

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

Piper Jaffray & Co.

(A Wholly Owned Subsidiary of Piper Jaffray Companies)

SEC File Number: 8-1-5204

Year Ended December 31, 2014

With Report of Independent Registered Public Accounting Firm

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Year Ended December 31, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholder
Piper Jaffray & Co.

We have audited the accompanying consolidated statement of financial condition of Piper Jaffray & Co. (the Company) as of December 31, 2014. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of Piper Jaffray & Co. as of December 31, 2014, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Minneapolis, Minnesota
February 25, 2015

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(Dollars in thousands)

Assets

Cash and cash equivalents	\$ 3,964
Cash and cash equivalents segregated for regulatory purposes	25,011
Receivables:	
Customers	9,658
Brokers, dealers and clearing organizations	150,987
Securities purchased under agreements to resell	308,165
Financial instruments and other inventory positions owned	460,044
Financial instruments and other inventory positions owned and pledged as collateral	499,660
Total financial instruments and other inventory positions owned	<u>959,704</u>
Fixed assets (net of accumulated depreciation and amortization of \$43,984)	16,168
Goodwill	15,034
Intangible assets (net of accumulated amortization of \$4,321)	2,344
Investments	64,456
Other assets	80,685
Total assets	<u>\$ 1,636,176</u>

Liabilities and Shareholder's Equity

Short-term financing	\$ 250,013
Payables:	
Customers	13,328
Brokers, dealers and clearing organizations	14,516
Securities sold under agreements to repurchase	102,646
Financial instruments and other inventory positions sold, but not yet purchased	505,647
Accrued compensation	172,126
Intercompany payable to Parent Company	96,585
Other liabilities and accrued expenses	33,965
Total liabilities	<u>1,188,826</u>
Shareholder's equity:	
Preferred stock, \$0.01 par value; 3,000 shares authorized, none issued and outstanding	—
Common stock, \$0.01 par value; 1,000 shares authorized, 459 issued and outstanding	—
Additional paid-in capital	424,269
Retained earnings	22,806
Total common shareholder's equity	<u>447,075</u>
Noncontrolling interests	275
Total shareholder's equity	<u>447,350</u>
Total liabilities and shareholder's equity	<u>\$ 1,636,176</u>

See Notes to the Consolidated Statement of Financial Condition

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Note 1 *Organization and Basis of Presentation*

Organization

Piper Jaffray & Co. ("Piper Jaffray" or the "Company") is a wholly owned subsidiary of Piper Jaffray Companies ("Parent Company"). The Parent Company is a public holding company incorporated in Delaware and traded on the New York Stock Exchange ("NYSE"). The Company is a self-clearing securities broker dealer and investment banking firm registered under the Securities and Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA"). As such, the Company trades and effects transactions in listed and unlisted equity and fixed income securities, underwrites equity and municipal debt offerings and provides various other financial services.

Basis of Presentation

The accompanying consolidated statement of financial condition has been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and include the accounts of Piper Jaffray 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. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a private equity investment vehicle. All material intercompany balances have been eliminated.

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

Note 2 *Summary of Significant Accounting Policies*

Principles of Consolidation

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE").

Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable each entity to finance itself independently and (ii) the equity holders have the obligation to absorb losses, the right to receive residual returns and the right or power to make decisions about or direct the entity's activities that most significantly impact the entity's economic performance. Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations," ("ASC 810") states that the usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. Accordingly, the Company consolidates voting interest entities in which it has all, or a majority of, the voting interests.

VIEs are entities that lack one or more of the characteristics of a voting interest entity. With the exception of entities eligible for the deferral codified in FASB Accounting Standards Update ("ASU") No. 2010-10, "Consolidation: Amendments for Certain Investment Funds," ("ASU 2010-10") (generally asset managers and investment companies), ASC 810 states that a controlling financial interest in a VIE is present when an enterprise has one or more variable interests that have both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the entity or the rights to receive benefits from the VIE that could potentially be significant to the VIE. Accordingly, the Company consolidates VIEs in which the Company has a controlling financial interest.

Entities meeting the deferral provision defined by ASU 2010-10 are evaluated under the historical VIE guidance. Under the historical guidance, a controlling financial interest in an entity is present when an enterprise has one or more variable interests that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual

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returns, or both. The enterprise with a controlling financial interest is the primary beneficiary and consolidates the VIE. Accordingly, the Company consolidates VIEs subject to the deferral provisions defined by ASU 2010-10 in which the Company is deemed to be the primary beneficiary.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies (generally defined as owning a voting or economic interest of between 20 percent to 50 percent), the Company's investment is accounted for under the equity method of accounting. The Company accounts for its investments in partnerships under the equity method of accounting. If the Company does not have a controlling financial interest in, or exert significant influence over, an entity, the Company accounts for its investment at fair value, if the fair value option was elected, or at cost.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of 90 days or less at the date of origination.

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Piper Jaffray, as a registered broker dealer carrying customer accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers.

Customer Transactions

Customer securities transactions are recorded on a settlement date basis, while the related revenues and expenses are recorded on a trade-date basis. Customer receivables and payables include amounts related to both cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the consolidated statement of financial condition.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include receivables arising from unsettled securities transactions, deposits paid for securities borrowed, receivables from clearing organizations, deposits with clearing organizations and amounts receivable for securities not delivered to the purchaser by the settlement date ("securities failed to deliver"). Payables to brokers, dealers and clearing organizations include payables arising from unsettled securities transactions, payables to clearing organizations and amounts payable for securities not received from a seller by the settlement date ("securities failed to receive"). Unsettled securities transactions related to the Company's operations are recorded at contract value on a net basis.

Collateralized Securities Transactions

Securities purchased under agreements to resell and securities sold under agreements to repurchase are carried at the contractual amounts at which the securities will be subsequently resold or repurchased, including accrued interest. It is the Company's policy to take possession or control of securities purchased under agreements to resell at the time these agreements are entered into. The counterparties to these agreements typically are primary dealers of U.S. government securities and major financial institutions. Collateral is valued daily, and additional collateral is obtained from or refunded to counterparties when appropriate.

Securities borrowed and loaned result from transactions with other broker dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. These amounts are included in receivables from and payables to brokers, dealers and clearing organizations on the consolidated statement of financial condition. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash with the Company. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

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Interest is accrued on securities borrowed and loaned transactions and is included in other assets or other liabilities and accrued expenses on the consolidated statement of financial condition.

Fair Value of Financial Instruments

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased on the consolidated statement of financial condition consist of financial instruments (including securities with extended settlements and derivative contracts) recorded at fair value. Securities (both long and short), including securities with extended settlements, are recognized on a trade-date basis. Additionally, certain of the Company's investments on the consolidated statement of financial condition are recorded at fair value, either as required by accounting guidance or through the fair value election.

Fair Value Measurement – Definition and Hierarchy – FASB Accounting Standards Codification Topic 820, “Fair Value Measurement,” (“ASC 820”) defines fair value as the amount at which an instrument could be exchanged in an orderly transaction between market participants at the measurement date (the exit price). ASC 820 establishes a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management's assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level I – Quoted prices (unadjusted) are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these financial instruments include instruments for which quoted prices are available but traded less frequently, instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III – Instruments that have little to no pricing observability as of the report date. These financial instruments are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Valuation of Financial Instruments – Based on the nature of the Company's business and its role as a “dealer” in the securities industry, the fair values of its financial instruments are determined internally. When available, the Company values financial instruments at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of financial instruments transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the financial instrument is principally traded.

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

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For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires the Company to estimate the value of the securities using the best information available. Among the factors considered by the Company in determining the fair value of such financial instruments are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where the Company derives the value of a security based on information from an independent source, certain assumptions may be required to determine the security's fair value. For instance, the Company assumes that the size of positions in securities that the Company holds would not be large enough to affect the quoted price of the securities if the firm sells them, and that any such sale would happen in an orderly manner. The actual value realized upon disposition could be different from the currently estimated fair value.

Fixed Assets

Fixed assets include furniture and equipment, software and leasehold improvements. Furniture and equipment and software are depreciated using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over their estimated useful life or the life of the lease, whichever is shorter. The Company capitalizes certain costs incurred in connection with internal use software projects and amortizes the amount over the expected useful life of the asset, generally three to seven years.

Leases

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

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

Cash or lease incentives received upon entering into certain leases are recognized on a straight-line basis as a reduction of rent expense from the date the Company takes possession of the property or receives the cash to the end of the initial lease term. The Company records the unamortized portion of lease incentives as part of other liabilities and accrued expenses.

Goodwill and Intangible Assets

Goodwill represents the fair value of the consideration transferred in excess of the fair value of identifiable net assets at the acquisition date. The recoverability of goodwill is evaluated annually, at a minimum, or on an interim basis if circumstances indicate a possible inability to realize the carrying amount. See Note 12 for additional information on the Company's goodwill impairment testing.

Intangible assets with determinable lives consist of customer relationships and non-competition agreements that are amortized over their original estimated useful lives ranging from two to five years.

Investments

The Company's proprietary investments include equity investments in private companies and partnerships, investments in public companies, investments in registered mutual funds, and warrants of public and private companies. Equity investments in private companies are accounted for at fair value, as required by accounting guidance or if the fair value

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option was elected, or at cost. Investments in partnerships are accounted for under the equity method, which is generally the net asset value. Exchange traded direct equity investments in public companies and registered mutual funds are accounted for at fair value. Company-owned warrants with a cashless exercise option are valued at fair value, while warrants without a cashless exercise option are valued at cost.

Other Assets

Other assets include net deferred income tax assets, receivables and prepaid expenses. Receivables include fee receivables, accrued interest and loans made to employees, typically in connection with their recruitment. Employee loans are forgiven based on continued employment and are amortized using the straight-line method over the respective terms of the loans, which generally range from two to five years.

Income Taxes

The Company is included in the consolidated U.S. federal income tax return filed by the Parent Company on a calendar year basis, combined returns for state tax purposes where required and separate state income tax returns where required. The Company determines and records income taxes based upon the provisions of a tax sharing arrangement with the Parent Company and U.S. affiliated entities. Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. Uncertain tax positions are recognized if they are more likely than not to be sustained upon examination, based on the technical merits of the position. The amount of tax benefit recognized is the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. The Company recognizes interest and penalties, if any, related to income tax matters as part of the provision for income taxes.

Contingencies

The Company is involved in various pending and potential legal proceedings related to its business, including litigation, arbitration and regulatory proceedings. The Company establishes reserves for potential losses to the extent that claims are probable of loss and the amount of the loss can be reasonably estimated. The determination of the outcome and reserve amounts requires significant judgment on the part of management.

Note 3 Recent Accounting Pronouncements

Future Adoption of New Applicable Accounting Standards

Repurchase Agreements

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures," ("ASU 2014-11") amending FASB Accounting Standards Codification Topic 860, "Transfers and Servicing." The amended guidance changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. The guidance also requires new disclosures for certain transfers accounted for as sales and collateral supporting transactions that are accounted for as secured borrowings. ASU 2014-11 is effective for annual and interim periods beginning after December 15, 2014, except for the disclosures related to secured borrowings, which are effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of ASU 2014-11 is not expected to have a material impact on the Company's financial position, but may impact the Company's disclosures.

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

Financial instruments and other inventory positions owned and financial instruments and other inventory positions sold, but not yet purchased at December 31, 2014 were as follows:

(Dollars in thousands)

Financial instruments and other inventory positions owned:

Corporate securities:	
Equity securities	\$ 50,365
Convertible securities	156,685
Fixed income securities	48,651
Municipal securities:	
Taxable securities	27,495
Tax-exempt securities	236,055
Short-term securities	68,717
Asset-backed securities	125,065
U.S. government agency securities	244,046
U.S. government securities	2,549
Derivative contracts	76
	<u>\$ 959,704</u>

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

Corporate securities:	
Equity securities	\$ 154,589
Fixed income securities	21,460
U.S. government agency securities	27,735
U.S. government securities	301,674
Derivative contracts	189
	<u>\$ 505,647</u>

At December 31, 2014, financial instruments and other inventory positions owned in the amount of \$499.7 million 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 statement 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 and exchange-traded options.

Derivative Contract Financial Instruments

The Company enters into option contracts to economically hedge market value risk associated with its trading of convertible securities and asset-backed securities. As of December 31, 2014, the total absolute notional contract amount associated with the Company's outstanding equity option derivative contracts was \$19.4 million. The Company's option contracts do not qualify for hedge accounting. 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. As of December 31, 2014, the Company's derivative contracts are reported at gross fair market value on the consolidated statement of financial condition.

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Note 5 Fair Value of Financial Instruments

Based on the nature of the Company's business and its role as a "dealer" in the securities industry, 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 statement of financial condition.

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. When observable price quotations

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or certain observable inputs are not available, fair value is determined using model-based valuation techniques with observable inputs such as specific security contractual terms and yield curves, and unobservable inputs such as credit spreads over U.S. treasury securities. Corporate bonds measured using model-based valuation techniques are categorized as Level III.

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

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

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

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

U.S. government agency securities – U.S. government agency securities include agency debt bonds and mortgage bonds. Agency debt bonds are valued by using either direct price quotes or price quotes for comparable bond securities and are categorized as Level II. Mortgage bonds include bonds secured by mortgages, mortgage pass-through securities, agency collateralized mortgage-obligation ("CMO") securities and agency interest-only securities. Mortgage pass-through securities, CMO securities and interest-only securities are valued using recently executed observable trades or other observable inputs, such as prepayment speeds and therefore are generally categorized as Level II. Mortgage bonds are valued using observable market inputs, such as market yields ranging from 49-947 basis points ("bps") on spreads over U.S. treasury securities, or models based upon prepayment expectations ranging from 37-460 Public Securities Association ("PSA") prepayment levels. These securities are categorized as Level II.

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

Derivatives – Derivative contracts include equity options contracts, which 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.

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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, and warrants of public and private companies. 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. 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 equity investments at inception to reflect economic events in earnings on a timely basis. Equity investments of \$0.3 million, included within investments on the consolidated statement of financial condition, are accounted for at fair value and are classified as Level III assets at December 31, 2014.

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 December 31, 2014:

	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%
Asset-backed securities:				
Collateralized by residential mortgages				
	Discounted cash flow	Credit default rates (3)	1 - 8%	4.2%
		Prepayment rates (4)	2 - 21%	4.1%
		Loss severity (3)	31 - 95%	70.9%
		Valuation yields (3)	5 - 6%	5.3%
Investments at fair value:				
Warrants in public and private companies	Black-Scholes option pricing model	Liquidity discount rates (1)	30 - 40%	30.7%
Warrants in private companies	Black-Scholes option pricing model	Stock volatility factors of comparable companies (2)	26 - 54%	28.0%

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.

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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:

<i>(Dollars in thousands)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
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	—	27,495	—	27,495
Tax-exempt securities	—	234,869	1,186	236,055
Short-term securities	—	67,997	720	68,717
Asset-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	—	—	76
Total financial instruments and other inventory positions owned:	<u>41,816</u>	<u>791,233</u>	<u>126,655</u>	<u>959,704</u>
Cash equivalents	18	—	—	18
Investments at fair value	8,181	—	411	8,592
Total assets	<u>\$ 50,015</u>	<u>\$ 791,233</u>	<u>\$ 127,066</u>	<u>\$ 968,314</u>
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	301,674	—	—	301,674
Derivative contracts	189	—	—	189
Total financial instruments and other inventory positions sold, but not yet purchased:	<u>\$ 455,117</u>	<u>\$ 50,530</u>	<u>\$ —</u>	<u>\$ 505,647</u>

The Company's Level III assets were \$127.1 million, or 13.1 percent of financial instruments measured at fair value at December 31, 2014.

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 6 Variable Interest Entities

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

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VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities. The determination as to whether an entity is a VIE is based on the amount and nature of the members' equity investment in the entity. The Company also considers other characteristics such as the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance. For those entities that meet the deferral provisions defined by ASU 2010-10, the Company considers characteristics such as the ability to influence the decision making about the entity's activities and how the entity is financed. The Company has identified certain of the entities described above as VIEs. These VIEs had net assets approximating \$0.2 billion at December 31, 2014. The Company's exposure to loss from these VIEs is \$5.0 million, which is the carrying value of its capital contributions recorded in investments on the consolidated statement of financial condition at December 31, 2014. The Company had no liabilities related to these VIEs at December 31, 2014.

The Company is required to consolidate all VIEs for which it is considered to be the primary beneficiary. The determination as to whether the Company is considered to be the primary beneficiary is based on whether the Company has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. For those entities that meet the deferral provisions defined by ASU 2010-10, the determination as to whether the Company is considered to be the primary beneficiary differs in that it is based on whether the Company will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. The Company determined it is not the primary beneficiary of these VIEs and accordingly does not consolidate them. Furthermore, the Company has not provided financial or other support to these VIEs that it was not previously contractually required to provide as of December 31, 2014.

The Company also originates CMOs through secondary market vehicles. The Company's risk of loss with respect to these entities is limited to the fair value of the securities held by the Company.

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

Amounts receivable from brokers, dealers and clearing organizations at December 31, 2014 included:

(Dollars in thousands)

Receivable arising from unsettled securities transactions, net	\$	42,676
Deposits paid for securities borrowed		57,572
Receivable from clearing organizations		4,933
Deposits with clearing organizations		33,799
Securities failed to deliver		1,753
Other		10,254
		<u>\$ 150,987</u>

Amounts payable to brokers, dealers and clearing organizations at December 31, 2014 included:

(Dollars in thousands)

Payable to clearing organizations	\$	5,185
Securities failed to receive		2,430
Other		6,901
		<u>\$ 14,516</u>

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.

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Note 8 *Receivables from and Payables to Customers*

Amounts receivable from customers at December 31, 2014 included:

(Dollars in thousands)

Cash accounts	\$ 6,135
Margin accounts	<u>3,523</u>
Total receivables	<u><u>\$ 9,658</u></u>

Securities owned by customers are held as collateral for margin loan receivables. This collateral is not reflected on the consolidated statement of financial condition. Margin loan receivables earn interest at floating interest rates based on prime rates.

Amounts payable to customers at December 31, 2014 included:

(Dollars in thousands)

Cash accounts	\$ 13,172
Margin accounts	<u>156</u>
Total payables	<u><u>\$ 13,328</u></u>

Payables to customers primarily comprise certain cash balances in customer accounts consisting of customer funds pending settlement of securities transactions and customer funds on deposit. Except for amounts arising from customer short sales, all amounts payable to customers are subject to withdrawal by customers upon their request.

Note 9 *Collateralized Securities Transactions*

The Company's financing and customer securities activities involve the Company using securities as collateral. In the event that the counterparty does not meet its contractual obligation to return securities used as collateral (e.g., pursuant to the terms of a repurchase agreement), or customers do not deposit additional securities or cash for margin when required, the Company may be exposed to the risk of reacquiring the securities or selling the securities at unfavorable market prices in order to satisfy its obligations to its customers or counterparties. The Company seeks to control this risk by monitoring the market value of securities pledged or used as collateral on a daily basis and requiring adjustments in the event of excess market exposure. The Company 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 \$369.7 million at December 31, 2014, of which \$338.8 million had been pledged or otherwise transferred to satisfy its commitments under financial instruments and other inventory positions sold, but not yet purchased.

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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 December 31, 2014:

<i>(Dollars in thousands)</i>	Repurchase Liabilities	Fair Market Value	Interest Rate
Term up to 30 day maturities:			
Asset-backed securities	\$ 18,586	\$ 25,632	1.66 - 2.01%
Term of 30 to 90 day maturities:			
Asset-backed securities	9,097	12,823	1.83 - 1.96%
On demand maturities:			
U.S. government agency securities	54,293	57,705	0.50 - 0.75%
U.S. government securities	20,670	21,323	0.35%
	<u>\$ 102,646</u>	<u>\$ 117,483</u>	

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 statement of financial condition for reverse repurchase agreements, securities borrowed or repurchase agreements at December 31, 2014, as a legal right of offset did not exist. The Company had no outstanding securities lending arrangements as of December 31, 2014. See Note 4 for information related to the Company's offsetting of derivative contracts.

Note 10 Investments

The Company's proprietary investments include investments in private companies and partnerships, registered mutual funds, and warrants of public and private companies. Investments at December 31, 2014 included:

<i>(Dollars in thousands)</i>	
Investments at fair value	\$ 8,592
Investments at cost	219
Investments accounted for under the equity method	55,645
Total investments	<u>64,456</u>
Less investments attributable to noncontrolling interests (1)	(275)
	<u>\$ 64,181</u>

(1) Noncontrolling interests are attributable to third party ownership in a consolidated private equity investment vehicle.

At December 31, 2014, investments carried on a cost basis had an estimated fair market value of \$0.2 million. The estimated fair value of these investments was based on an assessment of each underlying security. 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.

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Note 11 Other Assets

Other assets at December 31, 2014 included:

(Dollars in thousands)

Net deferred income tax assets	\$ 50,854
Fee receivables	10,753
Accrued interest receivables	3,379
Forgivable loans, net	8,107
Prepaid expenses	5,757
Other	1,835
Total other assets	<u>\$ 80,685</u>

See Note 20 for additional details concerning the Company's net deferred income tax assets.

Note 12 Goodwill and Intangible Assets

The following table presents the changes in the carrying value of goodwill and intangible assets for the year ended December 31, 2014:

(Dollars in thousands)

Goodwill	
Balance at December 31, 2013	\$ 13,790
Measurement period adjustment	1,244
Balance at December 31, 2014	<u>\$ 15,034</u>
Intangible assets	
Balance at December 31, 2013	\$ 5,316
Amortization of intangible assets	(2,972)
Balance at December 31, 2014	<u>\$ 2,344</u>

The Company tests goodwill and indefinite-life intangible assets for impairment on an annual basis and on an interim basis when circumstances exist that could indicate possible impairment. The Company tests for impairment at the reporting unit level, which is generally one level below its operating segments. The Company has identified one reporting unit: capital markets. When testing for impairment, the Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If, after making an assessment, the Company determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if the Company concludes otherwise, then the Company is required to perform the two-step impairment test, which requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of the reporting unit based on the following factors: a discounted cash flow model using revenue and profit forecasts, the Parent Company's market capitalization, public company comparables and multiples of recent mergers and acquisitions of similar businesses, if available. The estimated fair value of the reporting unit is compared with its carrying value, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to measure the amount of the impairment loss, if any. An impairment loss is equal to the excess of the carrying amount of goodwill over its fair value.

The Company completed its annual goodwill impairment analysis as of October 31, 2014, and concluded there was no goodwill impairment.

The Company also evaluated its definite-lived intangible assets and concluded there was no impairment in 2014.

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In 2014, the Company recorded a \$1.2 million measurement period adjustment to increase goodwill and acquisition related deferred tax liabilities.

Note 13 Fixed Assets

The following is a summary of fixed assets as of December 31, 2014:

(Dollars in thousands)

Furniture and equipment	\$	26,465
Leasehold improvements		20,777
Software		12,910
Total		<u>60,152</u>
Accumulated depreciation and amortization		(43,984)
	\$	<u><u>16,168</u></u>

Note 14 Short-Term Financing

The following is a summary of short-term financing and the weighted average interest rate on borrowings at December 31, 2014:

<i>(Dollars in thousands)</i>	Outstanding Balance	Weighted Average Interest Rate
Commercial paper (secured)	\$ 238,013	1.48%
Bank lines (secured)	12,000	1.50%
	<u>\$ 250,013</u>	

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 December 31, 2014, the weighted average maturity of CP Series A, CP Series II A and CP Series III A was 77 days, 26 days and 27 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 to maintain excess net capital of \$120 million.

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 December 31, 2014 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 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 December 31, 2014, the Company had no advances against this line of credit.

The Company's uncommitted secured lines at December 31, 2014 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 December 31, 2014, the Company had \$12.0 million in advances against these lines of credit.

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Note 15 Contingencies, Commitments and Guarantees

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.

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 statement of financial condition of the Company.

Operating Lease Commitments

The Company leases office space throughout the United States. Aggregate minimum lease commitments under operating leases as of December 31, 2014 are as follows:

(Dollars in thousands)

2015	\$	10,721
2016		10,511
2017		8,870
2018		8,739
2019		8,644
Thereafter		26,346
		<u>\$ 73,831</u>

Total minimum rentals to be received from 2015 through 2019 under noncancelable subleases were \$7.2 million at December 31, 2014.

Fund Commitments

As of December 31, 2014, the Company had commitments to invest approximately \$10.2 million in limited partnerships that make investments in private equity and venture capital funds. The commitments are estimated to be funded, if called, through the end of the respective investment periods ranging from 2015 to 2018.

Other Guarantees

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements with these entities, members generally are required to guarantee the performance of other members, and if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. In addition, the Company identifies and guarantees certain clearing agents against specified potential losses in connection with providing services to the Company or its affiliates. The Company’s maximum potential liability under these arrangements cannot be quantified. However, management believes the likelihood that the Company would be required to make payments under these arrangements is remote. Accordingly, no liability is recorded in the consolidated statement of financial condition for these arrangements.

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Concentration of Credit Risk

The Company provides investment, capital-raising and related services to a diverse group of domestic and foreign customers, including governments, corporations, and institutional and individual investors. The Company's exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To alleviate the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions.

Note 16 Noncontrolling Interests

The consolidated statement of financial condition includes the accounts of Piper Jaffray 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. Noncontrolling interests include the minority equity holders' proportionate share of the equity in a private equity investment vehicle aggregating \$0.3 million as of December 31, 2014.

Ownership interests in entities held by parties other than Piper Jaffray are presented as noncontrolling interests within shareholder's equity, separate from the Company's own equity.

Note 17 Employee Benefit Plans

The Parent Company has various employee benefit plans, and substantially all Company employees are covered by at least one plan. The plans include health and welfare plans and a tax-qualified retirement plan.

Note 18 Parent Company Compensation Plans

Stock-Based Compensation

The Parent Company maintains a stock-based compensation plan, the Piper Jaffray Companies Amended and Restated 2003 Annual and Long-Term Incentive Plan (the "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. The awards granted to employees have either three-year cliff vesting periods, vest ratably over three years in equal installments or cliff vest upon meeting certain performance or market-based metrics. The maximum term of the stock options granted to employees is ten years. The Incentive Plan provides for accelerated vesting of awards if there is a severance event, a change in control of the Parent 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 Parent Company's board of directors.

Deferred Compensation Plan

The Parent 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 Parent Company invests, as a principal, in investments to economically hedge its obligation under the nonqualified deferred compensation plan.

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 Parent Company's asset management business. MFRS Awards vest ratably over three years in equal installments

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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.

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.

Note 19 *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. 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 December 31, 2014, net capital calculated under the SEC rule was \$165.3 million, and exceeded the minimum net capital required under the SEC rule by \$164.3 million. The Company anticipates \$10 million of capital withdrawals within the next six months.

The Company's short-term committed credit facility of \$250 million and the Parent Company's 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.

Note 20 *Income Taxes*

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes. The net deferred income tax assets included in other assets on the consolidated statement of financial condition consisted of the following items at December 31, 2014:

(Dollars in thousands)

Deferred tax assets:	
Liabilities/accruals not currently deductible	\$ 1,477
Deferred compensation	49,619
Net operating loss carry forwards	292
Goodwill amortization	1,471
Other	<u>2,635</u>
 Total deferred tax assets	 55,494
Deferred tax liabilities:	
Unrealized gains on firm investments	1,528
Fixed assets	2,039
Other	<u>1,073</u>
 Total deferred tax liabilities	 <u>4,640</u>
 Net deferred tax assets	 <u>\$ 50,854</u>

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The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized. The Company believes that its future tax profits will be sufficient to recognize its deferred tax assets.

Note 21 *Related Party Transactions*

The Company has significant transactions with the Parent Company and the Parent Company's other subsidiaries. The Company arranges for the purchase or sale of securities, manages investments and markets derivative instruments for affiliates. The Company allocates expenses or records a portion of the revenues earned by affiliates in return for services provided to affiliates. Certain operating expenses, along with advances for certain investments, incurred by affiliates are initially paid by the Company and subsequently reimbursed by the affiliates. The Company also owns 99 percent of an investment in an affiliated fund that is accounted for under the equity method. In addition, the Company may transact with the Parent Company for the financing of its operations and reimburses the Parent Company for expenses associated with stock-based compensation awards issued to Company employees. At December 31, 2014, an intercompany payable to the Parent Company of \$96.6 million represents the amounts payable for related party transactions.