credit default rates (3)	0 - 62%	5.5%
		Prepayment rates (4)	3 - 21%	6.2%
		Loss severity (3)	10 - 100%	67.7%
		Valuation yields (3)	5 - 8%	5.5%
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	2 - 36 bps	8.0 bps
Investments at fair value:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	38.9%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	29 - 59%	38.6%
Equity securities in private companies	Market approach	Revenue multiple (2)	2 - 6 times	4.7 times
		EBITDA multiple (2)	9 - 12 times	10.0 times
Liabilities:				
Financial instruments and other inventory positions sold, but not yet purchased:				
Derivative contracts:				
Interest rate locks	Discounted cash flow	Premium over the MMD curve (1)	5 - 29 bps	15.7 bps

Sensitivity of the fair value to changes in unobservable inputs:

(1) Significant increase/(decrease) in the unobservable input in isolation would result in a significantly lower/(higher) fair value measurement.

(2) Significant increase/(decrease) in the unobservable input in isolation would result in a significantly higher/(lower) fair value measurement.

(3) Significant changes in any of these inputs in isolation could result in a significantly different fair value. Generally, a change in the assumption used for credit default rates is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally inverse change in the assumption for valuation yields.

(4)

The potential impact of changes in prepayment rates on fair value is dependent on other security-specific factors, such as the par value and structure. Changes in the prepayment rates may result in directionally similar or directionally inverse changes in fair value depending on whether the security trades at a premium or discount to the par value.

The following table summarizes the valuation of the Company’s financial instruments by pricing observability levels defined in FASB Accounting Standards Codification Topic 820, "Fair Value Measurement" ("ASC 820") as of June 30, 2015:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$41,494	$8,282	$—	$—	$49,776
Convertible securities	—	148,342	—	—	148,342
Fixed income securities	—	71,183	—	—	71,183
Municipal securities:					
Taxable securities	—	165,775	—	—	165,775
Tax-exempt securities	—	553,909	1,186	—	555,095
Short-term securities	—	37,058	720	—	37,778
Mortgage-backed securities	—	—	129,399	—	129,399
U.S. government agency securities	—	223,545	—	—	223,545
U.S. government securities	16,542	—	—	—	16,542
Derivative contracts	84	401,237	5,309	(368,287)	38,343
Total financial instruments and other inventory positions owned:	58,120	1,609,331	136,614	(368,287)	1,435,778
Cash equivalents	1,240	—	—	—	1,240
Investments at fair value	45,261	—	94,196	—	139,457
Total assets	$104,621	$1,609,331	$230,810	$(368,287)	$1,576,475
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$144,063	$—	$—	$—	$144,063
Fixed income securities	—	30,098	—	—	30,098
U.S. government agency securities	—	18,680	—	—	18,680
U.S. government securities	261,359	—	—	—	261,359
Derivative contracts	206	377,923	435	(372,718)	5,846
Total financial instruments and other inventory positions sold, but not yet purchased:	$405,628	$426,701	$435	$(372,718)	$460,046

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

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The following table summarizes the valuation of the Company’s financial instruments by pricing observability levels defined in ASC 820 as of December 31, 2014:

(Dollars in thousands)	Level I	Level II	Level III	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments and other inventory positions owned:					
Corporate securities:					
Equity securities	$39,191	$11,174	$—	$—	$50,365
Convertible securities	—	156,685	—	—	156,685
Fixed income securities	—	48,651	—	—	48,651
Municipal securities:					
Taxable securities	—	312,753	—	—	312,753
Tax-exempt securities	—	558,518	1,186	—	559,704
Short-term securities	—	67,997	720	—	68,717
Mortgage-backed securities	—	316	124,749	—	125,065
U.S. government agency securities	—	244,046	—	—	244,046
U.S. government securities	2,549	—	—	—	2,549
Derivative contracts	76	453,795	140	(406,185)	47,826
Total financial instruments and other inventory positions owned:	41,816	1,853,935	126,795	(406,185)	1,616,361
Cash equivalents	1,562	—	—	—	1,562
Investments at fair value	20,704	—	74,165	—	94,869
Total assets	$64,082	$1,853,935	$200,960	$(406,185)	$1,712,792
Liabilities:					
Financial instruments and other inventory positions sold, but not yet purchased:					
Corporate securities:					
Equity securities	$153,254	$1,335	$—	$—	$154,589
Fixed income securities	—	21,460	—	—	21,460
U.S. government agency securities	—	27,735	—	—	27,735
U.S. government securities	523,527	—	—	—	523,527
Derivative contracts	189	430,835	7,822	(428,033)	10,813
Total financial instruments and other inventory positions sold, but not yet purchased:	$676,970	$481,365	$7,822	$(428,033)	$738,124

(1)

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

The Company's Level III assets were $230.8 million and $201.0 million, or 14.6 percent and 11.7 percent of financial instruments measured at fair value at June 30, 2015 and December 31, 2014, respectively. The value of transfers between levels are recognized at the beginning of the reporting period. There were no significant transfers between Level I, Level II or Level III for the six months ended June 30, 2015.

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

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

other inventory
positions sold, but
not yet purchased:

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

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

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(Dollars in thousands)	Balance at March 31, 2014	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at June 30, 2014	Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2014 (1)
Assets:									
Financial instruments and other inventory positions owned:									
Corporate securities:									
Fixed income securities	$100	$—	$(100)	$—	$—	$—	$—	$—	$—
Municipal securities:									
Tax-exempt securities	1,433	—	—	—	—	—	(127)	1,306	(127)
Short-term securities	656	—	(25)	—	—	6	95	732	95
Mortgage-backed securities	107,399	119,064	(101,878)	—	—	4,678	(137)	129,126	691
Derivative contracts	64	—	—	—	—	—	563	627	578
Total financial instruments and other inventory positions owned:	109,652	119,064	(102,003)	—	—	4,684	394	131,791	1,237
Investments at fair value	60,954	—	(2,358)	—	—	2,358	(2,387)	58,567	(2,387)
Total assets	$170,606	$119,064	$(104,361)	$—	$—	$ 7,042	$ (1,993)	$190,358	$(1,150)
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	$5,479	$(8,343)	$—	$—	$—	$ 8,343	$ 5,367	$10,846	$8,232
	$5,479	$(8,343)	$—	$—	$—	$ 8,343	$ 5,367	$10,846	$8,232

Total financial instruments and other inventory positions sold, but not yet purchased:

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

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

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

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

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(Dollars in thousands)	Balance at December 31, 2013	Purchases	Sales	Transfers in	Transfers out	Realized gains/ (losses) (1)	Unrealized gains/ (losses) (1)	Balance at June 30, 2014	Unrealized gains/ (losses) for assets/ liabilities held at June 30, 2014 (1)
Assets:									
Financial instruments and other inventory positions owned:									
Corporate securities:									
Fixed income securities	$ 100	$—	$(100)	$—	$—	$—	$—	$—	$—
Municipal securities:									
Tax-exempt securities	1,433	—	—	—	—	—	(127)	1,306	(127)
Short-term securities	656	—	(25)	—	—	6	95	732	95
Mortgage-backed securities	119,799	151,790	(150,621)	—	—	9,184	(1,026)	129,126	888
Derivative contracts	691	2,614	—	—	—	(2,614)	(64)	627	627
Total financial instruments and other inventory positions owned:	122,679	154,404	(150,746)	—	—	6,576	(1,122)	131,791	1,483
Investments at fair value	49,240	10,000	(2,358)	—	—	2,358	(673)	58,567	(673)
Total assets	$ 171,919	$164,404	$(153,104)	$—	$—	$ 8,934	$ (1,795)	$190,358	$810
Liabilities:									
Financial instruments and other inventory positions sold, but not yet purchased:									
Derivative contracts	$ 6,643	$(16,751)	$—	$—	$—	$ 16,751	$ 4,203	$10,846	$10,846
	$ 6,643	$(16,751)	$—	$—	$—	$ 16,751	$ 4,203	$10,846	$10,846

Total financial
instruments and
other inventory
positions sold, but
not yet purchased:

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

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

Note 5 Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers and clearing organizations included:

(Dollars in thousands)	June 30, 2015	December 31, 2014
Receivable arising from unsettled securities transactions	$43,809	$52,571
Deposits paid for securities borrowed	46,087	57,572
Receivable from clearing organizations	8,061	4,933
Deposits with clearing organizations	50,694	33,799
Securities failed to deliver	600	1,753
Other	17,360	10,381
	$166,611	$161,009

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Amounts payable to brokers, dealers and clearing organizations included:

(Dollars in thousands)	June 30, 2015	December 31, 2014
Payable arising from unsettled securities transactions	$89,224	$11,048
Payable to clearing organizations	10	5,185
Securities failed to receive	1,541	2,430
Other	4,809	6,901
	$95,584	$25,564

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

Note 6 Collateralized Securities Transactions

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

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

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

In the normal course of business, the Company obtains securities purchased under agreements to resell, securities borrowed and margin agreements on terms that permit it to repledge or resell the securities to others, typically pursuant to repurchase agreements. The Company obtained securities with a fair value of approximately $235.7 million and $369.7 million at June 30, 2015 and December 31, 2014, respectively, of which $214.9 million and $338.8 million, respectively, had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

The following is a summary of the Company's securities sold under agreements to repurchase ("Repurchase Liabilities"), the fair market value of collateral pledged and the interest rate charged by the Company's counterparty, which is based on LIBOR plus an applicable margin, as of June 30, 2015:

(Dollars in thousands)	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Mortgage-backed securities	$24,882	$35,762	1.94 - 2.13%
Term of 30 to 90 day maturities:			
Mortgage-backed securities	5,985	7,525	2.13%
On demand maturities:			
U.S. government agency securities	22,757	24,571	0.50 - 0.70%
U.S. government securities	14,512	14,499	0.25%
	$68,136	$82,357	

Reverse repurchase agreements, repurchase agreements and securities borrowed and loaned are reported on a net basis by counterparty when a legal right of offset exists. There were no gross amounts offset on the consolidated statements of financial condition for reverse repurchase agreements, securities borrowed or repurchase agreements at June 30, 2015 and December 31, 2014, respectively, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of June 30, 2015 or December 31, 2014. See Note 3 for information related to the Company's offsetting of derivative contracts.

Note 7 Investments

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

(Dollars in thousands)	June 30, 2015	December 31, 2014
Investments at fair value	$139,457	$94,869
Investments at cost	4,522	8,214
Investments accounted for under the equity method	22,061	23,757
Total investments	166,040	126,840
Less investments attributable to noncontrolling interests (1)	(36,271)	(32,563)
	$129,769	$94,277

(1) Noncontrolling interests are attributable to third party ownership in a consolidated merchant banking fund and private equity investment vehicles.

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

At June 30, 2015, investments carried on a cost basis had an estimated fair market value of $11.1 million. Because valuation estimates were based upon management's judgment, investments carried at cost would be categorized as Level III assets in the fair value hierarchy, if they were carried at fair value.

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

Note 8 Other Assets

Other assets included:

(Dollars in thousands)	June 30, 2015	December 31, 2014
Net deferred income tax assets	$40,810	$45,851
Fee receivables	28,589	23,959
Accrued interest receivables	7,293	10,061
Forgivable loans, net	11,802	8,366

Income tax receivables	11,500	—
Prepaid expenses	6,686	6,067
Other	8,091	5,995
Total other assets	$114,771	$100,299

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Note 9 Short-Term Financing

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

	Outstanding Balance		Weighted Average Interest Rate	
	June 30,	December 31,	June 30,	December 31,
(Dollars in thousands)	2015	2014	2015	2014
Commercial paper (secured)	$275,898	$238,013	1.61%	1.48%
Prime broker arrangement	224,515	127,754	0.92%	0.91%
Bank lines (secured)	—	12,000	N/A	1.50%
Total short-term financing	$500,413	$377,767		

The Company issues secured commercial paper to fund a portion of its securities inventory. The commercial paper notes (“CP Notes”) can be issued with maturities of 27 days to 270 days from the date of issuance. The CP Notes are issued under three separate programs, CP Series A, CP Series II A and CP Series III A, and are secured by different inventory classes. As of June 30, 2015, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 65 days, 175 days and 7 days, respectively. The CP Notes are interest bearing or sold at a discount to par with an interest rate based on LIBOR plus an applicable margin. CP Series III A includes a covenant that requires the Company’s U.S. broker dealer subsidiary to maintain excess net capital of $120 million.

The Company has established an arrangement to obtain financing with a prime broker related to its municipal bond funds. Financing under this arrangement is secured by certain securities, primarily municipal securities, and collateral limitations could reduce the amount of funding available under this arrangement. The prime broker financing activities are recorded net of receivables from trading activity. The funding is at the discretion of the prime broker subject to a notice period.

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

The Company’s committed short-term bank line financing at June 30, 2015 consisted of a one-year $250 million committed revolving credit facility with U.S. Bank, N.A., which was renewed in December 2014. Advances under this facility are secured by certain marketable securities. The facility includes a covenant that requires the Company’s U.S. broker dealer subsidiary to maintain minimum net capital of $120 million, and the unpaid principal amount of all advances under this facility will be due on December 18, 2015. The Company pays a nonrefundable commitment fee on the unused portion of the facility on a quarterly basis. At June 30, 2015, the Company had no advances against this line of credit.

The Company’s uncommitted secured lines at June 30, 2015 totaled $185 million with two banks and are dependent on having appropriate collateral, as determined by the bank agreement, to secure an advance under the line. The availability of the Company’s uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. At June 30, 2015, the Company had no advances against these lines of credit.

Note 10 Variable Rate Senior Notes

On November 30, 2012, the Company entered into a note purchase agreement under which the Company issued unsecured variable rate senior notes ("Notes") in the amount of $125 million. The initial holders of the Notes are certain entities advised by Pacific Investment Management Company LLC ("PIMCO"). The Notes consist of two classes, Class A Notes and Class B Notes, with principal amounts of $50 million and $75 million, respectively.

On June 2, 2014, the Company entered into an amended and restated note purchase agreement ("Amended Note Purchase Agreement") under which the Company issued $50 million of new Class A Notes upon repayment in full of the 2012 Class A Notes. The Class A Notes bear interest at a rate equal to three-month LIBOR plus 3.00 percent and mature on May 31, 2017. The Class B Notes remain outstanding, bear interest at a rate equal to three-month LIBOR plus 4.50 percent and mature on November 30, 2015. Interest on the Notes is adjustable and payable quarterly. The unpaid principal amounts are due in full on the respective maturity dates and may not be prepaid by the Company.

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

The Amended Note Purchase Agreement includes covenants that, among other things, require the Company to maintain a minimum consolidated tangible net worth and regulatory net capital, limit the Company's leverage ratio and require the Company to maintain a minimum ratio of operating cash flow to fixed charges. With respect to the net capital covenant, the Company's U.S. broker dealer subsidiary is required to maintain minimum net capital of $120 million. At June 30, 2015, the Company was in compliance with all covenants.

The Notes are recorded at amortized cost. As of June 30, 2015, the carrying value of the Notes approximated fair value.

Note 11 Legal Contingencies

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

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

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

Several class action complaints were brought on behalf of a purported class of state, local and municipal government entities in connection with the bidding or sale of municipal guaranteed investment contracts and municipal derivatives directly from one of the defendants or through a broker, from January 1, 1992, to the present. The complaints, which have been consolidated into a single nationwide class action entitled In re Municipal Derivatives Antitrust Litigation, MDL No. 1950 (Master Docket No. 08-2516), allege antitrust violations and are pending in the U.S. District Court for the Southern District of New York under the multi-district litigation rules. The consolidated complaint seeks unspecified treble damages under the Sherman Act. Several California municipalities also brought separate class action complaints in California federal court, and approximately eighteen California municipalities and two New York municipalities filed individual lawsuits that are not as part of class actions, all of which have since been transferred to the Southern District of New York and consolidated for pretrial purposes. All three sets of complaints assert similar claims under federal (and for the California and New York plaintiffs, state) antitrust claims. No loss contingency has been reflected in the Company's consolidated financial statements as this contingency is neither probable nor reasonably estimable at this time. Management is currently unable to estimate a range of reasonably possible loss for these matters because alleged damages have not been specified, the proceedings remain in the early stages, and there are significant factual issues to be resolved.

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Note 12 Shareholders’ Equity

Share Repurchases

Effective October 1, 2014, the Company’s board of directors authorized the repurchase of up to $100.0 million in common shares through September 30, 2016. During the six months ended June 30, 2015, the Company repurchased 1,804,886 shares of the Company's common stock at an average price of $51.06 per share for an aggregate purchase price of $92.1 million related to this authorization. The Company has $7.9 million remaining under this authorization. The Company also purchases shares of common stock from restricted stock award recipients upon the award vesting as recipients sell shares to meet their employment tax obligations. The Company purchased 249,156 shares or $13.2 million of the Company’s common stock for this purpose during the six months ended June 30, 2015.

Issuance of Shares

The Company issues common shares out of treasury stock as a result of employee restricted share vesting and exercise transactions as discussed in Note 13. During the six months ended June 30, 2015 and 2014, the Company issued 442,165 shares and 521,504 shares, respectively, related to these obligations. During the six months ended June 30, 2014, the Company also issued 103,598 common shares out of treasury stock in fulfillment of $4.2 million in obligations under the Piper Jaffray Companies Retirement Plan (the "Retirement Plan").

Noncontrolling Interests

The consolidated financial statements include the accounts of Piper Jaffray Companies, its wholly owned subsidiaries and other entities in which the Company has a controlling financial interest. Noncontrolling interests represent equity interests in consolidated entities that are not attributable, either directly or indirectly, to Piper Jaffray Companies. Noncontrolling interests include the minority equity holders’ proportionate share of the equity in a municipal bond fund of $127.8 million, a merchant banking fund of $27.1 million and private equity investment vehicles aggregating $9.1 million as of June 30, 2015. As of December 31, 2014, noncontrolling interests included the minority equity holders’ proportionate share of the equity in a municipal bond fund of $117.0 million, a merchant banking fund of $24.7 million and private equity investment vehicles aggregating $7.8 million.

Ownership interests in entities held by parties other than the Company’s common shareholders are presented as noncontrolling interests within shareholders’ equity, separate from the Company’s own equity. Revenues, expenses and net income or loss are reported on the consolidated statements of operations on a consolidated basis, which includes amounts attributable to both the Company’s common shareholders and noncontrolling interests. Net income or loss is then allocated between the Company and noncontrolling interests based upon their relative ownership interests. Net income applicable to noncontrolling interests is deducted from consolidated net income to determine net income applicable to the Company. There was no other comprehensive income or loss attributed to noncontrolling interests for the six months ended June 30, 2015 and 2014, respectively.

(Amounts in thousands, except share amounts)	Common Shares Outstanding	Common Shareholders’ Equity	Noncontrolling Interests	Total Shareholders’ Equity
Balance at December 31, 2014	15,265,420	$819,912	$149,548	$969,460
Net income	—	33,971	4,148	38,119
Amortization/issuance of restricted stock	—	33,546	—	33,546

Issuance of treasury shares for options exercised	46,670	1,722	—	1,722
Issuance of treasury shares for restricted stock vestings	644,651	—	—	—
Repurchase of common stock through share repurchase program	(1,804,886)	(92,156)	—	(92,156)
Repurchase of common stock for employee tax withholding	(249,156)	(13,179)	—	(13,179)
Excess tax benefit from stock-based compensation	—	5,723	—	5,723
Shares reserved/issued for director compensation	1,425	70	—	70
Other comprehensive income	—	26	—	26
Fund capital contributions, net	—	—	10,329	10,329
Balance at June 30, 2015	13,904,124	$789,635	$164,025	$953,660

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Note 13 Compensation Plans

Stock-Based Compensation Plans

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

The following table provides a summary of the Company's outstanding Incentive Plan equity awards (in shares or units) as of June 30, 2015:

Restricted Stock	
Annual grants	943,599
Sign-on grants	292,316
	1,235,915
Restricted Stock Units	
Market condition leadership grants	356,242
Stock Options	161,202

Incentive Plan

The Incentive Plan permits the grant of equity awards, including restricted stock, restricted stock units and non-qualified stock options, to the Company's employees and directors for up to 8.2 million shares of common stock (1.7 million shares remained available for future issuance under the Incentive Plan as of June 30, 2015). The Company believes that such awards help align the interests of employees and directors with those of shareholders and serve as an employee retention tool. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Company (as defined in the Incentive Plan), in the event of a participant's death, and at the discretion of the compensation committee of the Company's board of directors.

Restricted Stock Awards

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

The Company's Annual Grants are made each year in February. Annual Grants vest ratably over three years in equal installments. The Annual Grants provide for continued vesting after termination of employment, so long as the employee does not violate certain post-termination restrictions set forth in the award agreement or any agreements entered into upon termination. The Company determined the service inception date precedes the grant date for the Annual Grants, and that the post-termination restrictions do not meet the criteria for an in-substance service condition, as defined by FASB Accounting Standards Codification Topic 718, "Compensation – Stock Compensation" ("ASC 718"). Accordingly, restricted stock granted as part of the Annual Grants is expensed in the one-year period in which those awards are deemed to be earned, which is generally the calendar year preceding the February grant date. For example, the Company recognized compensation expense during fiscal 2014 for its February 2015 Annual Grant. If an equity award related to the Annual Grants is forfeited as a result of violating the post-termination restrictions, the lower of the fair value of the award at grant date or the fair value of the award at the date of forfeiture is recorded within the consolidated statements of operations as a reversal of compensation expense.

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

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

Restricted Stock Units

The Company grants restricted stock units to its leadership team ("Leadership Grants"). The units will vest and convert to shares of common stock at the end of each 36-month performance period only if the Company's stock performance satisfies predetermined market conditions over the performance period. Under the terms of the grants, the number of units that will vest and convert to shares will be based on the Company's stock performance achieving specified market conditions during each performance period as described below. Compensation expense is amortized on a straight-line basis over the three-year requisite service period based on the fair value of the award on the grant date. The market condition must be met for the awards to vest and compensation cost will be recognized regardless if the market condition is satisfied. Employees forfeit unvested share units upon termination of employment with a corresponding reversal of compensation expense.

Up to 50 percent of the award can be earned based on the Company's total shareholder return relative to members of a predetermined peer group and up to 50 percent of the award can be earned based on the Company's total shareholder return. The fair value of the awards on the grant date was determined using a Monte Carlo simulation with the following assumptions:

Grant Year	Risk-free Interest Rate	Expected Stock Price Volatility
2015	0.90%	29.8%
2014	0.82%	41.3%
2013	0.40%	44.0%

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

Stock Options

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

Inducement Plan

In 2010, the Company established the 2010 Employment Inducement Award Plan ("Inducement Plan") in conjunction with the acquisition of ARI. The Company granted $7.0 million in restricted stock (158,801 shares) under the Inducement Plan to ARI employees upon closing of the transaction. These shares vested ratably over five years in equal annual installments ending on March 1, 2015. The Company terminated the Inducement Plan in March 2015.

Stock-Based Compensation Activity

The Company recorded total compensation expense of $8.3 million and $8.1 million for the three months ended June 30, 2015 and 2014, respectively, and $22.2 million and $13.3 million for the six months ended June 30, 2015 and 2014, respectively, related to employee restricted stock and restricted stock unit awards. Total compensation cost includes year-end compensation for Annual Grants and the amortization of Sign-on and Leadership Grants, less forfeitures of $0.2 million and $0.3 million for the three months and six months ended June 30, 2015, respectively. Forfeitures were immaterial for the six months ended June 30, 2014. The tax benefit related to stock-based compensation costs totaled $3.2 million and $3.1 million for the three months ended June 30, 2015 and 2014, respectively, and $8.7 million and $5.2 million for the six months ended June 30, 2015 and 2014, respectively.

The following table summarizes the changes in the Company's unvested restricted stock under the Incentive Plan and Inducement Plan:

	Unvested Restricted Stock (in Shares)	Weighted Average Grant Date Fair Value
December 31, 2014	1,095,305	$36.51
Granted	636,684	54.31
Vested	(486,287)	34.46
Canceled	(9,787)	38.03
June 30, 2015	1,235,915	$45.34

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

	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value
December 31, 2014	405,826	$17.99
Granted	123,687	21.83
Vested	(149,814)	12.12
Canceled	(23,457)	12.12
June 30, 2015	356,242	$22.18

As of June 30, 2015, there was $13.9 million of total unrecognized compensation cost related to restricted stock and restricted stock units expected to be recognized over a weighted average period of 2.5 years.

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

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
December 31, 2014	217,873	$46.66	2.0	$3,066,839
Granted	—	—		
Exercised	(46,670)	36.90		
Canceled	—	—		
Expired	(10,001)	39.62		
June 30, 2015	161,202	$49.92	2.1	$293,795
Options exercisable at June 30, 2015	161,202	$49.92	2.1	$293,795

As of June 30, 2015, there was no unrecognized compensation cost related to stock options expected to be recognized over future years.

The intrinsic value of options exercised was $0.8 million and the resulting tax benefit realized was $0.3 million for the six months ended June 30, 2015. The intrinsic value of options exercised and the resulting tax benefit realized were immaterial for the six months ended June 30, 2014.

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Deferred Compensation Plans

The Company maintains various deferred compensation arrangements for employees.

The nonqualified deferred compensation plan is an unfunded plan which allows certain highly compensated employees, at their election, to defer a percentage of their base salary, commissions and/or cash bonuses. The deferrals vest immediately and are non-forfeitable. The amounts deferred under this plan are held in a grantor trust. The Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan. Investments in the grantor trust, consisting of mutual funds, totaled $15.5 million as of June 30, 2015, and are included in investments on the consolidated statements of financial condition. The compensation deferred by the employees is expensed in the period earned. The deferred compensation liability was $15.4 million as of June 30, 2015. Changes in the fair value of the investments made by the Company are reported in investment income and changes in the corresponding deferred compensation liability are reflected as compensation and benefits expense on the consolidated statements of operations.

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

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

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Note 14 Earnings Per Share

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

The computation of earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in thousands, except per share data)	2015	2014	2015	2014
Net income applicable to Piper Jaffray Companies	$16,999	$18,213	$33,971	$35,961
Earnings allocated to participating securities (1)	(1,300)	(1,496)	(2,458)	(3,155)
Net income applicable to Piper Jaffray Companies' common shareholders (2)	$15,699	$16,717	$31,513	$32,806
Shares for basic and diluted calculations:				
Average shares used in basic computation	14,487	14,958	14,888	14,786
Stock options	26	55	32	50
Average shares used in diluted computation	14,513	15,013	14,920	14,836
Earnings per common share:				
Basic	$1.08	$1.12	$2.12	$2.22
Diluted	$1.08	$1.11	$2.11	$2.21

(1) Represents the allocation of earnings to participating securities. Losses are not allocated to participating securities. Participating securities include all of the Company's unvested restricted shares. The weighted average participating shares outstanding were 1,201,359 and 1,343,399 for the three months ended June 30, 2015 and 2014, respectively, and 1,164,338 and 1,426,656 for the six months ended June 30, 2015 and 2014, respectively.

(2) Net income/(loss) applicable to Piper Jaffray Companies' common shareholders for diluted and basic EPS may differ under the two-class method as a result of adding the effect of the assumed exercise of stock options to dilutive shares outstanding, which alters the ratio used to allocate earnings to Piper Jaffray Companies' common shareholders and participating securities for purposes of calculating diluted and basic EPS.

The anti-dilutive effects from stock options were immaterial for the six months ended June 30, 2015 and 2014.

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Note 15 Segment Reporting

Basis for Presentation

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

Reportable segment financial results are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2015	2014	2015	2014
Capital Markets				
Investment banking				
Financing				
Equities	$35,755	$44,058	$72,244	$79,359
Debt	30,098	20,174	51,836	33,713
Advisory services	40,139	39,695	69,405	79,423
Total investment banking	105,992	103,927	193,485	192,495
Institutional sales and trading				
Equities	20,407	18,366	39,312	42,626
Fixed income	20,482	21,085	41,699	46,323
Total institutional sales and trading	40,889	39,451	81,011	88,949
Management and performance fees	621	1,388	2,028	3,125
Investment income	215	4,998	14,920	15,376
Long-term financing expenses	(1,553)	(1,705)	(3,113)	(3,445)
Net revenues	146,164	148,059	288,331	296,500
Operating expenses (1)	123,687	124,691	239,890	245,621
Segment pre-tax operating income	$22,477	$23,368	$48,441	$50,879
Segment pre-tax operating margin	15.4%	15.8%	16.8%	17.2%

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(Dollars in thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Asset Management				
Management and performance fees				
Management fees	$18,436	$20,600	$37,543	$39,736
Performance fees	200	278	208	364
Total management and performance fees	18,636	20,878	37,751	40,100
Investment income/(loss)	(734)	1,094	(145)	1,564
Net revenues	17,902	21,972	37,606	41,664
Operating expenses (1)	14,520	14,923	28,896	29,413
Segment pre-tax operating income	$3,382	$7,049	$8,710	$12,251
Segment pre-tax operating margin	18.9%	32.1%	23.2%	29.4%
Total				
Net revenues	$164,066	$170,031	$325,937	$338,164
Operating expenses (1)	138,207	139,614	268,786	275,034
Pre-tax operating income	$25,859	$30,417	$57,151	$63,130
Pre-tax operating margin	15.8%	17.9%	17.5%	18.7%

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

(Dollars in thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Capital Markets	$263	$743	$526	$1,486
Asset Management	1,510	1,575	3,020	3,150
Total intangible asset amortization expense	$1,773	$2,318	$3,546	$4,636

Reportable segment assets are as follows:

(Dollars in thousands)	June 30, 2015	December 31, 2014
Capital Markets	$2,130,616	$2,352,404
Asset Management	279,780	271,513
	$2,410,396	$2,623,917

Note 16 Net Capital Requirements and Other Regulatory Matters

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

At June 30, 2015, net capital calculated under the SEC rule was $166.1 million, and exceeded the minimum net capital required under the SEC rule by $165.1 million.

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

Piper Jaffray Ltd., a broker dealer subsidiary registered in the United Kingdom, was subject to the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority. As of June 30, 2015, Piper Jaffray Ltd. was in compliance with the capital requirements of the Prudential Regulation Authority and the Financial Conduct Authority.

Note 17 Subsequent Events

On July 11, 2015, the Company entered into a definitive agreement to acquire the assets of River Branch Holdings LLC. The transaction is expected to close in the third quarter of 2015, subject to regulatory approvals and other customary closing conditions.

On July 19, 2015, the Company reached a definitive agreement with BMO Financial Corp. to acquire BMO Capital Markets GKST Inc. The transaction is expected to close in the fourth quarter of 2015, subject to regulatory approvals and other customary closing conditions.

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

The following information should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes and exhibits included elsewhere in this report. Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements include, among other things, statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, and also may include our belief regarding the effect of various legal proceedings, as set forth under "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2014 and in our subsequent reports filed with the SEC. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, 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 and (3) compensation from acquisition-related agreements. These adjustments affect the following financial measures: net revenues, compensation expenses, non-compensation expenses, net income applicable to Piper Jaffray Companies, earnings per diluted common share, segment net revenues, segment operating expenses, segment pre-tax operating income and segment pre-tax operating margin. Management believes that presenting these results and measures on an adjusted basis in conjunction with U.S. GAAP measures provides the most meaningful basis for comparison of our operating results across periods.

Executive Overview

Our business principally consists of providing investment banking, institutional brokerage, asset management and related financial services to corporations, private equity groups, public entities, non-profit entities and institutional investors in the United States and Europe. We operate through two reportable business segments: Capital Markets and Asset Management. Refer to our Annual Report on Form 10-K for the year ended December 31, 2014 for a full description of our business.

On July 11, 2015, we entered into a definitive agreement to acquire the assets of River Branch Holdings LLC, an equity investment banking boutique focused on the financial institutions sector. The transaction is expected to close in the third quarter of 2015, subject to regulatory approval and customary closing conditions. This acquisition will further strengthen our mergers and acquisitions leadership and add significant investment banking resources dedicated to banks, thrifts, and depository institutions, building upon the recent expansion of our financial institutions group.

On July 19, 2015, we reached a definitive agreement with BMO Financial Corp. to acquire BMO Capital Markets GKST Inc., BMO's municipal bond sales, trading and origination business. The transaction is expected to close in the fourth quarter of 2015, subject to regulatory approval and customary closing conditions. This acquisition will expand our fixed income institutional sales, trading and underwriting platforms. Additionally, it will strengthen our strategic capabilities as we continue to build out our financial institutions franchise.

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Results for the three and six months ended June 30, 2015

Net income applicable to Piper Jaffray Companies in the second quarter of 2015 was $17.0 million, or $1.08 per diluted common share, compared with $18.2 million, or $1.11 per diluted common share, for the prior-year period. Net revenues for the three months ended June 30, 2015 were $164.1 million, a decrease of 3.5 percent from $170.0 million reported in the year-ago period, due primarily to investment losses in the current quarter compared to investment income in the second quarter of 2014. For the three months ended June 30, 2015, non-compensation expenses were $34.7 million, down 5.2 percent compared with $36.5 million in the second quarter of 2014.

For the three months ended June 30, 2015, adjusted net income applicable to Piper Jaffray Companies was $18.6 million[(1)], or $1.19[(1)] per diluted common share, compared with $20.5 million[(1)], or $1.25[(1)] per diluted common share, for the prior-year period. Adjusted net revenues for the three months ended June 30, 2015 were $163.9 million[(1)], a decrease of 1.7 percent from $166.7 million[(1)] reported in the year-ago period. For the three months ended June 30, 2015, adjusted non-compensation expenses were $32.0 million[(1)], down 3.1 percent from $33.0 million[(1)] for the three months ended June 30, 2014.

Net income applicable to Piper Jaffray Companies in the first half of 2015 was $34.0 million, or $2.11 per diluted common share, compared with $36.0 million, or $2.21 per diluted common share, for the prior-year period. For the twelve months ended June 30, 2015, we generated a rolling twelve month return on average common shareholders' equity of 7.5 percent, compared with 9.2 percent for the rolling twelve months ended June 30, 2014. Net revenues for the six months ended June 30, 2015 were $325.9 million, down 3.6 percent from $338.2 million in the year-ago period, due to lower equity and fixed income institutional brokerage revenues, and lower asset management revenues. For the six months ended June 30, 2015, non-compensation expenses were $69.4 million, a decrease of 2.9 percent compared with $71.5 million for the six months ended June 30, 2014.

In the first half of 2015, adjusted net income applicable to Piper Jaffray Companies was $37.5 million[(1)], or $2.33[(1)] per diluted common share, compared with $40.5 million[(1)], or $2.49[(1)] per diluted common share, for the prior-year period. Adjusted net revenues for the six months ended June 30, 2015 decreased 2.6 percent to $319.6 million[(1)], compared with $328.2 million[(1)] reported in the year-ago period. In the first half of 2015, adjusted non-compensation expenses were $63.7 million[(1)], down slightly from $64.2 million[(1)] for the six months ended June 30, 2014.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2015	2014	2015	2014
Net revenues:				
Net revenues – U.S. GAAP basis	$164,066	$170,031	$325,937	$338,164
Adjustments:				
Revenue related to noncontrolling interests	(187)	(3,333)	(6,319)	(9,969)
Adjusted net revenues	$163,879	$166,698	$319,618	$328,195
Non-compensation expenses:				
Non-compensation expenses – U.S. GAAP basis	$34,653	$36,538	$69,375	$71,469
Adjustments:				
Non-compensation expenses related to noncontrolling interests	(869)	(1,178)	(2,171)	(2,676)
Amortization of intangible assets related to acquisitions	(1,773)	(2,318)	(3,546)	(4,636)

Adjusted non-compensation expenses	$32,011	$33,042	$63,658	$64,157
Net income applicable to Piper Jaffray Companies:				
Net income applicable to Piper Jaffray Companies – U.S. GAAP basis	$16,999	$18,213	$33,971	$35,961
Adjustments:				
Compensation from acquisition-related agreements	552	865	1,316	1,653
Amortization of intangible assets related to acquisitions	1,083	1,416	2,166	2,915
Adjusted net income applicable to Piper Jaffray Companies	$18,634	$20,494	$37,453	$40,529
Earnings per diluted common share:				
Earnings per diluted common share – U.S. GAAP basis	$1.08	$1.11	$2.11	$2.21
Adjustments:				
Compensation from acquisition-related agreements	0.04	0.05	0.08	0.10
Amortization of intangible assets related to acquisitions	0.07	0.09	0.13	0.18
Adjusted earnings per diluted common share	$1.19	$1.25	$2.33	$2.49

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External Factors Impacting Our Business

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

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

Outlook for the remainder of 2015

We expect the U.S. economy to continue to strengthen in the second half of 2015. Exogenous factors, like continued weakening in major economies internationally or significant geopolitical events or conflicts, could adversely impact the rate of growth in the U.S. and continue to inject volatility into the U.S. equity and debt markets. The Federal Reserve has signaled its intention to begin raising short-term interest rates in the second half of 2015; however, changes in the economic outlook and unanticipated developments could impact the timing of this plan.

Municipal debt underwriting activity continued to increase in the second quarter of 2015 driven by market-wide increases in municipal issuance volume. The level of municipal debt underwriting activity for 2015 is expected to be considerably higher than 2014, assuming that interest rate increases remain moderate. A gradual increase in interest rates in 2015 generally should be accommodative to our fixed income institutional brokerage business. We intend to maintain a conservative bias in managing our inventories and hedging strategies to mitigate market volatility and our exposure to interest rates.

As to our businesses tied to the equity markets, we expect market conditions generally to be accommodative if the U.S. economy continues to strengthen in 2015. We believe that the equity markets will continue to appreciate in 2015, but at more modest levels than recent years and may include a period of market correction. While periods of heightened volatility during this time would benefit our equity sales and trading business, a period of sustained market correction may be disruptive to our capital raising.

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

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Results of Operations

To provide comparative information of our operating results for the periods presented, a discussion of adjusted segment results follows the discussion of our total consolidated U.S. GAAP results. Our adjusted segment results exclude certain revenue and expenses required under U.S. GAAP. See the sections titled "Explanation of Non-GAAP Financial Measures" and "Segment Performance" in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional discussion and reconciliations.

Financial Summary for the three months ended June 30, 2015 and June 30, 2014

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

	Three Months Ended June 30,			As a Percentage of Net Revenues for the Three Months Ended June 30,	
(Dollars in thousands)	2015	2014	2015 v2014	2015	2014
Revenues:					
Investment banking	$106,069	$103,813	2.2 %	64.7 %	61.1 %
Institutional brokerage	36,661	34,528	6.2	22.3	20.3
Asset management	19,257	22,266	(13.5)	11.7	13.1
Interest	11,422	12,448	(8.2)	7.0	7.3
Investment income/(loss)	(3,299)	2,921	N/M	(2.0)	1.7
Total revenues	170,110	175,976	(3.3)	103.7	103.5
Interest expense	6,044	5,945	1.7	3.7	3.5
Net revenues	164,066	170,031	(3.5)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	103,554	103,076	0.5	63.1	60.6
Outside services	8,885	9,914	(10.4)	5.4	5.8
Occupancy and equipment	6,983	7,061	(1.1)	4.3	4.2
Communications	5,088	5,432	(6.3)	3.1	3.2
Marketing and business development	7,239	6,709	7.9	4.4	3.9
Trade execution and clearance	1,977	1,788	10.6	1.2	1.1
Intangible asset amortization expense	1,773	2,318	(23.5)	1.1	1.4
Other operating expenses	2,708	3,316	(18.3)	1.7	2.0
Total non-interest expenses	138,207	139,614	(1.0)	84.2	82.1
Income before income tax expense	25,859	30,417	(15.0)	15.8	17.9
Income tax expense	9,542	10,049	(5.0)	5.8	5.9
Net income	16,317	20,368	(19.9)	9.9	12.0
	(682)	2,155	N/M	(0.4)	1.3

Net income/(loss) applicable to noncontrolling interests					
Net income applicable to Piper Jaffray Companies	$16,999	$18,213	(6.7)%	10.4%	10.7%

N/M – Not meaningful

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For the three months ended June 30, 2015, we recorded net income applicable to Piper Jaffray Companies of $17.0 million. Net revenues for the three months ended June 30, 2015 were $164.1 million, a 3.5 percent decrease compared to $170.0 million in the year-ago period. In the second quarter of 2015, investment banking revenues were $106.1 million, compared with $103.8 million in the prior-year period as higher debt financing revenues were partially offset by a decline in equity financing revenues. For the three months ended June 30, 2015, institutional brokerage revenues increased to $36.7 million, compared with $34.5 million in the second quarter of 2014, due to higher equity institutional brokerage revenues. In the second quarter of 2015, asset management fees of $19.3 million were down 13.5 percent compared with $22.3 million in the second quarter of 2014 due primarily to lower management fees from our value equity product offerings resulting from decreased assets under management driven by client outflows. For the three months ended June 30, 2015, net interest income decreased to $5.4 million, compared with $6.5 million in the prior-year period. The decrease primarily resulted from lower interest income earned on mortgage-backed and agency securities, as well as lower income earned on merchant banking-related investments. For the three months ended June 30, 2015, we recorded an investment loss of $3.3 million, compared with income of $2.9 million in the prior-year period, as we recorded losses associated with our investment and the noncontrolling interests in the merchant banking fund that we manage, as well as losses on our investments in registered funds that we manage. Non-interest expenses were $138.2 million for the three months ended June 30, 2015, down slightly compared to $139.6 million in the prior year.

Consolidated Non-Interest Expenses

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

For the three months ended June 30, 2015, compensation and benefits expenses increased slightly to $103.6 million, compared with $103.1 million in the corresponding period of 2014. Compensation and benefits expenses as a percentage of net revenues was 63.1 percent in the second quarter of 2015, compared with 60.6 percent in the second quarter of 2014. The increased compensation ratio was attributable to a change in our mix of revenues driven by losses recorded on our registered funds and merchant banking investments as well as additional expenses related to significant hiring efforts surrounding our financial institutions group.

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 10.4 percent to $8.9 million in the second quarter of 2015, compared with $9.9 million in the corresponding period of 2014. Excluding the portion of expenses from non-controlled equity interests in our consolidated alternative asset management funds, outside services expenses decreased 4.6 percent due primarily to lower outside legal fees.

Occupancy and Equipment – For the three months ended June 30, 2015, occupancy and equipment expenses were $7.0 million, essentially flat with the corresponding period of 2014.

Communications – Communication expenses include costs for telecommunication and data communication, primarily consisting of expenses for obtaining third party market data information. For the three months ended June 30, 2015, communication expenses decreased 6.3 percent to $5.1 million, compared with $5.4 million for the three months ended June 30, 2014, due to lower market data services.

Marketing and Business Development – Marketing and business development expenses include travel and entertainment costs, advertising and third party marketing fees. For the three months ended June 30, 2015, marketing and business development expenses increased 7.9 percent to $7.2 million, compared with $6.7 million for the three months ended June 30, 2014, due to higher travel expenses.

Trade Execution and Clearance – For the three months ended June 30, 2015, trade execution and clearance expenses were $2.0 million, compared with $1.8 million in the corresponding period of 2014, due to higher trading expenses resulting from increased equity trading volumes.

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Intangible Asset Amortization Expense – Intangible asset amortization expense includes the amortization of definite-lived intangible assets consisting of customer relationships and non-competition agreements. For the three months ended June 30, 2015, intangible asset amortization expense was $1.8 million, compared with $2.3 million in the three months ended June 30, 2014.

Other Operating Expenses – Other operating expenses include insurance costs, license and registration fees, expenses related to our charitable giving program and litigation-related expenses, which consist of the amounts we reserve and/or pay out related to legal and regulatory matters. Other operating expenses were $2.7 million in the second quarter of 2015, compared with $3.3 million in the second quarter of 2014. The reduction in other operating expenses was due to lower litigation-related expenses.

Income Taxes – For the three months ended June 30, 2015, our provision for income taxes was $9.5 million equating to an effective tax rate, excluding noncontrolling interests, of 36.0 percent, compared with $10.0 million in the prior-year period equating to an effective tax rate, excluding noncontrolling interests, of 35.6 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 and segment pre-tax operating margin are used to evaluate and measure segment performance by our chief operating decision maker in deciding how to allocate resources and in assessing performance in relation to our competitors. Revenues and expenses directly associated with each respective segment are included in determining segment operating results. Revenues and expenses that are not directly attributable to a particular segment are allocated based upon our allocation methodologies, generally based on each segment's respective net revenues, use of shared resources, headcount or other relevant measures.

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

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

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Capital Markets

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

	Three Months Ended June 30,							
	2015				2014			
		Adjustments (1)				Adjustments (1)		
	Total	Noncontrolling	Other	U.S.	Total	Noncontrolling	Other	U.S.
(Dollars in thousands)	Adjusted	Interests	Adjustments	GAAP	Adjusted	Interests	Adjustments	GAAP
Investment banking								
Financing								
Equities	$35,755	$—	$—	$35,755	$44,058	$—	$—	$44,058
Debt	30,098	—	—	30,098	20,174	—	—	20,174
Advisory services	40,139	—	—	40,139	39,695	—	—	39,695
Total investment banking	105,992	—	—	105,992	103,927	—	—	103,927
Institutional sales and trading								
Equities	20,407	—	—	20,407	18,366	—	—	18,366
Fixed income	20,482	—	—	20,482	21,085	—	—	21,085
Total institutional sales and trading	40,889	—	—	40,889	39,451	—	—	39,451
Management and performance fees	621	—	—	621	1,388	—	—	1,388
Investment income	28	187	—	215	1,665	3,333	—	4,998
Long-term financing expenses	(1,553)	—	—	(1,553)	(1,705)	—	—	(1,705)
Net revenues	145,977	187	—	146,164	144,726	3,333	—	148,059
Operating expenses	121,651	869	1,167	123,687	121,675	1,178	1,838	124,691

Segment pre-tax operating income	$24,326	$(682)	$(1,167)	$22,477	$23,051	$2,155	$(1,838)	$23,368
Segment pre-tax operating margin	16.7 %			15.4 %	15.9 %			15.8 %

(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.

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:

	Three Months Ended June 30,	
(Dollars in thousands)	2015	2014
Compensation from acquisition-related agreements	$904	$1,095
Amortization of intangible assets related to acquisitions	263	743
	$1,167	$1,838

Capital Markets adjusted net revenues were $146.0 million for the three months ended June 30, 2015, compared with $144.7 million in the prior-year period.

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

In the second quarter of 2015, investment banking revenues increased 2.0 percent to $106.0 million, compared with $103.9 million in the corresponding period of the prior year. For the three months ended June 30, 2015, equity financing revenues were $35.8 million, a decrease of 18.8 percent compared with $44.1 million in the prior-year period, due to lower revenues from private placement and convertibles transactions. During the second quarter of 2015, we completed 27 equity financings, raising $6.1 billion for our clients, compared with 33 equity financings, raising $9.2 billion for our clients in the comparable year-ago period. Debt financing revenues for the three months ended June 30, 2015 were $30.1 million, up 49.2 percent compared with $20.2 million in the year-ago period, due to higher public finance revenues from more completed transactions, driven by market-wide increases in municipal issuance volume. We also realized market share gains attributable to our geographic expansion and other growth initiatives. During the second quarter of 2015, we completed 155 negotiated public finance issues with a total par value of $3.9 billion, compared with 112 negotiated public finance issues with a total par value of $2.4 billion during the prior-year period. For the three months ended June 30, 2015, advisory services revenues were $40.1 million, up slightly compared with $39.7 million in the second quarter of 2014. We completed 14 transactions with an aggregate enterprise value of $3.5 billion in the second quarter of 2015, compared with 16 transactions with an aggregate enterprise value of $3.7 billion in the second quarter of 2014.

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

For the three months ended June 30, 2015, institutional brokerage revenues were $40.9 million, compared with $39.5 million in the prior-year period. Equity institutional brokerage revenues increased 11.1 percent to $20.4 million in the second quarter of 2015, compared with $18.4 million in the corresponding period of 2014, due to higher client trading volumes, which included additional activity from our financial institutions group expansion. For the three months ended June 30, 2015, fixed income institutional brokerage revenues were $20.5 million, down slightly compared with $21.1 million in the prior-year period.

Management and performance fees include the fees generated from our municipal bond and merchant banking funds. For the three months ended June 30, 2015, management and performance fees were $0.6 million, compared with $1.4 million in the prior-year period, due to lower performance fees from our municipal bond fund. In the second quarter of 2015, we notified third party investors of our intention to close the municipal bond fund by the end of 2015.

Adjusted investment income includes realized and unrealized gains and losses on our investments in the merchant banking fund and the municipal bond fund that we manage for third party investors, and other firm investments. For the three months ended June 30, 2015, adjusted investment income was not significant, compared to $1.7 million in the corresponding period of 2014. In the second quarter of 2014, we recorded gains on our investments in the merchant banking and municipal bond funds that we manage.

Long-term financing expenses primarily represent interest paid on our variable rate senior notes. For the three months ended June 30, 2015, long-term financing expenses decreased slightly to $1.6 million, compared with $1.7 million in the prior-year period.

Capital Markets adjusted segment pre-tax operating margin for the three months ended June 30, 2015 increased to 16.7 percent, compared with 15.9 percent for the corresponding period of 2014.

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Asset Management

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

	Three Months Ended June 30,							
	2015				2014			
		Adjustments [1]				Adjustments [1]		
(Dollars in thousands)	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP	Total Adjusted	Noncontrolling Interests	Other Adjustments	U.S. GAAP
Management fees								
Value equity	$9,548	$—	$—	$9,548	$12,907	$—	$—	$12,907
MLP	8,888	—	—	8,888	7,693	—	—	7,693
Total management fees	18,436	—	—	18,436	20,600	—	—	20,600
Performance fees								
Value equity	200	—	—	200	109	—	—	109
MLP	—	—	—	—	169	—	—	169
Total performance fees	200	—	—	200	278	—	—	278
Total management and performance fees	18,636	—	—	18,636	20,878	—	—	20,878
Investment income/(loss)	(734)	—	—	(734)	1,094	—	—	1,094
Total net revenues	17,902	—	—	17,902	21,972	—	—	21,972
Operating expenses	13,010	—	1,510	14,520	13,027	—	1,896	14,923
Segment pre-tax operating income	$4,892	$—	$(1,510)	$3,382	$8,945	$—	$(1,896)	$7,049
Segment pre-tax operating margin	27.3%			18.9%	40.7%			32.1%

(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:

	Three Months Ended June 30,	
(Dollars in thousands)	2015	2014
Compensation from acquisition-related agreements	$—	$321
Amortization of intangible assets related to acquisitions	1,510	1,575
	$1,510	$1,896

Management and performance fee revenues comprise the revenues generated through management and investment advisory services performed for separately managed accounts, registered funds and partnerships. Investment performance and client asset inflows and outflows have a direct effect on management and performance fee revenues. Management fees are generally based on the level of assets under management ("AUM") measured monthly or quarterly, and an increase or reduction in 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 June 30, 2015, approximately three percent of our AUM was eligible to earn performance fees.

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For the three months ended June 30, 2015, management fees were $18.4 million, a decrease of 10.5 percent, compared with $20.6 million in the prior-year period, due to lower management fees from our value equity product offerings, partially offset by increased management fees from our MLP product offerings. In the second quarter of 2015, management fees related to our value equity strategies were $9.5 million, down 26.0 percent compared to $12.9 million in the corresponding period of 2014. The decrease was due to lower AUM from net client outflows and market depreciation, as well as a lower average effective revenue yield. The average effective revenue yield for our value equity strategies was 69 basis points for the second quarter of 2015, compared with 78 basis points for the prior-year period. This decline in the average effective revenue yield was driven by new assets from large institutional investors subject to a lower fee structure. Management fees from our MLP strategies increased 15.5 percent in the second quarter of 2015 to $8.9 million, compared with $7.7 million in the second quarter of 2014, due to a higher effective revenue yield. The average effective revenue yield for our MLP strategies was 60 basis points for the three months ended June 30, 2015, compared to 51 basis points for the corresponding period in the prior year. The increase in the average effective revenue yield was due to more assets from individual investors in open-ended funds, which earn higher fees.

For the three months ended June 30, 2015, performance fees were $0.2 million, essentially flat compared with the prior-year period.

Investment income/(loss) includes gains and losses from our investments in registered funds and private funds or partnerships that we manage. For the three months ended June 30, 2015, investment loss was $0.7 million compared with investment income of $1.1 million for the prior-year period.

Adjusted segment pre-tax operating margin for the three months ended June 30, 2015 was 27.3 percent, compared to 40.7 percent for the three months ended June 30, 2014. The decrease resulted from lower net revenues.

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

(Dollars in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Twelve Months Ended June 30, 2015
Value Equity			
Beginning of period	$5,636	$6,431	$6,577
Net inflows/(outflows)	153	(225)	(611)
Net market appreciation/(depreciation)	(32)	371	(209)
End of period	$5,757	$6,577	$5,757
MLP			
Beginning of period	$5,777	$5,068	$6,036
Net inflows	53	201	418
Net market appreciation/(depreciation)	(204)	767	(828)
End of period	$5,626	$6,036	$5,626
Total			
Beginning of period	$11,413	$11,499	$12,613
Net inflows/(outflows)	206	(24)	(193)
Net market appreciation/(depreciation)	(236)	1,138	(1,037)
End of period	$11,383	$12,613	$11,383

Total AUM was $11.4 billion at June 30, 2015. Value equity AUM increased to $5.8 billion at June 30, 2015, compared with $5.6 billion at March 31, 2015. MLP AUM was $5.6 billion at June 30, 2015, compared with $5.8 billion at March 31, 2015.

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Financial Summary for the six months ended June 30, 2015 and June 30, 2014

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

	Six Months Ended June 30,			As a Percentage of Net Revenues for the Six Months Ended June 30,	
(Dollars in thousands)	2015	2014	2015 v2014	2015	2014
Revenues:					
Investment banking	$193,146	$192,287	0.4 %	59.3 %	56.9 %
Institutional brokerage	72,697	78,562	(7.5)	22.3	23.2
Asset management	39,779	43,225	(8.0)	12.2	12.8
Interest	23,627	26,107	(9.5)	7.2	7.7
Investment income	9,292	9,689	(4.1)	2.9	2.9
Total revenues	338,541	349,870	(3.2)	103.9	103.5
Interest expense	12,604	11,706	7.7	3.9	3.5
Net revenues	325,937	338,164	(3.6)	100.0	100.0
Non-interest expenses:					
Compensation and benefits	199,411	203,565	(2.0)	61.2	60.2
Outside services	17,069	18,682	(8.6)	5.2	5.5
Occupancy and equipment	13,766	13,839	(0.5)	4.2	4.1
Communications	11,416	11,387	0.3	3.5	3.4
Marketing and business development	14,221	12,960	9.7	4.4	3.8
Trade execution and clearance	3,974	3,622	9.7	1.2	1.1
Intangible asset amortization expense	3,546	4,636	(23.5)	1.1	1.4
Other operating expenses	5,383	6,343	(15.1)	1.7	1.9
Total non-interest expenses	268,786	275,034	(2.3)	82.5	81.3
Income before income tax expense	57,151	63,130	(9.5)	17.5	18.7
Income tax expense	19,032	19,876	(4.2)	5.8	5.9
Net income	38,119	43,254	(11.9)	11.7	12.8
Net income applicable to noncontrolling interests	4,148	7,293			